

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended December 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

	December 31, 2025	September 30, 2025
Assets		
Current assets		
Cash and cash equivalents	\$17,878,098	\$17,367,288
Accounts receivable	2,183,719	5,840,217
Inventories (Note 3)	6,822,490	7,400,787
Prepaid expenses	860,061	835,456
Finance lease receivable (Note 8)	-	87,102
Total current assets	27,744,368	31,530,850
Non-current assets		
Property, plant and equipment (Note 5)	1,920,595	1,355,082
Intangible assets (Note 4)	1,324,165	1,350,674
Right-of-use assets (Note 6)	1,809,994	1,886,981
Total non-current assets	5,054,754	4,592,737
Total assets	\$32,799,122	\$36,123,587
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$3,811,606	\$3,142,938
Lease liabilities (Note 7)	530,394	627,256
Deferred revenue	530,800	-
Total current liabilities	4,872,800	3,770,194
Non-current liabilities		
Lease liabilities (Note 7)	1,534,677	1,626,484
Total non-current liabilities	1,534,677	1,626,484
Total liabilities	6,407,477	5,396,678
Shareholders' equity		
Share capital (Note 9)	52,105,143	51,817,143
Contributed surplus	8,350,948	8,571,418
Foreign exchange translation reserve	3,591,291	3,976,750
Accumulated deficit	(37,655,737)	(33,638,402)
Total shareholders' equity	26,391,645	30,726,909
Total liabilities and shareholders' equity	\$32,799,122	\$36,123,587

On behalf of the Board:

(signed) "Abe Schwartz"

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
(LOSS) (UNAUDITED)

Expressed in Canadian Dollars

	Three months ended December 31,	
	2025	2024
Revenue		
Product	\$6,888,302	\$8,077,940
Development and consulting services	-	5,826
Licensing and royalty fees	-	82,214
Total revenue	6,888,302	8,165,980
Cost of sales	2,880,071	3,171,514
Gross profit	4,008,231	4,994,466
Operating expenses		
Operations	689,707	371,069
Research and development activities	289,258	373,339
Sales, marketing, and agency fees	1,011,929	1,209,820
General and administrative	1,965,093	1,725,570
	3,955,987	3,679,798
Finance income	(123,718)	(41,068)
Loss on finance lease receivable (Note 8)	50,585	149,690
Net income	\$125,377	\$1,206,046
Other comprehensive income(loss)		
Amount that may be reclassified to profit or loss		
Foreign currency translation adjustment	(385,459)	1,850,454
Total comprehensive income (loss)	\$(260,082)	\$3,056,500
Earnings per common share		
Basic earnings per share (Note 15)	\$0.00	\$0.04
Diluted earnings per share (Note 15)	\$0.00	\$0.04

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
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)	-	-	90,523	-	-	90,523
Net income for the period	-	-	-	1,206,046	-	1,206,046
Foreign currency translation Adjustment	-	-	-	-	1,850,454	1,850,454
Balance at December 31, 2024	27,398,077	\$ 51,748,095	\$8,413,114	\$(34,490,445)	\$4,980,867	\$30,651,631
Balance at October 1, 2025	27,418,077	\$ 51,817,143	\$8,571,418	\$(33,638,402)	\$3,976,750	\$30,726,909
Share-based payment expense (Note 10)	-	-	67,530	-	-	67,530
Vesting of DSUs (Note 10)	200,000	288,000	(288,000)	-	-	-
Dividend paid	-	-	-	(4,142,712)	-	(4,142,712)
Net income for the period	-	-	-	125,377	-	125,377
Foreign currency translation adjustment	-	-	-	-	(385,459)	(385,459)
Balance at December 31, 2025	27,618,077	\$ 52,105,143	\$8,350,948	\$(37,655,737)	\$3,591,291	\$26,391,645

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

	Three months ended December 31,	
	2025	2024
Cash flows from (used in) operating activities		
Net income for the period	\$125,377	\$1,206,046
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of property, plant and equipment (Note 5)	67,268	101,636
Amortization of intangible assets (Note 4)	72,914	95,138
Depreciation - right of use assets (Note 6)	102,335	60,351
Share-based payment expense (Note 10)	67,530	90,523
Interest expense and accretion	31,735	9,740
Loss on finance lease receivable (Note 8)	50,585	149,690
Cash flows from operating activities before net changes in working capital balances:	517,744	1,713,124
Net changes in working capital balances:		
Accounts receivable	3,611,955	(1,500,680)
Prepaid expenses	(34,087)	262,005
Inventories	498,825	(490,795)
Accounts payable and accrued liabilities	629,727	211,143
Deferred revenue	527,786	(70,266)
Total net changes in working capital balances	5,234,206	(1,588,593)
Total cash flows from operating activities	5,751,950	124,531
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment (Note 5)	(652,547)	(108,947)
Purchase of intangible assets (Note 4)	(66,005)	(83,175)
Total cash flows used in investing activities	(718,552)	(192,122)
Cash flows from (used in) financing activities		
Dividends paid	(4,142,712)	-
Finance lease receivable (Note 8)	34,220	65,700
Payment of lease liabilities (Note 7)	(213,729)	(181,745)
Total cash flows used in financing activities	(4,322,221)	(116,045)
Effect of foreign exchange rate changes on cash	(200,367)	934,462
Total cash flows during the period	510,810	750,826
Cash and cash equivalents, beginning of period	\$17,367,288	\$16,746,781
Cash and cash equivalents, end of period	\$17,878,098	\$17,497,607

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

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 months ended December 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 both manufactures certain products, leverages contract manufacturers to make certain products, and utilizes 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 (the “TSX-V”), 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, 2025, 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 February 24, 2026.

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

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

statements. Many 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:

	December 31, 2025	September 30, 2025
Raw materials	\$4,011,221	\$4,065,394
Finished goods	3,176,164	3,750,901
Inventory provision	(364,895)	(415,508)
	<u>\$6,822,490</u>	<u>\$7,400,787</u>

Cost of product sales for the three months ended December 31, 2025, includes \$2,838,534 (2024 - \$3,101,889), in inventoried materials. The company wrote-off inventories against the inventory provision during the three months ended December 31, 2025, totaling \$115,221 (2024 - \$357,363). Inventory provisions to write-downs inventories to net realizable value amounted to \$64,608 (2024 - (\$114,645)) and is included in cost of sales in the condensed consolidated interim statements of operations and comprehensive income (loss).

4. INTANGIBLE ASSETS

Intangible assets are comprised of the following amounts:

	Deferred Development Costs (\$)		Patents (\$)	Trademarks (\$)	Computer Software (\$)	Total (\$)
Cost						
Balance at September 30, 2025,	2,322,058	1,162,573		83,648	1,259,935	4,828,214
Additions	-	46,460		-	19,545	66,005
Foreign exchange	(35,863)	(17,955)		(1,292)	(19,458)	(74,568)
Balance at December 31, 2025	2,286,195	1,191,078		82,356	1,260,022	4,819,651
Accumulated amortization						
Balance at September 30, 2025	2,322,058	711,022		-	444,460	3,477,540
Amortization	-	11,909		-	61,005	72,914
Foreign exchange	(35,863)	(11,186)		-	(7,919)	(54,968)
Balance at December 31, 2025	2,286,195	711,745		-	497,546	3,495,486
Carrying amounts						
At September 30, 2025	-	451,551		83,648	815,475	1,350,674
At December 31, 2025	-	479,333		82,356	762,476	1,324,165

As at December 31, 2025, included in computer software is an amount of \$62,402 (September 30, 2025 - \$45,622) which primarily relates to new information systems where amortization has not yet commenced as they 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

	Furniture and Fixtures (\$)	Production and Lab Equipment (\$)	Leasehold Improvements (\$)	Total (\$)
Cost				
Balance at September 30, 2025	508,785	3,326,520	377,830	4,213,135
Additions	43,115	557,473	51,959	652,547
Foreign exchange	(7,858)	(51,375)	(5,835)	(65,068)
Balance at December 31, 2025	544,042	3,832,618	423,954	4,800,614
Accumulated depreciation				
Balance at September 30, 2025	453,989	2,085,008	319,056	2,858,053
Depreciation	12,798	53,829	641	67,268
Foreign exchange	(7,233)	(33,131)	(4,938)	(45,302)
Balance at December 31, 2025	459,554	2,105,706	314,759	2,880,019
Carrying amounts				
At September 30, 2025	54,796	1,241,512	58,774	1,355,082
At December 31, 2025	84,488	1,726,912	109,195	1,920,595

As at December 31, 2025, included in production and lab equipment is an amount of \$1,284,681 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, 2025	1,886,981
Depreciation	(102,335)
Foreign exchange	25,348
Balance at September 30, 2025	1,809,994

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, 2025	2,253,740
Interest	29,910
Payments	(213,729)
Foreign exchange	(4,850)
Balance at December 31, 2025	2,065,071
Current portion	530,394
Non-current portion	1,534,677

Following the impairment of the right of use asset related to the Company's Seattle lease agreement, an onerous contract liability at December 31, 2025, of \$91,247 (September 30, 2025 - \$121,841) has been recognized in accounts payable and accrued liabilities related to future variable lease payments that are not included in the lease liability.

8. FINANCE LEASE RECEIVABLE

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 was 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 (loss).

On December 19, 2024, one sublease tenant notified Covalon 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 year ended September 30, 2025.

Effective December 31, 2025, the remaining tenant vacated the premises. The company recognized a loss on the finance lease receivable of \$50,585 during the three months ended December 31, 2025.

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

	Finance lease receivables (\$)
Balance at October 1, 2025	87,102
Loss on finance lease receivable	(50,585)
Interest income	740
Brokerage fees	(2,565)
Payments received	(34,220)
Foreign exchange	(472)
Balance at December 31, 2025	-

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

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, 2025	200,000	\$4.00	0.83
Exercised during the period	-	-	-
Balance at December 31, 2025	200,000	\$4.00	0.58

10. SHARE-BASED PAYMENTS

Long-Term Incentive Plan

On March 8, 2023, the shareholders approved 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 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 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.

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 their relationship to 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.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

The following is a summary of changes in stock options from October 1, 2025, to December 31, 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	357,500	-	-	(12,500)	345,000	345,000	-	1.24
06-Sep-22	06-Sep-27	\$2.50	126,668	-	-	(16,668)	110,000	110,000	-	1.68
10-Jan-24	10-Jan-29	\$1.50	800,000	-	-	-	800,000	100,000	700,000	3.03
30-May-25	30-May-30	\$2.50	150,000	-	-	-	150,000	-	150,000	4.42
			1,434,168	-	-	(29,168)	1,405,000	555,000	850,000	2.63
		Weighted Average Exercise Price	\$1.86	-	-	\$2.37	\$1.85	\$2.13	\$1.68	

Deferred Share Units

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

Grant Date	Exercise Price	Opening Balance	Granted	Vested	Forfeited/ Expired	Closing Balance	Vested	Unvested
20-Oct-23	\$1.44	280,000	-	(200,000)	-	80,000	53,333	26,667
		280,000	-	(200,000)	-	80,000	53,333	26,667
	Weighted Average Exercise Price	\$ 1.44	\$ -	\$ 1.44	\$ -	\$ 1.44	\$ 1.44	\$ 1.44

Share Based Payment Expense

Total share-based payment expense recognized during the three months ended December 31, 2025, was \$67,530 (2024 - \$90,523).

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 measuring expected credit losses, which uses a lifetime expected loss allowance 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 the basis, the loss allowance as at December 31, 2025 and 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.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

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 December 31, 2025, five customers accounted for 77% (September 30, 2025 – five customers for 89%) 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:

	December 31, 2025	September 30, 2025
Current	\$2,005,023	\$5,097,136
30-60 days past due	178,696	743,081
	\$2,183,719	\$5,840,217

Interest Rate Risk

The Company is subject to interest rate risk on its cash, 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:

	December 31, 2025			September 30, 2025		
	<u>Canadian</u>	<u>USD</u>	<u>Total</u>	<u>CAD</u>	<u>USD</u>	<u>Total</u>
Cash and cash equivalents	\$178,857	\$17,699,241	\$17,878,098	\$100,136	\$17,267,152	\$17,367,288
Accounts receivable	\$74,151	\$2,109,568	\$2,183,719	\$107,163	\$5,733,054	\$5,840,217
Finance lease receivable	-	-	-	-	\$87,102	\$87,102
Accounts payable and accrued liabilities	\$266,484	\$3,545,122	\$3,811,606	\$300,291	\$2,842,647	\$3,142,938
Lease liabilities	\$1,858,966	\$206,105	\$2,065,071	\$1,943,138	\$310,602	\$2,253,740

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

If exchange rates were to change by 5% at December 31, 2025 total comprehensive income (loss) would change by \$802,879 (2024 - \$804,372).

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:

	Carrying amount (\$)	Future cash flows (\$)	Less than 1 year (\$)	Between 1 and 5 years (\$)	Greater than 5 years (\$)
Accounts payable and accrued liabilities	3,811,606	3,811,606	3,811,606	-	-
Lease liabilities	2,065,071	2,315,361	658,936	1,656,425	-
Total	5,876,677	6,126,967	4,470,542	1,656,425	-

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 December 31, 2025 is \$26,391,645 (September 30, 2025 – \$30,726,909).

The Company manages its capital structure and adjusts it considering 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.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

13. RELATED PARTY TRANSACTIONS

Key management personnel includes 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 December 31,	
	2025	2024
Compensation and short-term employee benefits	\$466,383	\$494,772
Share based payment expense	67,530	73,343
	\$533,913	\$568,115

The Company had previously accrued \$667,969 for termination benefits owing to a former member of senior management during the fiscal year end September 30, 2023. This provision included entitlements under the Employment Standards Act, 2000, which have since been paid. 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 December 31, 2025, \$10,000 of this loan remained outstanding.

14. EXPENSES BY NATURE

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

	Three months ended December 31,	
	2025	2024
Inventoried materials	\$2,838,534	\$3,101,889
Wages, benefits, consulting fees, director compensation	2,398,228	2,340,624
Share based payments	67,530	90,523
Depreciation and amortization	242,517	257,125
Facilities	59,661	86,455
Patent and trademark maintenance	8,224	75,792
Insurance	95,067	101,162
Information technology system costs	230,059	202,169
Professional fees	253,658	243,182
Other expenses	642,580	352,391
Total	\$6,836,058	\$6,851,312

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

Depreciation and amortization	Three months ended	
	December 31,	
	2025	2024
Cost of product sales	\$41,537	\$69,625
Operations	57,393	22,676
Research and development activities	24,201	22,703
General and administrative	119,386	142,121
Total depreciation and amortization	<u>\$242,517</u>	<u>\$257,125</u>

15. EARNINGS PER SHARE

	Three months ended	
	December 31,	
	2025	2024
Weighted average number of common shares outstanding – basic	<u>27,576,319</u>	<u>27,398,077</u>
Dilutive effect of securities outstanding		
Stock Options/DSU's	<u>196,838</u>	<u>645,342</u>
Weighted average number of common shares outstanding – diluted	<u>27,773,157</u>	<u>28,043,419</u>

16. SEGMENT REPORTING

During the three months ended December 31, 2025, the Company generated revenue of \$6,305,480 (2024 – \$7,137,832) in the USA, \$507,546 (2024 – \$977,977) in the Middle East, \$25,488 (2024 – \$8,477) in Canada, \$45,060 (2024 – \$20,719) in Latin America, and \$4,728 (2024 – \$20,975) in the rest of the world.

As of December 31, 2025, the Company had \$5,052,964 (September 30, 2025 - \$4,590,373) of its property, plant, and equipment, right-of-use assets and intangible assets located in Canada and \$1,790 (2024 – \$2,364) in the USA.