

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended March 31, 2026 and 2025

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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, 2026	September 30, 2025
Assets		
Current assets		
Cash and cash equivalents	\$16,567,898	\$17,367,288
Accounts receivable	4,696,622	5,840,217
Inventories (Note 3)	6,376,972	7,400,787
Prepaid expenses	506,669	835,456
Finance lease receivable (Note 8)	-	87,102
Total current assets	28,148,161	31,530,850
Non-current assets		
Property, plant and equipment (Note 5)	2,044,433	1,355,082
Intangible assets (Note 4)	1,307,969	1,350,674
Right-of-use assets (Note 6)	1,679,312	1,886,981
Total non-current assets	5,031,714	4,592,737
Total assets	\$33,179,875	\$36,123,587
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$3,278,708	\$3,142,938
Lease liabilities (Note 7)	332,028	627,256
Deferred revenue	109,965	-
Total current liabilities	3,720,701	3,770,194
Non-current liabilities		
Lease liabilities (Note 7)	1,441,523	1,626,484
Total non-current liabilities	1,441,523	1,626,484
Total liabilities	5,162,224	5,396,678
Shareholders' equity		
Share capital (Note 9)	52,105,143	51,817,143
Contributed surplus	8,422,327	8,571,418
Foreign exchange translation reserve	4,052,469	3,976,750
Accumulated deficit	(36,562,288)	(33,638,402)
Total shareholders' equity	28,017,651	30,726,909
Total liabilities and shareholders' equity	\$33,179,875	\$36,123,587

Contingencies and commitments (Note 17)

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
(UNAUDITED)

Expressed in Canadian Dollars

	Three months ended March 31,		Six months ended March 31,	
	2026	2025	2026	2025
Revenue				
Product	\$8,717,412	\$7,585,968	\$15,605,714	\$15,663,908
Development and consulting services	-	-	-	5,826
Licensing and royalty fees	9,602	-	9,602	82,214
Total revenue	8,727,014	7,585,968	15,615,316	15,751,948
Cost of sales	3,363,625	3,446,462	6,243,696	6,617,976
Gross profit	5,363,389	4,139,506	9,371,620	9,133,972
Operating expenses				
Operations	969,666	451,471	1,659,373	822,540
Research and development activities	337,794	320,459	627,052	693,798
Sales, marketing and agency fees	1,166,682	1,250,162	2,178,611	2,459,982
General and administrative	1,969,258	1,835,594	3,934,351	3,561,164
	4,443,400	3,857,686	8,399,387	7,537,484
Finance expenses (income)	(73,957)	(147,319)	(197,675)	(188,387)
Loss on finance lease receivable	-	-	50,585	149,690
Gain on lease liability	(99,503)	-	(99,503)	-
Net income	\$1,093,449	\$429,139	\$1,218,826	\$1,635,185
Other comprehensive income (loss)				
Amount that may be reclassified to profit or loss				
Foreign currency translation adjustment	461,178	(40,155)	75,719	1,810,299
Total comprehensive income	\$1,554,627	\$388,984	\$1,294,545	\$3,445,484
Income per common share				
Basic income per share (Note 15)	\$0.04	\$0.02	\$0.04	\$0.06
Diluted income per share (Note 15)	\$0.04	\$0.02	\$0.04	\$0.06

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)	-	-	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
Balance at March 31, 2025	27,418,077	\$51,817,143	\$8,453,406	\$(34,061,306)	\$4,940,712	\$31,149,955
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)	-	-	138,909	-	-	138,909
Exercise of DSUs	200,000	288,000	(288,000)	-	-	-
Dividend paid	-	-	-	(4,142,712)	-	(4,142,712)
Net income for the period	-	-	-	1,218,826	-	1,218,826
Foreign currency translation adjustment	-	-	-	-	75,719	75,719
Balance at March 31, 2026	27,618,077	\$52,105,143	\$8,422,327	\$(36,562,288)	\$4,052,469	\$28,017,651

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,	
	2026	2025
Cash flows from (used in) operating activities		
Net income for the period	\$1,218,826	\$1,635,185
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of property, plant and equipment (Note 5)	136,653	175,111
Amortization of intangible assets (Note 4)	145,900	195,029
Depreciation of right of use assets (Note 6)	204,053	120,606
Share-based payment expense (Note 10)	138,909	156,063
Interest expense and accretion	59,179	18,285
Loss on finance lease receivable (Note 8)	50,585	149,690
Gain on lease liability (Note 7)	(99,503)	-
Cash flows from operating activities before change in non-cash working capital balances	1,854,602	2,449,968
Net changes in non-cash working capital balances:		
Accounts receivable	1,141,107	(1,019,495)
Prepaid expenses	327,748	79,567
Inventories	1,025,569	(855,757)
Accounts payable and accrued liabilities	140,491	153,829
Deferred revenue	110,936	(8,487)
Total net changes in non-cash working capital balances	2,745,851	(1,650,343)
Total cash flows generated in operating activities	4,600,453	799,626
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment (Note 5)	(825,310)	(129,519)
Purchase of intangible assets (Note 4)	(102,579)	(95,171)
Total cash flows used in investing activities	(927,889)	(224,690)
Cash flows from (used in) financing activities		
Exercise of stock options	-	43,800
Dividends paid	(4,142,712)	-
Finance lease receivable (Note 8)	34,220	121,908
Payment of lease liabilities (Note 7)	(429,202)	(363,395)
Total cash flows used in financing activities	(4,537,694)	(197,687)
Foreign exchange rate changes on cash	65,740	906,534
Total cash flows during the period	(799,390)	1,283,783
Cash and cash equivalents, beginning of the period	\$17,367,288	\$16,746,781
Cash and cash equivalents, end of the period	\$16,567,898	\$18,030,564

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 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, 2026 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 under the symbol COV. The Company also trades on the OTCQX Best Market, under the symbol 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 May 20, 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 statements. Many

Covalon Technologies Ltd.

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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, 2026	September 30, 2025
Raw materials	\$3,564,488	\$4,065,394
Finished goods	3,267,791	3,750,901
Inventory provision	(455,307)	(415,508)
	\$6,376,972	\$7,400,787

Cost of sales for the three and six months ended March 31, 2026, included \$3,321,699 (2025 - \$3,402,734) and \$6,160,233 (2025 - \$6,504,623) in inventoried materials. The Company wrote off inventories against the inventory provision/ (release) during the three and six months ended March 31, 2026, totaling (\$7,544) (2025 - \$1,558) and \$107,677 (2025 - \$358,921). Inventory provisions to write-down inventories to net realizable value during the three and six months period ended March 31, 2026 amounted to \$82,868 (2025 - \$nil) and \$147,476 (2025 - (\$114,645)) and is included in cost of sales in the condensed interim statements 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, 2025	2,322,058	1,162,573	83,648	1,259,935	4,828,214
Additions	-	64,918	-	37,661	102,579
Foreign exchange	3,002	1,503	108	1,628	6,241
Balance at March 31, 2026	2,325,060	1,228,994	83,756	1,299,224	4,937,034
Accumulated amortization					
Balance at September 30, 2025	2,322,058	711,022	-	444,460	3,477,540
Amortization	-	23,746	-	122,154	145,900
Foreign exchange	3,002	1,103	-	1,520	5,625
Balance at March 31, 2026	2,325,060	735,871	-	568,134	3,629,065
Carrying amounts					
At September 30, 2025	-	451,551	83,648	815,475	1,350,674
At March 31, 2026	-	493,123	83,756	731,090	1,307,969

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Expressed in Canadian Dollars

As at March 31, 2026, included in computer software is an amount of \$7,357 (September 30, 2025 - \$45,622) which primarily relates to new information systems where amortization has not yet commenced as it had not yet been placed into service.

5. PROPERTY, PLANT AND EQUIPMENT

	Computer Hardware, Furniture and Fixtures (\$)	Production and Lab Equipment (\$)	Leasehold Improvements (\$)	Total (\$)
Balance at September 30, 2025	508,785	3,326,520	377,830	4,213,135
Additions	71,329	699,613	54,368	825,310
Foreign exchange	658	4,301	489	5,448
Balance at March 31, 2026	580,772	4,030,434	432,687	5,043,893
Accumulated depreciation				
Balance at September 30, 2025	453,989	2,085,008	319,056	2,858,053
Depreciation	27,219	107,478	1,956	136,653
Foreign exchange	798	3,528	428	4,754
Balance at March 31, 2026	482,006	2,196,014	321,440	2,999,460
Carrying amounts				
At September 30, 2025	54,796	1,241,512	58,774	1,355,082
At March 31, 2026	98,766	1,834,420	111,247	2,044,433

As at March 31, 2026, included in production and lab equipment is an amount of \$1,406,448 (September 30, 2025 - \$722,431) 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	(204,053)
Foreign exchange	(3,616)
Balance at March 31, 2026	1,679,312

The Company leases office space in Mississauga, Canada.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

7. LEASE LIABILITIES

On March 23, 2026, the Company closed its Seattle facility, resulting in the derecognition of the related lease liability and recognition of a lease liability gain of \$99,503.

Lease liabilities are comprised of the following amounts:

	Lease liabilities (\$)
Balance at October 1, 2025	2,253,740
Gain on lease liability	(99,503)
Interest	57,354
Payments	(429,202)
Foreign exchange	(8,838)
Balance at March 31, 2026	1,773,551
Less: Current portion	332,028
Long-term portion	1,441,523

Following the impairment of the right of use asset related to the Company's Seattle lease agreement, an onerous contract liability at March 31, 2026 of \$36,241 (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. This amount is expected to be used to settle remaining expenses associated with the closure of the lease.

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 was reasonably certain that the sublease term would match that of the Company's existing lease agreement. 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.

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.

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:

	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 March 31, 2026	-

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 March 31, 2026	200,000	\$4.00	0.33

10. SHARE-BASED PAYMENTS

Long-Term Incentive Plan

On March 25, 2026, the shareholders approved the amended and restated Long-Term Incentive Plan (the Plan). The amended and restated Plan no longer provides for the grant of restricted shares. The amendments also update the eligible award types under the Plan, the treatment of inducement grants, the participation limits applicable to insiders, consultants, investor relations participants and non-employee directors, the treatment and settlement of dividend-equivalent units, minimum vesting requirements for DSUs, RSUs and PSUs, and certain post-termination exercise and settlement provisions. No outstanding awards were modified as a result of the amendments to the Plan, and accordingly, no incremental share-based compensation expense was recognized in the period.

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.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

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 their 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, 2025 to March 31, 2026:

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	-	-	(162,500)	195,000	195,000	-	0.99
06-Sep-22	06-Sep-27	\$2.50	126,668	-	-	(16,668)	110,000	110,000	-	1.43
10-Jan-24	10-Jan-29	\$1.50	800,000	-	-	-	800,000	200,000	600,000	2.78
30-May-25	30-May-30	\$2.50	150,000	-	-	-	150,000	-	150,000	4.17
			1,434,168	-	-	(179,168)	1,255,000	505,000	750,000	2.55
Weighted Average Exercise Price			\$1.86	-	-	\$2.22	\$1.81	\$1.98	\$1.70	

Deferred Share Units

The following is a summary of changes in deferred share units from October 1, 2025 to March 31, 2026:

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
27-Mar-26	\$1.72	-	97,674	-	-	97,674	-	97,674
		280,000	97,674	(200,000)	-	177,674	53,333	124,341
Weighted Average Exercise Price		\$ 1.44	\$ 1.72	\$ 1.44	\$ -	\$ 1.59	\$ 1.44	\$ 1.66

Issuance of Deferred Share Units

On March 27, 2026, the Company's Board of Directors approved the grant of 97,674 DSUs to certain directors. The DSUs were granted in lieu of director fees for the upcoming year and will vest over a period of one year.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

Share Based Payment Expense

Total share-based payment expense recognized during the three and six months ended March 31, 2026, was \$71,379 (2025 - \$65,540) and \$138,909 (2025 - \$156,063) 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 March 31, 2026 and September 30, 2025 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, 2026, five customers accounted for 76% (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:

	March 31, 2026	September 30, 2025
Current	\$3,716,941	\$5,097,136
30-60 days past due	979,681	743,081
	<u>\$4,696,622</u>	<u>\$5,840,217</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.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

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>March 31, 2026</u>			<u>September 30, 2025</u>		
	<u>Canadian</u>	<u>USD</u>	<u>Total</u>	<u>CAD</u>	<u>USD</u>	<u>Total</u>
Cash and cash equivalents	\$91,834	\$16,476,064	\$16,567,898	\$100,136	\$17,267,152	\$17,367,288
Accounts receivable	\$264,436	\$4,432,186	\$4,696,622	\$107,163	\$5,733,054	\$5,840,217
Finance lease receivable	-	-	-	-	\$87,102	\$87,102
Accounts payable and accrued liabilities	\$410,977	\$2,867,731	\$3,278,708	\$300,291	\$2,842,647	\$3,142,938
Lease liabilities	\$1,773,551	-	\$1,773,551	\$1,943,138	\$310,602	\$2,253,740

If exchange rates were to change by 5% at March 31, 2026 total comprehensive income (loss) would change by \$902,026 (2025 - \$943,572).

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	3,278,708	3,278,708	3,278,708	-	-
Lease liabilities	1,773,551	1,995,995	453,771	1,542,224	-
Total	5,052,259	5,274,703	3,732,479	1,542,224	-

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

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, 2026 is \$28,017,651 (September 30, 2025 – \$30,726,909).

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		Six months ended	
	March 31		March 31	
	2026	2025	2026	2025
Compensation and short-term employee benefits	\$441,380	\$443,378	\$907,763	\$938,150
Share based payment expense	71,379	48,188	138,909	121,531
	512,759	491,566	1,046,672	1,059,681

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 ended September 30, 2013, a non-interest-bearing loan of \$50,000 was made to a key employee. As of March 31, 2026, \$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 March 31,		Six months ended March 31,	
	2026	2025	2026	2025
Inventoried materials	\$3,321,699	\$3,402,734	\$6,160,233	6,504,623
Wages, benefits, consulting fees, director compensation	2,561,141	2,492,975	4,959,369	4,833,599
Share based payments	71,379	65,540	138,909	156,063
Depreciation and amortization	244,089	233,621	486,606	490,746
Facility	73,094	24,807	132,755	111,262
Patent and trademark maintenance	17,597	89,467	25,821	165,259
Insurance	95,223	105,924	190,290	207,086
Information technology system costs	243,637	231,567	473,696	433,736
Professional fees	377,877	302,847	631,535	546,029
Other expenses	801,289	354,666	1,443,869	707,057
Total	\$7,807,025	\$7,304,148	\$14,643,083	\$14,155,460

Depreciation and amortization	Three months ended March 31,		Six months ended March 31,	
	2026	2025	2026	2025
Cost of product sales	\$41,926	\$43,728	\$83,463	\$113,353
Operations	38,195	22,773	95,588	45,449
Research and development activities	23,551	24,821	47,752	47,524
General and administrative	140,417	142,299	259,803	284,420
Total depreciation and amortization	\$244,089	\$233,621	\$486,606	\$490,746

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	
	2026	2025	2026	2025
Weighted average number of common shares outstanding – basic	27,618,077	27,398,077	27,597,083	27,398,077
Dilutive effect of securities outstanding Stock options / DSUs	105,503	491,429	151,171	568,386
Weighted average number of common shares outstanding – diluted	27,723,580	27,889,506	27,748,254	27,966,463

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

16. SEGMENT REPORTING

During the three months ended March 31, 2026, the Company generated revenue of \$6,418,139 (2025 – \$5,293,467) in the United States, \$1,834,086 (2025 – \$1,764,593) in the Middle East, \$384,225 (2025 - \$412,507) in Latin America, \$19,561 (2025 – \$9,616) in Canada, and \$71,003 (2025 – \$105,785) in the rest of the world.

During the six months ended March 31, 2026, the Company generated revenue of \$12,723,619 (2025 – \$12,431,299) in the United States, \$2,341,632 (2025 – \$2,742,570) in the Middle East, \$429,285 (2025 - \$433,226) in Latin America, \$45,049 (2025 – \$18,093) in Canada, and \$75,731 (2025 – \$126,760) in the rest of the world.

As of March 31, 2026, the Company had \$5,030,439 (September 30, 2025 - \$4,590,373) of its property, plant, and equipment, right-of-use assets and intangible assets located in Canada and \$1,275 (September 30, 2025 - \$2,364) in the United States.

17. CONTINGENCIES AND COMMITMENTS

The following are commitments of the Company beyond March 31, 2026:

	2026	2027	September 30, 2028	Thereafter
Production, office maintenance and software contracts	51,951	102,130	103,100	92,534
Finance and regulatory commitments	14,027	16,496	-	-
Telecommunications and office equipment leases	10,719	21,438	21,438	14,040
	<u>\$76,697</u>	<u>\$140,064</u>	<u>\$124,538</u>	<u>\$106,574</u>

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.