

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.

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- (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.

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8. Number of Optioned Shares

- (a) 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:
- (i) 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 has obtained the requisite disinterested shareholder approval;
 - (ii) 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; or
 - (iii) 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.

- (b) 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 the insiders of the Corporation under this Plan or any other Plan of the Corporation, in any twelve (12) month period, shall not exceed ten percent (10%) of the total number of issued and outstanding Shares (determined at the date the Options were granted and calculated on a non-diluted basis), unless the Corporation has obtained the requisite disinterested shareholder approval.

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) No Option shall be exercisable for a period exceeding five (5) 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.

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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.

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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.

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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.