

# Corporate Governance Practices

## Statement of Corporate Governance Practices

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

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

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

## The Board of Directors

The Board is comprised of eight members, a majority of whom are independent within the meaning of NI 58-101, namely Martin C. Bernholtz, Joseph Cordiano, Jeffrey Mandel, Murray Miller, Ian Brindle, and Elinor Caplan. Brian Pedlar is not independent as he is a senior executive officer of the Corporation. Abe Schwartz is not independent as he owns more than 10% of the Common Shares. Abe Schwartz is the Chairman of the Board.

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

The Board holds regularly scheduled meetings. In addition, the independent directors meet regularly without management to review the business operations, corporate governance and financial results of the Corporation.

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

<b>Director Name</b>	<b>Directorships with Other Reporting Issuers</b>
Martin Bernholtz	PetroCorp Group Inc. (PCG.H-TSXV) RYM Capital Corp. (RYM.P-TSXV) Selectcore (SCG-TSXV) Titan Medical Inc. (TMD-TSXV) Loyalist Group Limited (LOY-TSXV)
Joseph Cordiano	DXStorm.Com Inc. (DXX-TSXV)
Jeffrey Mandel	Mitec Technologies Inc. (MTM-TSX)
Abe Schwartz	Mitec Technologies Inc. (MTM-TSX)

# Corporate Governance Practices

## Position Descriptions

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

## Orientation and Continuing Education

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

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

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

## Code of Business Conduct and Ethics

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

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

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

## Committees of Directors

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

# Corporate Governance Practices

## Compensation

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

## Nomination of Directors

The Board, together with the Corporate Governance and Nominating Committee, is responsible for identifying new candidates for nomination to the Board. The Corporate Governance and Nominating Committee consists of Messrs. Brindle (Committee Chair), Bernholtz, Mandel, Miller, Cordiano, and Mme. Caplan each of whom are independent directors within the meaning of applicable securities laws. The process by which the Board identifies new candidates is through recommendations of the Corporate Governance and Nominating Committee whose responsibility it is to establish procedures to identify new candidates based on corporate law and regulatory requirements as well as relevant education and experience related to the business of the Corporation.

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

## Board Assessments

The Board, its committees and its individual directors are assessed on an annual basis, as to their effectiveness and contribution. The process by which such assessments are made is through questionnaires developed by the Board and the Corporate Governance and Nominating Committee, which are distributed to each director and/or committee member for review and completion each year. In addition, the Chair of each committee encourages discussion among the Board or the committee, as the case may be, as to the evaluation of the Board's or committee's effectiveness over the course of the year. All directors and/or committee members are free to make suggestions for improvement of the practices of the Board and/or its committees at any time and are encouraged to do so.

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