

# Covalon Technologies Ltd.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended March 31, 2025 and 2024

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**MANAGEMENT'S COMMENTS ON UNAUDITED  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Covalon Technologies Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and reflect management's best estimates and judgment based on information currently available. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements.

# Covalon Technologies Ltd.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

Expressed in Canadian Dollars

	March 31, 2025	September 30, 2024
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$18,030,564	\$16,746,781
Accounts receivable	4,872,199	3,645,252
Inventories (Note 3)	8,930,379	7,696,084
Prepaid expenses	633,500	686,106
Finance lease receivable (Note 8)	145,606	264,728
<b>Total current assets</b>	<b>32,612,248</b>	<b>29,038,951</b>
<b>Non-current assets</b>		
Property, plant and equipment (Note 5)	1,028,214	1,010,728
Intangible assets (Note 4)	1,430,515	1,439,714
Finance lease receivable (Note 8)	17,861	148,728
Right-of-use assets (Note 6)	57,789	168,453
<b>Total non-current assets</b>	<b>2,534,379</b>	<b>2,767,623</b>
<b>Total assets</b>	<b>\$35,146,627</b>	<b>\$31,806,574</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$3,325,410	\$3,323,790
Lease liabilities (Note 7)	499,115	600,485
Deferred revenue	61,798	72,082
<b>Total current liabilities</b>	<b>3,886,323</b>	<b>3,996,357</b>
<b>Non-current liabilities</b>		
Accounts payable	-	4,423
Lease liabilities (Note 7)	110,349	301,186
<b>Total non-current liabilities</b>	<b>110,349</b>	<b>305,609</b>
<b>Total liabilities</b>	<b>3,996,672</b>	<b>4,301,966</b>
<b>Shareholders' equity</b>		
Share capital (Note 9)	51,817,143	51,748,095
Contributed surplus	8,453,406	8,322,591
Foreign exchange translation reserve	4,940,712	3,130,413
Accumulated deficit	(34,061,306)	(35,696,491)
<b>Total shareholders' equity</b>	<b>31,149,955</b>	<b>27,504,608</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$35,146,627</b>	<b>\$31,806,574</b>

### Contingencies and commitments (Note 17)

On behalf of the Board:

(signed) "Amir Boloor"

Director

(signed) "Brent Ashton"

Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# Covalon Technologies Ltd.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

Expressed in Canadian Dollars

	Three months ended March 31,		Six months ended March 31,	
	2025	2024	2025	2024
<b>Revenue</b>				
Product	\$7,585,968	\$8,388,022	\$15,663,908	\$12,963,789
Development and consulting services	-	-	5,826	56,640
Licensing and royalty fees	-	25,588	82,214	56,238
<b>Total revenue</b>	<b>7,585,968</b>	<b>8,413,610</b>	<b>15,751,948</b>	<b>13,076,667</b>
<b>Cost of sales</b>	<b>3,446,462</b>	<b>3,103,148</b>	<b>6,617,976</b>	<b>4,917,668</b>
<b>Gross profit</b>	<b>4,139,506</b>	<b>5,310,462</b>	<b>9,133,972</b>	<b>8,158,999</b>
<b>Operating expenses</b>				
Operations	451,471	423,239	822,540	1,053,952
Research and development activities	320,459	450,510	693,798	761,921
Sales, marketing and agency fees	1,250,162	1,262,960	2,459,982	2,909,263
General and administrative	1,835,594	1,690,995	3,561,164	3,422,620
	<b>3,857,686</b>	<b>3,827,704</b>	<b>7,537,484</b>	<b>8,147,756</b>
<b>Finance expenses (income)</b>	<b>(147,319)</b>	<b>22,340</b>	<b>(188,387)</b>	<b>12,376</b>
<b>Loss/(gain) on finance lease receivable</b>	<b>-</b>	<b>-</b>	<b>149,690</b>	<b>(610,008)</b>
<b>Net income</b>	<b>\$429,139</b>	<b>\$1,460,418</b>	<b>\$1,635,185</b>	<b>\$608,875</b>
<b>Other comprehensive income (loss)</b>				
<b>Amount that may be reclassified to profit or loss</b>				
Foreign currency translation adjustment	(40,155)	576,178	1,810,299	188,905
<b>Total comprehensive income</b>	<b>\$388,984</b>	<b>\$2,036,596</b>	<b>\$3,445,484</b>	<b>\$797,780</b>
<b>Income per common share</b>				
Basic income per share (Note 16)	\$0.02	\$0.06	\$0.06	\$0.02
Diluted income per share (Note 16)	\$0.02	\$0.06	\$0.06	\$0.02

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# Covalon Technologies Ltd.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Expressed in Canadian Dollars

	Number of shares	Share capital	Contributed surplus	Accumulated deficit	Foreign exchange translation reserve	Total
<b>Balance at October 1, 2023</b>	24,669,577	\$42,770,879	\$11,436,826	\$(38,366,283)	\$2,951,395	\$18,792,817
Share-based payment expense (Note 10)	-	-	197,393	-	-	197,393
Net income for the period	-	-	-	608,875	-	608,875
Foreign currency translation adjustment	-	-	-	-	188,905	188,905
<b>Balance at March 31, 2024</b>	<b>24,669,577</b>	<b>\$42,770,879</b>	<b>\$11,634,219</b>	<b>\$(37,757,408)</b>	<b>\$3,140,300</b>	<b>\$19,787,990</b>
<b>Balance at October 1, 2024</b>	27,398,077	\$51,748,095	\$8,322,591	\$(35,696,491)	\$3,130,413	\$27,504,608
Share-based payment expense (Note 10)	-	-	156,063	-	-	156,063
Exercise of stock options	20,000	69,048	(25,248)	-	-	43,800
Net income for the period	-	-	-	1,635,185	-	1,635,185
Foreign currency translation adjustment	-	-	-	-	1,810,299	1,810,299
<b>Balance at March 31, 2025</b>	<b>27,418,077</b>	<b>\$51,817,143</b>	<b>\$8,453,406</b>	<b>\$(34,061,306)</b>	<b>\$4,940,712</b>	<b>\$31,149,955</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# Covalon Technologies Ltd.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

Expressed in Canadian Dollars

	Six months ended March 31,	
	2025	2024
<b>Cash flows from (used in) operating activities</b>		
Net income for the period	\$1,635,185	\$608,875
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation of property, plant and equipment (Note 6)	175,111	233,381
Amortization of intangible assets (Note 5)	195,029	137,619
Depreciation of right of use assets (Note 8)	120,606	116,950
Impairment of intangible assets	-	176,025
Share-based payment expense (Note 11)	156,063	197,393
Interest expense and accretion	18,285	28,923
Loss / (gain) on finance lease receivable	149,690	(610,008)
Cash flows from (used in) operating activities before change in non-cash working capital balances	2,449,968	889,158
Net changes in non-cash working capital balances:		
Accounts receivable	(1,019,495)	483,209
Prepaid expenses	79,567	(393,867)
Inventories	(855,757)	365,875
Accounts payable and accrued liabilities	153,829	(2,160,155)
Deferred revenue	(8,487)	(80,073)
Total net changes in non-cash working capital balances	(1,650,343)	(1,785,011)
<b>Total cash flows used in operating activities</b>	<b>799,626</b>	<b>(895,853)</b>
<b>Cash flows from (used in) investing activities</b>		
Purchase of property, plant and equipment (Note 6)	(129,519)	(185,667)
Purchase of intangible assets (Note 5)	(95,171)	(82,864)
Restricted cash	-	(540)
<b>Total cash flows used in investing activities</b>	<b>(224,690)</b>	<b>(269,071)</b>
<b>Cash flows from (used in) financing activities</b>		
Exercise of stock options	43,800	-
Finance lease receivable	121,908	90,812
Payment of lease liabilities (Note 9)	(363,395)	(345,638)
<b>Total cash flows used in financing activities</b>	<b>(197,687)</b>	<b>(254,826)</b>
Foreign exchange rate changes on cash	906,534	(114,947)
<b>Total cash flows during the period</b>	<b>1,283,783</b>	<b>(1,534,697)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>\$16,746,781</b>	<b>\$8,794,650</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$18,030,564</b>	<b>\$7,259,953</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# Covalon Technologies Ltd.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

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### 1. CORPORATE INFORMATION

Covalon Technologies Ltd. (“the Company”) is incorporated under the laws of Ontario and is engaged in the business of researching, developing, manufacturing, and marketing of patent-protected medical products that improve patient outcomes and save lives in the areas of infection management, advanced wound care, and surgical procedures. The unaudited condensed consolidated interim financial statements of Covalon Technologies Ltd. for the three and six months ended March 31, 2025 comprise the results of the Company and its wholly owned subsidiaries. The Company leverages its patented medical technology platforms and expertise in two ways: (i) by developing products that are sold under the Company’s name; and (ii) by developing and commercializing medical products for other medical companies under development and license contracts. The Company has received regulatory approval on numerous products and leverages in-house manufacturing and contract manufacturers to make its products and distribution contracts to sell its commercialized products to medical customers. The Company generates its revenues through development contracts, licensing agreements, distribution contracts, and sales of products.

The Company is listed on the TSX Venture Exchange, having the symbol COV. The Company also trades on the OTCQX Best Market, having the symbol of CVALF.

The address of the Company’s corporate office and principal place of business is 1660 Tech Avenue, Unit 5, Mississauga, Ontario, Canada.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The Company’s unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”) applicable to the preparation of interim financial statements, under IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements are presented in Canadian dollars and should be read in conjunction with the Company’s annual financial statements for the year ended September 30, 2024, which were prepared in accordance with IFRS Accounting Standards.

The accounting policies adopted are consistent with those of the previous financial year.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on March 27, 2025.

#### **Accounting pronouncements issued but not yet effective**

The IASB has issued classification, measurement and disclosure amendments to IFRS 9, Financial Instruments and IFRS 7, Financial Instruments: Disclosures with an effective date for annual reporting periods beginning on or after January 1, 2026. The amendments clarify the date of recognition and derecognition of some financial assets and liabilities and introduce a new exception for some financial liabilities settled through an electronic payment system. Other changes include a clarification of the requirements when assessing whether a financial asset meets the solely payments of principal and interest criteria and new disclosures for certain instruments with contractual terms that can change cash flows (including instruments where cash flows changes are linked to environment, social or governance targets).

IFRS 18, Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that will provide new presentation and disclosure requirements, and which will replace IAS 1, Presentation of Financial Statements (IAS 1). IFRS 18 introduces changes to the structure of the income statement; provides required disclosures in financial statements for certain profit or loss performance measures that are reported outside an entity’s financial statements; and provides enhanced principles on aggregation and disaggregation in financial statements. Many

# Covalon Technologies Ltd.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

other existing principles in IAS 1 have been maintained. IFRS 18 is effective for years beginning on or after January 1, 2027.

The impact of the adoption of these pronouncements is currently being assessed.

### 3. INVENTORIES

Inventories consist of the following:

	March 31, 2025	September 30, 2024
Raw materials	4,240,594	\$3,520,835
Finished goods	6,413,740	6,372,772
Inventory provision	(1,723,955)	(2,197,523)
	<b>8,930,379</b>	<b>\$7,696,084</b>

Cost of sales for the three and six months ended March 31, 2025, included \$3,402,734 (2024 - \$3,044,826) and \$6,504,623 (2024 - \$4,806,798), in inventoried materials. The Company reduced the inventory provision for the six months ended March 31, 2025, by \$358,923 (2024 - \$383,134). Write-ups of inventories to net realizable value for the six months ended March 31, 2025, amounted to \$114,645 (2024 – write-down of \$482,095) and is included in cost of sales in the statement of operations and comprehensive income.

### 4. INTANGIBLE ASSETS

Intangible assets are comprised of the following amounts:

	Deferred Development Costs (\$)	Patents (\$)	Trademarks (\$)	Computer Software (\$)	Total (\$)
Balance at September 30, 2024	2,251,667	1,064,510	81,111	1,087,866	4,485,154
Additions	-	9,826	-	85,345	95,171
Foreign exchange	146,284	69,161	5,271	70,676	291,392
<b>Balance at March 31, 2025</b>	<b>2,397,951</b>	<b>1,143,497</b>	<b>86,382</b>	<b>1,243,887</b>	<b>4,871,717</b>
<b>Accumulated amortization</b>					
Balance at September 30, 2024	2,190,907	643,908	-	210,625	3,045,440
Amortization	59,077	22,965	-	112,987	195,029
Foreign exchange	143,211	42,173	-	15,349	200,733
<b>Balance at March 31, 2025</b>	<b>2,393,195</b>	<b>709,046</b>	<b>-</b>	<b>338,961</b>	<b>3,441,202</b>
<b>Carrying amounts</b>					
At September 30, 2024	60,760	420,602	81,111	877,241	1,439,714
<b>At March 31, 2025</b>	<b>4,756</b>	<b>434,451</b>	<b>86,382</b>	<b>904,926</b>	<b>1,430,515</b>

As at March 31, 2025, included in computer software is an amount of \$97,350 (September 30, 2024 - \$11,272) which primarily relates to new information systems where amortization has not yet commenced as it had not yet been placed into service.



# Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

## 5. PROPERTY, PLANT AND EQUIPMENT

	Computer Hardware, Furniture and Fixtures (\$)	Production and Lab Equipment (\$)	Leasehold Improvements (\$)	Total (\$)
Balance at September 30, 2024	485,114	2,682,794	382,755	3,550,663
Additions	8,026	121,493	-	129,519
Foreign exchange	31,514	174,293	24,866	230,673
Disposals	-	(10,644)	-	(10,644)
<b>Balance at March 31, 2025</b>	<b>524,654</b>	<b>2,967,936</b>	<b>407,621</b>	<b>3,900,211</b>
<b>Accumulated depreciation</b>				
Balance at September 30, 2024	393,399	1,769,700	376,836	2,539,935
Depreciation	31,519	138,269	5,323	175,111
Disposals	-	(10,644)	-	(10,644)
Foreign exchange	26,022	117,013	24,560	167,595
<b>Balance at March 31, 2025</b>	<b>450,940</b>	<b>2,014,338</b>	<b>406,719</b>	<b>2,871,997</b>
<b>Carrying amounts</b>				
At September 30, 2024	91,715	913,094	5,919	1,010,728
<b>At March 31, 2025</b>	<b>73,714</b>	<b>953,598</b>	<b>902</b>	<b>1,028,214</b>

As at March 31, 2025, included in production and lab equipment is an amount of \$360,480 (September 30, 2024 - \$242,397) which primarily relates to new production equipment where amortization has not yet commenced as they had not yet been placed into service.

## 6. RIGHT-OF-USE ASSETS

	Right-of-use assets (\$)
Balance at October 1, 2024	168,453
Depreciation	(120,606)
Foreign exchange	9,942
<b>Balance at March 31, 2025</b>	<b>57,789</b>

The Company leases office space in Mississauga, Canada and Seattle, USA.

# Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

## 7. LEASE LIABILITIES

Lease liabilities are comprised of the following amounts:

	Lease liabilities (\$)
Balance at October 1, 2024	901,671
Interest	17,251
Payments	(363,395)
Foreign exchange	53,937
<b>Balance at March 31, 2025</b>	<b>609,464</b>
Less: Current portion	499,115
Long-term portion	110,349

Following the impairment of the right of use asset related to the Company's Seattle lease agreement, an onerous contract liability at March 31, 2025 of \$184,631 (September 30, 2024 - \$223,020) has been recognized in accounts payable and accrued liabilities related to future variable lease payments that are not included in the lease liability.

### Lease Extension

On March 26, 2025, the Company entered into an agreement to extend the lease at our manufacturing facility in Mississauga, Canada. The extension is for a period of 5 years, commencing on July 1, 2025, and expiring on June 30, 2030. All terms of the lease remain substantially unchanged, and the Company has an additional two options to renew for a period of 5 years each option.

Additionally on March 31, 2025, the Company entered into an agreement to extend our lease at our head office location in Mississauga, Canada. The extension is for a period of 5 years, commencing on June 1, 2025, and expiring on May 31, 2030. All terms of the lease remain substantially unchanged, and the Company has an additional option to renew for a period of 5 years.

## 8. FINANCE LEASE RECEIVABLES

The Company entered into two sublease agreements for a total of 10,451 square feet out of a total of 18,246 square feet that comprises its Seattle facility. Both subleases were considered finance leases as it is reasonably certain that the sublease term will match that of the Company's existing lease agreements to April 2026. As a result of this transaction the Company recognized a finance lease receivable at the inception of the subleases in the amount of \$610,008 with an offsetting gain recognized in the condensed consolidated interim statements of operations and comprehensive income.

During the first quarter of 2024, on December 19, 2024, one sublease tenant notified us of their intention to terminate their sublease early, providing a 60-day notice. The tenant vacated the premises on February 28, 2025. This resulted in a loss on the finance lease receivable of \$149,690 during the six months ended March 31, 2025.

# Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

The movement in finance lease receivables during the period is as follows:

	<b>Finance lease receivables (\$)</b>
Balance at October 1, 2024	413,457
Loss on finance lease receivable	(149,690)
Interest income	8,108
Brokerage fees	(9,142)
Payments received	(121,908)
Foreign exchange	22,642
<b>Balance at March 31, 2025</b>	<b>163,467</b>
<b>Current portion</b>	<b>145,606</b>
<b>Non-current portion</b>	<b>17,861</b>

A maturity analysis of the lease payments receivable is as follows:

2025	70,966
2026	82,249
<b>Total future minimum payments receivable</b>	<b>153,215</b>
Imputed interest	10,252
<b>Finance lease receivable</b>	<b>163,467</b>

## 9. SHAREHOLDERS' EQUITY

### Common Shares

The Company is authorized to issue an unlimited number of common shares with no par value. All shares are fully paid.

### Warrants

The following is a summary of all warrants outstanding:

	<b>Number of Warrants</b>	<b>Weighted average exercise Price</b>	<b>Weighted Average Expiry (years)</b>
<b>Balance at September 30, 2024</b>	<b>200,000</b>	<b>\$4.00</b>	<b>1.83</b>
Exercised during the period	-	-	-
<b>Balance at March 31, 2025</b>	<b>200,000</b>	<b>\$4.00</b>	<b>1.33</b>

## 10. SHARE-BASED PAYMENTS

### Long-Term Incentive Plan

On March 8, 2023, the shareholders approved the Long-Term Incentive Plan (the Plan).

### Stock Options

Stock options outstanding are non-transferable options to purchase common shares of the Company which may be granted to Directors, officers, employees, or service providers of the Company. The terms of the stock options provide that the Directors have the right to grant stock options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to ten years. No amounts are paid or payable by the recipient on receipt of the stock

# Covalon Technologies Ltd.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

### Expressed in Canadian Dollars

option. All stock options issued to date will vest as follows: 34% of the options vest in one year, with a further 33% vesting in each of the subsequent two years on the anniversary of the initial grant date. Future grants of stock options may vest over alternative periods as authorized by the Directors.

### Issuance of RSUs and DSUs

RSUs and DSUs vest over a period of three years on each anniversary of the grant date unless a different vesting schedule is approved by the Board of Directors. DSUs are only eligible to be converted into common shares of the Company when the holder ceases its relationship with the Company.

The maximum number of common shares which may be issued under the Plan cannot exceed 10% of the common shares issued and outstanding at any given time, calculated on a non-diluted basis. Grants held by non-employee directors of the Company are at all times limited to no more than 1% of the common shares issued and outstanding, calculated on a non-diluted basis, and the total annual grant to any one non-employee director under the Plan cannot exceed a grant value of \$150,000 in total equity.

The following is a summary of changes in stock options from October 1, 2024 to March 31, 2025:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Exercised	Forfeited/Expired	Closing Balance	Vested	Unvested	Weighted Average Expiry (years)
28-Mar-22	28-Mar-27	\$2.19	382,500	(20,000)	(2,500)	360,000	118,800	241,200	1.99
06-Sep-22	06-Sep-27	\$2.50	145,000	-	(2,500)	142,500	47,025	95,475	2.43
10-Jan-24	10-Jan-29	\$1.50	800,000	-	-	800,000	272,000	528,000	3.78
			<b>1,327,500</b>	<b>(20,000)</b>	<b>(5,000)</b>	<b>1,302,500</b>	<b>437,825</b>	<b>864,675</b>	<b>3.14</b>
Weighted Average Exercise Price			<b>\$1.81</b>	<b>\$2.19</b>	<b>\$2.35</b>	<b>\$1.80</b>	<b>\$1.79</b>	<b>\$1.80</b>	

### Deferred Share Units

The following is a summary of changes in Deferred Share Units from October 1, 2024 to March 31, 2025:

Grant Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/Expired	Closing Balance	Vested	Unvested
20-Oct-23	\$1.44	280,000	-	-	-	280,000	226,667	53,333
		<b>280,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>280,000</b>	<b>226,667</b>	<b>53,333</b>
Weighted Average Exercise Price		<b>\$1.44</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$1.44</b>	<b>1.44</b>	<b>\$1.44</b>

### Share Based Payment Expense

Total share-based payment expense recognized during the three and six months ended March 31, 2025, was \$65,540 (2024 - \$81,464) and \$156,063 (2024 - \$197,393) respectively.

# Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

## 11. FINANCIAL RISK MANAGEMENT

The following is a discussion of market, credit, and liquidity risks and related mitigation strategies that have been identified.

### Credit Risk

The Company is exposed to credit risk associated with its cash and cash equivalents, accounts receivable and finance lease receivable. The risk is reduced by having accounts receivables insured or obtaining letters of credit when the Company determines that it is warranted. The Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss for all accounts receivables. To measure the expected credit losses, accounts receivables are grouped based on shared credit risk characteristics and the days past due. On this basis, the loss allowance as at March 31, 2025 and September 30, 2024 is nominal as the Company only transacts with hospitals, distributors and private clinics and has not incurred a sustained trend of any credit losses. The Company's cash management policies include ensuring cash and cash equivalents are deposited in Canadian chartered banks.

Accounts receivables are written off when there is no reasonable expectation of recovery which may be supported by failure to make contractual payments for more than 180 days as well as other factors.

Accounts receivables are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks by dealing with creditworthy customers; however, due to the limited number of potential customers in each market, this is not always possible. As at March 31, 2025, five customers accounted for 87% (September 30, 2024 – five customers for 75%) of the accounts receivable balance. These customers, who are distributors and strategic partners of the Company, represent a large portion of the Company's sales. Credit risk exposure is mitigated by strong credit granting policies, the use of letters of credit, and due diligence procedures for new customers.

The aging of accounts receivable is as follows:

	March 31, 2025	September 30, 2024
Current	\$4,866,369	\$3,628,070
30-60 days past due	5,830	17,182
	<u>4,872,199</u>	<u>3,645,252</u>

### Interest Rate Risk

The Company is subject to interest rate risk on its cash and cash equivalents. The Company believes that interest rate risk is low due to market based variable interest rates.

### Currency Risk

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in Canadian dollars, was as follows:

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	<u>March 31, 2025</u>				<u>September 30, 2024</u>			
	<u>Canadian</u>	<u>USD</u>	<u>GBP</u>	<u>Total</u>	<u>CAD</u>	<u>USD</u>	<u>GBP</u>	<u>Total</u>
Cash and cash equivalents	\$459,281	\$17,571,283	-	<b>\$18,030,564</b>	\$5,549,162	\$11,197,619	-	<b>\$16,746,781</b>
Accounts receivable	\$200,713	\$4,604,528	\$66,958	<b>\$4,872,199</b>	\$396,849	\$3,185,530	\$62,873	<b>\$3,645,252</b>
Finance lease receivable	-	\$163,467	-	<b>\$163,467</b>	-	\$413,456	-	<b>\$413,456</b>
Accounts payable and accrued liabilities	\$316,762	\$2,990,326	\$18,322	<b>\$3,325,410</b>	\$337,881	\$2,973,128	\$17,204	<b>\$3,328,213</b>
Lease liabilities	\$83,285	\$526,179	-	<b>\$609,464</b>	\$225,094	\$676,577	-	<b>\$901,671</b>

If exchange rates were to change by 5% at March 31, 2025 total comprehensive income (loss) would change by \$943,572 (September 30, 2024 - \$559,628).

## Fair Value

The fair values of cash and cash equivalents, accounts receivable, finance lease receivable, accounts payable and accrued liabilities and lease liabilities approximate their carrying values, due to their relatively short periods to maturity.

## Liquidity risk

The Company continually monitors working capital to ensure sufficient cash is available to meet operational and capital expenditure requirements. The Company has contractual obligations related to lease liabilities and accounts payable and accrued liabilities that are due as reflected in the following table:

	<b>Carrying amount (\$)</b>	<b>Future cash flows (\$)</b>	<b>Less than 1 year (\$)</b>	<b>Between 1 and 5 years (\$)</b>	<b>Greater than 5 years (\$)</b>
Accounts payable and accrued liabilities	3,325,410	3,325,410	3,325,410	-	-
Lease liabilities	609,464	470,584	359,684	110,900	-
<b>Total</b>	<b>3,934,874</b>	<b>3,795,994</b>	<b>3,685,094</b>	<b>110,900</b>	<b>-</b>

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## 12. CAPITAL MANAGEMENT

The Company defines capital that it manages as its shareholders' equity comprising share capital, contributed surplus, foreign exchange translation reserve and accumulated deficit. Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide services to its customers and returns to its shareholders. The capital at March 31, 2025 is \$31,149,955 (September 30, 2024 – \$27,504,608).

The Company manages its capital structure and adjusts it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

## 13. RELATED PARTY TRANSACTIONS

Key management personnel include the Company's directors and senior management team. These individuals are responsible for planning, directing, and controlling the activities of an entity. Key management personnel compensation comprised:

	Three months ended March 31		Six months ended March 31	
	2025	2024	2025	2024
Compensation and short-term employee benefits	<b>\$418,178</b>	\$400,716	<b>\$813,471</b>	\$715,751
Share based payment expense	<b>48,188</b>	199,865	<b>121,531</b>	256,056
	<b>466,366</b>	600,581	<b>935,002</b>	971,807

The Company had previously accrued \$667,969 for termination benefits related to a former senior management team member during the 2023 fiscal year. The amount continues to represent management's best estimate of the termination benefits owed. On April 5, 2024, this former senior executive filed a claim for wrongful dismissal. An additional amount of \$1,832,031 has been claimed, which the Company has not accrued for and believes to be unwarranted. There can be no assurance as to the final outcome of the claim and termination benefits owed.

During the year end September 30, 2013, a non-interest-bearing loan of \$50,000 was made to a key employee. As of March 31, 2025, \$10,000 of this loan remained outstanding.

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## 14. EXPENSES BY NATURE

The condensed consolidated interim statements of operations and comprehensive income include the following expenses by nature:

	Three months ended March 31,		Six months ended March 31,	
	2025	2024	2025	2024
Inventoried materials	\$3,402,734	\$3,044,826	\$6,504,623	4,806,798
Wages, benefits, consulting fees, director compensation	2,492,975	2,880,547	4,833,599	5,146,065
Share based payments	65,540	81,464	156,063	197,393
Depreciation and amortization	233,621	247,756	490,746	487,950
Facility	24,807	75,500	111,262	133,104
Patent and trademark maintenance	89,467	70,674	165,259	102,017
Insurance	105,924	99,092	207,086	202,038
Information technology system costs	231,567	183,087	433,736	371,693
Professional fees	302,847	178,188	546,029	412,418
Impairment of intangible assets	-	101,577	-	176,025
Other expenses	354,666	(31,859)	707,057	1,029,923
Total	\$7,304,148	\$6,930,852	\$14,155,460	13,065,424

Depreciation and amortization	Three months ended March 31,		Six months ended March 31,	
	2025	2024	2025	2027
Cost of product sales	\$43,728	\$58,322	\$113,353	\$110,870
Operations	22,773	14,097	45,449	14,097
Research and development activities	24,821	30,139	47,524	77,619
General and administrative	142,299	145,198	284,420	285,364
Total depreciation and amortization	\$233,621	\$247,756	\$490,746	\$487,950

## 15. EARNINGS PER SHARE

Details of the basic and diluted weighted average common shares outstanding for the respective periods are the following:

	Three months ended March 31		Six Months Ended March 31	
	2025	2024	2025	2024
Weighted average number of common shares outstanding – basic	27,398,077	24,669,577	27,398,077	24,669,577
Dilutive effect of securities outstanding				
Stock options/DSU's	491,429	-	568,386	-
Warrants	-	-	-	-
Weighted average number of common shares outstanding – diluted	27,889,506	24,669,577	27,966,463	24,669,577



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## 16. SEGMENT REPORTING

During the three months ended March 31, 2025, the Company generated revenue of \$5,293,467 (2024 – \$6,636,590) in the United States, \$1,764,593 (2024 – \$946,390) in the Middle East, \$412,507 (2024 - \$672,153) in Latin America, \$9,616 (2024 – \$9,343) in Canada, and \$105,785 (2024 – \$149,135) in the rest of the world.

During the six months ended March 31, 2025, the Company generated revenue of \$12,431,299 (2024 – \$10,770,390) in the United States, \$2,742,570 (2024 – \$1,325,178) in the Middle East, \$433,226 (2024 - \$808,536) in Latin America, \$18,093 (2024 – \$23,428) in Canada, and \$126,760 (2024 – \$149,135) in the rest of the world.

As of March 31, 2025, the Company had \$2,512,420 (September 30, 2024 - \$2,606,782) of its property, plant, and equipment, right-of-use assets and intangible assets located in Canada and \$4,098 (September 30, 2024 - \$12,113) in the United States.

## 17. CONTINGENCIES AND COMMITMENTS

The following are commitments of the Company beyond March 31, 2025:

	September 30,		
	2025	2026	2027
Telecommunications and office equipment leases	27,463	48,830	23,006
	\$27,463	\$48,830	\$23,006

From time to time, the Company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty, and management is of the opinion that the outcome of these types of proceedings is generally not determinable. Any loss resulting from these proceedings will be charged to operations in the period that a loss becomes probable.

## 18. TARIFFS

Since the start of the calendar year, there have been several escalations and de-escalations of tariffs between the United States and various countries. As of May 27, 2025, the Company does not anticipate any material tariff costs related to the 2025 tariff changes. The company continues to actively monitor the situation and evaluate mitigation strategies in the event the future tariffs are imposed.