

**COVALON TECHNOLOGIES INC.**

**DIRECTORS' CIRCULAR**

**recommending**

**ACCEPTANCE**

**of the Offer dated November 15, 2004 by**

**SEDER CAPITAL CORP.**

**to purchase all of the Common Shares, Convertible Debentures,  
Warrants, Series II Warrants and Options**

**of**

**Covalon Technologies Inc.**

The Board of Directors of Covalon Technologies Inc. unanimously recommends that Covalon Securityholders accept the Offer and tender their Common Shares, Convertible Debentures, Warrants, Series II Warrants and Options to the Offer prior to the Closing Date.

**Dated November 15, 2004**

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## DIRECTORS' CIRCULAR

This Directors' Circular is issued by the board of directors (the "Board of Directors") of Covalon Technologies Inc. ("Covalon") in connection with the offer (the "Offer") by Seder Capital Corp. ("Seder") to purchase all of the outstanding common shares ("Covalon Shares"), convertible debentures ("Covalon Convertible Debentures"), warrants ("Covalon Warrants"), series II warrants ("Covalon Series II Warrants") and options ("Covalon Options") (collectively, the "Covalon Securities") from the holders thereof (the "Covalon Securityholders"), upon the terms and subject to the conditions set forth in the Offer and the offering circular (collectively, the "Offering Circular") of Seder dated November 15, 2004. The Offer expires at 12:00 midnight (Toronto time) on December 20, 2004, unless withdrawn, varied or extended. Reference is made to the Offering Circular for, among other things, details of the terms of the Offer and details of the conditions of the Offer.

### RECOMMENDATION OF THE BOARD OF DIRECTORS

Having considered the terms of the Offer and the acquisition agreement dated November 5, 2004 between Covalon and Seder (the "Acquisition Agreement"), the advice of its advisors and additional matters, the Board of Directors consisting of Michael Aron, Frank DiCosmo, Gary German, William Jackson and Jacques Lemmetti has unanimously determined that the Offer is in the best interests of Covalon and the Covalon Securityholders and recommends that Covalon Securityholders accept the Offer.

**The Board of Directors of Covalon unanimously recommends that Covalon Securityholders  
ACCEPT this Offer and tender their Covalon Securities to the Offer.**

### REASONS FOR RECOMMENDATION

In reaching its decision to recommend acceptance of the Offer, the Board of Directors considered a number of factors, including the following:

1. the terms of the Acquisition Agreement and the negotiations respecting the same; and
2. the enhanced liquidity for the Covalon Securityholders because Seder is a public company whose shares are listed for trading on the TSX Venture Exchange.

**Notwithstanding the recommendation of the Board of Directors that Covalon Securityholders accept the Offer, Covalon Securityholders should make their own decision whether to tender their Covalon Securities to the Offer and, if appropriate, should consult their own financial or legal advisors in making that decision.**

### SECURITIES EXCHANGE AGREEMENTS

Following the entering into of the Acquisition Agreement, certain Covalon Securityholders agreed to deposit pursuant to the Offer and not withdraw, on certain terms and conditions, 4,655,371 Covalon Shares, \$1,012,059 principal amount of Covalon Convertible Debentures, 1,407,831 Covalon Warrants, 0 Covalon Series II Warrants and 350,000 Covalon Options, representing approximately 42.12% of the outstanding Covalon Shares, 75.69% of the outstanding principal amount of Covalon Convertible Debentures, 89.09% of the outstanding Covalon Warrants, 0% of the outstanding Covalon Series II Warrants and 21.15% of the outstanding Covalon Options, pursuant to agreements (the "Securities Exchange Agreements") with Seder and Covalon.

In addition, certain founding shareholders of Covalon and their principals have entered into a lock-up agreement with Seder (the "Founders' Lock-Up Agreement") with respect to 5,579,136 Covalon Shares, 127,318 Covalon Warrants and 1,170,000 Covalon Options, representing approximately 50.48% of the outstanding Covalon Shares, 8.06% of the outstanding Covalon Warrants and 70.69% of the outstanding Covalon Options. The same

founding shareholders of Covalon have entered into an escrow agreement (the “Founders’ Escrow Agreement”) with Seder and Equity Transfer Services Inc. with respect to the common shares of Seder to be received by the founding shareholders in exchange for 5,100,000 of their Covalon Shares pursuant to the Offer.

Accordingly, as of the date hereof, an aggregate of 10,234,507 Covalon Shares (92.61% of the outstanding Covalon Shares), \$1,012,059 principal amount of Covalon Convertible Debentures (75.69% of the outstanding principal amount of Covalon Convertible Debentures), 1,535,149 Covalon Warrants (97.15% of the outstanding Covalon Warrants), 0 Covalon Series II Warrants (0% of the outstanding Covalon Series II Warrants) and 1,520,000 Covalon Options (91.84% of the outstanding Covalon Options) have been irrevocably tendered to the Offer pursuant to the Securities Exchange Agreements and the Founders’ Lock-Up Agreement. Certain of the Covalon Options will be surrendered by the holders thereof prior to the Closing Date and will not form part of the Securities Exchange.

### OWNERSHIP OF COVALON SECURITIES

The names of the directors and senior officers of Covalon and the respective numbers and percentages of Covalon Securities beneficially owned, or over which control or direction is exercised, as at the date hereof, by each director and senior officer of Covalon and, to the knowledge of the directors and senior officers of Covalon after reasonable enquiry, each associate of a director or senior officer of Covalon, by any person or company who beneficially owns, directly or indirectly, more than 10% of the equity securities of Covalon and by any person or company acting jointly or in concert with Covalon, are as follows:

Name	Number of Covalon Shares (%)	Principal Amount of Covalon Convertible Debentures (\$) (%)	Number of Covalon Warrants (%)	Number of Covalon Series II Warrants (%)	Number of Covalon Options (%)
John R. Allan <sup>(1) (2)</sup>	2,245,610 (20.32%)	\$0 (0.00%)	0 (0.00%)	0 (0.00%)	0 (0.00%)
Michael Aron <sup>(3) (10)</sup>	62,500 (0.57%)	\$0 (0.00%)	12,500 (0.79%)	0 (0.00%)	50,000 (3.16%)
Frank DiCosmo <sup>(4) (5) (10)</sup>	2,522,482 (22.82%)	\$0 (0.00%)	130,155 (8.24%)	0 (0.00%)	500,000 (31.64%)
Valerio DiTizio <sup>(4) (6) (10)</sup>	2,366,390 (21.41%)	\$0 (0.00%)	110,780 (7.01%)	0 (0.00%)	250,000 (15.82%)
Gary German <sup>(7) (10)</sup>	31,250 (0.28%)	\$0 (0.00%)	6,250 (0.40%)	0 (0.00%)	150,000 (9.49%)
William Jackson <sup>(8) (9) (10)</sup>	430,319 (3.93%)	\$0 (0.00%)	5,000 (0.57%)	0 (0.00%)	150,000 (9.49%)
Jacques Lemmetti	0 (0.00%)	\$0 (0.00%)	0 (0.00%)	0 (0.00%)	0 (0.00%)
Smith, Vincent & Co. Ltd.	1,730,001 (15.65%)	\$0 (0.00%)	615,385 (38.94%)	0 (0.00%)	0 (0.00%)

#### Notes:

- (1) John R. Allan and his spouse are the sole shareholders of Durimport Marine Limited which owns 2,215,610 Covalon Shares.
- (2) John R. Allan owns 30,000 Covalon Shares directly.

- (3) Michael Aron owns or controls 62,500 Covalon Shares and 12,500 Covalon Warrants through The Global Thinking Partnership. Mr. Aron also holds 50,000 Covalon Options directly.
- (4) Frank DiCosmo, Valerio DiTizio and three other individuals are the sole shareholders of Bidel Systems Inc. which owns 2,326,390 Covalon Shares and 110,780 Covalon Warrants.
- (5) Frank DiCosmo and his spouse own 105,183 Covalon Shares and 19,375 Covalon Warrants directly. Dr. DiCosmo and his spouse are the sole shareholders of 1346036 Ontario Inc. which owns 90,909 Covalon Shares. Dr. DiCosmo also holds 500,000 Covalon Options directly.
- (6) Valerio DiTizio owns 40,000 Covalon Shares directly. Dr. DiTizio also holds 250,000 Covalon Options directly.
- (7) Gary German owns or controls 31,250 Covalon Shares, 6,250 Covalon Warrants and 100,000 Covalon Options through Resource Management Services Inc. Mr. German also holds 50,000 Covalon Options directly.
- (8) William Jackson is the sole shareholder of 638324 Ontario Inc. and 948284 Ontario Inc. which own 90,909 and 339,410 Covalon Shares respectively. 948284 Ontario Inc. also holds 5,000 Covalon Warrants.
- (9) Mr. Jackson holds 150,000 Covalon Options directly.
- (10) All options held by officers and directors will be surrendered for cancellation prior to the closing of the Offer.

### **INTENTIONS WITH RESPECT TO THE OFFER**

To the knowledge of the directors and senior officers of Covalon, after reasonable inquiry, the directors and senior officers of Covalon, and the persons and companies beneficially owning, directly or indirectly, more than 10% of the equity securities of Covalon and, their respective associates and any person or company acting jointly or in concert with Covalon, have accepted, or intend to accept, the Offer in respect of all of the Covalon Securities that such persons beneficially own, directly or indirectly, or over which such persons may exercise control of direction. See "Securities Exchange Agreements".

### **OWNERSHIP OF SECURITIES OF SEDER**

None of Covalon, the directors or senior officers of Covalon or, to the knowledge of the directors and senior officers of Covalon, after reasonable enquiry, any associate of a director or senior officer of Covalon, any person or company who beneficially owns, directly or indirectly, more than 10% of the equity securities of Covalon, or any person or company acting jointly or in concert with Covalon, beneficially owns, directly or indirectly, or exercises control or direction over, any securities of Seder.

### **RELATIONSHIP BETWEEN SEDER AND THE DIRECTORS AND SENIOR OFFICERS OF COVALON**

Other than as set out below, there are no arrangements, agreements, commitments or understandings made, or proposed to be made, between Seder and any of the directors or senior officers of Covalon and no payments or other benefits are proposed to be made or given by Seder by way of compensation for loss of office or as to such directors or senior officers remaining in or retiring from office if the Offer is successful. Seder has agreed with Covalon that the officers of Covalon will become the officers of Seder and that in accordance with the terms of the Acquisition Agreement Covalon will propose a slate of directors for Seder that includes Michael Aron, Frank DiCosmo, Gary German, William Jackson, Jacques Lemmetti and G. Michael Newman. As at the date hereof, there are no directors or senior officers of Covalon who are also directors or senior officers of Seder. G. Michael Newman is currently a director and officer of Seder.

### **AGREEMENTS BETWEEN COVALON AND THE DIRECTORS AND SENIOR OFFICERS OF COVALON**

There are no arrangements, agreements, commitments or understandings made, or proposed to be made, between Covalon and any of its directors or senior officers pursuant to which a payment or other benefit is to be made or given by way of compensation for loss of office or as to their remaining in or retiring from office if the Offer is successful.

The directors and officers of Covalon have agreed to surrender all Covalon Options held by them and will be eligible to participate in Seder's option plan anticipated to be adopted following completion of the Offer.

**INTERESTS OF DIRECTORS, SENIOR OFFICERS AND OTHERS  
IN MATERIAL TRANSACTIONS WITH SEDER**

Other than the letter of intent dated September 15, 2004 between Seder and Covalon, the Acquisition Agreement, the Securities Exchange Agreements, the Founders' Lock-Up Agreement, the Founders' Escrow Agreement and the arrangements disclosed therein, none of the directors or senior officers of Covalon or their associates or to the knowledge of the directors and senior officers, after reasonable enquiry, any person or company who beneficially owns, directly or indirectly, more than 10% of the equity securities of Covalon have any interest in any material transaction to which Seder is a party.

**TRADING IN SECURITIES OF COVALON BY COVALON AND  
DIRECTORS AND SENIOR OFFICERS OF COVALON**

Neither Covalon nor any of the directors or senior officers of Covalon, nor, to the knowledge of such directors or senior officers of Covalon, after reasonable inquiry, any of the associates of such directors or senior officers of Covalon, any person or company beneficially owning, directly or indirectly, more than 10% of the equity securities of Covalon, or any person or company acting jointly or in concert with Covalon, has traded in any securities of Covalon during the six-month period preceding the date hereof except as disclosed below:

<b>Vendor or Issuer</b>	<b>Purchaser or Subscriber</b>	<b>Date of Issue or Trade</b>	<b>Description of Securities</b>	<b>Number of Securities</b>	<b>Issue Price or Price Per Security</b>
Covalon	9 Subscribers	May 14, 2004	Convertible Debentures	N/A	\$508,500
Covalon <sup>(1)</sup>	1 Subscriber	May 19, 2004	Common Shares	12,308	\$0.65
Covalon	7 Subscribers	June 15, 2004	Convertible Debentures	N/A	\$290,345
Covalon	19 Subscribers	August 1, 2004	Convertible Debentures	N/A	\$320,500
Covalon	21 Subscribers	August 20, 2004	Convertible Debentures	N/A	\$217,714
Covalon	4 Subscribers	September 20, 2004	Units <sup>(2)</sup>	146,078	\$0.65
Covalon <sup>(3)</sup>	Frank DiCosmo	November 10, 2004	Common Shares	90,909	\$0.66
Covalon <sup>(3)</sup>	William Jackson	November 10, 2004	Common Shares	90,909	\$0.66

**Notes:**

- (1) Common shares issued in lieu of cash to pay for research services.
- (2) Units consist of one common share and one-half of a common share purchase warrant, each whole common share purchase warrant entitling the holder to acquire one common share at an exercise price of \$0.80 per share on or prior to the earlier of five (5) years from the date of issue or eighteen (18) months after certain defined liquidity events.
- (3) Common shares were issued to companies associated with Dr. DiCosmo and Mr. Jackson in lieu of cash in respect of bonuses for the 2004 fiscal year.

No Covalon Shares, securities convertible into Covalon Shares, Covalon Warrants, Covalon Series II Warrants and Covalon Options have been issued to the directors or senior officers of Covalon during the two-year period preceding the date hereof, except as disclosed below:

<b>Name</b>	<b>Date Issued</b>	<b>Description of Securities</b>	<b>Number of Securities</b>	<b>Issue/Exercise Price per Security</b>
Frank DiCosmo	January 7, 2004	Units <sup>(1)</sup>	10,000	\$0.65
Frank DiCosmo <sup>(2)</sup>	November 10, 2004	Common Shares	90,909	\$0.66
William Jackson <sup>(2)</sup>	November 10, 2004	Common Shares	90,909	\$0.66

**Notes:**

- (1) Units consist of one common share and one common share purchase warrant, each whole common share purchase warrant entitling the holder to acquire one common share at an exercise price of \$0.80 per share on or prior to the earlier of December 10, 2005 or ninety (90) days after certain defined liquidity events. Dr. DiCosmo purchased the units pursuant to a rights offering made to all Covalon shareholders.
- (2) Common shares were issued to companies associated with Dr. DiCosmo and Mr. Jackson in lieu of cash in respect of bonuses for the 2004 fiscal year.

**OTHER TRANSACTIONS**

Except as otherwise described or referred to herein, Covalon has not entered into any transaction, agreement in principle or signed contract or passed any board resolution in response to the Offer, nor are there any negotiations underway in response to the Offer which relate to, or would result in, an extraordinary transaction such as a merger or reorganization involving Covalon, the purchase, sale or transfer of a material amount of assets by Covalon, an issuer bid for or other acquisition of securities by or of Covalon, or any material change in the present capitalization or dividend policy of Covalon.

**MATERIAL CHANGES IN THE AFFAIRS OF COVALON**

Except as otherwise described or referred to herein or in the Offering Circular, the directors and senior officers of Covalon are not aware of any information that indicates any material change in the affairs, financial position or prospects of Covalon since September 30, 2004, the date of the last annual financial statements of Covalon other than the Acquisition Agreement, the Securities Exchange Agreements, the Founders' Lock-up Agreement and the Founders' Escrow Agreement described herein.

There is no information or matter not disclosed in this Directors' Circular but known to the Board of Directors, or senior officers of Covalon, which would reasonably be expected to affect the decision of Covalon Securityholders to accept or reject the Offer.

**STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides Covalon Securityholders with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, if there is a misrepresentation in a circular or notice that is required to be delivered to such Covalon Securityholders. However, such rights must be exercised within prescribed time limits. Covalon Securityholders should refer to the applicable provisions of the securities legislation of their province for particulars of those rights or consult with a lawyer.

**APPROVAL OF DIRECTORS' CIRCULAR**

The contents of this Directors' Circular have been approved and the delivery thereof authorized by the Board of Directors.

**CERTIFICATE**

Dated: November 15, 2004

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

**COVALON TECHNOLOGIES INC.**

On behalf of the Board of Directors

*“Gary E. German”*  
GARY E. GERMAN  
Director and Chairman

*“Frank DiCosmo”*  
FRANK DICOSMO  
Director and Chief Executive Officer