

## COVALON TECHNOLOGIES LTD.

### Notice of Annual and Special Meeting of Shareholders

**NOTICE IS HEREBY GIVEN THAT** the annual and special meeting (the “**Meeting**”) of shareholders of Covalon Technologies Ltd. (the “**Corporation**”) will be held at the offices of Stikeman Elliott LLP, 53<sup>rd</sup> floor, Commerce Court West, 199 Bay Street, Toronto, Ontario, on Thursday, March 8, 2018 at 3:30 p.m. Toronto time for the following purposes:

1. to present the financial statements of the Corporation for the year ended September 30, 2017, together with the report of the auditor thereon (the “**Financial Statements**”);
2. to elect directors for the ensuing year;
3. to reappoint BDO Canada LLP, Chartered Accountants, as auditor and to authorize the directors to fix the auditor’s remuneration;
4. to consider and, if deemed advisable, to pass an ordinary resolution in the form set forth in Appendix “A” to the accompanying management information circular (the “**Circular**”) to approve and confirm effective the Corporation’s 2007 Stock Option Plan; and
5. to transact such other business as may properly come before the Meeting or any reconvened meeting following an adjournment or postponement thereof.

**Accompanying this Notice of Meeting are a copy of the management information circular and a form of proxy. These materials can also be viewed at [www.sedar.com](http://www.sedar.com).**

Shareholders who are unable to attend the Meeting in person are requested to complete, date and sign the enclosed form of proxy and to return it in the envelope provided for that purpose.

To be valid, the enclosed form of proxy must be signed and received by the Corporation, c/o the Corporation’s transfer agent, TSX Trust Company, 301 - 100 Adelaide Street West, Toronto, Ontario, M5H 4H1, prior to 3:30 p.m. (Toronto Time) on Tuesday, March 6, 2018, or 48 hours prior to any reconvened meeting following an adjournment or postponement of the Meeting.

DATED at Mississauga, Ontario this 22<sup>nd</sup> day of January, 2018.

By Order of the Board of Directors

*“Brian E. Pedlar”*

Brian E. Pedlar  
President and Chief Executive Officer

**COVALON TECHNOLOGIES LTD.**  
**MANAGEMENT PROXY CIRCULAR**  
**SOLICITATION OF PROXIES**

This management proxy circular (the “**Circular**”) is furnished in connection with the solicitation of proxies by the management of Covalon Technologies Ltd. (the “**Corporation**”) for use at the annual and special meeting (the “**Meeting**”) of shareholders (“**Shareholders**”) of the Corporation to be held at the offices of Stikeman Elliott LLP, 53<sup>rd</sup> floor, Commerce Court West, 199 Bay Street, Toronto, Ontario, on Thursday, March 8, 2018 at 3:30 p.m. Toronto time, and at any reconvened meeting following an adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual and Special Meeting of Shareholders (the “**Notice of Meeting**”). The solicitation will be primarily by mail but may also be solicited by telephone or electronic means of communication by directors, officers or designated agents of the Corporation. The cost of solicitation will be borne by the Corporation. The information contained herein is given as at January 22, 2018, unless otherwise indicated.

The Corporation will not be using the notice-and-access mechanism under National Instrument 54-101-*Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”) for distribution of the Notice of Meeting and the Circular to Shareholders.

**RECORD DATE**

The board of directors of the Corporation (the “**Board**”) has fixed the close of business on Monday January 22, 2017, as the record date for the purpose of determining Shareholders entitled to receive the Notice of Meeting and to vote at the Meeting. Each Shareholder is entitled to one vote for each common share in the capital of the Corporation (a “**Common Share**” and, collectively, the “**Common Shares**”) held and shown as registered in such holder’s name on the list of Shareholders prepared as of the close of business on the record date. The list of Shareholders will be available for inspection during usual business hours at the principal office of the Corporation’s transfer agent, TSX Trust Company, Toronto, Ontario and will also be available for inspection at the Meeting.

**PROXY INSTRUCTIONS**

Shareholders who are unable to attend the Meeting and vote in person may still vote by appointing a proxyholder.

The persons specified in the enclosed form of proxy are directors and/or officers of the Corporation.

**A Shareholder has the right to appoint a person or company, who need not be a Shareholder, to represent such Shareholder at the Meeting or any reconvened meeting following an adjournment or postponement thereof other than the persons specified in the enclosed form of proxy. Such right may be exercised by inserting such person’s name in the blank space provided in the form of proxy or by completing another proper form of proxy.** For Shareholders who wish to appoint a proxyholder, the completed form of proxy must be mailed in the enclosed envelope and received by TSX Trust Company, at the address on the proxy envelope provided prior to 3:30 p.m. (Toronto time) on Tuesday, March 6, 2018 or 48 hours prior to any reconvened meeting following an adjournment or postponement of the Meeting.

Enquiries regarding proxy forms can be made by Shareholders to the Corporation’s transfer agent, TSX Trust Company, 301 - 100 Adelaide Street West, Toronto, Ontario, M5H 4H1, or by telephone at 1-866-600-5869.

Only registered holders of Common Shares or the persons they appoint as their proxies are permitted to vote at the Meeting. However, in many cases, Common Shares beneficially owned by a person (a “**Non-Registered Holder**”) are registered either: (i) in the name of an intermediary (an “**Intermediary**”) (including banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFFs, RESPs

and similar plans) that the Non-Registered Holder deals with in respect of the Common Shares; or, (ii) in the name of a clearing agency (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant. In accordance with the requirements of NI 54-101, the Corporation has distributed copies of the Notice of Meeting, the Circular, and the enclosed form of proxy (collectively, the “**meeting materials**”) to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward the meeting materials to Non-Registered Holders unless a Non-Registered Holder has waived his, her or its right to receive them. Intermediaries often use service companies to forward the meeting materials to Non-Registered Holders. A Non-Registered Holder who has not waived the right to receive meeting materials will receive from his, her or its Intermediary a voting instruction form which must be completed and signed by the Non-Registered Holder and returned in accordance with the directions of the Intermediary. The purpose of this procedure is to permit the Non-Registered Holder to direct the voting of the Common Shares beneficially owned by such person.

Should a Non-Registered Holder wish to attend and vote at the Meeting in person, the Non-Registered Holder should write his, her or its name in the space provided for that purpose on the voting instruction form and return it in accordance with the directions of the Intermediary. The Intermediary will send the Non-Registered Holder a form of proxy which has already been signed by the Intermediary (typically by a facsimile stamped signature), which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Holder and which names the Non-Registered Holder as proxyholder. This form of proxy need not be signed by the Non-Registered Holder. In this case, the Non-Registered Holder should deposit this form of proxy with the Corporation’s transfer agent, TSX Trust Company, in accordance with the instructions set out above.

Non-Registered Holders should carefully follow the instructions of their Intermediaries, including those regarding when and where the voting instruction form or form of proxy is to be delivered.

The Corporation is sending proxy-related materials directly to non-objecting beneficial owners under NI 54-101. Management of the Corporation does not intend to pay for Intermediaries to forward the meeting materials and voting instruction form to objecting beneficial owners under NI 54-101 and accordingly an objecting beneficial owner will not receive the meeting materials unless the objecting beneficial owner’s Intermediary assumes the cost of delivery.

## **VOTING OF PROXIES**

The enclosed form of proxy will be voted or withheld from voting with respect to the Common Shares represented thereby in accordance with the instructions of the Shareholder as indicated on the proxy and, if the Shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares will be voted accordingly. **In the absence of any specific instructions with respect to a particular matter, the Common Shares represented by such proxies will be voted at the Meeting in accordance with the best judgment of the person or persons voting such proxies.**

The enclosed form of proxy, when properly signed, confers discretionary authority upon the representatives designated therein with respect to amendments to, or variations of, matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. At the date of the Circular, management of the Corporation does not know of any such amendments, variations or other matters. However, if any such amendments, variations or other matters which are not now known to management of the Corporation should properly come before the Meeting, the Common Shares represented by the proxies solicited hereby will be voted thereon in accordance with the best judgment of the person or persons voting such proxies.

## **REVOCATION OF PROXIES**

A registered holder of Common Shares who has given a proxy may revoke the proxy (a) by completing and signing a proxy bearing a later date and depositing it as aforesaid, or (b) by depositing an instrument in writing executed by such registered holder or by his, her or its attorney authorized in writing (i) at the registered office of the

Corporation at any time up to and including the last business day preceding the day of the Meeting or any reconvened meeting following an adjournment or postponement thereof, or (ii) with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or any adjournment thereof, or (c) in any other manner permitted by law.

A Non-Registered Holder who wishes to revoke a voting instruction form or a waiver of the right to receive meeting materials should contact his, her or its Intermediary for instructions.

### **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON**

As at the date hereof, to the knowledge of the directors and senior officers of the Corporation, none of the directors or officers of the Corporation who have been a director or executive officer of the Corporation at any time since the beginning of the Corporation's last financial year, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting, other than (i) the election of directors and (ii) the approval of the Corporation's 2007 Stock Option Plan (the "**Plan**").

### **VOTING SHARES AND PRINCIPAL HOLDERS**

As of the close of business on January 22, 2018 there were 21,494,420 Common Shares outstanding. Each holder of Common Shares of record at the close of business on January 22, 2018, the record date established for notice of, and voting at, the Meeting, will be entitled to ONE VOTE for each Common Share held on all matters proposed to come before the Meeting.

To the knowledge of the directors and executive officers of the Corporation, the following person(s) beneficially own, directly or indirectly, or exercise control or direction over 10% or more of the voting rights attached to all of the outstanding Common Shares:

<b>Name</b>	<b>Number of Common Shares beneficially owned, or controlled or directed, directly or indirectly</b>	<b>Approximate percentage of total Common Shares</b>
Abe Schwartz <sup>(1)</sup>	8,046,116	37.43%
The Goldfarb Group	2,566,859	11.94%

Notes:

(1) Abe Schwartz also owns 114,796 Common Share purchase warrants.

(2) The Goldfarb Group, collectively beneficially owns, controls or directs an aggregate of 510,204 Common Share purchase warrants.

## MATTERS TO BE ACTED UPON AT THE MEETING

### 1. Presentation of Financial Statements

The audited consolidated financial statements of the Corporation for the fiscal year ended September 30, 2017 and the report of the auditor thereon will be submitted to the Meeting. No vote will be taken on the financial statements.

### 2. Election of Directors

The term of office of the present directors of the Corporation expires at the Meeting. The number of directors of the Corporation to be elected at the Meeting is nine and each nominee elected as a director of the Corporation will hold office until the close of business of the next annual meeting of shareholders or until his successor is elected or appointed, unless his or her office is earlier vacated.

The following table lists certain information concerning the persons proposed to be nominated for election as directors, all of whom are current directors of the Corporation:

<u>Name, Province and Country of Residence</u>	<u>Position with Corporation or Principal Occupation or Business</u>	<u>Director Since</u>	<u>Common Shares Beneficially Owned, Controlled or Directed and % of Issued and Outstanding Common Shares <sup>(1)</sup></u>
Abe Schwartz Ontario Canada	Chairman, Covalon Technologies Ltd. President, Schwartz Technologies Corporation	March 7, 2008	<sup>(2)</sup> 8,046,116 37.43%
Joseph Cordiano <sup>C</sup> Ontario Canada	Principal, Cityzen Development Group	March 7, 2008	<sup>(3)</sup> 72,000 0.33%
Martin C. Bernholtz <sup>A</sup> Ontario, Canada	Vice President Finance, Kerbel Group Inc.	May 11, 2006	<sup>(4)</sup> 682,933 3.18%
Murray Miller <sup>ACG</sup> Ontario, Canada	President, Isymax Corp.	January 14, 2010	<sup>(5)</sup> 651,967 3.03%
Brian Pedlar <sup>M</sup> Ontario, Canada	President & CEO, Covalon Technologies Ltd.	January 14, 2010	<sup>(6)</sup> 684,052 3.18%
Jeffrey Mandel <sup>C</sup> Ontario, Canada	President, AMR Securities Services Inc.	August 24, 2011	<sup>(7)</sup> 35,000 0.16%
Elinor Caplan <sup>AG</sup> Ontario, Canada	Chief Executive Officer, Canada Strategies Inc.	June 16, 2014	<sup>(8)</sup> 22,800 0.11%
Ian Brindle <sup>G</sup> Ontario, Canada	Professor Emeritus at Brock University	June 16, 2014	<sup>(9)</sup> 45,000 0.21%
Maj. Gen. Gale Pollock Pennsylvania, USA	Pollock Associates, LLC	November 13, 2017	<sup>(10)</sup> —

<sup>M</sup> Indicates management

<sup>A</sup> Audit Committee composition: Messrs. Bernholtz (Chair), Miller, and Mme Caplan.

<sup>C</sup> Compensation Committee: Messrs. Mandel (Chair), Cordiano, and Miller.

<sup>G</sup> Corporate Governance and Nominating Committee: Messrs. Miller (Chair), Brindle, and Mme Caplan.

Notes:

(1) Based on 21,494,420 Common Shares outstanding as of January 22, 2018.

(2) Mr. Schwartz also owns 114,796 Common Share purchase warrants.

- (3) Mr. Cordiano also owns 40,000 Common Share stock options.
- (4) Mr. Bernholtz also owns 76,020 Common Share purchase warrants and stock options.
- (5) Dr. Miller also owns 101,531 Common Share purchase warrants and stock options.
- (6) Mr. Pedlar also owns 505,000 Common Share stock options.
- (7) Mr. Mandel also owns 10,000 Common Share stock options.
- (8) Mrs. Caplan also owns 44,467 Common Share purchase warrants and stock options.
- (9) Dr. Brindle also owns 40,000 Common Share stock options.
- (10) Maj. Gen. Gale Pollock also owns 30,000 Common Share stock options.

The respective nominees have furnished the information as to their beneficial ownership, or control or direction, of Common Shares and their principal occupations. Each of the directors and executive officers has been engaged in his present principal occupation for the previous five years, except as indicated in the following biographical information of each individual:

**Abe Schwartz** is the founder and president of Schwartz Technologies Corporation and has been an advisor to Covalon Technologies Ltd. since March 7, 2008. Mr. Schwartz has been actively building and managing companies, from start-up to maturity since his first start-up, Polaris Technology Corporation, a computer software firm which he founded in 1977. In 1993, Mr. Schwartz co-founded The Workflow Automation Corporation. He was involved with Inter-Citic Minerals Inc. in 2001 as an advisor on a mining-related computer project in China. Mr. Schwartz serves as a Member of the Advisory Board at RedHill Biopharma Ltd. Mr. Schwartz has also held executive positions in various public and private companies including, among others, President, CEO and Director of Cedara Software Corp. Mr. Schwartz has over 40 years of experience in launching products, R&D, international distribution agreements, re-organization in large-scale corporations, venture capital financing, and negotiating mergers and acquisitions.

**Joseph Cordiano** joined Cityzen Development Group, a real estate development company, as a principal in 2006, where he is responsible for the sales and marketing as well as new business development of its Greater Toronto Area projects. During his 21 years of public service as a Member of the Ontario Provincial Legislature, Mr. Cordiano served as the Minister of Economic Development and Trade, GTA Regional Minister, and as a member of the Priorities and Planning Committee of Cabinet. A graduate of the University of Toronto and The University of Toledo, Ohio, Mr. Cordiano holds an MBA with a specialty in marketing.

**Martin C. Bernholtz, C.P.A., C.A.; (1983)** has held the position of Chief Financial Officer at Kerbel Group Inc., an integrated real estate developer since 1988. He has extensive public and private board experience spanning over thirty years including Chairmanships of Boards, Audit, Governance, Compensation and Special Committees. Through his family foundation he participates in various charitable ventures aimed at improving the lives of disadvantaged children. Mr. Bernholtz previously spent seven years with Laventhol & Horwath in their Litigation Support and Business Valuation practice. He graduated York University with a Bachelor of Business Administration in 1981.

**Dr. Murray Miller** is a practicing radiologist in Ontario. He was managing director of Trillium Imaging Inc for 25 years until its sale in 2016. Dr. Miller is Chief of Radiology at Collingwood General and Marine Hospital. He has served in the past as Chief radiologist at Queensway General hospital and remains a staff member at Trillium Health Partners. Dr. Miller served on the board of directors at Trillium Health Centre from 2003 to 2005 and on the Trillium Health Partners Foundation board from 2000 to 2006. He has served as a consultant to the medical industry, including medical device manufacturers and medical imaging vendors. He is a graduate of the University of Manitoba and did his residency at the University of Toronto.

**Brian Pedlar** has been President and Chief Executive Officer of the Corporation since April 3, 2010 and a member of the Board since January 14, 2010. Previously, Mr. Pedlar was President of Pedlar Ventures Limited, a private venture investment and consulting firm based in Oakville, Ontario. He has served in senior executive positions with public companies including temporary Chief Financial Officer, Cygnal Technologies Corporation, October 2007; President, Cedara Software Corp., 2005 to 2006; Chief Financial Officer, Cedara Software Corp., 2004 to 2005; and Director of Finance, Cedara Software Corp., 2000 to 2004. Mr. Pedlar has also held senior executive positions with Merge Healthcare and IMAX Corporation. Mr. Pedlar holds a Bachelor of Science degree from Mount Allison

University, a post-graduate diploma in Accounting from Wilfrid Laurier University, is a Canadian Chartered Public Accountant and Chartered Accountant.

**Jeffrey Mandel** is President of AMR Securities Services Inc. Mr. Mandel has been involved in the high-tech, communications, healthcare and retail industries over his 30-year career and has led capital development activities as well as identified and executed various successful commercialization strategies for companies for which he has been active. Mr. Mandel has broad experience in corporate finance, mergers and acquisitions and investor relationship management throughout his career, having progressed through a number of senior positions at various firms in the Canadian securities industry.

**Hon. Elinor Caplan**, has been the Chief Executive Officer at Canada Strategies Inc. since 2004. Ms. Caplan business career began in 1972 as President of Elinor Caplan & Associates, a real estate title searching and conveyance firm. She served as a Member of Provincial Parliament in the Legislative Assembly of Ontario from 1985 to 1997 having served in three cabinet posts: Health Minister, Chair of Management Board, and Minister of Government Services. Ms. Caplan served as a Member of Parliament in the Canadian House of Commons from 1997 to 2004. She served in the cabinet of the Rt. Hon. Jean Chrétien as Minister of Citizenship & Immigration from 1999 to 2002 and Minister of National Revenue from 2002 to 2003. She served on the Board of the Canadian Public Health Initiative (CIHI) until 2014. She served as a Member of the Advisory Board at Closing The Gap Healthcare Group, Inc. until 2017. She was a member of a World Health Organization (WHO) International expert project Team. Ms. Caplan is a graduate of the Director Education Program of the Rotman School of Management at University of Toronto.

**Dr. Ian Brindle** is currently a Professor Emeritus at Brock University. Dr. Brindle is also the former Vice President of Research, former Dean of Chemistry and has held other academic postings at Brock University since 1968. Dr. Brindle is a professor of Chemistry, holds a Chancellor's Chair in Research Excellence, is a fellow of the Royal Society of Chemistry (UK) and is author of more than 90 publications in analytical chemistry. The University of Manchester awarded Dr. Brindle the degree of Doctor of Science for belonging to that group of scientists who "have distinguished themselves as authorities in the field by their substantial and original contributions to the advancement of knowledge." He also holds a Bachelor of Science from Manchester University and a Masters of Science from Brock University.

**Major General Gale Pollock** (Ret.), Army Nurse Corps, CRNA, FACHE, FAAN. Before retiring from the U.S. Army in 2008, she served as Commander, US Army Medical Command and Acting Surgeon General of the Army (the first woman or non-physician to hold this role in any of the military services with a \$9.7B annual budget). Gale is an adjunct clinical professor of Yonsei University Graduate School of Nursing, owner of Pollock Associates, LLC doing health care consulting and serves on several scientific advisory boards. Maj. Gen. Pollock was the founding Executive Director of the Louis J. Fox Center for Vision Restoration in Pittsburgh, PA, served as an associate professor at the University of Pittsburgh School of Medicine and School of Nursing and was an Advanced Leadership Fellow in Harvard University's Advanced Leadership Initiative.

Management does not anticipate that any of the nominees for election as a director will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.

In the absence of instructions to withhold Common Shares from voting, the persons designated by management of the Corporation in the enclosed form of proxy, intend to vote to approve the election to the Board of the nominees set out above.

**Management recommends voting for** the resolution to elect each of the nominated directors.

### **3. Appointment of Auditor**

BDO Canada LLP, Chartered Accountants, has been auditor of the corporation since December 2004.

At the Meeting, it will be proposed that BDO Canada LLP, Chartered Accountants, be reappointed as auditor of the Corporation to hold office until the next annual meeting of Shareholders and that the Board be authorized to fix the auditor's remuneration. The Corporation obtained a letter from BDO Canada LLP containing a description of all relationships between the auditor and the Corporation, discussed with the auditor any of these relationships that may impact their objectivity and independence and satisfied itself as to the auditor's independence.

In the absence of instructions to withhold Common Shares from voting, the persons designated by management of the Corporation in the enclosed form of proxy, intend to vote to approve the reappointment of BDO Canada LLP as the Corporation's auditor and to authorize the Board to fix the auditor's remuneration.

**Management recommends voting for** the resolution to approve the reappointment of BDO Canada LLP as auditor of the Corporation and the authorization of the Board to fix the auditor's recommendation.

#### **4. Special Business - The Corporation's 2007 Stock Option Plan**

The Corporation currently has a rolling stock option plan (the "**Plan**") for its key employees, directors, officers and consultants. The objective of the Plan is to provide for and encourage ownership of Common Shares by the directors, officers, consultants and key employees of the Corporation so that such persons may increase their stake in the Corporation and benefit from increases in the value of the Common Shares. It is the view of management that the Plan is a significant incentive for the directors, officers, consultants and key employees to continue, and to increase, their efforts in promoting the Corporation's operations to the mutual benefit of the Corporation, the Shareholders and such individuals.

Under the Plan, the Corporation may grant stock options to purchase up to an aggregate of 10% of the issued and outstanding Common Shares from time to time. As a result, any increase in the issued and outstanding Common Shares will result in an increase in the number of Common Shares available for issuance under the Plan. Options granted under the Plan will have an exercise price of not less than the closing price of the Common Shares on the TSXV on the day prior to the date of the grant, less any discount permitted by the policies of the TSXV. The number of Common Shares issuable to any one person in any 12 month period cannot exceed 5% of the issued and outstanding Common Shares. The number of Common Shares issuable to (i) any one consultant, or (ii) parties providing investor relation services, in any 12 month period, cannot exceed 2% of the issued and outstanding Common Shares.

In connection with certain change of control transactions, including a take-over bid, merger or other structured acquisition, the Board may accelerate the vesting date of all unvested options such that all optionees will be entitled to exercise their full allocation of options and in certain circumstances where such optionee's employment is terminated in connection with such transactions, such accelerated vesting will be automatic.

The Board decides when options that are granted under the Plan will vest. Unless the Board decides otherwise, options granted under the Plan terminate on the earlier of the expiration date of the Option Period (as defined in the Plan), or the ninetieth (90th) day after an optionee ceases to be a director, officer, employee or consultant of the Corporation for any reason other than death, permanent disability or normal retirement, or the thirtieth (30th) day after the date an optionee ceases to be retained by the Corporation to provide investor relations services, for any reason other than death, permanent disability or normal retirement.

As at the date hereof, current and former directors, officers, key employees and consultants of the Corporation hold options to acquire an aggregate of 1,790,492 Common Shares.

A copy of the Plan is attached to the Corporation's Management Information Circular dated April 9, 2012 as Exhibit "A". Reference should be made thereto for a complete statement of the terms and conditions of the Plan. During the last fiscal year, no amendments to the Plan have been approved.

In the absence of instructions to vote against, the persons designated by management of the Corporation in the enclosed form of proxy, intend to vote to approve the Plan. In order for the resolution to pass, the Corporation must receive a majority of the votes cast by all Shareholders at the Meeting, either in person or by proxy.



**Management recommends voting for** the resolution to approve and confirm effective the Plan. The text of the ordinary resolution for the approval of the Plan to be submitted to Shareholders at the Meeting is set forth in Appendix “A”.

## **STATEMENT OF EXECUTIVE COMPENSATION**

### **General**

For the purpose of the Circular, “**Named Executive Officer**” or “**NEO**” means:

- (a) the Chief Executive Officer (“**CEO**”);
- (b) the Chief Financial Officer (“**CFO**”);
- (c) each of the Corporation’s three most highly compensated officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and the CFO, at the end of the most recently completed financial year and whose total compensation was, individually, more than \$150,000; and
- (d) each individual who would be a Named Executive Officer under paragraph (c) but for the fact that the individual was neither an executive officer of the Corporation nor acting in a similar capacity at the end of the most recently completed financial year.

### **Compensation Discussion and Analysis**

All matters relating specifically to senior executive compensation are reviewed and approved by the Compensation Committee and the Board. The Compensation Committee is responsible for determining compensation for the individual directors and officers of the Corporation, including the CEO and the Chairman. The Compensation Committee members have direct experience relevant to their responsibilities relating to executive compensation as set out in their biographies under “Election of Directors”.

The Corporation’s overall policy regarding compensation of the Corporation’s executive officers is structured to provide competitive salary levels and compensation incentives that support both the short-term and long-term goals of the Corporation, attract and retain qualified executive management and establish a compensation framework which is industry competitive. The Corporation’s policy is to recognize and reward individual performance as well as to place executive compensation within the range of the compensation levels in the industry. The Board, upon the recommendations of the Compensation Committee, considers the implications of any risks associated with the Corporation’s compensation policies and practices. The Board has not identified any risks arising from the Corporation’s compensation policies or practices that could encourage a Named Executive Officer to take inappropriate or excessive risks.

The Corporation does not have a compensation program other than paying base salaries, commissions, incentive bonuses, and incentive stock options to the NEOs. The Corporation recognizes the need to provide a compensation package that will attract and retain qualified and experienced executives, as well as align the compensation level of each executive to that executive’s level of responsibility. In the 2017 financial year compensation consisted of base salary, incentive options, and incentive bonuses; the Board believes there are no implied risks associated with the Corporation’s policies and practices. It should be further noted that no NEO or director is permitted to purchase instruments, including for greater certainty, prepaid variable forward contracts, equity swaps, collars or units of exchange funds, which are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEO or director. The Corporation does not plan to make any significant changes to its compensation policies and practices during the current financial year.

## **Base Salary**

Base salaries are established taking into account individual performance and experience, level of responsibility and competitive pay practices. To achieve this goal, the Corporation does its own analysis, as well as having, in the past, retained the services of compensation consultants who were responsible for gathering information on compensation practices. No compensation consultant has been retained in the past five years. Base salaries are reviewed annually and adjusted appropriately to reflect individual performance and market changes.

The base salaries of the Corporation's NEOs are targeted at a level consistent with the base salaries paid to senior executive officers in the Canadian biotechnology market.

## **Short Term Incentive**

All permanent full time executives and employees have the opportunity to earn an annual performance bonus. The potential bonuses are expressed as a percentage of base salary and are reflective of position. All executives and employees have specific goals based on individual performance and corporate performance relating to revenue, profitability and customer satisfaction. The corporate targets are established by the CEO on an annual basis for review by the Compensation Committee and, if approved, are recommended for approval by the Board.

The Corporation paid a total of \$150,000 of bonuses to executives and employees in respect of the year ended September 30, 2017.

## **Long Term Incentives**

The Plan complies with requirements of the TSXV Policy 4.4 for Tier 2 issuers. Under the Plan, a maximum of 10% of the issued and outstanding Common Shares are proposed to be reserved at any time for issuance on the exercise of stock options. As the number of Common Shares reserved for issuance under the Plan increases with the issue of additional Common Shares by the Corporation, the Plan is considered to be a "rolling" stock option plan. The Plan provides directors, officers, key employees and consultants of the Corporation with the opportunity to participate in the Plan, at the discretion of the Board. The Compensation Committee of the Board determines the level of stock options granted to executive officers. The Compensation Committee seeks to compensate executive officers at levels competitive with other companies comparable in size in the same industry and to provide short-term rewards and long-term incentives for superior individual and corporate performance. In making compensation decisions, the Compensation Committee periodically reviews information about the compensation paid or payable to officers of comparably sized public companies. The Compensation Committee does not have target amounts of stock ownership for the Corporation's executive officers; however, the Compensation Committee does consider overall Common Share ownership when granting stock options. The Plan is intended to provide executives with the promise of longer term rewards which appreciate in value with the favourable future performance of the Corporation. Stock options are generally granted to an executive when he or she joins the Corporation, with additional options granted from time to time for promotions and performance. The Compensation Committee believes that the Plan provides a method of retention and motivation for the executives of the Corporation and also aligns senior management's objectives with long-term stock price appreciation.

## **Employment Contracts**

Brian Pedlar performs his duties as the Corporation's President and CEO under the terms of a standard CEO employment agreement executed on September 3, 2010.

## **Compensation of NEOs**

The following table sets forth the compensation earned during the last three fiscal years by the Named Executive Officers.

## Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>(2) Option Based Awards (\$)</u>	<u>Non-equity Incentive Plan Compensation</u>		<u>All Other Compensation (\$)<sup>(3)(4)</sup></u>	<u>Total Compensation (\$)</u>
				<u>Annual Incentive Plans (\$)</u>	<u>Long-term Incentive Plans (\$)</u>		
<sup>(1)</sup> Brian Pedlar President and CEO	2017	330,000	520,667	—	—	162,000	1,012,667
	2016	330,000	47,731	—	—	112,000	489,731
	2015	330,000	—	—	—	12,000	342,000
Valerio DiTizio Chief Scientific Officer Vice President	2017	165,000	72,237	—	—	12,000	249,237
	2016	158,644	33,557	—	—	7,000	199,201
	2015	150,000	12,861	—	—	—	162,861
Danny Brannagan Chief Financial Officer	2017	135,003	72,237	—	—	12,000	219,240
	2016	123,526	95,449	—	—	11,000	229,975
	2015	82,500	9,646	—	—	—	92,146
Hamed Abbasian Vice President Business Development	2017	110,000	61,534	—	—	357,562	529,096
	2016	101,526	32,872	—	—	163,895	298,292
	2015	90,000	12,861	—	—	51,676	154,537
Simon Smith CEO, Covalon Technologies Europe	2017	169,269	120,032	—	—	—	289,301
	2016	101,526	32,872	—	—	—	260,043
	2015	90,000	12,861	—	—	—	131,416

Notes:

- (1) On September 3, 2010, the Corporation entered into a standard CEO employment agreement with Mr. Pedlar. He is also a director of the Corporation, for which he receives no compensation. Prior to his appointment as President and CEO, Mr. Pedlar was an independent director of the Corporation for which he received compensation in the form of stock options.
- (2) Please see Incentive Plan Awards below. The fair value of stock option awards at grant date is calculated consistently with the Corporation's accounting for the fair value of stock option awards. It is calculated in accordance with section 3870 of the CICA Handbook, using the Black-Scholes-Merton option pricing model and is adjusted for forfeitures. For the purposes of determining the accounting expense to be included in the financial statements of the Corporation for the year ended September 30, 2017 in respect of stock option awards, accounting fair value expense is amortized over the vesting period of the award, which is normally 1-3 years. Please refer to the Corporation's annual financial statements for more details on accounting for fair value of stock option awards. All stock option awards granted vest over a three year period and have a term of five years.
- (3) The value of perquisites and other personal benefits in each financial year do not exceed the lesser of \$50,000 and 10% of the total of the annual salary and bonus of the NEO for that year.
- (4) Amounts represent a car allowance, bonus, and commission.

### Incentive Plan Awards

An "incentive plan" is any plan providing compensation that depends on achieving certain performance goals or similar conditions within a specified period. An "incentive plan award" means compensation awarded, earned, paid, or payable under an incentive plan.

### Outstanding Option-Based Awards - NEOs

The following table sets forth, as at September 30, 2017, information concerning outstanding option based awards granted to the NEOs of the Corporation, including awards granted before the most recently completed financial year.

<u>Name</u>	<u>Number of Securities underlying unexercised options (#)</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>	<u>Value of unexercised in- the-money options (\$) <sup>(1)</sup></u>
Brian Pedlar	235,000	2.47	20-Jun-22	NIL
	40,000	1.29	23-Jun-21	34,133
	200,000	0.85	26-Sep-18	600,000
Valerio DiTizio	20,000	2.47	20-Jun-22	NIL
	15,000	2.20	8-Feb-22	NIL
	20,000	1.29	23-Jun-21	17,067
	10,000	1.13	7-Mar-21	9,067
	10,000	1.40	26-Mar-20	16,333
	5,000	2.00	13-Jun-19	9,250
	15,000	0.16	16-Aug-18	55,425
Danny Brannagan	20,000	2.47	20-Jun-22	NIL
	15,000	2.20	8-Feb-22	NIL
	20,000	2.29	14-Sep-21	10,400
	20,000	1.29	23-Jun-21	17,067
	30,000	1.13	7-Mar-21	27,200
	7,500	1.40	26-Mar-20	12,250
Hamed Abbasian	15,000	2.47	20-Jun-22	NIL
	15,000	2.20	8-Feb-22	NIL
	15,000	1.29	23-Jun-21	12,800
	15,000	1.13	7-Mar-21	13,600
	10,000	1.40	26-Mar-20	16,333
Simon Smith	60,000	2.20	8-Feb-22	NIL
	50,000	1.13	7-Mar-21	45,333
	50,000	1.40	26-Mar-20	81,667

Notes:

(1) The market price of the Common Shares as at September 30, 2017 was \$3.85

### Incentive Plan Value Vested or Earned During the Year – NEOs

The following table sets forth information concerning outstanding option based awards granted to the NEOs that vested during the year and non-equity incentive plan compensation earned during the year.

<u>Name</u>	<u>Option-based awards – Value vested during the year (\$) <sup>(1)</sup></u>	<u>Non-equity incentive plan compensation – Value earned during the year (\$) <sup>(1)</sup></u>
Brian Pedlar	17,200	NIL
Valerio DiTizio	20,366	NIL
Danny Brannagan	38,669	NIL
Hamed Abbasian	16,767	NIL
Simon Smith	42,168	NIL

Notes:

(1) Some options that vested during the 2017 fiscal year were in-the-money on the date of vesting.

## Equity Compensation Plan Information as of the Fiscal Year Ended September 30, 2017

Pursuant to the Plan, the maximum aggregate number of Common Shares which may be subject to options is 10% of the Common Shares outstanding from time to time.

<u>Plan Category</u>	<u>Number of Securities to be issued upon exercise of outstanding options</u> (a)	<u>Weighted-average exercise price of outstanding options</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by securityholders	1,576,332	\$ 1.07	565,226
Equity compensation plans not approved by securityholders	—	—	—
<b>Total</b>	<b>1,576,332</b>	<b>\$ 1.07</b>	<b>565,226</b>

## Termination and Change of Control Benefits

In the event that Mr. Pedlar's employment agreement is terminated by either party or due to a change in control of the Corporation (defined as a change in the ownership of fifty percent (50%) or more of the outstanding stock of the Corporation in a single transaction or series of transactions effected by a third party or third parties acting in concert or a change of fifty percent (50%) or more of the members of the Board in a single transaction or event, or series of transactions or events effected by any third party or third parties acting in concert, other than pursuant to nomination of a new slate of directors where there has been no material change in beneficial ownership of Common Shares within 365 days preceding such nomination), Mr. Pedlar's options will vest immediately and become exercisable.

## Compensation of Directors

The following table sets forth the details of the compensation provided to the directors, other than the NEOs, during the Corporation's most recently completed financial year:

<u>Name</u>	<u>Fees earned (\$)</u>	<u>(1)Option based awards (\$)</u>	<u>Non-equity incentive plan compensation (\$)</u>	<u>All other compensation (\$)</u>	<u>Total (\$)</u>
Abe Schwartz	162,720 <sup>(3)</sup>	—	—	—	162,720
Martin Bernholtz	27,120 <sup>(3)</sup>	—	—	—	32,941
Joseph Cordiano	24,000	—	—	—	29,821
Murray Miller	27,120 <sup>(3)</sup>	—	—	—	32,941
Jeffrey Mandel	24,000	—	—	179,594 <sup>(4)(3)</sup>	182,371
Ian Brindle	24,000	58,851 <sup>(2)</sup>	—	57,238 <sup>(3)(5)</sup>	29,821
Elinor Caplan	24,000	—	—	—	29,821
Gale Pollock	2,000	—	—	—	2,000

### Notes:

- (1) The fair value of stock option awards at grant date is calculated consistently with the Corporation's accounting for the fair value of stock option awards. It is calculated in accordance with section 3870 of the CICA Handbook, using the Black-Scholes-Merton option pricing model and is adjusted for forfeitures. For the purposes of determining the accounting expense to be included in the financial statements of the Corporation for the year ended September 30, 2017 in respect of stock option awards, accounting fair value expense is amortized over the vesting period of the award, which is normally 1-3 years. Please refer to the Corporation's annual financial statements for more details on accounting for fair value of stock option awards.
- (2) Represents a grant of 30,000 stock options on February 8, 2017.
- (3) This figure includes both the base and HST paid.
- (4) During the year, Mr. Mandel was compensated for certain investor relation activities undertaken on behalf of the Corporation.
- (5) During the year, Dr. Brindle was compensated for certain activities related to the Corporation's research projects.

Directors, provided they are not also executives, of the Corporation, are generally entitled to compensation for their services as directors. All directors are reimbursed for travelling and other out-of-pocket expenses incurred in their roles as directors of the Corporation.

## Incentive Plan Awards

### Outstanding Option-Based Awards - Directors

The following table sets forth, as at September 30, 2017, information concerning outstanding option based awards granted to the directors of the Corporation (other than the NEOs), including awards granted before the most recently completed financial year:

<u>Name</u>	<u>Number of securities underlying unexercised options (#)</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>	<u>Value of unexercised in- the-money options (\$)<sup>(1)</sup></u>
Abe Schwartz	-	-	-	NIL
Martin Bernholtz	5,000	1.29	June 23, 2021	4,267
	5,000	1.40	March 26, 2020	8,167
	5,000	2.00	June 13, 2019	9,250
	5,000	0.85	September 26, 2018	15,000
Joseph Cordiano	5,000	1.29	June 23, 2021	4,267
	5,000	1.40	March 26, 2020	8,167
	5,000	2.00	June 13, 2019	9,250
	20,000	0.85	September 26, 2018	60,000
Murray Miller	5,000	1.29	June 23, 2021	4,267
	5,000	1.40	March 26, 2020	8,167
	5,000	2.00	June 13, 2019	9,250
	5,000	0.85	September 26, 2018	15,000
Jeffrey Mandel	3,334	1.29	June 23, 2021	NIL
	1,666	1.40	March 26, 2020	NIL
Ian Brindle	30,000	1.29	February 8, 2022	NIL
	3,334	1.29	June 23, 2021	NIL
	1,666	1.40	March 26, 2020	NIL
Elinor Caplan	5,000	1.29	June 23, 2021	4,267
	1,667	1.40	March 26, 2020	NIL
	20,000	2.00	June 13, 2019	37,000
Gale Pollock	-	-	-	NIL

Notes:

(1) The market price of the Common Shares as at September 30, 2017 was \$3.85.

### Incentive Plan Value Vested or Earned During the Year - Directors

The following table sets forth information concerning outstanding option based awards granted to the directors (other than NEOs) that vested during the year and non-equity incentive plan compensation earned during the year:

<u>Name</u>	<u>Option-based awards – Value vested during the year</u>	<u>Non-equity incentive plan compensation – Value earned during the year</u>
Abe Schwartz	NIL	NIL
Martin Bernholtz	7,816	NIL
Joseph Cordiano	7,816	NIL
Murray Miller	7,816	NIL
Jeffrey Mandel	7,816	NIL
Ian Brindle	17,816	NIL
Elinor Caplan	17,816	NIL
Gale Pollock	NIL	NIL

## **Narrative Discussion**

Please refer to the sections above entitled “Compensation Discussion and Analysis” and “Special Business – The Corporation’s 2007 Stock Option Plan” for a description of the Plan and its significant terms.

## **Directors’ and Officers’ Liability Insurance**

The Corporation is a named insured under a directors’ and officers’ liability insurance policy maintained by the Corporation for itself and its directors and officers, which has an annual aggregate policy limit of \$20,000,000, subject to deductibles as follows:

\$50,000 for each securities claim; and  
\$25,000 for each claim (other than securities claims).

Generally, under this insurance coverage, the Corporation is reimbursed for indemnity payments made to its directors or officers as required or permitted by law or under by-law indemnity provisions for losses, including legal costs incurred by directors and officers in their capacities as such. This policy also provides coverage directly to individual directors and officers without any deductible if they are not indemnified by the Corporation. The insurance coverage for directors and officers has certain exclusions including, but not limited to, those acts determined to be deliberately fraudulent or dishonest or to have resulted in personal profit or advantage. The policy became effective February 28, 2017 and expires February 28, 2018. The premium for this policy is \$136,870.

## **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

The Board believes that sound corporate governance practices are essential to the effective, efficient and prudent operation of the Corporation and to the enhancement of Shareholder value. The Board fulfills its mandate directly and through its committees at regularly scheduled meetings or as required. Frequency of meetings may be increased and the nature of the agenda items may be changed depending upon the state of the Corporation’s affairs and in light of opportunities or risks that the Corporation faces. The directors are kept informed of the Corporation’s operations at these meetings as well as through reports and discussions with management on matters within their particular areas of expertise.

The Corporation’s approach to corporate governance is based on the Corporate Governance Guidelines of the Canadian Securities Administrators and is described in Appendix “B”.

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Charter**

The charter of the Audit Committee is attached hereto as Appendix “C”.

## Composition of the Audit Committee

The Audit Committee consists of Martin Bernholtz (Committee Chair), and Elinor Caplan a majority of whom are independent.

## Relevant Education and Experience

The relevant education and experience of the Audit Committee members is set out in their respective biographies under the heading “Election of Directors”. In addition, Dr. Miller is an active accredited investor and has over twenty years of experience in management, business, financial and accounting matters through his investment activities, advisory roles with various public companies, position as Managing Director of Trillium Imaging Inc. and as a result of having held several board positions.

## External Auditor Service Fees

Fees payable to BDO Canada LLP in the fiscal years ended September 30, 2017 and 2016 were as follows:

	<i><u>Year Ended</u></i> <i><u>September 30, 2017</u></i>	<i><u>Year Ended</u></i> <i><u>September 30, 2016</u></i>
<i>Audit Fees</i>	\$112,000	\$108,000
<i>Audit-Related Fees</i>	\$5,500	\$9,492
<i>Tax Fees</i>	\$8,800	\$8,800
<i>Other Fees</i>	\$11,984	\$3,500

The Audit-Related Fees were payable for professional services rendered by the auditor as related to the Corporation’s year-end financial statements. The Tax Fees were payable for tax compliance, tax advice and tax planning professional services including reviewing tax returns and assisting in responses to government tax authorities. The Other Fees were payable for professional services which included accounting advice. The Corporation is relying upon the exemption in section 6.1 of NI 52-110.

## INDEBTEDNESS OF DIRECTORS AND OFFICERS

Except as disclosed below, no individual who is, or at any time during the most recently completed fiscal year of the Corporation was, a director or executive officer of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate of any of the foregoing is, or at any time since the beginning of the most recently completed fiscal year of the Corporation has been, indebted to the Corporation or any of its subsidiaries (other than in respect of amounts which would constitute routine indebtedness) or was indebted to another entity, which such indebtedness is, or was at any time since the beginning of the most recently completed fiscal year of the Corporation, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

During the year end September 30, 2013 a non interest bearing loan of \$50,000 was made to the Chief Executive Office of the Corporation. The principal is repayable in annual instalments of \$10,000 commencing August 16, 2014 with the final payment due August 16, 2018.

## INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed below, there were no material transactions since the commencement of the Corporation’s most recently completed fiscal year in which any director, proposed director, officer or principal shareholder of the Corporation, or any of their associates or affiliates, had any material interest, direct or indirect, and no such transactions are proposed.



On June 1, 2017, the Company completed a non-brokered private placement offering of 1,190,671 units (each, a “Unit”) of the Corporation at a price of \$1.96 per Unit for aggregate gross proceeds of \$2,333,716 (the “Offering”). Certain insiders of the Corporation at the time, including The Goldfarb Group, Abe Schwartz, Martin Bernholtz, Murray Miller, and Elinor Caplan participated in the Offering, acquiring an aggregate total of 765,351 Units.

## PENALTIES AND SANCTIONS AND BANKRUPTCIES

No proposed director of the Corporation is, or within 10 years before the date hereof, has been: (a) a director, CEO or CFO of any company (including the Corporation) that (i) was subject to an order that was issued while the proposed director was acting in the capacity as director, CEO or CFO, or (ii) was subject to an order that was issued after the proposed director ceased to be a director, CEO or CFO and which resulted from an event that occurred while that person was acting in the capacity as director, CEO or CFO; or (b) a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than Brian Pedlar, who was the temporary CFO of Cygnal Technologies Corporation for approximately four weeks during 2007. Cygnal Technologies Corporation filed an order for a court-supervised restructuring in November 2007 and was de-listed from the TSX in April 2008.

In addition, no proposed director of the Corporation has within 10 years before the date hereof become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his or her assets.

## ADDITIONAL INFORMATION

Except where otherwise indicated, information contained herein is given as of the date hereof.

Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com). **Further financial information is provided in the Corporation’s comparative financial statements for the fiscal year ended September 30, 2017 and the related management’s discussion and analysis of results, which have been filed on SEDAR.** Shareholders may also contact the Secretary of the Corporation by phone at 905-568-8400 ext. 246, or by e-mail at [office@covalon.com](mailto:office@covalon.com) to request copies of these documents.

The Corporation will provide to any person or company, upon receipt of a request to the Secretary of the Corporation, and without charge in the case of a security holder, a copy of: (i) the Corporation’s most recently filed comparative annual financial statements, together with the accompanying report of the auditor, and any interim financial statements of the Corporation that have been filed for any period after the end of its most recently completed fiscal year; and (ii) the Circular.

## **GENERAL**

The Board has approved the contents and the sending of the Circular.

A copy of the Circular and the Notice of Meeting has been sent to each director, each Shareholder entitled to notice of the Meeting, and the Corporation's auditor.

DATED January 22, 2018.

*"Brian E. Pedlar"*

Brian E. Pedlar  
President and CEO

**APPENDIX “A”**  
**RESOLUTION OF THE SHAREHOLDERS**  
**OF**  
**COVALON TECHNOLOGIES LTD.**  
**(the “Corporation”)**

**“BE IT RESOLVED AS AN ORDINARY RESOLUTION THAT:**

1. the Corporation’s 2007 Stock Option Plan, a copy of which is attached to the Corporation’s Management Information Circular dated April 9, 2012 as Exhibit “A”, be and it is hereby approved and confirmed effective; and,
2. any officer or director of the Corporation be, and each of them is, hereby authorized and directed for, in the name of and on behalf of the Corporation, to execute or to cause to be executed, under the seal of the Corporation or otherwise, and to deliver or cause to be delivered all such deeds, documents or other instruments, and to do or cause to be done all such other acts and things, as in the opinion of any such director or officer of the Corporation may be necessary or desirable in order to give effect to the foregoing resolution.”

## APPENDIX “B”

### CORPORATE GOVERNANCE PRACTICES

#### Statement of Corporate Governance Practices

The board of directors (the “**Board**”) of Covalon Technologies Ltd. (the “**Corporation**”) believes that sound corporate governance practices are essential to the effective, efficient and prudent management and operation of the Corporation and its business, to the protection of employees and shareholders and to the enhancement of shareholder value. The Board fulfills its mandate directly and through its committees at regularly scheduled meetings or as required. Frequency of meetings may be increased and the nature of the agenda items may be changed depending upon the state of the Corporation’s affairs and in light of opportunities or risks which the Corporation faces. The directors are kept informed of the Corporation’s operations at these meetings as well as through reports and discussions with management on matters within their particular areas of expertise.

National Policy 58-201 - *Corporate Governance Guidelines* (“**NP 58-201**”) sets out guidelines for effective corporate governance. These guidelines deal with matters such as the constitution and independence of corporate boards, their functions, the effectiveness and education of board members and other items dealing with sound corporate governance. National Instrument 58-101 - *Disclosure of Corporate Governance Practices* (“**NI 58-101**”) requires that if management of an issuer solicits proxies from its security holders for the purpose of electing directors, specified disclosure of the board’s corporate governance practices must be included in its management information circular.

The Corporation’s corporate governance practices have been and continue to be in compliance with applicable Canadian requirements. The Corporation continues to monitor developments in Canada with a view to further revising its governance policies and practices, as appropriate. The Board has considered the guidelines set out in NP 58-201 and believes that its approach to corporate governance is appropriate and works effectively for the Corporation and its shareholders. The following is a description of the Corporation’s corporate governance practices which has been prepared by the Corporate Governance and Nominating Committee of the Board and has been approved by the Board.

#### The Board of Directors

The Board is comprised of nine members, a majority of whom are independent within the meaning of NI 58-101, namely Martin C. Bernholtz, Joseph Cordiano, Jeffrey Mandel, Murray Miller, Ian Brindle, Elinor Caplan, and Gale Pollock. Brian Pedlar is not independent as he is a senior executive officer of the Corporation. Jeffrey Mandel is not independent because, in addition to his position as a director, he continues to be engaged in, and receives compensation for, certain investor relations activities on behalf of the Corporation. Abe Schwartz is not independent as he owns more than 10% of the Common Shares. Abe Schwartz is the Chairman of the Board.

The role of the Chairman of the Board is to chair all meetings of the Board in a manner that promotes meaningful discussion, and to provide leadership to the Board to enhance the Board’s effectiveness in meeting its responsibilities. The Chairman’s responsibilities include, without limitation, ensuring that the Board works together as a cohesive team with open communication and working together with the Corporate Governance and Nominating Committee to ensure that a process is in place by which the effectiveness of the Board, its committees and its individual directors can be evaluated on at least an annual basis.

The Board holds regularly scheduled meetings. In addition, the independent directors meet regularly without management to review the business operations, corporate governance and financial results of the Corporation. During the fiscal year ended September 30, 2017, the Board held numerous meetings by teleconference and held five meetings in person.

Messrs. Bernholtz and Cordiano are currently directors of other reporting issuers, as set forth below:

<b>Director Name</b>	<b>Directorships with Other Reporting Issuers</b>
Martin Bernholtz	Continental Precious Minerals Inc. (CZQ - NEX) Fineqia International Inc (FNQ – CSNX) Fintech Select Ltd. (FTEC – TSXV / formerly Selectcore Inc.) Lingo Media Corporation (LM – TSXV) Titan Medical Inc. (TMD-TSXV)
Joseph Cordiano	DXStorm.Com Inc. (DXX-TSXV)

### **Position Descriptions**

A written position description has been developed by the Board for the Chairman of the Board. Written mandates have also been developed for each of the Board's committees. The Board, together with the CEO, has also developed a written position description for the CEO, the CFO and the Chief Scientific Officer.

### **Orientation and Continuing Education**

The measures that the Board takes in connection with orienting new Board members regarding the role of the Board, its directors, the committees of the Board and the nature and operation of the Corporation's business include providing each new member with information concerning the role and responsibilities of a public company director, providing new members with a complete set of the Corporation's charters, policies and procedures and discussing with new members the Corporation's operations.

With respect to providing continuing education for its directors, the Board ensures that all directors are kept apprised of changes in the Corporation's operations and business, changes in the regulatory environment affecting the Corporation's day to day business both within Canada and within the foreign jurisdictions in which the Corporation does business and changes in their roles as directors of a public corporation.

The Corporate Governance and Nominating Committee also considers orientation and continuing education for Board members and makes recommendations to the Board from time to time regarding same.

### **Code of Business Conduct and Ethics**

The Board has adopted a Code of Conduct (the "**Code**") for its directors, officers and employees. The Code includes provisions that require directors, officers and employees to inform the Corporation's CEO or other appropriate person of any non-compliance with the Code.

The Board takes steps to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer of the Corporation has a material interest, which include ensuring that directors and officers are thoroughly familiar with the Code and, in particular, the rules concerning reporting conflicts of interest and obtaining direction from the CEO or other appropriate person(s), regarding any potential conflicts of interest.

The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations; providing guidance to employees, officers and directors to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct. In addition, the Board has implemented a disclosure policy and an insider trading policy.

## **Committees of Directors**

The Board has three committees: an audit committee (the “**Audit Committee**”); a compensation committee (the “**Compensation Committee**”); and a corporate governance and nominating committee (the “**Corporate Governance and Nominating Committee**”). The Corporate Governance and Nominating Committee and the Compensation Committee are each comprised of a majority of independent directors. Information regarding the Audit Committee is provided in the Circular under the heading “Audit Committee Information”.

## **Compensation**

The Board, together with the Compensation Committee, determines appropriate compensation for the Corporation’s directors and executive officers. The Compensation Committee is comprised of Messrs. Mandel (Committee Chair), Cordiano, and Miller a majority of whom are independent within the meaning of applicable securities laws. The Compensation Committee met five times since the date of the last annual and special meeting of the Corporation. The Compensation Committee’s responsibilities include reviewing and making recommendations to the Board regarding overall compensation and benefits, equity and other compensation plans and the total compensation package of the CEO. The Compensation Committee also considers and approves the recommendations of the CEO regarding the total compensation packages of the CFO and the Chief Scientific Officer. The process by which appropriate compensation levels are determined by the Board is through periodic and annual reports from the Compensation Committee on the Corporation’s overall compensation and benefits philosophies, which are established based, in part, on a review of peer group and biotechnology industry compensation data. The reports describe processes undertaken by the Compensation Committee to weight factors and target levels in determining executive compensation.

## **Nomination of Directors**

The Board, together with the Corporate Governance and Nominating Committee, is responsible for identifying new candidates for nomination to the Board. The Corporate Governance and Nominating Committee consists of Messrs. Miller (Committee Chair), Brindle, and Mme. Caplan each of whom are independent directors within the meaning of applicable securities laws. In carrying out its mandate, the Corporate Governance and Nominating Committee met five times since the date of the last annual and special meeting of the Corporation. The process by which the Board identifies new candidates is through recommendations of the Corporate Governance and Nominating Committee whose responsibility it is to establish procedures to identify new candidates based on corporate law and regulatory requirements as well as relevant education and experience related to the business of the Corporation.

The Corporate Governance and Nominating Committee’s responsibilities include annually reviewing the charters of the Board and the Corporate Governance and Nominating Committee; assisting the Chairman of the Board in carrying out his responsibilities; considering and, if thought fit, approving requests from directors or committee members for the engagement of special advisors from time to time; preparing and recommending to the Board a set of corporate governance guidelines, the Code and annually a statement of corporate governance practices to be included in the Corporation’s management information circular; meeting with the Corporation’s external corporate counsel to discuss the Corporation’s corporate governance policies and practices; recommending procedures to permit the Board to meet on a regular basis without management present; assisting the Board by identifying individuals qualified to become Board members and members of Board committees; leading the Board in its annual review of the Board’s performance; and assisting the Board in monitoring compliance by the Corporation with legal and regulatory requirements.

## **Board Assessments**

The Board, its committees and its individual directors are assessed on an annual basis, as to their effectiveness and contribution. The process by which such assessments are made is through questionnaires developed by the Board and the Corporate Governance and Nominating Committee, which are distributed to each director and/or committee member for review and completion each year. In addition, the Chair of each committee encourages discussion among

the Board or the committee, as the case may be, as to the evaluation of the Board's or committee's effectiveness over the course of the year. All directors and/or committee members are free to make suggestions for improvement of the practices of the Board and/or its committees at any time and are encouraged to do so.

The Corporate Governance and Nominating Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of prospective Board members as well as the composition of the Board as a whole. This assessment includes members' contribution, qualification as independent, as well as consideration of diversity, age, skills and experience in the context of the needs of the Board.

## **APPENDIX “C”**

### **AUDIT COMMITTEE CHARTER**

#### **GENERAL FUNCTIONS, AUTHORITY, AND ROLE**

The purpose of the Audit Committee is to oversee the accounting and financial reporting processes of the Corporation and the audits of its financial statements, and thereby assist the Board in monitoring: (1) the integrity of the financial statements of the Corporation; (2) compliance by the Corporation with legal and regulatory requirements related to financial reporting; (3) the performance of the Corporation’s independent auditors; and, (4) performance of the Corporation’s internal controls and financial reporting process.

The Audit Committee has the power to conduct or authorize investigations into any matters within its scope of responsibilities, with full access to all books, records, facilities and personnel of the Corporation, its auditors and its legal advisors. In connection with such investigations or otherwise in the course of fulfilling its responsibilities under this charter, the Audit Committee has the authority to independently retain special legal, accounting, or other consultants to advise it, and may request any officer or employee of the Corporation, its independent legal counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee has the power to create specific sub-committees with all of the power to conduct or authorize investigations into any matters within the scope of the mandate of the sub-committee, with full access to all books, records, facilities and personnel of the Corporation, its auditors and its legal advisors.

The Corporation’s independent auditor is ultimately accountable to the Board of Directors and to the Audit Committee, who, as representatives of the Corporation’s shareholders, have the ultimate authority and responsibility to evaluate the independent auditor, appoint and replace the independent auditor, and to determine appropriate compensation for the independent auditor. In the course of fulfilling its specific responsibilities hereunder, the Audit Committee must maintain free and open communication between the Corporation’s independent auditors, Board of Directors and Corporation management. The responsibilities of a member of the Audit Committee are in addition to such member’s duties as a member of the Board of Directors.

While the Audit Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation’s financial statements are complete, accurate, and in accordance with generally accepted accounting principles.

#### **MEMBERSHIP**

The membership of the Audit Committee will be as follows:

- The Committee shall consist of a minimum of three members of the Board of Directors, appointed annually, a majority of whom is affirmatively confirmed as independent by the Board of Directors, with such affirmation disclosed in the Corporation’s annual Information Circular.
- The Board will elect, by a majority vote, one member as chairperson.
- The membership of the Audit Committee will meet all requirements of the TSX Venture and the requirements of such other securities exchange or quotations system or regulatory agency as may from time to time apply to the Corporation.

#### **RESPONSIBILITIES**

The responsibilities of the Audit Committee shall be as follows:

##### **Frequency of Meetings**

- Meet quarterly or more often as may be deemed necessary or appropriate in its judgment, either in person or telephonically.
- The Audit Committee will meet with the independent auditor at least annually, either in person or telephonically.



**Reporting Responsibilities**

- Provide to the Board of Directors proper Committee minutes.
- Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate.

**Charter Evaluation**

- Annually review and reassess the adequacy of this charter and recommend any proposed changes to the Board of Directors for approval.

**Whistleblower Mechanism**

- Adopt and review annually a procedure through which employees and others can inform the Audit Committee regarding any concerns about the Corporation's accounting, internal accounting controls or auditing matters. The procedure shall include responding to, and keeping of records of, any such complaints.

**Legal Responsibilities**

- Perform such functions as may be assigned by law, by the Corporation's certificate of incorporation, memorandum, articles or similar documents, or by the Board of Directors.

**INDEPENDENT AUDITOR****Nominations**

- Appoint annually the independent auditor to be proposed for shareholder approval.

**Compensation and Evaluation**

- Approve the compensation of the independent auditor, evaluate the performance of the independent auditor and, if so determined by the Committee, replace the independent auditor.

**Engagement Procedures for Non-audit Services**

- Establish policies and procedures for the engagement of the independent auditor to provide non-audit services.
- Ensure that the independent auditor is not engaged for any activities not allowed by any of the Canadian provincial securities commissions, the SEC or any securities exchange on which the Corporation's shares are traded.
- Inform management that the auditors are not to be engaged for any of the following nine types of non-audit services:
  - Bookkeeping or other services related to accounting records or financial statements of the Corporation;
  - Financial information systems design and implementation consulting services;
  - Appraisal or valuation services, fairness opinions, or contributions-in-kind reports;
  - Actuarial services;
  - Internal audit outsourcing services;
  - Any management or human resources function;
  - Broker, dealer, investment advisor, or investment banking services;
  - Legal services;
  - Expert services related to the auditing service; and
  - Any other service the Board of Directors determines is not permitted.

**Hiring Practices**

- Ensure that no individual who is, or in the past 3 years has been, affiliated with or employed by a present or former auditor of the Corporation or an affiliate, is hired by the Corporation as a senior officer until at least 3 years after the end of either the affiliation or the auditing relationship.

**Independence Test**

Take reasonable steps to confirm the independence of the independent auditor, which shall include:

- Ensuring receipt from the independent auditor of a formal written statement delineating all relationships between the independent auditor and the Corporation, consistent with the Independence Standards Board Standard No. 1 and related Canadian regulatory body standards;
- Considering and discussing with the independent auditor any relationships or services provided to the Corporation, including non-audit services, that may impact the objectivity and independence of the independent auditor; and
- As necessary, taking, or recommending that the Board of Directors take, appropriate action to oversee the independence of the independent auditor.

#### **Audit Committee Meetings**

- Notify the independent auditor of every Audit Committee meeting and permit the independent auditor to appear and speak at those meetings.
- At the request of the independent auditor, convene a meeting of the Audit Committee to consider matters the auditor believes should be brought to the attention of the directors or shareholders.
- Keep minutes of its meetings and report to the Board for approval of any actions taken or recommendations made.

#### **Restrictions**

- Confirm with management and the independent auditor that no restrictions are placed on the scope of the auditors' review and examination of the Corporation's accounts.

### **OTHER PROFESSIONAL CONSULTING SERVICES**

#### **Engagement Review**

- As necessary, consider with management the rationale and selection criteria for engaging professional consulting services firms.
- Ultimate authority and responsibility to select, evaluate and approve professional consulting services engagements.

### **AUDIT AND REVIEW PROCESS AND RESULTS**

#### **Scope**

- Consider, in consultation with the independent auditor, the audit scope and plan of the independent auditor.

#### **Review Process and Results**

- Consider and review with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as the same may be modified or supplemented from time to time.
- Review and discuss with management and the independent auditor at the completion of the annual examination:
  - The Corporation's audited financial statements and related notes;
  - The Corporation's MD&A and news releases related to financial results;
  - The independent auditor's audit of the financial statements and its report thereon;
  - Any significant changes required in the independent auditor's audit plan;
  - The appropriateness of the presentation of any non-GAAP related financial information;
  - Any serious difficulties or disputes with management encountered during the course of the audit; and
  - Other matters related to the conduct of the audit, which are to be communicated to the Audit Committee under generally accepted auditing standards.
- Review the management letter delivered by the independent auditor in connection with the audit.
- Following such review and discussion, if so determined by the Committee, recommend to the Board that the annual financial statements be included in the Corporation's annual report.
- Review, discuss with management and approve annual and interim quarterly financial statements prior to public disclosure. The chairperson of the Audit Committee may represent the entire Audit Committee for purposes of this review.

- Review and discuss with management and the independent auditor the adequacy of the Corporation's internal accounting and financial controls that management and the Board of Directors have established and the effectiveness of those systems, and inquire of management and the independent auditor about significant financial risks or exposures and the steps management has taken to minimize such risks to the Corporation.
- Meet separately with the independent auditor and management, as necessary or appropriate, to discuss any matters that the Audit Committee or any of these groups believe should be discussed privately with the Audit Committee.
- Review and discuss with management and the independent auditor the accounting policies which may be viewed as critical, including all alternative treatments for financial information within generally accepted accounting principles that have been discussed with management, and review and discuss any significant changes in the accounting policies of the Corporation and industry accounting and regulatory financial reporting proposals that may have a significant impact on the Corporation's financial reports.
- Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures, if any, on the Corporation's financial statements.
- Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Corporation's financial statements or accounting policies.
- Review with the Corporation's General Counsel legal matters that may have a material impact on the financial statements, the Corporation's financial compliance policies and any material reports or inquiries received from regulators or governmental agencies related to financial matters.

## **SECURITIES REGULATORY FILINGS**

- Review filings with the Canadian provincial securities commissions and the SEC and other published documents containing the Corporation's financial statements.
- Review, with management and the independent auditor, prior to filing with regulatory bodies, the interim quarterly financial reports (including related notes and MD&A) at the completion of any review engagement or other examination. The chairperson of the Audit Committee may represent the entire Audit Committee for purposes of this review.

## **RISK ASSESSMENT**

- Meet periodically with management to review the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- Assess risk areas and policies to manage risk including, without limitation, environmental risk, insurance coverage and other areas as determined by the Board of Directors from time to time.
- Review and discuss with management, and approve changes to, the Corporation's Corporate Treasury Policy.

