

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended June 30, 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

	June 30, 2025	September 30, 2024
Assets		
Current assets		
Cash and cash equivalents	\$18,090,778	\$16,746,781
Accounts receivable	4,595,603	3,645,252
Inventories (Note 3)	8,055,970	7,696,084
Prepaid expenses	868,811	686,106
Finance lease receivable (Note 8)	120,456	264,728
Total current assets	31,731,618	29,038,951
Non-current assets		
Property, plant and equipment (Note 5)	1,291,392	1,010,728
Intangible assets (Note 4)	1,344,699	1,439,714
Finance lease receivable (Note 8)	-	148,728
Right-of-use assets (Note 6)	869,251	168,453
Total non-current assets	3,505,342	2,767,623
Total assets	\$35,236,960	\$31,806,574
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$4,197,089	\$3,323,790
Lease liabilities (Note 7)	545,495	600,485
Deferred revenue	84,241	72,082
Total current liabilities	4,826,825	3,996,357
Non-current liabilities		
Accounts payable	-	4,423
Lease liabilities (Note 7)	732,190	301,186
Total non-current liabilities	732,190	305,609
Total liabilities	5,559,015	4,301,966
Shareholders' equity		
Share capital (Note 9)	51,817,143	51,748,095
Contributed surplus	8,507,784	8,322,591
Foreign exchange translation reserve	3,349,757	3,130,413
Accumulated deficit	(33,996,739)	(35,696,491)
Total shareholders' equity	29,677,945	27,504,608
Total liabilities and shareholders' equity	\$35,236,960	\$31,806,574

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 June 30,		Nine months ended June 30,	
	2025	2024	2025	2024
Revenue				
Product	\$8,372,427	\$9,206,808	\$24,036,335	\$22,170,597
Development and consulting services	-	-	5,826	56,540
Licensing and royalty fees	-	17,499	82,214	73,837
Total revenue	8,372,427	9,224,307	24,124,375	22,300,974
Cost of sales	4,479,932	3,792,582	11,097,908	8,710,250
Gross profit	3,892,495	5,431,725	13,026,467	13,590,724
Operating expenses				
Operations	516,101	608,476	1,338,641	1,662,428
Research and development activities	311,340	378,647	1,005,138	1,140,568
Sales, marketing and agency fees	1,121,065	1,387,869	3,581,047	4,297,132
General and administrative	2,022,651	1,581,319	5,583,815	5,003,939
	3,971,157	3,956,311	11,508,641	12,104,067
Finance expenses (income)	(143,229)	27,364	(331,616)	39,740
Loss/(gain) on finance lease receivable	-	-	149,690	(610,008)
Net income	\$64,567	\$1,448,050	\$1,699,752	\$2,056,925
Other comprehensive income (loss)				
Amount that may be reclassified to profit or loss				
Foreign currency translation adjustment	(1,590,955)	287,426	219,344	476,331
Total comprehensive income (loss)	(\$1,526,388)	\$1,735,476	\$1,919,096	\$2,533,256
Income per common share				
Basic income per share (Note 16)	\$0.00	\$0.06	\$0.06	\$0.08
Diluted income per share (Note 16)	\$0.00	\$0.06	\$0.06	\$0.08

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

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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
Balance at October 1, 2023	24,669,577	\$42,770,879	\$11,436,826	\$(38,366,283)	\$2,951,395	\$18,792,817
Share-based payment expense (Note 10)	-	-	347,493	-	-	347,493
Net income for the period	-	-	-	2,056,925	-	2,056,925
Foreign currency translation adjustment	-	-	-	-	476,331	476,331
Balance at June 30, 2024	24,669,577	\$42,770,879	\$11,784,319	\$(36,309,358)	\$3,427,726	\$21,673,566
Balance at October 1, 2024	27,398,077	\$51,748,095	\$8,322,591	\$(35,696,491)	\$3,130,413	\$27,504,608
Share-based payment expense (Note 10)	-	-	210,441	-	-	210,441
Exercise of stock options	20,000	69,048	(25,248)	-	-	43,800
Net income for the period	-	-	-	1,699,752	-	1,699,752
Foreign currency translation adjustment	-	-	-	-	219,344	219,344
Balance at June 30, 2025	27,418,077	\$51,817,143	\$8,507,784	\$(33,996,739)	\$3,349,757	\$29,677,945

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

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

Expressed in Canadian Dollars

	Nine months ended June 30,	
	2025	2024
Cash flows from (used in) operating activities		
Net income for the period	\$1,699,752	\$2,056,925
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of property, plant and equipment (Note 6)	268,193	346,307
Amortization of intangible assets (Note 5)	254,500	206,857
Depreciation of right of use assets (Note 8)	184,106	181,202
Share-based payment expense (Note 11)	210,441	347,493
Impairment of intangible assets	-	177,490
Loss on disposal of property and equipment	-	85,021
Interest expense and accretion	29,054	44,249
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	2,795,736	2,835,536
Net changes in non-cash working capital balances:		
Accounts receivable	(742,938)	222,883
Prepaid expenses	(155,380)	(359,019)
Inventories	18,082	(656,002)
Accounts payable and accrued liabilities	1,026,926	(616,680)
Deferred revenue	13,991	(76,952)
Total net changes in non-cash working capital balances	160,681	(1,485,770)
Total cash flows from operating activities	2,956,417	1,349,766
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment (Note 6)	(530,178)	(273,982)
Purchase of intangible assets (Note 5)	(136,632)	(116,518)
Restricted cash	-	(1,670)
Total cash flows used in investing activities	(666,810)	(392,170)
Cash flows from (used in) financing activities		
Exercise of stock options	43,800	-
Finance lease receivable	151,587	61,574
Payment of lease liabilities (Note 9)	(542,696)	(522,254)
Total cash flows used in financing activities	(347,309)	(460,680)
Foreign exchange rate changes on cash	(598,301)	115,034
Total cash flows during the period	1,343,997	611,950
Cash and cash equivalents, beginning of the period	\$16,746,781	\$8,794,650
Cash and cash equivalents, end of the period	\$18,090,778	\$9,406,600

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

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

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 nine months ended June 30, 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 August 20, 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

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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:

	June 30, 2025	September 30, 2024
Raw materials	4,239,480	\$3,520,835
Finished goods	4,398,649	6,372,772
Inventory provision	(582,159)	(2,197,523)
	8,055,970	\$7,696,084

Cost of sales for the three and nine months ended June 30, 2025, included \$4,410,833 (2024 - \$3,734,565) and \$10,915,456 (2024 - \$8,541,363), respectively, in inventoried materials. For the nine months ended June 30, 2025, the Company reduced its inventory provision by \$1,615,364 (2024 – increased by \$540,646). Inventory written off during the nine months ended June 30, 2025, that was not provided for totaled \$133,488 (2024- nil).

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	-	49,173	-	87,459	136,632
Foreign exchange	24,017	11,358	865	11,604	47,844
Balance at June 30, 2025	2,275,684	1,125,041	81,976	1,186,929	4,669,630
Accumulated amortization					
Balance at September 30, 2024	2,190,907	643,908	-	210,625	3,045,440
Amortization	51,307	35,029	-	168,164	254,500
Foreign exchange	21,861	5,837	-	(2,707)	24,991
Balance at June 30, 2025	2,264,075	684,774	-	376,082	3,324,931
Carrying amounts					
At September 30, 2024	60,760	420,602	81,110	877,241	1,439,714
At June 30, 2025	11,609	440,267	81,976	810,847	1,344,699

As at June 30, 2025, included in computer software is an amount of \$98,851 (September 30, 2024 - \$11,272) primarily relates to new information systems that have not been placed into service.

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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	9,555	520,623	-	530,178
Foreign exchange	5,172	28,616	4,083	37,871
Disposals	-	(10,101)	-	(10,101)
Balance at June 30, 2025	499,841	3,221,932	386,838	4,108,611
Accumulated depreciation				
Balance at September 30, 2024	393,399	1,769,700	376,836	2,539,935
Depreciation	43,025	219,005	6,163	268,193
Foreign exchange	2,928	12,425	3,839	19,192
Disposals	-	(10,101)	-	(10,101)
Balance at June 30, 2025	439,352	1,991,029	386,838	2,817,219
Carrying amounts				
At September 30, 2024	91,715	913,094	5,919	1,010,728
At June 30, 2025	60,489	1,230,903	-	1,291,392

As at June 30, 2025, included in production and lab equipment is an amount of \$710,273 (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
Addition	895,345
Depreciation	(184,106)
Foreign exchange	(10,441)
Balance at June 30, 2025	869,251

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
Addition	895,345
Interest	26,960
Payments	(542,696)
Foreign exchange	(3,595)
Balance at June 30, 2025	1,277,685
Less: Current portion	545,495
Long-term portion	732,190

Following the impairment of the right of use asset related to the Company's Seattle lease agreement, an onerous contract liability at June 30, 2025 of \$147,536 (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.

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. It is not considered reasonably certain that these renewal options will be exercised and therefore they have not been included in the right-of-use asset or lease liabilities.

Lease Extension – subsequent event

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.

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 June 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 2025, 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 nine months ended June 30, 2025.

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Expressed in Canadian Dollars

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

	Finance lease receivables (\$)
Balance at October 1, 2024	413,457
Loss on finance lease receivable	(149,690)
Interest income	9,273
Brokerage fees	(11,367)
Payments received	(151,587)
Foreign exchange	10,370
Balance at June 30, 2025	120,456
Current portion	120,456
Non-current portion	-

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

2025	33,472
2026	78,186
Total future minimum payments receivable	111,658
Imputed interest	8,798
Finance lease receivable	120,456

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:

	Number of Warrants	Weighted average exercise Price	Weighted Average Expiry (years)
Balance at September 30, 2024	200,000	\$4.00	1.83
Exercised during the period	-	-	-
Balance at June 30, 2025	200,000	\$4.00	1.08

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

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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 June 30, 2025:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	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	1.74
06-Sep-22	06-Sep-27	\$2.50	145,000	-	-	(4,164)	140,836	46,476	94,360	2.18
10-Jan-24	10-Jan-29	\$1.50	800,000	-	-	-	800,000	272,000	528,000	3.53
30-May-25	30-May-30	\$2.50	-	150,000	-	-	150,000	-	150,000	4.92
			1,327,500	150,000	(20,000)	(6,664)	1,450,836	437,276	1,013,560	3.10
Weighted Average Exercise Price			\$1.81	2.50	\$2.19	\$2.38	\$1.87	\$1.79	\$1.91	

Deferred Share Units

The following is a summary of changes in Deferred Share Units from October 1, 2024 to June 30, 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
		280,000	-	-	-	280,000	226,667	53,333
Weighted Average Exercise Price		\$1.44	-	-	-	\$1.44	1.44	\$1.44

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Expressed in Canadian Dollars

Issuance of Stock Options

On May 30, 2025, the Company granted 150,000 stock options to the Chief Operating Officer, which were approved by the Board of Directors on May 15, 2025. The options had a fair value of \$1.26 per option at the time of grant. The fair value was determined using the Black-Scholes option pricing model, applying the following assumptions: average risk-free rate of interest 2.66%, expected volatility of 68.97%, expected life of 5 years and a dividend yield of nil.

Share Based Payment Expense

Total share-based payment expense recognized during the three and nine months ended June 30, 2025, was \$54,378 (2024 - \$150,100) and \$210,441 (2024 - \$347,493) respectively.

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 June 30, 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 June 30, 2025, five customers accounted for 84% (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:

	June 30, 2025	September 30, 2024
Current	\$3,925,766	\$3,628,070
30-60 days past due	669,837	17,182
	<u>4,595,603</u>	<u>3,645,252</u>

Covalon Technologies Ltd.

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Expressed in Canadian Dollars

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:

	<u>June 30, 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	\$70,890	\$18,019,888	-	\$18,090,778	\$5,549,162	\$11,197,619	-	\$16,746,781
Accounts receivable	\$91,797	\$4,503,806	-	\$4,595,603	\$396,849	\$3,185,530	\$62,873	\$3,645,252
Finance lease receivable	-	\$120,456	-	\$120,456	-	\$413,456	-	\$413,456
Accounts payable and accrued liabilities	\$352,083	\$3,827,618	\$17,388	\$4,197,089	\$337,881	\$2,973,128	\$17,204	\$3,328,213
Lease liabilities	\$875,227	\$402,458	-	\$1,277,685	\$225,094	\$676,577	-	\$901,671

If exchange rates were to change by 5% at June 30, 2025 total comprehensive income (loss) would change by \$919,835 (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:

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

	Carrying amount (\$)	Future cash flows (\$)	Less than 1 year (\$)	Between 1 and 5 years (\$)	Greater than 5 years (\$)
Accounts payable and accrued liabilities	4,197,089	4,197,089	4,197,089	-	-
Lease liabilities	1,277,685	1,423,064	613,543	809,521	-
Total	5,474,774	5,620,153	4,810,632	809,521	-

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 June 30, 2025 is \$29,677,945 (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 June 30		Nine months ended June 30	
	2025	2024	2025	2024
Compensation and short-term employee benefits	\$403,760	\$392,107	\$1,217,141	\$1,107,858
Share based payment expense	49,903	79,821	171,434	335,877
	453,663	471,928	1,388,575	1,443,735

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 June 30, 2025, \$10,000 of this loan remained outstanding.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

14. EXPENSES BY NATURE

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

	Three months ended June 30,		Nine months ended June 30,	
	2025	2024	2025	2024
Inventoried materials	\$4,410,833	\$3,734,565	\$10,915,456	8,541,363
Wages, benefits, consulting fees, director compensation	2,496,514	2,389,777	7,330,113	7,535,842
Share based payments	54,378	150,100	210,441	347,493
Depreciation and amortization	216,053	246,416	706,799	734,366
Facility	67,908	65,551	233,167	198,655
Patent and trademark maintenance	11,796	33,740	123,058	135,757
Insurance	106,156	98,605	313,242	300,643
Information technology system costs	245,124	208,486	678,860	580,179
Professional fees	321,355	218,100	867,384	630,518
Impairment of intangible assets	-	-	-	176,025
Other expenses	520,972	603,553	1,228,029	1,633,476
Total	\$8,451,089	\$7,748,893	\$22,606,549	\$20,814,317

Depreciation and amortization

	Three months ended June 30,		Nine months ended June 30,	
	2025	2024	2025	2024
Cost of product sales	\$69,099	\$58,017	\$182,452	\$168,887
Operations	22,612	28,323	68,061	42,420
Research and development activities	24,060	41,362	71,584	118,981
General and administrative	100,282	118,714	384,702	404,078
Total depreciation and amortization	\$216,053	\$246,416	\$706,799	\$734,366

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 June 30		Nine Months Ended June 30	
	2025	2024	2025	2024
Weighted average number of common shares outstanding – basic	27,418,077	24,669,577	27,408,739	24,669,577
Dilutive effect of securities outstanding				
Stock options/DSU's	505,929	6,358	547,567	2,119
Warrants	-	-	-	-
Weighted average number of common shares outstanding – diluted	27,924,006	24,675,935	27,956,306	24,671,696

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

16. SEGMENT REPORTING

During the three months ended June 30, 2025, the Company generated revenue of \$6,931,885 (2024 – \$8,019,618) in the United States, \$1,100,451 (2024 – \$964,106) in the Middle East, \$330,296 (2024 - \$228,327) in Latin America, \$9,795 (2024 – \$10,614) in Canada, and \$nil (2024 – \$1,642) in the rest of the world.

During the nine months ended June 30, 2025, the Company generated revenue of \$19,363,184 (2024 – \$18,790,008) in the United States, \$3,843,021 (2024 – \$2,289,284) in the Middle East, \$763,522 (2024 - \$1,036,863) in Latin America, \$27,888 (2024 – \$34,042) in Canada, and \$126,760 (2024 – \$150,777) in the rest of the world.

As of June 30, 2025, the Company had \$3,502,491 (September 30, 2024 - \$2,606,782) of its property, plant, and equipment, right-of-use assets and intangible assets located in Canada and \$2,851 (September 30, 2024 - \$12,113) in the United States.

17. CONTINGENCIES AND COMMITMENTS

The following are commitments of the Company beyond June 30, 2025:

	September 30,		
	2025	2026	2027
Telecommunications and office equipment leases	16,098	43,830	23,006
	\$16,098	\$43,830	\$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 August 20, 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.