covalon TECHNOLOGIES LTD.

TSX-V: COV
OTCQX: CVALF

Q2 2023 Earnings and Business Update

May 25th 2023

Brian Pedlar, CEO
Jason Gorel, CFO

www.covalon.com



helping the most vulnerable patients have a better chance at healing

Forward-Looking Statements and Non-GAAP Financial Information

Certain statements included in this presentation may be considered forward-looking statements. These forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “estimate”, “expect”, “intend” and statements that an event or result “may”, “will”, “should”, “could”, or “might” occur or be achieved and other similar expressions. More specifically, this presentation contains forward-looking statements which include, but are not limited to statements regarding: the Company’s corporate strategy and strategic objectives; the availability of external financing to fund the Company’s ongoing liabilities and commitments; the direct and indirect impact of the COVID-19 pandemic on the Company’s business and operations, including supply chain, manufacturing, research and development costs, contracted service providers and employees, and general business and economic events. These forward-looking statements involve risk and uncertainties, including the impact on the Company given its current liquidity situation, the difficulty in predicting product approvals, acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, the regulatory environment, fluctuations in operating results, and other risks, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Such forward-looking statements should not be taken as guarantees of future performance of Covalon.

All forward-looking statements are based on Covalon’s current beliefs as well as assumptions made by and information currently available to Covalon and relate to, among other things, anticipated financial performance, business prospects, partnership opportunities, strategies, regulatory developments, market acceptance and future commitments. The reader is cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation.

Due to risks and uncertainties, including the risks and uncertainties identified by Covalon in its public securities filings, actual events may differ materially from current expectations. Covalon disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Certain financial measures in this presentation – namely earnings before interest, depreciation and amortization (“EBITDA”), adjusted EBITDA, pro-forma EBITDA, free cash flow and enterprise value – are non-IFRS financial measures. While Covalon and certain of its competitors measure and evaluate the performance of their respective consolidated operations and business segments with reference to these and similar measures, non-IFRS measures do not have any standardized or prescribed meaning under IFRS or otherwise and therefore are unlikely to be comparable to similar measures presented by other companies. These non-IFRS measures should not be considered in isolation or as a substitute for financial measures prepared in accordance with IFRS. All non-IFRS measures are included because management monitors and uses the information on a regular basis to analyze the performance of the business and therefore may be considered useful information.

For further information about the risks and uncertainties relating to forward-looking statements included in this Memorandum, the recipient should consult the “Risks and Uncertainties” section of Covalon’s annual MD&A dated January 25, 2023, as well as those contained in Covalon’s interim MD&As and other public record filings on SEDAR.

All figures are in Canadian dollars, unless otherwise noted, and Covalon’s fiscal year end is September 30th.

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We aren’t just another medical device company…

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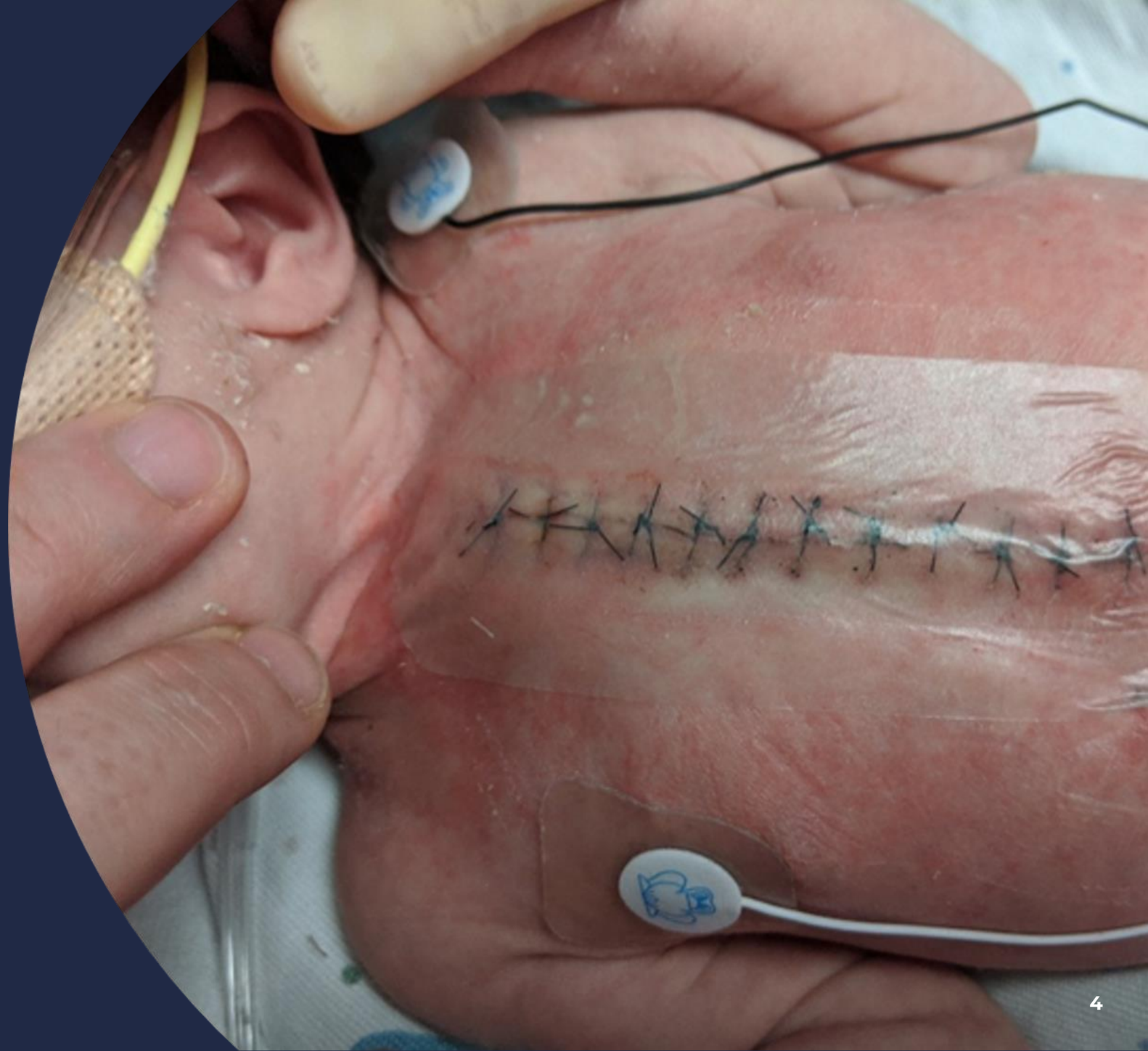
Covalon is a patient-driven medical device company, built on the relentless pursuit to help the most vulnerable patients have a better chance at healing.

Through a strong portfolio of patented technologies and solutions for advanced wound care, infection prevention, and medical device coatings, we offer innovative, gentler and more compassionate options for patients to heal with less infections, less pain, and better outcomes.

Our solutions are designed for patients and made for care providers.

Our Mission

Provide innovative and cost-effective healthcare solutions that **reduce pain, prevent infection, and promote healing**.



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Covalon is focused on becoming

a leading provider of

compassionate care solutions that

help patients heal faster and live better.

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Covalon's products are utilized around the world

Direct Sales

> 100
US Hospitals

6 of 10
Top 10 Children's Hospitals

IV Clear™ SurgiClear®

VALGuard™

Strong Clinical Evidence

Long-term Care & Home Healthcare Distribution Partners

smith&nephew McKESSON MEDLINE DermaRite HARTMANN Byram Healthcare Owens & Minor

International Distributors

20
Countries

~20
Distributors

JamJoom Business Group HARTMANN PANAFARMA Promedon People + Innovation

2023 Revenue Breakdown

69%
United States

31%
International

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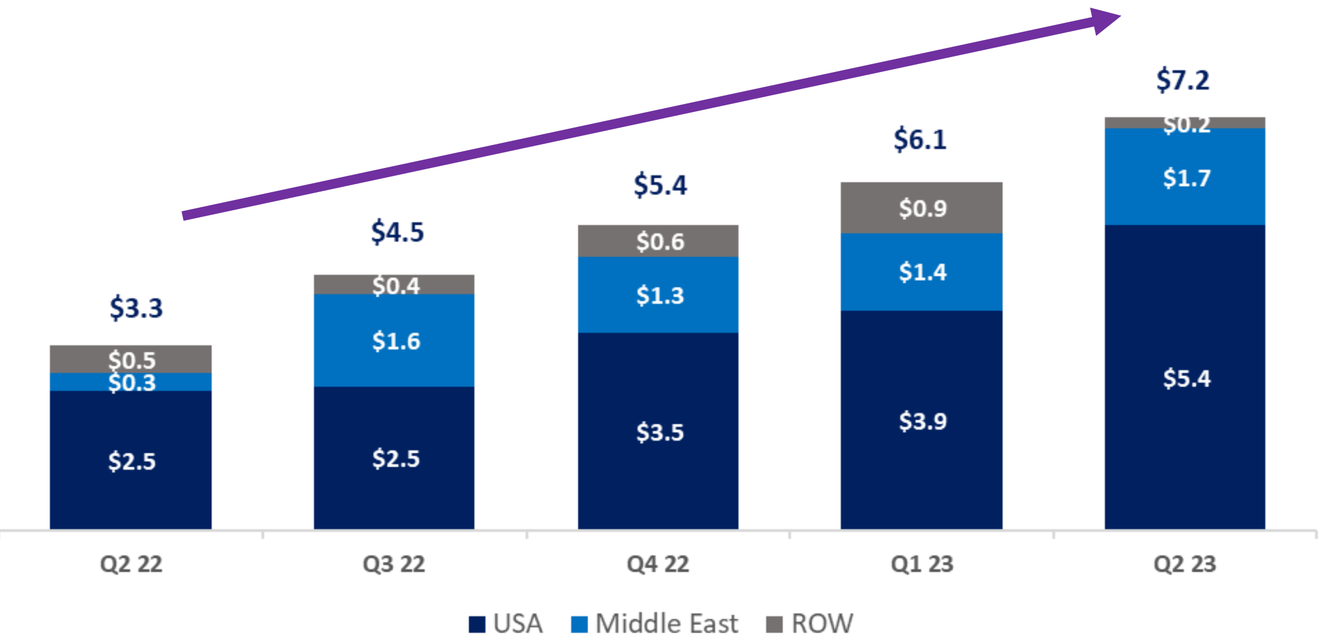
For the six months ended March 31, 2023

Quarterly Revenue Growth Last 5 Quarters



58% **YTD 2023 Adjusted Gross Margin[1]**

Key Takeaways

- Strong revenue growth over the past 5 quarters
- Forecasting revenue growth for 2023
- United States revenue growth tracking to plan
- Middle East revenue continuing to return to expected levels, but still “lumpy” quarter to quarter
- Rest of World “lumpy” growth quarter to quarter
- Gross margins anticipated to improve in 2023 compared to prior years

[1]Adjusted for inventory provisions and other adjustments.

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Second Quarter 2023 Financial Results – Key Highlights

- Revenue year to date was $13.4 million, compared to $8.2 million in the prior year
- Revenue was $7.2 million for the quarter, compared to $3.3 million in the prior year
- Gross margin was $4.2 million or 58%, an improvement over last year's $1.7 million or 53%
- Covalon ended the period with $11 million of cash on the balance sheet
- Second quarter net loss of $0.7 million or $0.02 per share and Adjusted EBITDA loss of $0.5 million compares to net loss of $2.5 Million or $0.09 per share and adjusted EBITDA loss of $2.2 Million in the prior period

Results are for the three and six months ended March 31, 2023 and 2022.

Continuing operations includes revenue from our core business of collagen, medical coatings, and antimicrobial silicone adhesive dressings, which continues to experience growth in the United States and internationally.

Discontinued operations are comprised of AquaGuard operations for the periods.

Revenue 6 Months

$13.4M ↑ +63%

Revenue 3 Months

$7.2M ↑ +120%

Gross Margin 3 Months

58% ↑ +5%

Cash

$11M ($0.43 per share)

Net loss 3 Months

$0.7M ↑ +72%

Basic & Diluted EPS 3 Months

($0.03) per share

Balance Sheet Consistent with Significant Cash and No Debt

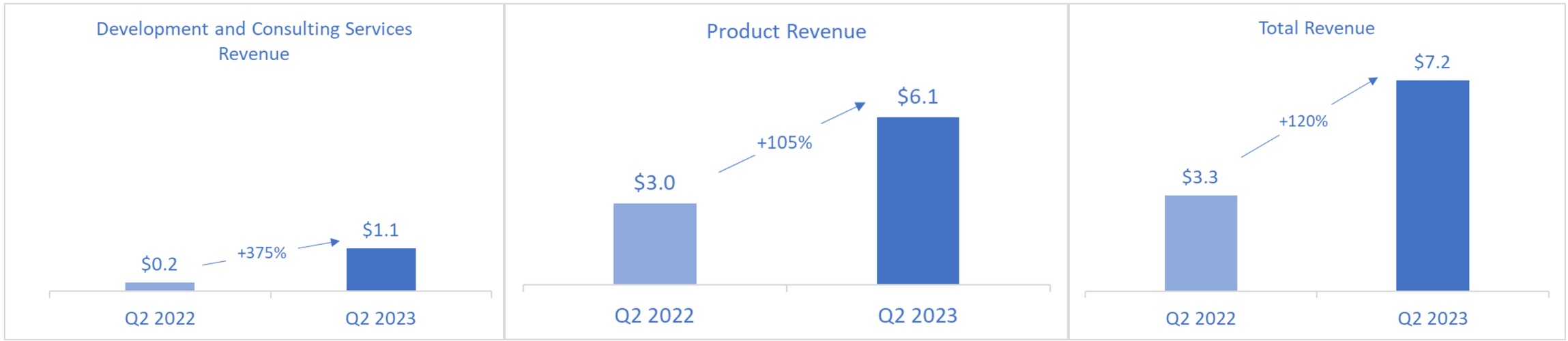
	Sept. 30, 2022	Dec. 31, 2022
Cash	$14.1M	$10.8M
Current Assets	$27.2M	$24.6M
Total Assets	$30.4M	$27.9M
Debt	$----	$----
Current Liabilities	($4.5M)	($4.5M)
Total Liabilities	($6.1M)	($5.8M)

Key Takeaways

- We ended Q2 2023 with $11M cash on the balance sheet
- Current assets consists of cash, accounts receivable, inventories and prepaid expenses
- Current liabilities consist of trade payables, accruals, current lease liabilities and deferred revenue
- No debt, strong working capital position

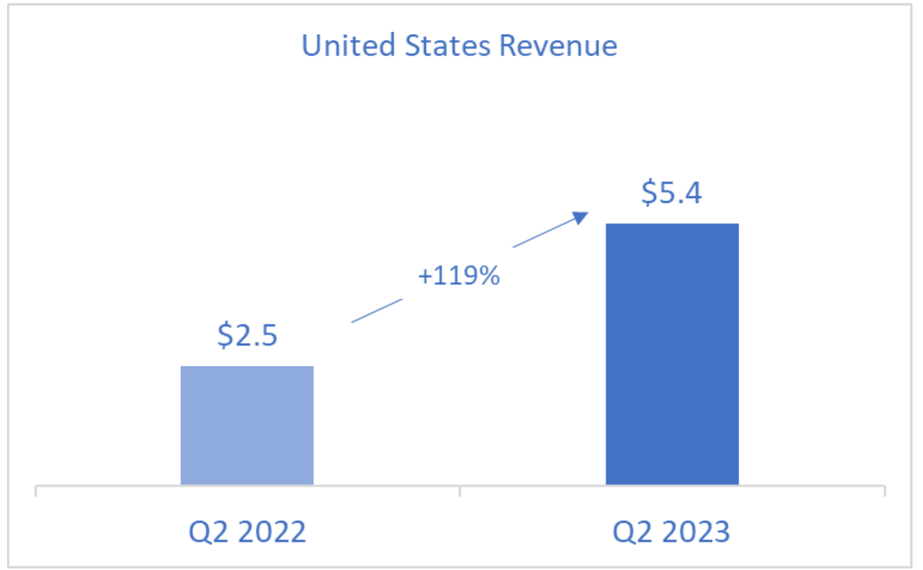
Q2 2023 Revenue

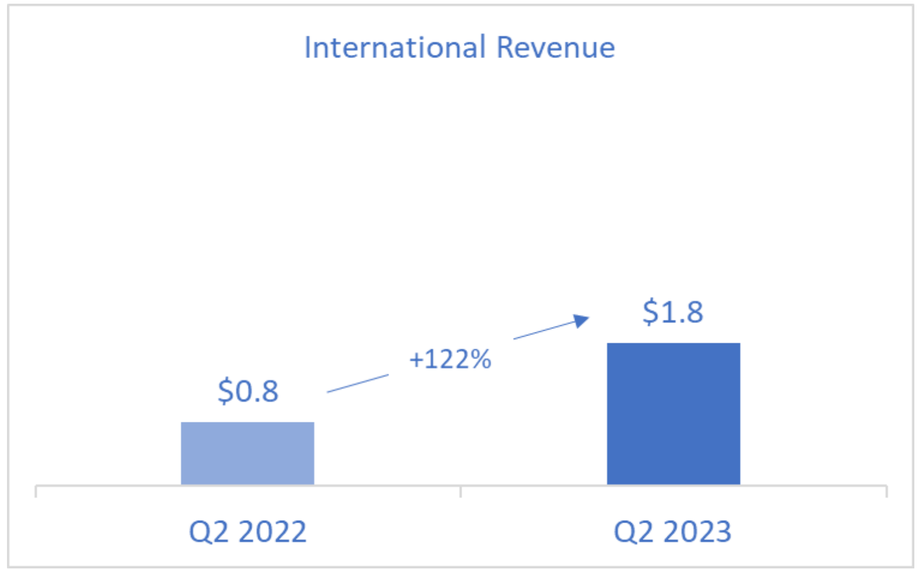
- Product revenue increased 105% to $6.1 million, compared to $3.0 million for the same period in the prior year.
- Development and consulting services revenue for Q2 2022 increased by 375% to $1.1 million, compared to $0.2 million for the same period of the prior year.
- Revenue from development and consulting services varies based on opportunities and the length of the sales cycle for given projects.
- The timing of this revenue will vary depending on length and timing of projects and discussions with customers.



Q2 2023 Revenue by Geography

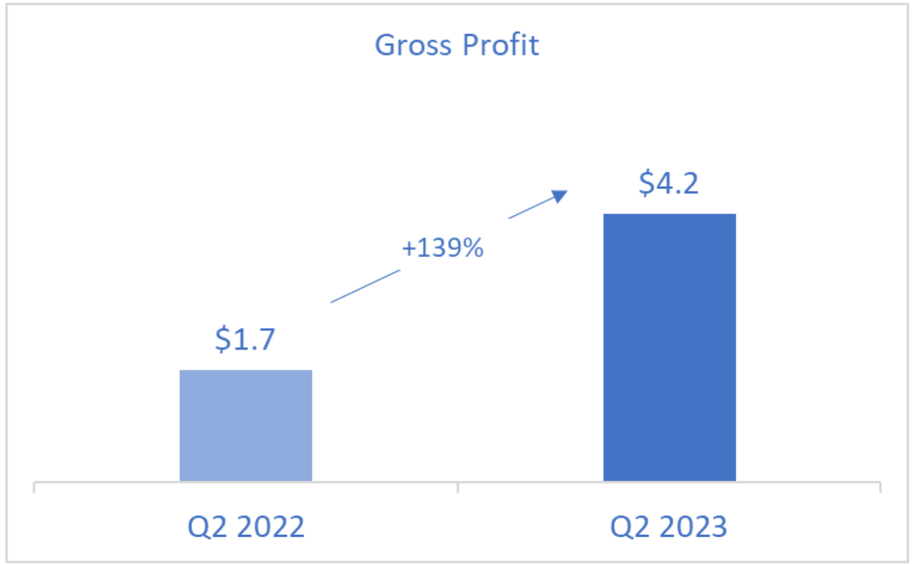
- United States accounts for 74% of revenue
- Q2 Revenue in the United States increased by 119% to $5.4 million, primarily as a result of increased collagen sales and development services.
- International revenue was up 122% to $1.8 million. Revenue increased in the Middle East as a result of deliveries under competitive contracts awarded to the Company.
- Revenue growth in the United States continues to be a focus for the Company in both our direct sales to hospitals and through our distributor partners into long-term and home health care settings





Q2 2023 Gross Profit and Adjusted Gross Margin(1)

- Gross margin for the period ended March 31, 2023, was 58% compared to 53% for the same period of the prior year.
- The gross margin is significantly influenced by source of revenue, recording of inventory provisions and by the relative mix of products sold in any given financial period.
- Adjusted gross margin(1), which excludes inventory provisions and depreciation, was 56% for Q2 fiscal 2023, in line with last year's 56% adjusted gross margin.

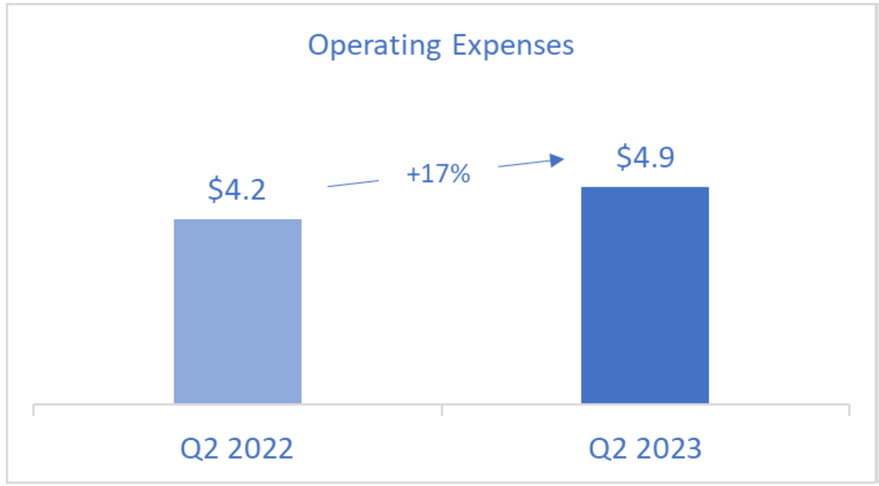


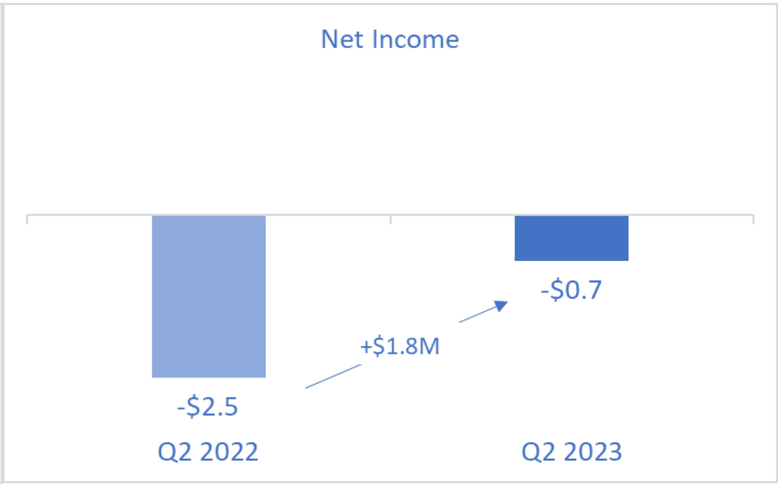


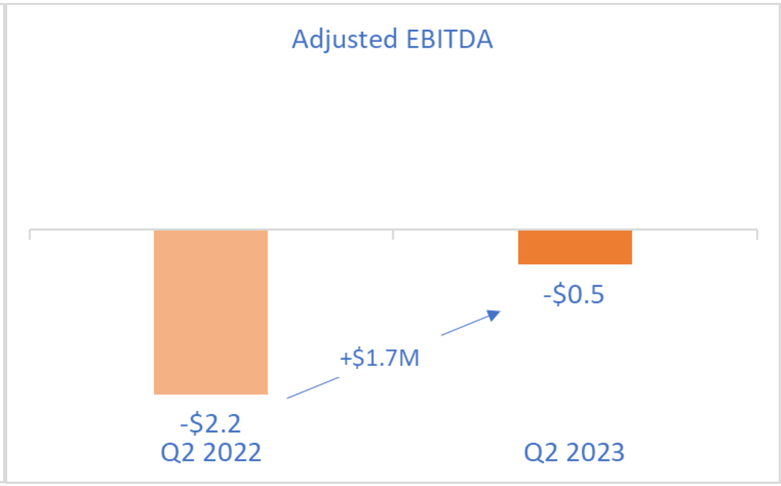
(1) See "Non-IFRS Measures" in the MD&A, including for a reconciliation of the non-IFRS measures used in this presentation to the most comparable IFRS measures

Q2 2023 Operating Expenses and Net Income

- Operational expenses increased 17% to $4.9 million compared to $4.2 million for the prior year, due mostly to increased headcount in sales and marketing as the Company continues to invest in growing its direct sales and marketing team in the United States
- Net loss was $0.7 million compared to a net loss of $2.5 million last year
- Adjusted EBITDA loss was $0.5 million compared to a loss of $2.2 million last year







Fiscal 2023: Strong Path to Financial Growth

- **Investing in Sales and Marketing initiatives to drive aggressive growth in our US Hospital Market**
  - Currently have over 100 US hospital customers
  - 3 strong infection prevention products
- **6 of the Top 10 Pediatric Hospitals in the US use Covalon products to protect their patients from infection**
  - Our products are currently used in about 20% of the pediatric hospitals in the US (42 pediatric facilities)
- **International and US Wound Care business expected to achieve 25% CAGR in Revenue 2022 through the end of 2025**

2025 Targets:

400
Major Hospitals

#1
Market Share in Pediatric Hospitals

#1 or #2
Market Share in Collagen

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Many Prestigious Hospitals Choose Covalon

Some of our Children's Hospital Customers including 6 of the top 10 in the United States:

Boston Children's Hospital
Texas Children's Hospital
Cincinnati Children's
Children's Hospital of Philadelphia
Children's National
St. Jude Children's Research Hospital
Johns Hopkins All Children's Hospital
Ann & Robert H. Lurie Children's Hospital of Chicago
Children's Healthcare of Atlanta
Riley Children's Health, Indiana University Health
Phoenix Children's
Seattle Children's Hospital • Research • Foundation
Children's Minnesota
Orlando Health | Winnie Palmer Hospital for Women & Babies
CHOC

Some of our Acute Care Hospital Customers in the United States:

Cedars Sinai
Memorial Sloan Kettering Cancer Center
UPMC Life Changing Medicine
Kaiser Permanente
Hackensack Meridian Health
Northside Hospital
Intermountain Healthcare
Advocate Good Samaritan Hospital
Banner Health
AdventHealth Shawnee Mission
Mayo Clinic
Baptist Health South Florida
YaleNewHaven Health
Orlando Health
Dignity Health
Beth Israel Lahey Health, Beth Israel Deaconess Medical Center
UCSF Health
University of Rochester Medical Center

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Covalon Has a Strong Growth Platform



Financially Strong Core Business

- Significant cash; no debt
- Above-market revenue growth potential with our strong distribution channels
- Strong management team focused on growth

Innovative Product Solutions backed by Strong IP

- Solid clinical evidence backing patented product solutions
- Better, safer products that solve serious clinical issues
- Better antimicrobial technology and biological collagen platform technology

Massive Growth Potential

- $8.9 billion infections and chronic wounds market growing at alarming rates
- Leading influential KOL facilities becoming champions
- Solid distribution channels in United States, Middle East, and LATAM

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