

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 University of Toronto Faculty Club, 41 Willcocks Street, Toronto Ontario, Canada, on Friday, March 6, 2009 at 10:00 a.m. Toronto time for the following purposes:

1. to receive and consider the financial statements of the Corporation for the year ended September 30, 2008, together with the report of the auditors thereon (the “Financial Statements”);
2. to elect directors for the ensuing year;
3. to appoint BDO Dunwoody LLP, Chartered Accountants, as auditors and to authorize the directors to fix their remuneration;
4. to consider an ordinary resolution to approve and confirm effective the Company’s 2007 Stock Option Plan, as set out hereto in Appendix A; and
5. to transact such other business as may properly come before the Meeting or any adjournment thereof.

Accompanying this Notice of Meeting are a copy of the management information circular, a form of proxy, audited financials for the fiscal year ended September 30, 2008 and Management’s Discussion and Analysis thereon. These materials can also be viewed at www.sedar.com. If you wish to receive a hard copy of this report, please contact the Secretary of the Corporation by phone at 905-586-8400 x 246, or by email at office@covalon.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, Equity Transfer & Trust Company, 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1, prior to 10:00 a.m. (Toronto Time) on March 4, 2009, or 48 hours prior to any adjournment of the Meeting, or with the chairman of the Meeting at any time prior to the commencement of the Meeting or any adjournment thereof.

DATED at Mississauga, Ontario this 28th day of January, 2009.

By Order of the Board of Directors

“Rosemary Siblall”

Rosemary Siblall
Secretary

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 University of Toronto Faculty Club, 41 Willcocks Street, Toronto, Ontario, Canada on Friday, March 6, 2009 at 10:00 a.m. Toronto Time, and at any adjournment thereof, for the purposes set forth in the accompanying Notice of Annual and Special Meeting (the “Notice of Meeting”). The solicitation will be primarily by mail but may also be solicited by telephone, electronic means of communication or in writing 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 28th, 2009, unless otherwise indicated.

RECORD DATE

The board of directors of the Corporation (“the Board of Directors”) has fixed the close of business on February 4, 2009, 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, Equity Transfer & 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 adjournment 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 Equity Transfer & Trust Company, at the address on the proxy envelope provided prior to 10:00 a.m. (Toronto time) on or before March 4, 2009, or any adjournment thereof, or deposited with the Chairman of the Meeting before the commencement of the Meeting.

Enquiries regarding proxy forms can be made by Shareholders to the Corporation’s transfer agent, Equity Transfer & Trust Company, 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1, or by telephone at 416-361-0930.

Only registered holders of Common Shares of the Corporation 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 RRSP’s, RRIF’s, RESP’s 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 National Instrument 54-101 of the Canadian Securities Administrators, the Corporation has distributed copies of the Notice of Meeting, this 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, Equity Transfer & 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.

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 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 this 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 adjournment 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.

VOTING SHARES AND PRINCIPAL HOLDERS

As of the close of business on January 28, 2009 there were 74,303,915 Common Shares outstanding. Each holder of Common Shares of record at the close of business on February 4, 2009, the record date established for notice of and voting at the meeting, will be entitled to ONE VOTE for each Common Share on all matters proposed to come before the meeting.

To the knowledge of the directors and executive officers of the Corporation, no one person beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the voting rights attached to all outstanding Common Shares.

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 30 September 2008 and the report of the auditors thereon accompany this Circular and will be submitted to the Meeting. No vote will be taken on the financial statements.

2. Election of Directors

The number of directors of the Corporation to be elected at the Meeting is five.

The following table lists certain information concerning the persons proposed to be nominated for election as directors. The Corporation is required to have an Audit Committee. The Corporation also has a Compensation Committee and a Corporate Governance and Nominating Committee. The Corporation does not have an Executive Committee. Proxies received in favour of management nominees, will, unless required to be withheld from voting, be voted to elect as directors of the Corporation those persons noted in the below table.

<u>Name</u>	<u>Position with Corporation or Principal Occupation or Business</u>	<u>Director Since</u>	<u>Common Shares Beneficially Owned, Controlled or Directed</u>
Joseph Cordiano ^{AC} Ontario Canada	Principal, Cityzen Development Group	March 7, 2008	120,000
Martin C. Bernholtz ^{ACG} Ontario, Canada	Vice President Finance, Kerbel Group Inc.	May 11, 2006	1,070,778
Frank DiCosmo ^M Ontario, Canada	President & Chief Executive Officer, Covalon Technologies Ltd.	Dec 17, 2004	1,670,179
David McFaul Massachusetts, USA	Sr. Vice President of International Boston Scientific Corporation	January 12, 2009	--
Bradford J. Williams ^{ACG} New Jersey, USA	Medical Device consultant	May 11, 2006	34,000

^M Indicates management

^A Audit Committee composition: Messrs. Bernholtz (Chair), Williams and Cordiano

^C Compensation Committee: Messrs. Williams (Chair), Bernholtz, and Cordiano

^G Corporate Governance and Nominating Committee: Messrs. Schwartz (Chair), Bernholtz, Williams

The respective nominees have furnished the information as to Common Shares and principal occupations individually. 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 summaries of the background of each individual:

Joseph Cordiano joined Cityzen Development Group as a principal in 2006, where he is responsible for the sales and marketing as well as new business development of the it's 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 has been a chartered accountant since 1983 and has held the position of Vice President Finance at Kerbel Group Inc., an integrated real estate developer, since 1988. He has served as a director and officer of various public, private and condominium corporations over the past 20 years. Mr. Bernholtz previously spent eight years with Laventhol & Horwath in the Litigation Support and Business Valuation area. Mr. Bernholtz graduated from York University with a Bachelor of Business Administration degree in 1981.

Frank DiCosmo has occupied his position of President and Chief Executive Officer of the Corporation since December 2004. He has also been the President and Chief Executive Officer of Covalon Technologies Inc. (formerly UroTeq Inc.) since March 2004, and was previously Chief Scientific Officer of UroTeq Inc. beginning in 1999. From 1983 through 2004 Dr. DiCosmo was a Professor at the University of Toronto, Department of Botany, and Adjunct Professor at the University of Toronto's Faculty of Medicine, Institute of Biomedical Engineering and Department of Surgery.

David McFaul is currently Senior Vice President of International at Boston Scientific Corporation, and a member of its Executive Committee. Prior to this role, David was Regional President of Asia-Pacific & Japan operations. He joined Boston Scientific Corporation in 1995 to oversee the development of the company's Canadian business and was promoted to Vice President and General Manager of Boston Scientific Corporation's operations in Latin America, Canada and South Africa where he dramatically increased revenue. He also held the position of Vice President Sales InterContinental. He has over 25 years experience in the medical device industry and prior to joining Boston Scientific Corporation, David held sales, marketing and general management positions at a variety of medical-related companies including Stryker Corporation, EBI Medical Systems, Baxter Corporation, and Abbott Labs.

Bradford J. Williams retired from Stryker Corporation at the end of 2006 after 22 years of service, having held key leadership positions during his tenure there. In 2006, he was Stryker Corporation's Orthopaedics Division Senior Vice President of Marketing and Business Development and from 2003-2005, its Senior Vice President of Marketing, Research & Development. Mr. Williams led Stryker's efforts in Canada establishing their direct selling organization as the Vice President and General Manager from 1988 to 1996. He is currently self employed and works as a medical device consultant. He holds a B.S. in Business Administration from Colorado State University.

Management does not anticipate that any of the nominees for election as directors 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. Each director elected will hold office until the next annual meeting of shareholders or until such person's successor is elected or appointed, unless such person's office is earlier vacated.

Unless otherwise indicated, the persons named in the accompanying proxy intend to vote for the resolution to elect to the Board of Directors the nominees set out above. In order for the resolution to pass, the Corporation must receive a majority of the votes cast by all shareholders at the Meeting.

Management recommends voting for the resolution to elect the nominated directors.

The text of the resolution to be submitted to Shareholders at the Meeting is set forth below:

“NOW THEREFORE BE IT resolved that:

The following persons be and they are hereby elected directors of the Corporation to hold office until the next annual meeting of the shareholders of the Corporation or until their respective successors are duly appointed, subject to the provisions of the by-laws of the Corporation and the provisions of the *Business Corporations Act* (Ontario);

Martin C. Bernholtz
Joseph Cordiano
Frank DiCosmo
David McFaul
Bradford J. Williams

3. Appointment of Auditors

BDO Dunwoody LLP, Chartered Accountants, have been auditors of the corporation since December 2004.

At the Meeting, it will be proposed that BDO Dunwoody LLP, Chartered Accountants, be appointed as auditors of the Corporation to hold office until the next annual meeting of Shareholders and that the Board of Directors be authorized to fix their remuneration. In the absence of instructions to be withheld from voting, the persons designated by management of the Corporation in the enclosed form of proxy, intend to vote to approve the appointment of BDO Dunwoody LLP as the Corporation’s auditors and to authorize the Board of Directors to fix the auditors’ remuneration.

The Corporation obtained a letter from BDO Dunwoody LLP containing a description of all relationships between the auditors and the Corporation, discussed with the auditors any of these relationships that may impact their objectivity and independence and satisfied itself as to the auditors’ independence.

For the Corporation’s fiscal year ended September 30, 2008, fees for audit and audit related services provided by BDO Dunwoody LLP for the Corporation and its subsidiaries were approximately \$105,150. In addition, BDO Dunwoody LLP was paid approximately \$42,205 for tax, consulting and other non-audit related services.

Management recommends voting for the resolution to approve the appointment of BDO Dunwoody LLP as auditors of the Corporation.

The text of the resolution to be submitted to Shareholders at the Meeting is set forth below:

“NOW THEREFORE BE IT resolved that BDO Dunwoody LLP, Chartered Accountants, are hereby appointed as auditors of the Corporation, to hold office until the close of the next annual meeting of shareholders for the fiscal year ended September 30, 2009 or until its successor is duly appointed and to authorize the directors to fix the remuneration of the auditor.”

4. Special Business

The Corporation's 2007 Stock Option Plan

The Corporation currently has a rolling stock option plan (the "2007 Stock Option Plan") for our key employees, directors, officers and consultants and our affiliates. The objective of the 2007 Stock Option Plan is to provide for and encourage ownership of Common Shares of the Corporation by its directors, officers, consultants and key employees and those of any affiliate companies 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 2007 Stock Option 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 both the Corporation and such individuals.

Under the 2007 Stock Option Plan the Corporation may grant stock options to purchase up to an aggregate of 10% of the Corporation's issued and outstanding share capital from time to time. As a result, any increase in the issued and outstanding shares will result in an increase in the available number of Common Shares issuable under the 2007 Stock Option Plan. Options granted under the 2007 Stock Option Plan will have an exercise price of not less than the closing price of the Corporation's shares on the TSX Venture Exchange on the day prior to the date of the grant, less any discount in the exercise price permitted by the policies of the TSX Venture Exchange. The number of shares issuable to any one person in any 12 month period, cannot exceed 5% of the issued and outstanding shares of the Corporation. The number of 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 shares of the Corporation.

In connection with certain change of control transactions, including a take-over bid, merger or other structured acquisition, the Board of Directors 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.

Unless the Board of Directors decides otherwise, options granted under the 2007 Stock Option Plan will vest over a five-year period. Unless the Board of Directors decided otherwise, options granted under the 2007 Stock Option Plan terminate on the earlier of the expiration date of the Option Period (as defined in the 2007 Stock Option 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, our directors, officers, key employees, consultants and our former directors, officers, employees and consultants hold options to acquire an aggregate of 3,688,175 Common Shares.

A copy of the 2007 Stock Option Plan is attached hereto as Exhibit "A". Reference should be made thereto for a complete statement of the terms and conditions of the 2007 Stock Option Plan.

The text of the ordinary resolution to be submitted to Shareholders at the Meeting is set forth in Appendix A.

Unless otherwise indicated, the persons named in the accompanying proxy intend to vote for the ordinary resolution to approve and confirm effective the 2007 Stock Option 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.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Compensation of Executive Officers

The following table sets forth the compensation earned during the last three fiscal years by the Chief Executive Officer and the Chief Financial Officer and each of the Corporation's three most highly compensated individuals who served as executive officers of the Corporation and whose total bonus and salary exceeded \$150,000 (collectively, the "Named Executive Officers") for the fiscal years ended September 30, 2008, September 30, 2007 and September 30, 2006.

Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>			<u>Long Term Compensation</u>			
		<u>Salary</u> <u>(\$)</u>	<u>Bonus</u> <u>(\$)</u>	<u>Other</u> <u>Annual</u> <u>Compensation</u> <u>(\$)</u>	<u>Securities</u> <u>Under</u> <u>Options</u> <u>Granted</u> <u>(#)</u>	<u>Restricted</u> <u>Stock or</u> <u>Restricted</u> <u>Stock Units</u> <u>(\$)</u>	<u>LTIP</u> <u>Payouts</u> <u>(\$)</u>	<u>All Other</u> <u>Compensation</u> <u>(\$)</u>
⁽¹⁾ Frank DiCosmo	2008	\$192,449	\$2,500	\$13,522	100,000	--	--	--
President and Chief Executive Officer	2007	\$155,000	--	\$7,684	200,000	--	--	--
	2006	\$155,000	--	--	300,000	--	--	--
⁽²⁾ William Jackson	2008	\$165,367	--	\$12,745	75,000	--	--	--
Chief Business Officer	2007	\$155,000	--	\$15,902	175,000	--	--	--
	2006	\$155,000	--	--	175,000	--	--	--
⁽³⁾ Valerio DiTizio	2008	\$155,000	\$3,750	--	75,000	--	--	--
Chief Scientific Officer	2007	\$120,000	--	--	--	--	--	--
	2006	\$120,000	--	--	--	--	--	--
⁽⁴⁾ Francis Lindayen	2008	\$118,750	--	\$12,250	175,000	--	--	\$25,000
Chief Financial Officer								

Notes:

- (1) Frank DiCosmo was appointed President and Chief Executive Officer of the Corporation on December 21, 2004.
- (2) William Jackson was appointed Chief Financial Officer and Chief Operating Officer on December 21, 2004. Mr. Jackson ceased to be Chief Operating Officer on October 1, 2007. Mr. Jackson ceased to be Chief Financial Officer and was appointed Chief Business Officer on December 17, 2007.
- (3) Valerio DiTizio was appointed Chief Scientific Officer of the Corporation on December 21, 2004.
- (4) Francis Lindayen was appointed as Chief Financial Officer on December 17, 2007 and resigned on September 29, 2008. On October 2, 2008, Peter Hobbes was appointed as Chief Financial Officer. Mr. Hobbes is paid an annual salary of \$155,000. Pursuant to the Corporation's stock option plan, on October 15, 2008, Mr. Hobbes was granted options to acquire 100,000 Common Shares.

Option Grants During the Fiscal Year Ended September 30, 2008

The following table sets forth information concerning options granted by the Corporation to each of the Named Executive Officers during the fiscal year ended September 30, 2008.

<u>Name</u>	<u>Securities Under Options Granted (#) (1)</u>	<u>% of Total Options Granted in Fiscal Year(2)</u>	<u>Exercise or Base Price (\$/Common Share)</u>	<u>Market Value of Securities Underlying Options on the Date Immediately Preceding the Date of Grant (\$/Common Share)</u>	<u>Expiration Date</u>
Frank DiCosmo	100,000	13%	2.79	2.79	March 31, 2013
William Jackson	75,000	10%	2.79	2.79	March 31, 2013
Valerio DiTizio	75,000	10%	2.79	2.79	March 31, 2013
Francis Lindayen	100,000	13%	3.29	3.29	September 30, 2012
	75,000	10%	2.79	2.79	March 31, 2013

Notes:

- (1) Pursuant to the Corporation's Stock Option Plan, on October 15, 2008, Mr. Hobbes was granted options to acquire 100,000 Common Shares.
- (2) Based on options to acquire a total of 755,000 Common Shares granted to the Corporation's directors, officers, consultants and employees during fiscal 2008.

Aggregated Option Exercises During the Fiscal Year Ended September 30, 2008

The above Named Executive Officers made the following exercise of options during the fiscal year ended September 30, 2008:

<u>Name</u>	<u>Securities Acquired on Exercise</u>	<u>Aggregate Value Realized</u>	<u>Unexercised Options at fiscal year end Exercisable/Unexercisable</u>	<u>Value of Unexercised In-The-Money Options at fiscal year end Exercisable/Unexercisable (1)</u>
Frank DiCosmo	--	--	1,054,166 / 108,334	440,029 / --
William Jackson	186,141	\$340,638	424,484 / 84,375	111,930 / --
Valerio DiTizio	50,000	\$142,500	232,500 / 62,500	123,614 / --
Francis Lindayen	--	--	100,000 / 75,000	--

Equity Compensation Plan Information as of the Fiscal Year Ended September 30, 2008

<u>Plan Category</u>	<u>Number of Securities to be issued upon exercise of outstanding options (a)</u>	<u>Weighted-average exercise price of outstanding options (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</u>
Equity compensation plans approved by securityholders	3,688,175	\$ 1.14	3,742,216
Equity compensation plans not approved by securityholders	--	--	--
Total	3,688,175	\$ 1.14	3,742,216

Notes:

- (1) Pursuant to the Corporation's 2007 Stock Option Plan, the maximum aggregate number of Common Shares which may be subject to options is 10% of the shares outstanding from time to time.

Employment Contracts

Frank DiCosmo performs his duties as the Corporation's President and Chief Executive Officer pursuant to a services agreement made as of August 1, 2008. Dr. DiCosmo's services agreement has an initial one year term which renews automatically for successive one year terms unless terminated in accordance with its terms. In the event that Dr. DiCosmo's services agreement is terminated by the Corporation without cause or terminated by Dr. DiCosmo on account of a breach by the Corporation, Dr. DiCosmo is entitled to receive an amount equal to his annual fee, together with any accrued bonus, and a termination payment as specified therein. Pursuant to the Corporation's stock option plan, options terminate on the earlier of the date of expiration of the Option Period (as defined therein) and the 90th day after termination.

William Jackson performs his duties as the Corporation's Chief Business Officer pursuant to a services agreement made as of August 1, 2008. Mr. Jackson's services agreement has an initial one year term which renews automatically for successive one year terms unless terminated in accordance with its terms. In the event that Mr. Jackson's services agreement is terminated by the Corporation without cause or terminated by Mr. Jackson on account of a breach by the Corporation, Mr. Jackson is entitled to receive an amount equal to his annual fee, together with any accrued bonus. Pursuant to the Corporation's stock option plan, options terminate on the earlier of the date of expiration of the Option Period (as defined therein) and the 90th day after termination.

Francis Lindayen was the Corporation's Chief Financial Officer from December 17, 2007 until September 29, 2008. His 175,000 options were unexercised, and expired 90 days after his resignation from the Corporation. He received \$25,000 in severance payments.

Composition of the Compensation Committee

As of January 28th, 2009 and including the fiscal year ended September 30, 2008, the Corporation's Compensation Committee consists of Bradford J. Williams, Committee Chair, Martin C. Bernholtz and Joe Cordiano, each of whom is an independent director within the meaning of the applicable securities laws.

REPORT ON EXECUTIVE COMPENSATION

Role of the Compensation Committee

The Compensation Committee is responsible for annually reviewing the Corporation's compensation philosophy and policy that rewards the creation of shareholder value and reflects an appropriate balance between short and long term performance. It is important to the Corporation to ensure it is capable of attracting, motivating and retaining individuals who will ensure the long-term success of the Corporation. The Compensation Committee has contracted to receive advice from an internationally recognized independent compensation consultant.

The Compensation Committee has the responsibility of: negotiating the Senior Executive Officers' (defined below) total compensation plan; reviewing and advising on stock option guidelines, including making recommendations on specific option grants in excess of CEO/CFO authorization levels; and to review and communicate to the Board of Directors the compensation policy and principles that will be applied to other executives and employees of the Corporation.

Compensation Philosophy

All employees of the Corporation receive compensation based on market value for the type of role they perform. Additional consideration is given to internal pay equity and performance. The compensation payable to employees consists of three main elements: base salary, short term incentives and options granted as long term incentives.

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 retained the services of compensation consultants who are responsible for gathering information on compensation practices. Base salaries are reviewed annually and adjusted appropriately to reflect individual performance and market changes.

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 Chief Executive Officer on an annual basis for review by the Compensation Committee, and if approved, are recommended for approval by the Board of Directors.

The Corporation paid out bonuses to executives and employees totalling \$84,450 in respect of the year ended September 30, 2008.

Long Term Incentives

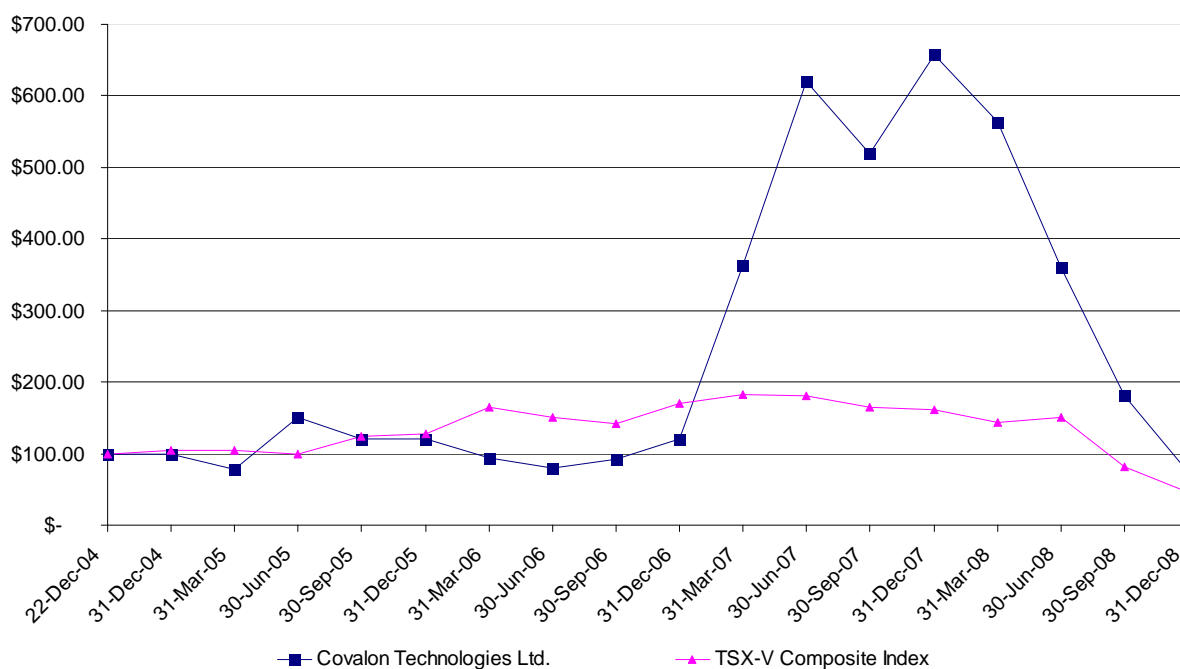
The Corporation's stock option plan provides directors, officers and employees and consultants of the Corporation the opportunity to participate in the plan, at the discretion of the Board of Directors.

Compensation of Senior Executive Officers

The base salaries of the Corporation's Senior Executive Officers, namely Frank DiCosmo, William Jackson, Valerio DiTizio, Sonia Sanhueza and Peter Hobbes, are targeted at a level consistent with the base salaries paid to senior executive officers in the Canadian biotechnology market. The total compensation of the Corporation's Senior Executive Officers is determined in accordance with the same above-described guidelines developed for all executives and employees of the Corporation.

Performance Graph

The following graph illustrates changes over the period from December 22, 2004 to December 31, 2008, in cumulative total shareholder return assuming that Cdn. \$100 was invested on December 22, 2004 (with any dividends re-invested) in Common Shares of the Corporation as compared with the TSX Venture Composite Index.



Note: Assumes dividends are reinvested on the ex-dividend date.

Compensation of Directors

Each of the Corporation's directors who is not one of the Corporation's full-time employees or of one of its subsidiaries or a nominee of a shareholder who has requested and received a right to representation on the Board of Directors is remunerated (exclusive of, and in addition to, payments on account of travelling and other out-of-pocket expenses) at the rate of \$3,000 per quarter, as well as \$1,000 per quarter for each committee served, \$500 per quarter for each committee chaired, and a \$1,000 fee for board meetings attended. In addition, Bradford Williams receives \$60,000 per year for serving as the Corporation's Chairman. Abe Schwartz declined to receive cash compensation for his services to the Board of Directors. On March 31, 2008, each of the independent directors was granted 50,000 options to purchase common shares at an exercise price of \$2.79, expiring March 31, 2013.

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 respective directors and officers, which has an annual aggregate policy limit of \$5,000,000, subject to deductibles as follows:

- \$50,000 each Employment practices claim;
- \$50,000 each Securities claim;
- \$50,000 for each claim other than Securities or Employment 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 was effective June 2008 for a period of 12 months with terms and premiums to be established on each renewal. The premium for this policy is \$31,860 one year, prepaid.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Board of Directors 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 of Directors 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.

The Corporation's approach to corporate governance based on the Corporate Governance Guidelines of the Canadian Securities Administrators Requirements 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

As of January 28th, 2009 and including the fiscal year ended September 30, 2008, the Audit Committee consisted of Martin Bernholtz, Committee Chair, Abe Schwartz and Bradford Williams, all of whom are financially literate and independent within the meaning of National Instrument 52-110 – Audit Committees.

Relevant Education and Experience

Please see "Election of Directors" for details on Messrs. Bernholtz and Williams.

Abe Schwartz is President of Schwartz Technologies Corporation which assists in the development of emerging growth technology companies. Mr. Schwartz has over 30 years of experience building successful technology companies. His expertise includes technology development, product launches, R&D licensing, international distribution agreements, capital financing and negotiating mergers and acquisitions.

External Auditor Service Fees

Audit Fees

Audit fees payable to BDO Dunwoody LLP in 2008 and 2007 were:

	<i><u>Year Ended</u></i> <i><u>September 30, 2007</u></i>	<i><u>Year Ended</u></i> <i><u>September 30, 2008</u></i>
<i>Audit Fees</i>	\$79,000	\$105,150

Audit-Related Fees

Audit-related fees payable to BDO Dunwoody LLP in 2008 and 2007 were:

	<u><i>Year Ended September 30, 2007</i></u>	<u><i>Year Ended September 30, 2008</i></u>
<i>Audit-Related Fees</i>	\$8,700	\$30,790

Tax Fees

Tax fees payable to BDO Dunwoody LLP in 2008 and 2007 were:

	<u><i>Year Ended September 30, 2007</i></u>	<u><i>Year Ended September 30, 2008</i></u>
<i>Tax Fees</i>	\$11,370	\$11,415

All Other Fees

All other fees payable to BDO Dunwoody LLP in 2008 and 2007 were:

	<u><i>Year Ended September 30, 2007</i></u>	<u><i>Year Ended September 30, 2008</i></u>
<i>Other Fees</i>	--	--

INDEBTEDNESS OF DIRECTORS AND OFFICERS

No individual who is, or at any time during the most recent completed fiscal year of the Corporation was, a director or officer of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate of any one of them is, or at any time since the beginning of the most recent 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 during the most recent 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.

INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There are currently and were no material transactions within the last fiscal year in which any director, or 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.

MANAGEMENT CONTRACTS

During the fiscal year ended September 30, 2008, the Corporation paid management fees totaling \$619,013 to two corporations controlled by officers and directors. Included in management fees are stock option benefits that have been valued at \$248,680. The management fees are paid pursuant to two separate management agreements, expiring September 30, 2008. Please see Employment Contracts for further detail.

ADDITIONAL INFORMATION

All matters referred to in this Circular for approval by Shareholders require a simple majority of the votes cast at the Meeting, whether in person or by proxy. 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. **Further financial information is provided in the Corporation's comparative financial statements for the fiscal year ended September 30, 2008 and related management's discussion and analysis of results, which has been filed on SEDAR.** Shareholders may also contact the Secretary of the Corporation by phone at 905-586-8400 ext.246, or by e-mail at 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 auditors, 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) this Circular.

GENERAL

The Board of Directors of the Corporation has approved the contents and the sending of this 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 auditors.

DATED January 28th, 2009.

"Rosemary Siblall"

Rosemary Siblall
Secretary

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

“BE IT RESOLVED THAT:

1. the Corporation’s 2007 Stock Option Plan, a copy of which is attached hereto 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 one director or any one officer of the Corporation may be necessary or desirable in order to give effect to continuance of the Corporation’s 2007 Stock Option Plan.”

EXHIBIT "A"

2007 Stock Option Plan

1. The Plan

A Stock Option Plan (the "Plan" or "Option Plan") pursuant to which options to purchase common shares ("Shares") in the capital of COVALON TECHNOLOGIES LTD. (the "Corporation") may be granted to the directors, officers, employees and consultants of the Corporation and its subsidiaries, and to persons providing ongoing management or consulting services to the Corporation, is hereby established on the terms set forth below.

2. Purpose

The purpose of this Plan is to advance the interests of the Corporation by encouraging the directors, officers and employees of the Corporation and consultants retained by the Corporation to acquire Shares, thereby (i) increasing the proprietary interests of such persons in the Corporation, (ii) aligning the interests of such persons with the interests of the Corporation's shareholders generally, (iii) encouraging such persons to remain associated with the Corporation, and (iv) furnishing such persons with additional incentive in their efforts on behalf of the Corporation.

3. Administration

- (a) This Plan shall be administered by the board of directors of the Corporation (the "Board").
- (b) Subject to the terms and conditions set forth herein, the Board is authorized to provide for the granting, exercise and method of exercise of Options (as hereinafter defined), all on such terms (which may vary between Options) as it shall determine. In addition, the Board shall have the authority to: (i) construe and interpret this Plan and all option agreements entered into hereunder, (ii) prescribe, amend and rescind rules and regulations relating to this Plan, except where shareholder approval is required under applicable rules of any stock exchange, and (iii) make all other determinations necessary or advisable for the administration of this Plan. All determinations and interpretations made by the Board shall be binding on all Participants (as hereinafter defined) and on their heirs, executors, administrators, legal personal representatives and beneficiaries.
- (c) Notwithstanding the foregoing or any other provision contained herein, the Board shall have the right to delegate the administration and operation of this Plan, in whole or in part, to a committee of the Board or to the President or any other officer of the Corporation. Whenever used herein, the term "Board" shall be deemed to include any committee or officer to which the Board has, fully or partially, delegated the administration and operation of this Plan pursuant to this Section 3.
- (d) Options to purchase the Shares granted hereunder ("Options") shall be evidenced by an agreement, signed on behalf of the Corporation and by the person to whom Options are granted, which agreement shall be in such form as the Board shall approve from time to time.

4. Shares Subject to Plan

- (a) The securities that may be acquired by Participants (as defined below) under this Plan shall consist of authorized but unissued Shares. Whenever used herein, the term "Shares" shall be deemed to include any other securities that may be acquired by a Participant upon the exercise of Options, the terms of which have been modified in accordance with Section 14 below.

- (b) The Corporation may grant stock options to purchase up to an aggregate of 10% of the Corporation's issued and outstanding share capital. Options may be awarded for a period of up to 5 years, are non-assignable (subject to Section 6 below) and automatically terminate within 90 days of a director ceasing to be a director of the Corporation or an employee ceasing to remain employed with the Corporation. The exercise price of Options granted pursuant to this Plan is not to be less than the closing price of the Corporation's shares on the TSX Venture Exchange on the day prior to the date they are awarded less any discount in exercise price as permitted by the policies of the TSX Venture Exchange.
- (c) If any Options granted under this Plan shall expire or terminate for any reason without having been exercised in full, any unpurchased Shares to which such Options relate shall be available for the purposes of granting of Options under this Plan.

5. Maintenance of Sufficient Capital

The Corporation shall at all times during the term of this Plan ensure that the number of Shares it is authorized to issue shall be sufficient to satisfy the requirements of this Plan.

6. Eligibility and Participation

The Board may, in its discretion, select any of the following persons to participate in this Plan:

- (a) Directors of the Corporation;
- (b) Officers of the Corporation;
- (c) Employees of the Corporation;
- (d) Consultants retained by the Corporation, provided such consultants have performed and continue to perform services for the Corporation on an ongoing basis or are expected to provide a service of considerable value to the Corporation; and
- (e) Persons employed to provide investor relations services.

Any such person having been selected for participation in this Plan by the Board is herein referred to as a "Participant" and shall be a bona fide Participant in one of the above categories for the purposes of this Plan. Any Participant may assign his Options to a corporation wholly-owned by such Participant or a registered retirement savings plan or registered retirement income fund established by and where the sole beneficiary is such Participant.

The Board may, from time to time, in its discretion, grant an Option to any Participant, upon such terms, conditions and limitations as the Board may determine, including the terms, conditions and limitations set forth herein, provided that the Options granted to any Participant shall be approved, either before or after the date of such grant of Options, by the shareholders of the Corporation if the rules of any stock exchange on which the Shares are listed require such approval.

For Options granted to employees, consultants or management company employees, the Corporation represents that the Participant is a bona fide employee, consultant or management company employee, as the case may be.

7. Exercise Price

The Board shall, at the time an Option is granted under this Plan, fix the exercise price at which Shares may be acquired upon the exercise of such Option. Such exercise price shall not be less than the closing price of the Corporation's shares on the TSX Venture Exchange on the day prior to the date they are awarded less any discount

in exercise price as permitted by the policies of the TSX Venture Exchange. Unless exempt from the following condition by the TSX Venture Exchange, in the event there is any reduction in the exercise price, disinterested shareholder approval will be required if the Participant is an insider of the Corporation.

8. Number of Optioned Shares

The number of Shares that may be acquired under Options granted to a Participant shall be determined by the Board as at the time the Options are granted, provided that the aggregate number of Shares reserved for issuance to any one Participant under this Plan or any other Plan of the Corporation, shall not exceed:

- (a) Five percent (5%) of the total number of issued and outstanding Shares (determined at the date the Options were granted and calculated on a non-diluted basis) to any one individual in a twelve (12) month period, unless the Corporation is a Tier 1 issuer (as defined by the TSX Venture Exchange and has obtained the requisite disinterested shareholder approval);
- (b) Two percent (2%) of the total number of issued and outstanding Shares (determined at the date the Options were granted and calculated on a non-diluted basis) to any one consultant in a twelve (12) month period;
- (c) Two percent (2%) of the total number of issued and outstanding Shares (determined at the date the Options were granted and calculated on a non-diluted basis) to persons employed to provide investor relations services in any twelve (12) month period, the options for which shall vest at a minimum of 25% in any twelve (12) month period;

unless the Corporation receives the permission of the TSX Venture Exchange to exceed such threshold and disinterested shareholder approval, if applicable.

9. Term

The period during which an Option may be exercised (the "Option Period") shall be determined by the Board at the time the Option is granted, subject to any vesting limitations which may be imposed by the Board at the time such Option is granted, provided that:

- (a) If the Corporation is a Tier 2 issuer (as defined by the TSX Venture Exchange), no Option shall be exercisable for a period exceeding five (5) years from the date the Option is granted and if the Corporation is a Tier 1 issuer (as defined by the TSX Venture Exchange), no Option shall be exercisable for a period exceeding ten (10) years from the date the Option is granted;
- (b) The Option Period shall be automatically reduced in accordance with Sections 11 and 12 below upon the occurrence of any of the events referred to therein; and
- (c) No Option in respect of which shareholder approval is required under the rules of any stock exchange(s) on which the Shares are listed shall be exercisable until such time as the Option has been approved by the shareholders of the Corporation.

10. Method of Exercise of Options

- (a) Except as set forth in Sections 11 and 12 below, no Options may be exercised unless the holder of such Options or his permitted assignee under this Plan is, at the time the Options are exercised, a director, officer, employee or consultant of the Corporation;
- (b) Options may be exercised in whole or in part (but in any event, no fractional Shares shall be distributed);

- (c) Any participant (or their heirs, executors, administrators and legal personal representatives) wishing to exercise Options shall deliver to the Corporation, at its principal office:
 - (i) A written notice expressing the intention of such Participant (or his heirs, executors, administrators and legal personal representatives) to exercise his Options and specifying the number of Shares in respect of which the Options are exercised; and
 - (ii) A cash payment, by certified cheque or bank draft or wire transfer, representing the full purchase price of the Shares in respect of which the Options are exercised.
- (d) Upon the exercise of Options as aforesaid, the Corporation shall deliver, or cause the registrar and transfer agent of the Shares to deliver, to the relevant Participant (or his heirs, executors, administrators and legal personal representatives) or to the order thereof, a certificate representing the aggregate number of fully paid and non-assessable Shares as the Participant (or his heirs, executors, administrators and legal personal representatives) shall have then paid for.

11. Ceasing to be a Director, Officer, Employee or Consultant

If any Participant who is a director, officer, employee or consultant of the Corporation shall cease to be a director, officer, employee or consultant of the Corporation for any reason other than death, permanent disability or normal retirement, his Options will terminate at 5:00 p.m. Toronto time on the earlier of the date of the expiration of the Option Period and the ninetieth (90th) day after the date such Participant ceases to be a director, officer, employee or consultant of the Corporation, provided that the Board may extend the expiry date of such Options with any necessary consent of any stock exchange or exchanges on which the Shares are then listed.

If any Participant who is engaged in providing investor relations services to the Corporation ceases to be retained by the Corporation for any reason other than death, permanent disability or normal retirement, his Options will terminate at 5:00 p.m. Toronto time on the earlier of the date of the expiration of the Option Period and the thirtieth (30th) day after the date such Participant ceases to be retained by the Corporation, provided that the Board may extend the expiry date of such Options with any necessary consent of the stock exchange(s) on which the Shares are then listed.

Neither the selection of any person as a Participant nor the granting of an Option to any Participant under this Plan shall (i) confer upon such Participant any right to continue as a director, officer, employee or consultant of the Corporation, as the case may be, or (ii) be construed as a guarantee that the Participant will continue as a director, officer, employee or consultant of the Corporation, as the case may be.

12. Death, Permanent Disability or Normal Retirement of a Participant

In the event of the death, permanent disability or normal retirement of a Participant, any Options previously granted to such person shall be exercisable until the earlier of (i) the end of the Option Period; or (ii) until the expiration of ninety (90) days from the date of the normal retirement of such Participant, or one (1) year from the date of the death or permanent disability of such Participant, and then, in the event of death or permanent disability, only:

- (a) by the person or persons to whom the Participant's rights under the Options shall pass by the Participant's will or applicable law; and
- (b) to the extent that such person was entitled to exercise the Options as at the date of death or permanent disability.

13. Rights of Participants

No person entitled to exercise any Options granted under this Plan shall have any of the rights or privileges of a shareholder of the Corporation in respect of any Shares issuable upon exercise of such Options until such Shares have been paid for in full and issued to such person.

14. Adjustments

- (a) The number of Shares subject to the Plan shall be increased or decreased proportionately in the event of the subdivision or consolidation of the outstanding Shares of the Corporation, and in any such event a corresponding adjustment shall be made changing the number of Shares deliverable upon the exercise of any Options granted prior to such event without any change in the total price applicable to the unexercised portion of the Options, but with a corresponding adjustment in the price for each Share covered by each Option. In the event the Corporation proposes to amalgamate, merge by way of statutory plan of arrangement or other form of business combination, or consolidate with any other corporation (other than a wholly-owned subsidiary of the Corporation) or to liquidate, dissolve or wind-up, or in the event an offer to purchase the Shares of the Corporation or any part thereof shall be made to all holders of Shares of the Corporation, the Corporation shall have the right, upon written notice thereof to each Option holder, to require the exercise of the Options granted within the thirty (30) day period next following the date of such notice and to determine that upon the expiry of such thirty (30) day period, all rights of the Option holder to exercise same (to the extent not therefore exercised) shall *ipso facto* terminate and cease to have any further force or effect whatsoever.
- (b) Adjustments under this Section 14 shall be made by the Board, whose determination as to what adjustments shall be made, and the extent thereof, shall be final, binding and conclusive. No fractional Shares shall be issued under this Plan on any such adjustment.

15. Transferability

Except as specifically provided herein, all benefits, rights and Options accruing to any Participant in accordance with the terms and conditions of this Plan shall not be transferable or assignable. During the lifetime of a Participant, any Options granted hereunder may only be exercised by the Participant or a permitted assignee and in the event of the death or permanent disability of a Participant, by the person or persons to whom the Participant's rights under the Option pass by the Participant's will or applicable law.

16. Amendment and Termination of Plan

The Board may, at any time, suspend or terminate this Plan. The Board may also at any time amend or revise the terms of this Plan, subject to obtaining any necessary regulatory approval and any requisite shareholder approval.

17. Necessary Approvals

The obligation of the Corporation to issue and deliver Shares in accordance with this Plan is subject to applicable securities legislation and to the receipt of any approvals that may be required from any regulatory authority or stock exchange having jurisdiction over the securities of the Corporation. If Shares cannot be issued to a Participant upon the exercise of Options for any reason whatsoever, the obligation of the Corporation to issue such Shares shall terminate and any funds paid to the Corporation in connection with the exercise of such Options will be returned to the relevant Participant as soon as practicable.

18. Stock Exchange Rules

This Plan and any option agreements entered into hereunder shall comply with the requirements of the stock exchange or exchanges on which the Shares are listed, including any requirements with respect to the vesting of Options.

19. Gender

Whenever used herein words importing the masculine gender shall include the all genders.

20. Interpretation

This Plan will be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws applicable therein, without reference to conflict of laws principles.

APPENDIX B

CANADIAN SECURITIES ADMINISTRATORS REQUIREMENTS

Statement of Corporate Governance Practices

The board of directors (the “Board of Directors” or the “Board”) of Covalon Technologies Ltd. (the “Corporation”) and the Corporation believe 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 of Directors 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 entitled “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 entitled “Disclosure of Corporate Governance Practices” (“NI 58-101”) requires that if management of an issuer solicits proxies from its securityholders for the purpose of electing directors, specified disclosure of the 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 of Directors 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

For the fiscal year ended September 30, 2008, the Board of Directors was comprised of five members. A majority of whom directors were independent within the meaning of National Instrument 58-101 - Disclosure of Corporate Governance Practices (“NI 58-101”), namely Martin C. Bernholtz, Joe Cordiano and Bradford J. Williams. Going forward the Board will be comprised of five members, a majority of whom will also be independent within the meaning of NI 58-101, namely Martin C. Bernholtz, Joe Cordiano, Bradford J. Williams and David McFaul. Frank DiCosmo is the only director that is not independent as he is the President and Chief Executive Officer of the Corporation. The Board holds regularly scheduled meetings.

The role of the Corporation’s 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 of Directors works together as a cohesive team with open communication; 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 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, 2008, the Board of Directors held three meetings.

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

Director Name	Directorships with Other Reporting Issuers
Martin Bernholtz	PowerComm Inc. (PCG-TSX) RYM Capital Corp. (RYM.P-TSXV) Selectcore (SCG-TSXV) Titan Medical Inc. (TMD-TSXV)
Joseph Cordiano	DXStorm.Com Inc. (DXX-TSXV)

Position Descriptions

Written position descriptions have been developed by the Board of Directors for the Chairman of the Board of Directors and the lead director. Written mandates have also been developed for each of the Board's committees. The Board, together with the Chief Executive Officer, has also developed a written position description for the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Chief Business Officer and the Chief Scientific Officer.

Orientation and Continuing Education

The measures that the Board of Directors 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 of Directors from time to time regarding same.

Code of Business Conduct and Ethics

The Board of Directors 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 Chief Executive Officer or other appropriate person of any non-compliance with the Code.

The Board of Directors 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 Corporation's Chief Executive Officer or other appropriate person, 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; implementing a disclosure policy and an insider trading policy; 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.

Committees of Directors

Our board of directors has three committees: an audit committee (the “**Audit Committee**”); a compensation committee (the “**Compensation Committee**”); and a corporate governance committee and nominating committee (the “**Corporate Governance and Nominating Committee**”), all of which are comprised entirely of independent directors.

Audit Committee

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 (i) the integrity of the financial statements of the Corporation, (ii) compliance by the Corporation with legal and regulatory requirements related to financial reporting, (iii) the performance of the Corporation’s independent auditors, and (iv) 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 its 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 auditors are 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 its 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.

As of January 28th, 2009 and including the fiscal year ended September 30, 2008, the Audit Committee consisted of Messrs. Bernholtz (Committee Chair), Schwartz and Williams, each of whom is an independent director within the meaning of the applicable securities laws. The Audit Committee met on January 12 and January 23, 2009 to review the audited financial statements for the fiscal year ended September 30, 2008, with all members in attendance, as well as a representative of the auditor, BDO Dunwoody LLP, present by invitation.

Compensation

The Board of Directors, together with its Compensation Committee, determines appropriate compensation for the Corporation’s directors and executive officers. As at January 28, 2009, and including the fiscal year ended September 30, 2008, the Compensation Committee included Messrs. Williams, Committee Chair, Bernholtz, and Cordiano, each of whom is an independent director within the meaning of the applicable securities laws. The Compensation Committee met twice 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 Chief Executive Officer. The Compensation Committee also considers and approves the recommendations of the Chief Executive Officer regarding the total compensation packages of the Chief Financial Officer and the Chief Operating 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 committee to weight factors and target levels in determining executive compensation.

Nomination of Directors

The Board of Directors, together with its Corporate Governance and Nominating Committee, is responsible for identifying new candidates for nomination to the Board. As at January 28, 2009, and including the fiscal year ended September 30, 2008, the Corporate Governance and Nominating Committee consisted of Messrs. Schwartz (Committee Chair), Bernholtz and Williams, each of whom is an independent director within the meaning of the applicable securities laws. In carrying out its mandate, the Corporate Governance and Nominating Committee met once since the date of the last annual and special meeting of the Corporation, and all of the members at that time were in attendance. 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 qualification and 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 of Directors and the Corporate Governance and Nominating Committee; assisting the Chairman of the Board of Directors and the lead director in carrying out their respective 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 of Directors 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 of Directors to meet on a regular basis without management present; assisting the Board of Directors by identifying individuals qualified to become Board members and members of Board committees; leading the Board of Directors in its annual review of the Board's performance; and assisting the Board of Directors in monitoring compliance by the Corporation with legal and regulatory requirements.

Board Assessments

The Board of Directors, its committees and its individual directors are assessed regularly, on at least 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 its Corporate Governance and Nominating Committee, which are distributed to each director and/or committee member for review and completion each year. In addition, the lead director and the Chair of each committee encourages discussion amongst the Board or the committee, as the case may be, as to their evaluation of their own effectiveness over the course of the year. All directors and/or committee members are free to make suggestions for improvement of the practice 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 will include member's contribution, qualification as independent, as well as consideration of diversity, age, skills and experience in the context of the needs of the board.

APPENDIX B

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 Company and the audits of its financial statements, and thereby assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) compliance by the Company with legal and regulatory requirements related to financial reporting, (3) the performance of the Company's independent auditors, and (4) performance of the Company'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 Company, 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 Company, 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 Company, its auditors and its legal advisors.

The Company's independent auditor is ultimately accountable to the Board of Directors and to the Audit Committee, who, as representatives of the Company'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 Company's independent auditors, Board of Directors and Company 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 Company'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, each of whom is affirmatively confirmed as independent by the Board of Directors, with such affirmation disclosed in the Company'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 independence and financial literacy requirements of The Toronto Stock Exchange and the requirements of such other securities exchange or quotations system or regulatory agency as may from time to time apply to the Company.
- A member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other Board committee, accept any consulting, advisory, or other compensatory fee from the Company, and may not be an affiliated person of the Company or any subsidiary thereof.

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 quarterly, 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 Company'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 Company'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 Company'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 Company;
 - 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 Company or an affiliate, is hired by the Company 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 Company, 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 Company, 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 Company'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 Company's audited financial statements and related notes;
 - The Company'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 Company'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 Company'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 Company.
 - 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 Company and industry accounting and regulatory financial reporting proposals that may have a significant impact on the Company'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 Company'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 Company's financial statements or accounting policies.
 - Review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company'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 Company'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 Company'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 Company's Corporate Treasury Policy.