

FORM 51-102F3

MATERIAL CHANGE REPORT

ITEM 1 **Name and Address of Company**

Covalon Technologies Ltd. (the "**Company**" or "**Covalon**")
1660 Tech Avenue, Unit 5
Mississauga, Ontario L4W 5S7

ITEM 2 **Date of Material Change**

September 20, 2018

ITEM 3 **News Release**

A press release was issued through Business Wire on September 20, 2018.

A closing press release was issued through Business Wire on October 1, 2018. Copies of the press releases are attached hereto as Exhibit "A".

ITEM 4 **Summary of Material Change**

On September 20, 2018, the Company announced that it entered into a definitive agreement to acquire AquaGuard, the Seattle, Washington-based division of medical technologies company Cenorin LLC. AquaGuard's specialized products provide patients with crucial moisture protection for wound, surgical, and vascular access sites throughout the body while showering.

ITEM 5 **Full Description of Material Change**

On September 20, 2018, the Company announced that it entered into a definitive agreement to acquire AquaGuard, the Seattle, Washington-based division of medical technologies company Cenorin LLC. AquaGuard's specialized products provide patients with crucial moisture protection for wound, surgical, and vascular access sites throughout the body while showering.

Gerry Arambula and existing AquaGuard leadership will continue to play key roles in leading the business going forward. Following the closing of the transaction, Covalon will have in the United States a customer base of over 1,500 hospitals and clinics. Covalon also anticipates an opportunity to sell AquaGuard's products through Covalon's international distribution channels.

Under the terms of the definitive agreement, Covalon will acquire all of the assets and staff dedicated to the AquaGuard business from Cenorin, LLC. Covalon anticipates the transaction will close in less than sixty days and is subject to customary closing conditions and TSX Venture Exchange and lender approval. The consideration of \$16.1 million (US\$12,375,000) is comprised of the following:

- \$4.7 million (US\$3,617,392) in cash on closing

- \$0.03 million (US\$20,608) in cash within 5 business days of closing
- \$0.65 million (US\$500,000) of shares of Covalon issued on closing and held in escrow for up to two years
- \$3.32 million (US\$2,552,300) payable 12 months from the closing date
- \$6.5 million (US\$5,000,000) payable 24 months from closing date
- \$0.89 million (US\$684,700) of assumed liabilities payable to management and key staff of AquaGuard by issuance of shares of Covalon on closing
- In addition, there is potential contingent consideration of up to \$1.17 million (US\$900,000) payable upon achievement of certain revenue targets by December 31, 2018.

During its last fiscal year ended December 31, 2017, the AquaGuard business recorded \$11.1 million (US\$8.5 million) in revenue and \$683,000 (US\$526,000) in profit before taxes.

ITEM 6 **Reliance of subsection 7.1(2) or (3) of National Instrument 51 -1 02**

Not applicable.

ITEM 7 **Omitted Information**

Not applicable.

ITEM 8 **Executive Officer**

The name and business number of an executive officer of the Company who is knowledgeable about the material change and this report is:

Brian Pedlar
Chief Executive Officer
905-568-8400 x 233

ITEM 9 **Date of Report**

This report is dated the 1st day of October, 2018.

Exhibit "A"

See attached.

Covalon Announces Definitive Agreement to Acquire AquaGuard and its Specialized Salesforce Capable of Selling Covalon's Products Throughout the United States

MISSISSAUGA, Ontario--(BUSINESS WIRE)--September 20, 2018--Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV.V; OTCQX: CVALF), an advanced medical technologies company, today announces that it has entered into a definitive agreement to acquire AquaGuard, the Seattle, Washington-based division of medical technologies company Cenorin, LLC. AquaGuard's specialized products provide patients with crucial moisture protection for wound, surgical, and vascular access sites throughout the body while showering.

Brian Pedlar, Chief Executive Officer of Covalon, said, "I am very excited about this acquisition – AquaGuard's experienced sales team and specialized product line are a perfect synergistic fit for Covalon's business. AquaGuard's talented sales team has built strong relationships with clinicians and hospital staff throughout the United States that make decisions on the very same products Covalon makes – vascular access dressings, surgical site management products, and advanced wound care dressings."

Gerry Arambula, President of AquaGuard, stated, "The AquaGuard sales and operations teams are very excited about joining forces with Covalon. Our AquaGuard team has built a profitable and growing business that is well-positioned to represent and sell many of Covalon's infection management products, such as IV Clear, immediately into our customer base. We are looking forward to working with the Covalon team to transform Covalon's business in the United States. Products will be made available through AquaGuard's established distribution channels at key hospitals and group purchasing organizations across the United States, as well as through third-party distribution partners, including Amazon."

Gerry Arambula and existing AquaGuard leadership will continue to play key roles in leading the business going forward. Following the closing of the transaction, Covalon will have in the United States a customer base of over 1,500 hospitals and clinics. Covalon also anticipates an opportunity to sell AquaGuard's products through Covalon's international distribution channels.

Under the terms of the definitive agreement, Covalon will acquire all of the assets and staff dedicated to the AquaGuard business from Cenorin, LLC. Covalon anticipates the transaction will close in less than sixty days and is subject to customary closing conditions and TSX Venture Exchange and lender approval. The consideration of \$16.1 million (US\$12,375,000) is comprised of the following:

- \$4.7 million (US\$3,617,392) in cash on closing
- \$0.65 million (US\$500,000) of shares of Covalon issued on closing and held in escrow for up to two years
- \$3.32 million (US\$2,552,300) payable 12 months from the closing date
- \$6.5 million (US\$5,000,000) payable 24 months from closing date
- \$0.92 million (US\$705,308) of assumed liabilities payable to management and key staff of AquaGuard by issuance of shares of Covalon on closing
- In addition, there is potential contingent consideration of up to \$1.17 million (US\$900,000) payable upon achievement of certain revenue targets by December 31, 2018.

During its last fiscal year ended December 31, 2017, the AquaGuard business recorded \$11.1 million (US\$8.5 million) in revenue and \$683,000 (US\$526,000) in profit before taxes.

Covalon's Board of Directors unanimously approved entering into the agreement. Acting as financial and legal advisors to Covalon are Morrison Park Advisors, and Stikeman Elliott LLP, respectively.

About AquaGuard

AquaGuard is a United States-based medical technology business that specializes in infection protection products that protect surgical incisions, intravenous (IV) sites, catheters, PICC lines, and other dressings from water and other moisture while a patient showers. AquaGuard's family of products provide protection for sites and dressings all over the body, and can be applied by most patients without the need of assistance from medical professionals.

About Covalon

Covalon Technologies Ltd. researches, develops, and commercializes new healthcare technologies that help save lives around the world. Covalon's patented technologies, products, and services address the advanced healthcare needs of medical device companies, healthcare providers, and individual consumers. Covalon's technologies are used to prevent, detect, and manage medical conditions in specialty areas such as infection control, vascular access, surgical procedures, advanced wound care, and medical device coatings. To learn more about Covalon, visit our website at www.covalon.com

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

This news release contains forward-looking statements which reflect the Company's current expectations regarding future events. The 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. These forward-looking statements involve risk and uncertainties, including completion of the AquaGuard acquisition, 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. Many risks are inherent in the industry; others are more specific to the Company. Investors should consult the Company's ongoing quarterly filings for additional information on risks and uncertainties relating to these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. The Company assumes no obligation to update or alter any forward-looking statements whether as a result of new information, further events or otherwise.

CONTACT:

Covalon Technologies Ltd.

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Covalon Announces Closing of AquaGuard Acquisition Combining Covalon's Rich Technology Portfolio with AquaGuard's Excellent Products and Specialized Salesforce Capable of Selling Covalon's Products Throughout the United States

MISSISSAUGA, Ontario – October 1st, 2018 – /Business Wire/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announced that it has closed the acquisition (the "Closing") of AquaGuard, the Seattle, Washington-based division of medical technologies company Cenorin, LLC. AquaGuard's specialized products provide patients with crucial moisture protection for wound, surgical, and vascular access sites throughout the body while showering.

Brian Pedlar, Chief Executive Officer of Covalon, said, "I am delighted to welcome the AquaGuard team to Covalon. As a unified company, AquaGuard and Covalon can market and sell a strong portfolio of infection management products such as IV Clear, MediClear Pre-Op, SurgiClear, and AquaGuard into an established client base of over 1,500 hospitals and clinics in the United States. The synergy opportunities for Covalon are truly transformative to Covalon's United States footprint."

As previously announced, Covalon acquired all of the assets and staff dedicated to the AquaGuard business from Cenorin, LLC. The consideration of \$16.1 million (US\$12,375,000) was comprised of the following:

- \$4.7 million (US\$3,617,392) in cash paid on closing
- \$0.03 million (US\$20,608) in cash within 5 business days of closing
- \$0.65 million (US\$500,000) of shares of Covalon issued on closing, which will be held in escrow for up to two years
- \$3.32 million (US\$2,552,300) payable 12 months from the date hereof
- \$6.5 million (US\$5,000,000) payable 24 months from date hereof
- \$0.89 million (US\$684,700) of assumed liabilities payable to management and key staff of AquaGuard by issuance of shares of Covalon on closing
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To learn more about Covalon, please contact:

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