



## NUVO RESEARCH INC.

### NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN** that the Annual and Special Meeting of Shareholders (the “**Meeting**”) of **NUVO RESEARCH INC.** (the “**Corporation**”) will be held on Wednesday, June 11, 2014 at 9:00 a.m. (ET) at TMX Broadcast Centre, The Exchange Tower, 130 King St. West, Toronto for the following purposes:

- (1) to receive the audited financial statements of the Corporation for the fiscal year ended December 31, 2013, together with the auditors’ report thereon;
- (2) to elect directors of the Corporation for the ensuing year;
- (3) to appoint auditors of the Corporation for the ensuing year and to authorize the directors to fix their remuneration;
- (4) to consider, and if thought advisable, to adopt, with or without variation, an ordinary resolution (the full text of which is reproduced as Schedule A to the accompanying Management Information Circular) affirming, ratifying and approving the Corporation’s share incentive plan and approving all unallocated options and unallocated common shares issuable thereunder;
- (5) to consider, and if thought advisable, to adopt, with or without variation, an ordinary resolution (the full text of which is reproduced as Schedule B to the accompanying Management Information Circular) affirming, ratifying and approving the Corporation’s By-Law Number 2 relating to advance notice provisions for the election of directors; and
- (6) to transact such other business as may properly be brought before the Meeting or any adjournment thereof.

DATED at Mississauga, Ontario this 30<sup>th</sup> day of April, 2014.

BY ORDER OF THE BOARD OF DIRECTORS

Daniel Chicoine  
Chairman and Co-CEO

Shareholders who are unable to attend the Meeting in person are entitled to be represented at the Meeting by proxy and are requested to complete, date, sign and return the enclosed form of proxy to the Transfer Agent of the Corporation, CST Trust Company, Proxy Department, P.O. Box 721, Agincourt, Ontario M1S 0A1, or by fax: 1-866-781-3111 or 416-368-2502, or by email: proxy@canstockta.com no later than 5:00 p.m. (ET), on Monday, June 9, 2014 or in the case of any adjournment of the Meeting, no later than 5:00 p.m. (ET), on the business day immediately preceding the date of such adjournment.



# NUVO RESEARCH INC.

## MANAGEMENT INFORMATION CIRCULAR

### SOLICITATION OF PROXIES

**This management information circular (the “Circular”) is furnished in connection with the solicitation of proxies by the management of Nuvo Research Inc. (the “Corporation”) for use at the Annual and Special Meeting of Shareholders of the Corporation (the “Meeting”) to be held on Wednesday, June 11, 2014 at 9:00 a.m. (ET) at TMX Broadcast Centre, The Exchange Tower, 130 King St. West, Toronto and at any adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Meeting.**

The Corporation will bear the cost of soliciting proxies. Proxies may be solicited by mail and the directors, officers or regular employees of the Corporation may solicit proxies personally, by telephone or by fax. **The solicitation of proxies by this Circular is being made by or on behalf of management of the Corporation.** None of these individuals will receive any extra compensation for such efforts. The Corporation will reimburse banks, trust companies, brokerage firms and other custodians, nominees and fiduciaries (“**Intermediaries**”) for any reasonable expenses incurred in sending proxy material to beneficial owners of shares and requesting authority to execute proxies. Proxy-related materials will be sent by the Corporation to Intermediaries and not directly to non-registered beneficial shareholders. The Corporation intends to pay for Intermediaries to deliver proxy-related materials and the Form 54-101F7 (the request for voting instructions) to “objecting beneficial owners”, in accordance with National Instrument 54-101.

Copies of the Corporation’s latest annual information form (together with the documents incorporated therein by reference), the comparative financial statements of the Corporation for the fiscal year ended December 31, 2013 together with the report of the auditors thereon, management’s discussion and analysis of the Corporation’s financial condition and results of operations for the fiscal year ended December 31, 2013, and this Circular are available upon request from the Corporation without charge to the security holder. The information contained herein is given as at April 30, 2014, except where otherwise noted.

### FORWARD LOOKING INFORMATION

Certain statements in this Circular constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include, but are not limited to, statements concerning the Advance Notice By-Laws (as more particularly described under the heading “Special Business” below), the Corporation’s future objectives, strategies to achieve those objectives, as well as statements with respect to management’s beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans” or “continue”, or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. The Corporation considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions that these assumptions regarding future events, many of which are beyond the control of the Corporation, may ultimately prove to be incorrect. Factors and risks, which could cause actual results to differ materially from current expectations, are discussed in the Corporation’s annual report and the Corporation’s Annual Information Form for the year ended December 31, 2013 and are also described from time to time in the other reports and disclosure documents filed by the Corporation on SEDAR at [www.sedar.com](http://www.sedar.com). The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information or future events, except as required by law. For additional information on risks and uncertainties relating to these forward looking statements, investors should consult the Corporation’s ongoing quarterly filings, annual report and Annual Information Form and other filings found on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPOINTMENT AND REVOCATION OF PROXIES

### Registered Holders

A registered shareholder is a shareholder who holds common shares of the Corporation (“**Common Shares**”) in his, her or its own name (that is, not in the name of, or through an Intermediary).

**A registered shareholder may attend the Meeting and cast one vote for each Common Share registered in the name of such registered shareholder on any and all resolutions put before the Meeting. A registered shareholder who is unable to attend the Meeting, or does not wish to personally cast his, her or its vote(s), may authorize another person at the Meeting to vote on his, her or its behalf. This is known as voting by proxy.** The form of proxy enclosed with the Circular may be used by registered shareholders to authorize another person to vote on their behalf at the Meeting.

The persons named in the form of proxy are directors and/or officers of the Corporation. A shareholder of the Corporation who wishes to appoint some other person to represent him, her or it at the Meeting may do so by striking out the names of the persons specified in the form of proxy and inserting the name of the person to be appointed in the blank space so provided.

To be valid, completed proxies must be delivered to the transfer agent of the Corporation, CST Trust Company, Proxy Department, P.O. Box 721, Agincourt, Ontario M1S 0A1, or by fax: 1-866-781-3111 or 416-368-2502, or by email: proxy@canstockta.com no later than 5:00 p.m. (ET) on Monday, June 9, 2014 or in the case of any adjournment of the Meeting, no later than 5:00 p.m. (ET) on the business day immediately preceding the date of such adjournment, or to the Chairperson of the meeting at any time prior to the commencement of the meeting or any adjournment thereof.

A registered shareholder who executes and returns a form of proxy may revoke it by depositing an instrument in writing executed by such shareholder or such shareholder’s attorney authorized in writing at the head office of the Corporation, 7560 Airport Road, Unit 10, Mississauga, Ontario, L4T 4H4, Attention: Daniel Chicoine, Chairman and Co-Chief Executive Officer, at any time up to and including the last business day preceding the Meeting or any adjournment thereof or by depositing such instrument in writing with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law.

### Non-Registered Holders

**Information set forth in this section is very important to persons who hold Common Shares other than in their own names.** Only registered holders of Common Shares, or the persons they appoint as their proxies, are permitted to attend and vote at the Meeting. However, in many cases, Common Shares beneficially owned by a holder (a “**Non-Registered Holder**”) are registered either:

- (a) in the name of an Intermediary that the Non-Registered Holder deals with in respect of the shares; or
- (b) in the name of a depository (a “**Depository**” such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant.

**Such Intermediary is the registered holder of the Non-Registered Holder’s Common Shares and is the entity legally entitled to vote these shares at the Meeting.** In order for a Non-Registered Holder to vote his, her or its Common Shares at the Meeting, they must carefully follow the procedures and instructions received from the Intermediary.

In accordance with the requirements of Canadian securities law, the Corporation has distributed copies of the Notice of Meeting, this Circular, the form of proxy and the Report to Shareholders for the fiscal year ended December 31, 2013 (collectively, the “**meeting materials**”) to Depositories and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward meeting materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the meeting

materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive meeting materials will either:

- (a) be given 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 but which is otherwise not completed. This form of proxy need not be signed by the Non-Registered Holder. In this case, the Non-Registered Holder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it with the Corporation c/o CST Trust Company, Proxy Department, P.O. Box 721, Agincourt, Ontario M1S 0A1, or by fax: 1-866-781-3111 or 416-368-2502, or by email: proxy@canstockta.com, as described above; or
- (b) more typically, be given a voting instruction form which must be completed and signed by the Non-Registered Holder and returned to the Intermediary in accordance with the directions on the voting instruction form (which may in some cases permit the completion of the voting instruction form by telephone or online).

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the Common Shares they beneficially own. Although Non-Registered Holders may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of an Intermediary, a Non-Registered Holder may attend the Meeting as proxy holder for the registered shareholder (i.e. the Intermediary) and vote their Common Shares in that capacity. A Non-Registered Holder who wishes to attend and vote at the Meeting in person and indirectly vote his or her Common Shares as proxy holder for the registered holder (or have another person attend and vote on behalf of the registered holder), should strike out the names of the persons named in the proxy and insert the name of the Non-Registered Holder in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on the form. ***In either case, Non-Registered Holders should carefully follow the instructions of their Intermediaries and their service companies.***

#### **VOTING AND EXERCISE OF DISCRETION BY PROXIES**

All properly executed forms of proxy, not previously revoked, will be voted or withheld from voting at the Meeting in accordance with the instructions contained therein on any ballot that may be called for. **Forms of proxy containing no instructions regarding the matters specified therein will be voted in favour of such matters. In the event, not presently anticipated, that any other matter is brought before the Meeting and is submitted to a vote, the form of proxy may be voted in accordance with the judgment of the persons named therein.** The form of proxy also confers discretionary authority in respect of amendments to or variations in all matters that may properly come before the Meeting.

#### **Record Date**

The board of directors of the Corporation (the “**Board**”) has fixed April 22, 2014 as the record date (the “**Record Date**”) for determining the shareholders entitled to receive notice of the Meeting and, accordingly, only shareholders of record on the Record Date are entitled to receive notice of and vote at the Meeting.

#### **Interest of Certain Persons in Matters to be Acted Upon**

Other than with respect to the election of directors and participation in the Corporation’s share incentive plan, none of the Corporation’s directors or senior officers, or any associate or controlled corporation of any such person has any direct or indirect material interest in any of the matters to be acted upon at the Meeting.

#### **VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

As of the Record Date, the Corporation had outstanding 10,239,619 Common Shares, each carrying one vote.

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

## BUSINESS TO BE TRANSACTED AT THE MEETING

### Financial Statements and Auditors' Report

Management, on behalf of the Board, will submit to the shareholders at the Meeting the audited consolidated financial statements of the Corporation for the fiscal year ended December 31, 2013, and the report of the auditors thereon, but no vote by the shareholders with respect thereto is required or proposed to be taken. The audited consolidated financial statements and Auditors' report form part of the Report to Shareholders for the fiscal year ended December 31, 2013 which is being mailed to those shareholders that have requested such materials with the Notice and this Circular and which is available at [www.sedar.com](http://www.sedar.com).

### Election of Directors

The Board has adopted a majority voting policy in director elections that will apply at any meeting of shareholders where an "uncontested election" of directors is held. Pursuant to this policy, if the number of proxy votes withheld for a particular director nominee is greater than the votes for such director, the director nominee will be required to submit his or her resignation to the Board. Following the receipt of a director's resignation, the Compensation, Corporate Governance and Nominating Committee will consider whether or not to accept the offer of resignation. With the exception of special circumstances, the Compensation, Corporate Governance and Nominating Committee will be expected to recommend that the Board accept the resignation. Within 90 days following the Corporation's meeting of shareholders, the Board will make its decision and disclose it by a press release, such press release to include the reasons for rejecting the resignation, if applicable. A director who tenders his or her resignation pursuant to this majority voting policy will not be permitted to participate in any meeting of the Board or the Compensation, Corporate Governance and Nominating Committee at which the resignation is considered. The Board adopted an individual director voting policy. Under this policy, shareholders will be asked to vote for each individual director rather than a slate of directors. The persons named in the enclosed form of proxy intend to vote for the election of each of the eight nominees to the Board whose names are set forth below. Management does not contemplate that any of the nominees will be unable to serve as a director; if that should occur for any reason at or 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 or until his successor is elected or appointed.

The following table sets forth the names of all persons proposed to be nominated by management for election as director, all positions and offices with the Corporation now held by them, if applicable, their principal occupations or employment, the point in time at which they became directors of the Corporation and the number of Common Shares and convertible securities of the Corporation beneficially owned, directly or indirectly, by each of them or over which each of them exercises control or direction as of April 30, 2014. In addition, the table sets forth the members of the Corporation's Compensation, Corporate Governance and Nominating Committee and Audit Committee.

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Number of Common Shares Beneficially Owned or Controlled</u>
Daniel Chicoine <sup>(5)</sup> Ontario, Canada	Chairman and Co-CEO	September 21, 2004	155,684
David A. Copeland <sup>(4, 7, 8, 9)</sup> Ontario, Canada	Private Investor and Business Consultant	September 21, 2004	20,379
Anthony E. Dobranowski <sup>(1, 3, 6)</sup> Ontario, Canada	Private Business Consultant	September 21, 2004	12,415
Dr. Henrich R.K. Guntermann Aachen, Germany	President, Europe and Immunology Group	September 21, 2004	8,085
Dr. Klaus von Lindeiner <sup>(1, 3)</sup> Munich, Germany	Private Business Consultant	September 21, 2004	1,538
John C. London <sup>(8)</sup> Ontario, Canada	President and Co-CEO	September 21, 2004	75,641
Dr. Jacques Messier <sup>(2)</sup> Ontario, Canada	CEO, The Toronto Humane Society	September 21, 2004	14

<u>Name and Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Number of Common Shares Beneficially Owned or Controlled</u>
Dr. Theodore H. Stanley <sup>(1)</sup> Utah, United States	Professor of Anesthesiology at the University of Utah	May 26, 2011	96,877

Notes:

- (1) Member of the Compensation, Corporate Governance and Nominating Committee.
- (2) Chairman of the Compensation, Corporate Governance and Nominating Committee.
- (3) Member of the Audit Committee.
- (4) Chairman of the Audit Committee.
- (5) Dan Chicoine was a director of NRI Industries Inc. (“NRI”), a company primarily involved in the manufacture of rubber and plastic components for automotive and industrial applications, until August 23, 2006, when he resigned. This company filed for protection pursuant to the *Companies’ Creditors Arrangement Act* (“CCAA”) on September 5, 2006. On April 27, 2007, subsequent to the sale of substantially all of the assets of NRI, the CCAA proceedings were terminated and NRI filed its assignment into bankruptcy and in July 2008 the government cancelled the Corporation for cause.
- (6) Anthony Dobranowski was elected to the board of Heating Oil Partners Income Fund on March 21, 2005. Subsequent to certain of its subsidiaries filing for creditor protection in the United States and Canada, the units of the fund were delisted from the Toronto Stock Exchange on November 7, 2005. In March 2006, the OSC issued an issuer cease trade order in respect of the units of the fund and it remains in default with the OSC. The debtors joint plan of reorganization was approved by the United States bankruptcy court on June 26, 2006 and Heating Oil Partners Income Fund relinquished all equity interests in the reorganized subsidiaries under the approved plan of reorganization.
- (7) David Copeland was Chairman of the Board of Triton Electronik, a group of Canadian companies primarily involved in electronic contract design and manufacturing service, until January 2009, when he resigned. This group of companies filed for protection pursuant to the CCAA on January 28, 2009.
- (8) John London and David Copeland were directors of MTB Industries Inc. (“MTB”) until May 1, 2009 when they both resigned. MTB filed for court appointed receivership on May 5, 2009.
- (9) Lead Director.

Each of the nominated directors of the Corporation has been engaged for more than five years in his present principal occupation or in other capacities with the Corporation (or predecessor thereof) in which he currently holds his or her principal occupation, with the exception of the following: Dr. Jacques Messier who from 2008 to 2011 was Director of the Veterinary Teaching Hospital at the University of Saskatchewan and since 2011 is Chief Executive Officer of the Toronto Humane Society.

As of April 30, 2014, the Board consists of eight directors, the majority of which are independent under applicable securities laws.

### **Appointment of Auditors**

At the Meeting, shareholders will be asked to appoint Ernst & Young LLP as the auditors of the Corporation (the “Auditors”), based on the recommendations of the Audit Committee and the Board. Ernst & Young LLP was appointed as the Auditors by the Audit Committee and the Board on August 9, 2012. The persons named in the accompanying form of proxy will, in the absence of specific instructions to withhold from voting on the proxy, vote for the appointment of Ernst & Young LLP as the Auditors of the Corporation to hold office until the next annual meeting of shareholders of the Corporation and to authorize the Audit Committee of the Board to fix the Auditors’ remuneration.

### **INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

To the knowledge of the Corporation, other than as disclosed elsewhere in this Circular, no director or officer of the Corporation, any subsidiary or any insider, nominee director, shareholder owning more than ten percent of the Common Shares, or any associate or affiliate of any of the foregoing has had any interest in any transaction since the commencement of the Corporation’s last financial year or in any proposed transaction that has materially affected or would materially affect the Corporation or any of its subsidiaries.

### **STATEMENT OF EXECUTIVE COMPENSATION**

Under Form 51-102F6 in National Instrument 51-102, the Corporation’s Co-Chief Executive Officers (“CEO”), Chief Financial Officer (“CFO”) and each of the three most highly compensated executive officers or other individuals are termed Named Executive Officers (“NEOs”) for whom the Corporation must disclose certain financial and other information relating to compensation. The NEOs of the Corporation for the year ended

December 31, 2013 are: (i) Daniel Chicoine; (ii) John London; (iii) Stephen Lemieux; (iv) Henrich Guntermann; (v) Bradley Galer; and (vi) Katina Loucaides.

### **Compensation Discussion and Analysis**

The Corporation’s executive compensation program is administered by the Compensation, Corporate Governance and Nominating Committee which is comprised entirely of independent directors. The members of the Compensation, Corporate Governance and Nominating Committee are Jacques Messier, Anthony Dobranowski, Theodore Stanley and Klaus von Lindeiner. The Board recognizes the importance of appointing knowledgeable and experienced individuals to this Committee. Thus, most members of the Compensation, Corporate Governance and Nominating Committee have significant experience in executive compensation and risk management as senior leaders of complex organizations or through their prior and current membership on the Compensation, Corporate Governance and Nominating Committee or other boards. For example, Dr. Messier has periodically participated in corporate governance courses and has served as a high level executive in a number of organizations that have reviewed executive compensation and management incentive plans; Mr. Dobranowski is a Canadian Chartered Professional Accountant, has participated in governance courses periodically and has served as a high level executive in a number of organizations that have reviewed executive compensation and management incentive plans; Dr. von Lindeiner holds a legal designation in Germany, has participated in governance courses periodically and has served on boards where executive compensation and management incentives plans were reviewed and approved at the board level; and Dr. Stanley has served as a senior leader in a number of organizations that have reviewed executive compensation and management incentive plans.

The Compensation, Corporate Governance and Nominating Committee’s mandate is set out in the Compensation, Corporate Governance and Nominating Committee Charter approved by the Board. Responsibilities included in the Compensation, Corporate Governance and Nominating Committee’s mandate are to:

- develop a compensation structure for the Board and senior management, including salaries, annual and long-term incentive (“**LTI**”) plans and plans involving share options, share issuances and share unit awards;
- review the compensation and performance of senior management at least annually, with a view to maintaining a compensation program for senior management at a fair and competitive level, consistent with the best interests of the Corporation; and
- periodically review the compensation of directors to, among other things, ensure their compensation appropriately reflects the responsibilities they are assuming.

Additional information relating to the mandate of the Compensation, Corporate Governance and Nominating Committee is included under the heading “Statement of Corporate Governance” below.

In discharging its mandate, the Compensation, Corporate Governance and Nominating Committee has the authority to retain and receive advice from outside advisors. In 2010, the Compensation, Corporate Governance and Nominating Committee (then the Compensation and Corporate Governance Committee) engaged Radford Consulting (“**Radford**”), a consulting division of Aon Corporation, to evaluate its executive compensation program and provide expert advice and recommendations to ensure that the Corporation’s executive compensation program is competitive in the industry segment in which the Corporation participates. The table below shows the fees paid to Radford over the last two years. In 2013, \$5,000 was paid to Radford for access to a life sciences compensation database and \$1,050 was paid for ad hoc advice to the Corporation.

	<b>2013</b>	<b>2012</b>
Executive Compensation-related Fees	\$1,050	\$16,000
All Other Fees	\$5,000	\$5,000



**a) Objective of Compensation Program**

Within the Corporation, executive remuneration is designed to encourage, compensate and reward employees on the basis of individual and corporate performance, both in the short and long-term. Compensation is directly tied to corporate and individual performance.

The level of remuneration, including annual and long-term compensation, for each NEO at this stage of the Corporation's development is determined by the level of responsibility and the importance of the position to the Corporation, all with a view to being consistent with industry norms. Further, the Share Incentive Plan (as defined herein), including options to acquire Common Shares, are designed to give each optionee an interest in preserving and maximizing shareholder value in the longer term, to enable the Corporation to attract and retain individuals with experience and ability, and to reward individuals for current performance and expected future performance. In the view of the Compensation, Corporate Governance and Nominating Committee, options and other LTIs the value of which is related to the Corporation's share price align the interests of executive officers with the longer term interests of shareholders. In determining the number of Common Shares subject to each option or other form of LTI, the Compensation, Corporate Governance and Nominating Committee gives consideration to the individual's present and potential contribution to the success of the Corporation.

The Board, in consultation with the Compensation, Corporate Governance and Nominating Committee, periodically identifies the principal risks of the Corporation's business and ensures the implementation of appropriate systems and controls to manage these risks. This would include risks associated with the Corporation's compensation practices, if any. The Corporation does not feel that its compensation practices would encourage an executive officer to take inappropriate or excessive risks, and no particular risks have been identified as arising from the Corporation's compensation practices that are reasonably likely to have a material adverse effect on the Corporation.

The Compensation, Corporate Governance and Nominating Committee endeavors to design the compensation program to ensure that the executive officers do not take unnecessary and excessive risks that could harm the long-term value of the Corporation. The following components of the compensation program discourage the executive officers from taking unnecessary or excessive risks:

- Base salaries are sufficiently competitive and are not subject to performance risk.
- Compensation includes compensation based on achievement of a combination of short and long-term objectives approved by the Compensation, Corporate Governance and Nominating Committee and the Board.
- The vesting period of equity based LTI awards are three years in length or longer.
- The annual incentive based awards and performance based equity awards are based on achieving objectives approved by the Compensation, Corporate Governance and Nominating Committee and the Board.

As discussed above, the Compensation, Corporate Governance and Nominating Committee originally retained Radford in 2010 to ensure that the Corporation's executive compensation program is competitive in the industry segment in which the Corporation participates. To this end, Radford, in collaboration with the Compensation, Corporate Governance and Nominating Committee, identified a number of companies in the life sciences industry in Canada and the United States that were comparable to the Corporation (the "**Comparator Group**"). The Comparator Group consists of the following companies and is based on a number of factors, including stage of drug development, market capitalization, revenue and number of employees as of 2010:

<b>Comparator Group Companies – Canada</b>	<b>Comparator Group Companies – United States</b>
AEterna Zentaris Inc.	ACADIA Pharmaceuticals Inc.
Bioniche Life Sciences Inc.	Adolor Corporation
Cardiome Pharma Corp.	Alexza Pharmaceuticals, Inc.
Generex Biotechnology Corporation	Amicus Therapeutics, Inc.
Labopharm Inc.	Antigenics, Inc.

Comparator Group Companies – Canada	Comparator Group Companies – United States
Paladin Labs Inc.	ARIAD Pharmaceuticals, Inc.
ProMetic Life Sciences Inc.	BioCryst Pharmaceuticals, Inc.
QLT Inc.	Columbia Laboratories, Inc.
Tekmira Pharmaceuticals Corporation	DepoMed, Inc.
Theratechnologies Inc.	DURECT Corporation
YM BioSciences Inc.	Dyax Corp.
	EpiCept Corporation
	GenVec, Inc.
	GTx, Inc.
	Idenix Pharmaceuticals, Inc.
	Ligand Pharmaceuticals Incorporated
	NeurogesX, Inc.
	Pain Therapeutics, Inc.
	Poniard Pharmaceuticals, Inc.
	POZEN Inc.
	Progenics Pharmaceuticals, Inc.
	Vical Incorporated
	XenoPort, Inc.

In the course of reviewing executive management LTI for 2013, the Compensation, Corporate Governance and Nominating Committee formed a subcommittee (the “**Subcommittee**”) to make recommendations to the Compensation, Corporate Governance and Nominating Committee and the Board respecting 2013 LTI. The Subcommittee was of the opinion that an update to the Radford report and recommendations on executive compensation conducted in 2010 (the “**Radford Report**”) might be helpful to the Subcommittee. The Subcommittee determined that it was in the best interests of the Corporation to not incur any external cost for evaluations by Radford for the 2013 year and, accordingly, requested that the finance department of the Corporation use publicly available information to a) update the compensation information from the comparator group of companies identified in the Radford Report and b) prepare an executive compensation comparison based on a new peer group of Canadian small cap life sciences companies (“**Canadian Small Cap Companies**”). It was felt by the Compensation, Corporate Governance and Nominating Committee that the combination of these information sources would be helpful to the Subcommittee and the Compensation, Corporate Governance and Nominating Committee in developing recommendations for the Board for the Corporation’s Canadian based executive management. The requested evaluation of Canadian Small Cap Companies compared the 2012 compensation of a new Canadian small cap life sciences peer group of companies to the compensation then being earned by the Corporation’s executive management team in 2012. The Canadian Small Cap Companies consists of the following Canadian companies in the life sciences industry that are listed on the TSX, and was established based on a number of additional factors, including stage of drug development, a market capitalization of less than \$50 million at the time of the assessment, revenue and number of employees as of 2012, in an effort to identify those small cap Canadian companies that were most similar to the Corporation:

2012 Canadian Small Cap Companies
AEterna Zentaris Inc.
Bellus Health Inc.
Bioniche Life Sciences Inc.
Cardiome Pharma Corp.
IntelliPharmaCeutics International Inc.

<b>2012 Canadian Small Cap Companies</b>
Isotechnika Pharma Inc.
Lorus Therapeutics Inc.
Resverlogix Corp.
Sophiris Bio Inc.
Theratechnologies Inc.

The Subcommittee felt that comparator information from Canadian Small Cap Companies was less relevant for executives who did not reside or oversee operations in Canada (i.e. Dr. Guntermann, who oversees the drug development activities of the Immunology Group in Germany and Dr. Galer, who at the time, was overseeing the drug development and commercial activities of the Pain Group in the United States). Accordingly, in reviewing the compensation for Drs. Guntermann and Galer, the Compensation, Corporate Governance and Nominating Committee referred to the Radford Report and the update to the Radford Report. For Canadian-based executives, the Subcommittee referred to the Radford Report, the update to the Radford Report and the report based on the Canadian Small Cap Companies. The benchmark data that was reviewed by the Subcommittee resulting from this assessment by role are as follows:

**CEO Role – The actual compensation earned represents compensation earned by each of Mr. Daniel Chicoine and Mr. John London and not in aggregate.**

	<b>BOD Compensation Target based on 2010 Radford Report</b>	<b>Actual Compensation 2012</b>	<b>Radford Peer Group Average 2012</b>	<b>New Canadian Peer Group Average 2012</b>
Cash Compensation	562,500	541,266	723,324	465,532
LTI Compensation	241,700	215,922	745,902	324,851
Total Compensation	804,200	757,188	1,469,226	790,383

**Vice President & CFO – Mr. Stephen Lemieux**

	<b>BOD Compensation Target based on 2010 Radford Report</b>	<b>Actual Compensation 2012</b>	<b>Radford Peer Group Average 2012</b>	<b>New Canadian Peer Group Average 2012</b>
Cash Compensation	326,200	300,570	391,039	300,600
LTI Compensation	136,300	89,335	291,916	65,724
Total Compensation	462,500	389,905	682,955	366,324

***Group President – Dr. Henrich Guntermann***

	<b>BOD Compensation Target based on 2010 Radford Report</b>	<b>Actual Compensation 2012</b>	<b>Radford Peer Group Average 2012</b>	<b>New Canadian Peer Group Average 2012</b>
Cash Compensation	481,250	468,750	413,472	n/a
LTI Compensation	118,150	113,902	373,786	n/a
Total Compensation	599,400	582,652	787,258	n/a

***Group President – Dr. Bradley Galer***

	<b>BOD Compensation Target based on 2010 Radford Report</b>	<b>Actual 2012 Compensation in USD</b>	<b>Radford Peer Group Average 2012</b>	<b>New Canadian Peer Group Average 2012</b>
Cash Compensation	481,250	384,750	413,472	n/a
LTI Compensation	118,150	113,891	373,786	n/a
Total Compensation	599,400	498,641	787,258	n/a

***Vice President, Secretary & General Counsel – Ms. Katina Loucaides***

	<b>BOD Compensation Target based on 2010 Radford Report</b>	<b>Actual Compensation 2012</b>	<b>Radford Peer Group Average 2012</b>	<b>New Canadian Peer Group Average 2012</b>
Cash Compensation	335,888	340,968	362,986	236,202
LTI Compensation	118,150	42,773	217,516	196,470
Total Compensation	454,038	383,741	580,502	432,672

While benchmarking is not the sole methodology used by the Compensation, Corporate Governance and Nominating Committee in reaching its executive compensation decisions, the information obtained from Comparator Groups as described above is helpful in determining whether the Corporation's executive compensation package is competitive and reasonable *vis a vis* the market. The Compensation, Corporate Governance and Nominating Committee believes that this process provides a suitable mechanism to ensure executive compensation remains competitive relative to the industry and facilitates timely adjustments to compensation packages to achieve the objectives of the compensation program.

**b) What the Compensation Program is Designed to Reward**

Plans and programs are designed so as to constitute adequate reward for services and incentive for the senior management team to implement both short-term and long-term strategies aimed at creating economic value for the Corporation, increasing share value and balancing risk management. The Corporation utilizes an annual business planning process that identifies annual corporate and departmental goals which are reviewed and approved by the Board. The executive management team's performance, including the performance of the NEOs, is reviewed relative to achievement of these goals.

**c) Elements of Compensation Program, Determination of Amounts for each Element, Rationale for Amounts of each Element**

The major elements of the Corporation's executive compensation program are (i) base salary, (ii) annual incentive awards based on achieving corporate objectives approved by the Compensation, Corporate Governance and Nominating Committee and the Board ("**Corporate Objectives**") and (iii) LTI awards, which consist of options, performance share units ("**PSUs**") granted through the Corporation's share incentive plan (the "**Share Incentive Plan**") based on achieving Corporate Objectives and, with respect to options, in some cases also Divisional Objectives, and share appreciation rights ("**Share Appreciation Rights**" or "**SARs**") through the Corporation's Share Appreciation Rights Plan (the "**Share Appreciation Rights Plan**"). In addition, the Corporation provides the NEOs with a package of medical benefits, the cost of which is partially paid for by the NEOs, and a car allowance. The compensation policies and guidelines for the NEOs were developed, in part, with assistance from Radford and are reviewed and approved by the Compensation, Corporate Governance and Nominating Committee and the Board. The Board has discretion, at the end of each fiscal year, to increase, decrease, or defer the payment of any annual incentive awards that otherwise might be earned during the year based on achievement of Corporate Objectives taking into consideration movement in the stock price and the financial position of the Corporation when determining amounts payable, timing of payments as well as form of payment.

### **COMPENSATION PHILOSOPHY**

With the benefit of the Radford Report, the update to the Radford Report in 2013 and the report based on the Canadian Small Cap Companies, the Compensation, Corporate Governance and Nominating Committee adopted the following compensation philosophy to govern pay decisions for the NEOs and other senior executives:

- To determine competitiveness of compensation, the compensation awarded to NEOs and other senior executives should be compared to compensation for the companies included in the Radford Report, the update to the Radford Report in 2013 and the report based on the Canadian Small Cap Companies. Target pay positioning for the NEOs and other senior executives should approximate:
  - Base Salary – 25<sup>th</sup> to 50<sup>th</sup> percentile
  - Annual Incentive Awards – 50<sup>th</sup> percentile
  - LTI Awards – 50<sup>th</sup> percentile

#### **Base Salary**

Salaries for the NEOs and other senior executives are paid within a salary range established on the basis of the level of responsibility of the executive relative to other positions in the Corporation as well as the experience and knowledge of the executive, with a view to market competitiveness. On the recommendation of Radford in 2010, the Compensation, Corporate Governance and Nominating Committee and the Board approved targeting a base salary for the NEOs between the 25th and 50th percentile of the Comparator Group. Radford further recommended that Dr.

Galer be treated on an exceptional basis due to his position as one of the leading neurologist clinicians in the United States. Accordingly, on the recommendation of Radford, the Compensation, Corporate Governance and Nominating Committee and the Board approved targeting a base salary for Dr. Galer between the 50th and 75th percentile of the Comparator Group. In addition, Radford recommended that the base salary of Dr. Guntermann, formerly President & Chief Executive Officer of the Corporation and currently the President, Europe and Immunology Group, remain unchanged at a level above the target range, based on his history with the Corporation. Radford also recommended that to account for the fact that the Corporation had co-CEOs the compensation benchmark for each of Messrs. Chicoine and London should be reduced by 10% from what it otherwise would have been for a sole CEO. In 2010, the base salary structure was established by the Compensation, Corporate Governance and Nominating Committee with the benefit of the Radford Report. For 2013, the Compensation, Corporate Governance and Nominating Committee considered the Radford Report, the update to the Radford Report in 2013 and the report based on the Canadian Small Cap Companies and determined that the base salaries should not change.

### **Annual Incentive Awards**

The Corporation's executive compensation program provides the NEOs and other key employees with the opportunity to earn annual incentive awards based on achieving Corporate Objectives or, in the case of Dr. Guntermann, (formerly) Dr. Galer and Ms. Loucaides, an opportunity to earn annual incentive awards based on achieving a combination of Corporate Objectives and Divisional Objectives. Annual incentive awards are designed to increase alignment with the Corporation's strategic and operational goals. The Corporate Objectives and Divisional Objectives for 2013 were established by the Compensation, Corporate Governance and Nominating Committee and the Board. The 2013 Corporate Objectives are set out in the table below.

Objective	% Allocation	Measurement	Performance Levels		
			50% Met	100% Met	150% Met
Financing the Corporation, including through any combination of debt, equity and licensing	42.9%			Raise \$10 to \$15M	Raise in excess of \$15M
Readiness for Phase 2a WF10 study and completion of lead formulation development program for follow-on product for Immunology Program	14.3%	<ol style="list-style-type: none"> <li>1. Complete US market analysis for Allergic Rhinitis and Allergic Asthma</li> <li>2. Complete protocol development for Phase 2a trial</li> <li>3. Successfully complete toxicology studies</li> <li>4. cGMP manufactured API feasibility study</li> <li>5. cGMP manufactured drug product for P2a study</li> <li>6. Adequate stability data to support P2a study</li> <li>7. Submission of EudraCT P2a request to BfArM and obtain approval in Q1/2014</li> </ol>	Complete at least 4 of 8 (of which #7 and #8 must be completed)	Complete at least 6 of 8 (of which #7 and #8 must be completed)	Complete all 8

		8. Successful identification of lead follow-on formulation(s)			
Pennsaid franchise activity	7.1%	1. No generic launch of Pennsaid 1.5% in 2013 2. FDA approval of Pennsaid 2% by end of Q1 2014	Complete 1 of 2	Complete both	
Commercialization of Synera	21.4%	1. \$4 million of annualized sales 2. Outlicensing or sale of current indication rights for US		Complete 1 of 2	
Budget	14.3%		Corporate costs within 95% to 105% of budget	Corporate costs under budget by between 6% and 15%	Corporate costs under budget by more than 15%

Dr. Guntermann, Dr. Galer and Ms. Loucaides had an opportunity to earn 50% of their annual incentive award based on achieving the Corporate Objectives. They had an opportunity to earn the other 50% of their annual incentive award based on achieving Divisional Objectives (described below). Mr. Chicoine, Mr. London and Mr. Lemieux's annual incentive award was fully based on achieving the Corporate Objectives.

Based on the Radford Report, participating NEOs are assigned a target bonus (as a percentage of base salary) based on their responsibility level and a benchmark at the 50th percentile of the Comparator Group. For 2013, the Compensation, Corporate Governance and Nominating Committee considered the Radford Report, the update to the Radford Report in 2013 and the report based on the Canadian Small Cap Companies and determined that this structure should not change and the Board approved a target bonus range for the NEOs between 40% and 50% of base salary.

For each Corporate Objective and Divisional Objective, there are performance levels set. Upon meeting, partially meeting or exceeding the threshold performance level for a fiscal year, participants become eligible for an incentive award determined as a percentage of their annual base salary with an ability to earn one and a half times the target bonus if the maximum performance level is achieved.

In 2013, the Corporation fully achieved three of the five Corporate Objectives; one of the five Corporate Objectives was exceeded such that the award for that objective was 150%; and one of the five Corporate Objectives was partially achieved such that the award for that objective was 50%. The total award earned based on Corporate Objective achievement for 2013 was 100% for Mr. Chicoine, Mr. London and Mr. Lemieux. In 2013, the Corporate Objective achievement for Dr. Guntermann, Dr. Galer and Ms. Loucaides was 100%, which represents 50% of their annual incentive award for 2013.

In 2013, the Divisional Objectives for Dr. Guntermann related to: (i) WF10 clinical development; (ii) WF10 pre-clinical development; (iii) WF10 pipeline development; and (ii) Maintaining cash resources. These Divisional Objectives were weighted at 50%, 20%, 20% and 10%, respectively. The Corporation fully achieved two of these four Divisional Objectives; exceeded one of these four Divisional Objectives; and partially achieved one of these four Divisional Objectives. Accordingly, in 2013, the Divisional Objective achievement for Dr. Guntermann was

105% and thus the total award earned for Dr. Guntermann based on Divisional Objective achievement was 52.5%. The total annual incentive award in 2013 based on achieving a combination of Corporate Objectives and Divisional Objectives was 102.5% for Dr. Guntermann.

In 2013, the Divisional Objectives for Dr. Galer related to: (i) Revenue of the Pain Group; (ii) Commercialization of Synera; (iii) Pipeline advancement development; (iv) Pipeline exploitation; and (v) Maintaining cash resources. These Divisional Objectives were weighted at 30%, 30%, 15%, 15% and 10%, respectively. The Corporation partially achieved two of these five Divisional Objectives such that the awards for these objectives were 50% and the Corporation did not achieve three of these five Divisional Objectives such that the awards for those objectives were 0%. Accordingly, in 2013, the Divisional Objective achievement for Dr. Galer was 12.5% and thus the total award earned for Dr. Galer based on Divisional Objective achievement was 6%. The total annual incentive award in 2013 based on achieving a combination of Corporate Objectives and Divisional Objectives was 56% for Dr. Galer.

In 2013, the Divisional Objectives for Ms. Loucaides related to: (i) Advancement of the Intellectual property portfolio of the Corporation; (ii) Strengthening the intellectual property protection for the HLT patch and its uses; (iii) Litigation matters; and (iv) Maintaining cash resources. These Divisional Objectives were weighted at 40%, 40%, 10%, and 10%, respectively. The Corporation fully achieved two of these four Divisional Objectives such that the awards for those objectives were 100%; exceeded one of these four Divisional Objectives such that the award was 150%; and partially achieved one of these four Divisional Objectives such that the award was 75%. Accordingly, in 2013, the Divisional Objective achievement for Ms. Loucaides was 110% and thus the total award earned for Ms. Loucaides based on Divisional Objective achievement was 55%. The total annual incentive award in 2013 based on achieving a combination of Corporate Objectives and Divisional Objectives was 105% for Ms. Loucaides.

The Board, on recommendation of the Compensation, Corporate Governance and Nominating Committee, approved the annual incentive awards for 2013 on the condition that 50% of the value of the 2013 after-tax annual incentive award for each recipient would be used to purchase shares of the Corporation that must be held for at least 12 months after the acquisition.

### **Long-term Incentive Awards**

The Corporation's LTI awards are granted through the Corporation's Share Incentive Plan and consist of options granted through a share option plan (the "**Share Option Plan**") and PSUs granted through a share bonus plan (the "**Share Bonus Plan**"), and include share appreciation rights granted through the Corporation's Share Appreciation Rights Plan. As explained above, in the course of reviewing LTI for 2013, a Subcommittee was formed to make recommendations to the Compensation, Corporate Governance and Nominating Committee and the Board. In determining its recommendation, the Subcommittee considered the Radford Report, the update to the Radford Report in 2013 and the report based on the Canadian Small Cap Companies and determined it was appropriate to use the 2010 recommendations by Radford.

### ***Share Incentive Plan***

The Share Incentive Plan consists of the Share Option Plan, the Share Bonus Plan and a share purchase plan (the "**Share Purchase Plan**"). The Board believes that the Share Incentive Plan is a key component of compensation and seeks to integrate compensation incentives with the development and successful execution of strategic and operating plans. The Corporation's Share Incentive Plan is designed to support the achievement of the Corporation's performance objectives and to ensure that the NEOs' interests are aligned with the long-term success of the Corporation. The Share Incentive Plan is administered by the Board based on recommendations of the Compensation, Corporate Governance and Nominating Committee.

As the Share Incentive Plan is a "rolling plan", the Toronto Stock Exchange (the "**TSX**") requires that it, along with any unallocated options, rights or other entitlements receive shareholder approval at the Corporation's annual meeting every three years. The Share Incentive Plan last received shareholder approval at the Corporation's annual meeting on June 21, 2011. Accordingly, unless securityholder approval is obtained, all unallocated options, rights or other entitlements will be cancelled as of June 21, 2014 and the Corporation will not be permitted to grant any further entitlements under the Share Incentive Plan; however, previously allocated options or Common Shares will continue to be unaffected. At the Meeting, shareholders of the Corporation will be asked to vote for an ordinary



resolution (in substantially the form of resolution set out in Schedule A) affirming, ratifying and approving the Share Incentive Plan and approving all of the unallocated options, and the underlying Common Shares, issuable pursuant to the Share Incentive Plan, as described under the heading “Special Business” below.

### ***Share Option Plan***

Under the Share Option Plan, options for the purchase of Common Shares may be granted to the NEOs, employees, consultants and directors of the Corporation and designated affiliates. Options are granted at the discretion of the Board (provided that the aggregate number of Common Shares reserved for issuance to any one person upon the exercise of options shall not exceed 5% of the issued and outstanding Common Shares). To the extent Options have been exercised, terminated or surrendered, new Options may be granted in respect thereof. In determining the number of Common Shares subject to each option, consideration is given to the individual’s recent and potential contribution to the success of the Corporation and its affiliates and the number and timing of options previously granted to the individual. The exercise price per share may not be less than the closing price of the Common Shares trading on the TSX on the last trading day immediately preceding the day the option is granted. Each option has a term of not more than ten years, and, unless otherwise agreed to by the Board, becomes exercisable as to 33.3% of the Common Shares subject to it, on a cumulative basis, at the end of each of the first, second and third years following the date of grant. If a participant (a “**Participant**”) in the Share Option Plan were to die, any option held by such Participant at the date of his or her death shall become immediately exercisable and shall be exercisable by the person to whom the rights of the option shall pass in accordance with the terms of the Participant’s will. No rights under the Share Option Plan and no option awarded pursuant thereto are assignable or transferable by any Participant other than pursuant to a will or by the laws of descent and distribution. If a Participant ceases to be a director, consultant or employee of the Corporation, as the case may be, for any reason (other than death) (such event being a “**Termination**”), except as otherwise provided in an employment contract, consulting agreement or directors’ resolution, such Participant may, but only within 60 days following Termination, exercise his or her options to the extent such Participant was entitled to exercise such options at the date of such Termination.

On the recommendation of the Radford Report, the Compensation, Corporate Governance and Nominating Committee and the Board have determined that generally options granted to the NEOs under the Share Incentive Plan shall have a term of 10 years, shall have an exercise price equal to the closing price of the Common Shares on the TSX on the day immediately prior to the date of the grant and shall vest as follows: one quarter on January 1 of the first year following the grant; one quarter on January 1 of the second year following the grant; one quarter on January 1 of the third year following the grant; and one quarter on January 1 of the fourth year following the grant. The Board has the discretion and on occasion has varied the vesting period and the exercise price of options granted to NEOs under the Share Incentive Plan.

### ***Share Bonus Plan***

The Share Bonus Plan permits Common Shares to be issued by the Corporation as a discretionary bonus to the NEOs, certain employees and directors of the Corporation, as well as designated affiliates. Persons who perform services for the Corporation are also eligible to receive shares in lieu of cash compensation.

### ***Share Purchase Plan***

The NEOs and certain employees of the Corporation or designated affiliates thereof are entitled to contribute up to 10% of their annual base salary to the Share Purchase Plan. The Corporation matches each participant’s contribution by issuing Common Shares, having a value equal to the aggregate amount contributed by the participating employee, to such participating employee. Common Shares are issued under the Share Purchase Plan at the weighted average price of the Common Shares on the TSX for the calendar quarter in respect of which such Common Shares are being issued. If a participant ceases to be employed by, or provide service to, the Corporation or its affiliates, any portion of the participant’s contribution that has not been used to acquire Common Shares shall be paid to the participant, any portion of the Corporation’s contribution that has not been used to acquire Common Shares shall be paid to the Corporation, and any Common Shares held by the Corporation for the benefit of the participant shall be released to the participant in accordance with the terms of the Share Purchase Plan.

### ***Share Appreciation Rights Plan***

On October 30, 2013, the Board on the recommendation of the Subcommittee and Compensation, Corporate Governance and Nominating Committee approved Share Appreciation Rights for the NEOs under the Corporation's Share Appreciation Rights Plan. The Share Appreciation Rights Plan is administered by Board (or a committee thereof as delegated by the Board), which determines, from time to time, the participants in the plan. The Board also determines, among other things, the expiry date, the grant price (which shall not be less than the fair market value of a share on the applicable grant date) and the vesting date of each Share Appreciation Right. Upon vesting of a tranche of Share Appreciation Rights, the Corporation shall pay to the participant in cash, within 30 days following such vesting date, the amount, if any, determined by multiplying the (i) positive amount (if any) by which the fair market value of one Common Share on the applicable vesting date exceeds the applicable grant price, by (ii) the number of such vested Share Appreciation Rights. If a participant in the Share Appreciation Rights Plan ceases to be a director, employee or otherwise engaged by the Corporation (for any reason, including death), there shall be an automatic acceleration of vesting of a pro rata portion of the participant's Share Appreciation Rights based on a formula set out in the Share Appreciation Rights Plan that takes into account the period of time from the grant of the Share Appreciation Rights to the date of termination.

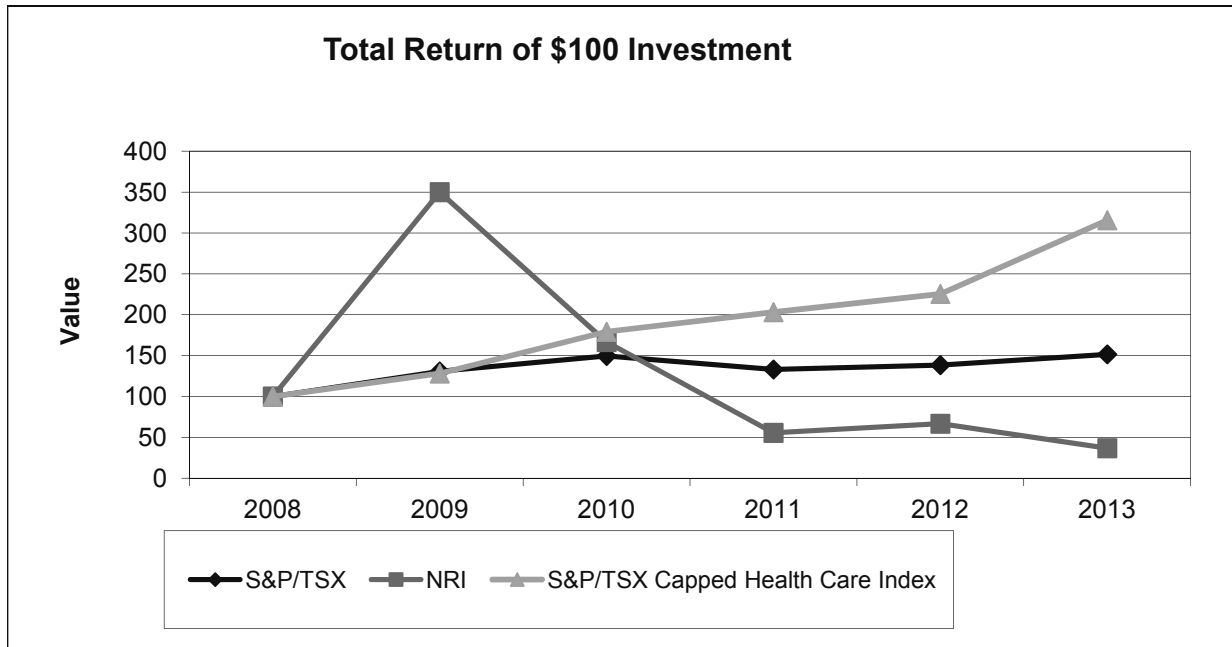
In 2013, the Board awarded Share Appreciation Rights to certain employees based on the benchmark values for less than the LTI compensation recommended by Radford in 2010. The value of the Share Appreciation Rights actually granted was reduced by the Board from the Radford recommended value by calculating the number and value of Share Appreciation Rights based on a \$2.50 share price rather than the then current \$1.65 share price. The value of the Stock Appreciation Rights granted was further reduced by the grant price being set at the greater of a) \$1.65 which was the trading price on the day that the award was being considered by the Compensation, Corporate Governance and Nominating Committee and b) the TSX closing price of Nuvo Common Shares on November 4, 2013 when Nuvo employees were released from a corporate imposed trading blackout. On November 4, 2013, the closing price of Nuvo shares was \$1.85 thus the grant price was set at \$1.85. The Share Appreciate Rights vest as follows: one half on January 1, 2015; one quarter on January 1, 2016 and the last quarter on January 1, 2017.

### **Deferred Share Unit Employee Plan ("DSU Employee Plan")**

On June 18, 2013, the Corporation established the DSU Employee Plan, a share-based compensation plan for employees. Under this DSU Employee Plan, an Employee can elect to receive a portion of their annual base compensation in the form of deferred share units ("DSUs") for a specified payment period. One DSU has a cash value equal to the market price of one Common Share and the number of DSUs issued to an employee's DSU account for any payment is determined using the five-day volume weighted average price of the Common Shares at the end of the payment period. Upon issuance, the fair value of the DSUs is recorded as compensation expense and the DSU Accrual is established. At all subsequent reporting dates, the DSU Accrual is adjusted to the market value of the underlying Common Shares and the adjustment is recorded as compensation cost. Within a specified time after the employee ceases employment, the employee receives a cash payment equal to the market value of their DSUs.

### ***Performance Graph***

The following graph compares the yearly percentage change in the cumulative total shareholder return on the Common Shares from January 1, 2008 to December 31, 2013, with the cumulative total return of the S&P/TSX Composite Index during the same period, assuming a \$100 initial investment (and the re-investment of any dividends).



Year	2008	2009	2010	2011	2012	2013
	\$	\$	\$	\$	\$	\$
S&P/TSX Composite Index	100	131	150	133	138	152
S&P/TSX Capped Health Care Index	100	128	179	203	225	316
NRI	100	350	167	56	67	37

The trend shown by the above performance graph demonstrates a decrease in cumulative shareholder return from 2008 to 2013. While a portion of the compensation received by NEOs is subject to the performance of the Common Shares on the TSX, including with respect to each NEO's participation in the Share Incentive Plan and Share Appreciation Rights Plan, the determination of NEO compensation is not solely determined with reference to total shareholder return and is subject to a number of factors (as described in more detail in this Circular). Accordingly, the total compensation of each NEO is not directly correlated to the performance of the Common Shares on the TSX over the past five years. In the life sciences industry, and particularly in drug development, shareholder returns are typically created by the achievement of certain preclinical, clinical, regulatory approval and commercialization milestones. The Corporation's most significant milestones in its history occurred on November 5, 2009, when the U.S. Food and Drug Administration (the "FDA") advised the Corporation it approved the New Drug Application for Pennsaid<sup>®</sup>, for sale and marketing in the United States and on June 15, 2009, when the Corporation entered into a U.S. License and Development Agreement with Mallinckrodt, Inc., a subsidiary of Covidien for Pennsaid<sup>®</sup> and Pennsaid<sup>®</sup> 2%. Another significant milestone in the Corporation's history occurred in 2012, when the Corporation received approval of Pliaglis<sup>®</sup> by the FDA and by the German Federal Institute for Drugs and Medical Devices (BfArM). In Europe, marketing licenses have been issued in all 16 countries which are listed in the European Marketing Application for Pliaglis<sup>®</sup>. The Corporation has licensed worldwide marketing rights for Pliaglis<sup>®</sup> to Galderma, a global pharmaceutical company specialized in dermatology. Galderma launched Pliaglis<sup>®</sup> in the United States in March 2013 and in Europe in April 2013.

#### **Hedging of Equity-Based Compensation**

While the Corporation does not have a specific policy against it, to the Corporation's knowledge, NEOs and directors do not purchase financial instruments designed to hedge or offset a decrease in the market value of equity securities of the Corporation granted as compensation or held, directly or indirectly, by the NEO or director.

## Summary Compensation Table

The following table sets forth the annual compensation, including total compensation, for the financial year ended December 31, 2013 for each of the NEOs of the Corporation.

### Summary Compensation Table

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards <sup>(2)</sup> (\$)	Non-equity incentive plan compensation <sup>(3)</sup> (\$)		All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans		
Daniel Chicoine Chairman and Co-CEO	2013	289,688 <sup>(9)</sup>	96,562 <sup>(9)</sup>	118,134	193,125 <sup>(6)</sup>	Nil	15,000 <sup>(4)</sup>	712,509
	2012	386,250	80,375 <sup>(1)</sup>	135,547	140,016	Nil	15,000 <sup>(4)</sup>	757,188
	2011	386,250	92,368 <sup>(1)</sup>	22,046	141,223	Nil	15,000 <sup>(4)</sup>	656,887
John London President and Co-CEO	2013	289,688 <sup>(9)</sup>	96,562 <sup>(9)</sup>	118,134	193,125 <sup>(6)</sup>	Nil	15,000 <sup>(4)</sup>	712,509
	2012	386,250	80,375 <sup>(1)</sup>	135,547	140,016	Nil	15,000 <sup>(4)</sup>	757,188
	2011	386,250	92,368 <sup>(1)</sup>	22,046	141,223	Nil	15,000 <sup>(4)</sup>	656,887
Stephen Lemieux Vice President and CFO <sup>(5)</sup>	2013	260,000	Nil	66,619	104,000 <sup>(6)</sup>	Nil	9,600	440,219
	2012	233,000	33,254 <sup>(1)</sup>	56,081	67,570	Nil	Nil	389,905
	2011	206,000	22,094 <sup>(1)</sup>	5,271	42,680	Nil	Nil	276,045
Henrich Guntermann President, Europe and Immunology Group	2013	343,750	Nil	61,173	140,938 <sup>(7)</sup>	Nil	15,000 <sup>(4)</sup>	560,861
	2012	343,750	42,399 <sup>(1)</sup>	71,503	110,000	Nil	15,000 <sup>(4)</sup>	582,652
	2011	343,750	48,753 <sup>(1)</sup>	11,619	132,773	Nil	15,000 <sup>(4)</sup>	551,895
Bradley Galer President, Pain Group <sup>(8)</sup>	2013	US293,270	Nil	US58,346	US68,625 <sup>(7)</sup>	Nil	US9,600 <sup>(4)</sup>	US429,841
	2012	US305,000	US42,395 <sup>(1)</sup>	US71,496	US70,150	Nil	US9,600 <sup>(4)</sup>	US498,641
	2011	US305,000	US49,240 <sup>(1)</sup>	US11,836	US114,756	Nil	US9,600 <sup>(4)</sup>	US490,432
Katina Loucaides Vice President, Secretary & General Counsel	2013	245,000	Nil	57,747	102,900 <sup>(7)</sup>	Nil	9,600	415,247
	2012	245,000	15,928 <sup>(1)</sup>	26,845	95,968	Nil	Nil	383,741
	2011	234,840	18,817 <sup>(1)</sup>	9,379	75,663	Nil	Nil	338,699

Notes:

- (1) Performance stock units (“PSUs”) were granted under the 2012 LTI Plan and were based on 2012 Corporate Objectives or, if applicable, Divisional Objectives, being met. Represents the fair value of the PSUs that were awarded as of the date of grant. The grant date fair value shown is calculated by multiplying the total number of PSUs awarded by the closing price of the common shares on the TSX on the day before the PSUs were granted. There were no PSUs issued in 2013.
- (2) The value of the stock appreciation rights awarded in 2013 is the estimated fair value on the date of grant calculated using the Black-Scholes option pricing model, which appears to be standard among public companies, pursuant to International Financial Reporting Standard 2, with the following assumptions:

Grant Date	October 30, 2013
Risk-free interest rate	1.21% to 1.72%
Dividend Yield	0
Expected volatility of share price	70% to 78%
Expected life	1.2 to 3.2 years
Forfeiture rate	7%
Common share price	\$1.85
Fair value of option	\$0.61 to \$0.92

The stock appreciation rights vest 50% on January 1, 2015 and 25% on each of January 1, 2016 and 2017. The value of the stock appreciation rights with a Canadian dollar exercise price were converted to US dollars using the Bank of Canada closing exchange rate on the date of grant. As of the date hereof, the stock appreciation rights issued are “in-the-money”. The values in 2012 and 2011 relate to issued stock options and represent the fair value on the grant date.

- (3) Represents a bonus which was approved for payment relating to the respective calendar year performance.
- (4) Represents payment received as an annual car allowance.
- (5) Mr. Lemieux was appointed Vice President and CFO on January 13, 2012. Mr. Lemieux’s compensation for 2011 represents his compensation as Vice President and Corporate Controller of the Corporation.
- (6) The annual incentive award was fully based on achievement of the Corporate Objectives established at the beginning of the year and as assessed by the Board.

- (7) 50% of the annual incentive award was based on achievement of the Corporate Objectives and 50% of the annual incentive award was based on achievement of the Divisional Objectives.
- (8) Dr. Galer ceased to be an employee of the Corporation on December 13, 2013.
- (9) Effective July 1, 2013 and for a period of 12 months thereafter, Mr. Chicoine and Mr. London each have the right to receive 50% of his base salary in cash and 50% of his base salary in the form of DSUs. Mr. Chicoine and Mr. London must elect prior to the beginning of each quarter as to what percentage of their base salary (up to 50%), they choose to receive in DSUs. The elected percentage of DSUs for the quarter are paid at the end of such quarter based on an issue price equal to the 5-day volume weighted average price as of the last trading day of such quarter.
- (10) The Board required that 50% of the value of the 2013 after-tax annual incentive award for each recipient is to be used to purchase shares of the Corporation that are to be held for at least 12 months after the acquisition.

## **Incentive Plan Awards**

### ***Outstanding Share-based Awards and Option-based Awards***

The following table indicates for each of the NEOs all awards outstanding at the end of the 2013 financial year.

Name	Option-based awards					Share-based awards		
	Number of securities underlying unexercised options SARs (#)	Option / SAR exercise price (\$)	Option / SAR grant date	Option / SAR expiration date	Value of unexercised in-the-money options or SARs (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share awards that have not vested <sup>(1)</sup> (\$)	Market or payout value of vested share awards not paid out <sup>(2)</sup> (\$)
Daniel Chicoine Chairman and Co-CEO	169,807	1.85	Oct 30, 2013	Jan 1, 2017	50,942			
	44,638	6.50	Mar 29, 2012	Mar, 29, 2022	Nil			
	8,812	5.525	Aug 16, 2011	Aug 16, 2021	Nil			
	16,608	13.975	June 16, 2010	June 16, 2020	Nil			
	53,846	8.775	Nov 7, 2007	Nov 7, 2017	Nil			
	30,769	13.00	Sep 21, 2005	Sep 21, 2015	Nil			
	21,230	19.50	Dec 17, 2004	Dec 17, 2014	Nil			
	1,538	25.35	Sep 21, 2004	Sep 21, 2014	Nil			
John London President and Co-CEO	169,807	1.85	Oct 30, 2013	Jan 1, 2017	50,942			
	44,638	6.50	Mar 29, 2012	Mar, 29, 2022	Nil			
	8,812	5.525	Aug 16, 2011	Aug 16, 2021	Nil			
	16,608	13.975	June 16, 2010	June 16, 2020	Nil			
	53,846	8.775	Nov 7, 2007	Nov 7, 2017	Nil			
	30,769	13.00	Sep 21, 2005	Sep 21, 2015	Nil			
	14,307	19.50	Dec 17, 2004	Dec 17, 2014	Nil			
	1,538	25.35	Sep 21, 2004	Sep 21, 2014	Nil			

Name	Option-based awards					Share-based awards		
	Number of securities underlying unexercised options SARs (#)	Option / SAR exercise price (\$)	Option / SAR grant date	Option / SAR expiration date	Value of unexercised in-the-money options or SARs (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share awards that have not vested <sup>(1)</sup> (\$)	Market or payout value of vested share awards not paid out <sup>(2)</sup> (\$)
Stephen Lemieux Vice President and CFO	95,758	1.85	Oct 30, 2013	Jan 1, 2017	28,727	1,301	2,797	Nil
	18,356	6.50	Mar 29, 2012	Mar 29, 2022	Nil			
	2,104	5.525	Aug 16, 2011	Aug 16, 2021	Nil			
	3,972	13.975	June 16, 2010	June 16, 2020	Nil			
	2,307	8.125	May 6, 2008	May 6, 2018	Nil			
	1,538	13.975	May 23, 2007	May 23, 2017	Nil			
Henrich Guntermann President, Europe & Immunology Group	87,931	1.85	Oct 30, 2013	Jan 1, 2017	26,379	1,373	2,952	Nil
	23,404	6.50	Mar 29, 2012	Mar 29, 2022	Nil			
	4,644	5.525	Aug 16, 2011	Aug 16, 2021	Nil			
	8,760	13.975	June 16, 2010	June 16, 2020	Nil			
	53,846	8.775	Nov 7, 2007	Nov 7, 2017	Nil			
	30,769	13.00	Sep 21, 2005	Sep 21, 2015	Nil			
	12,768	19.50	Dec 17, 2004	Dec 17, 2014	Nil			
	1,538	25.35	Sep 21, 2004	Sep 21, 2014	Nil			
Bradley Galer President, Pain Group	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Katina Loucaides Vice President, Secretary & General Counsel	83,006	1.85	Oct 30, 2013	Jan 1, 2017	24,902	515	1,107	Nil
	8,792	6.50	Mar 29, 2012	Mar 29, 2022	Nil			
	1,736	5.525	Aug 16, 2011	Aug 16, 2021	Nil			
	3,288	13.975	June 16, 2010	June 16, 2020	Nil			
	7,691	6.50	Feb 2, 2008	Feb 2, 2018	Nil			

Notes:

- (1) A PSU or a DSU is equivalent to one Common Share and each such PSU and DSU has been valued at the closing price of the Common Shares on the TSX on December 31, 2013.
- (2) All share-based awards that have vested have been issued.

### ***Incentive-Plan Awards – Value Vested or Earned during the Year***

The following table indicates for each of the NEOs the value on vesting of all awards (had they been exercised on the vesting date) during the 2013 financial year.

<b>Name</b>	<b>Option-based awards – Value during the year on vesting (\$)</b>	<b>Share-based awards – Value during the year on vesting (\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year<sup>(1)</sup> (\$)</b>
Daniel Chicoine	Nil	21,910	Nil
John London	Nil	21,910	Nil
Stephen Lemieux	Nil	8,203	Nil
Henrich Guntermann	Nil	10,015	Nil
Bradley Galer	Nil	4,462	Nil
Katina Loucaides	Nil	3,761	Nil

Notes:

(1) This information appears in the table on page 18.

	<b>Number of securities to be issued upon the exercise of outstanding options (000s)</b>  (a)	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of securities remaining available for future issuance under the equity compensation plan (excluding securities reflected in Column (a))<sup>(1)</sup> (000s)</b>	<b>Share-based awards - Value earned during the year on vesting</b>
<b>Equity compensation plans approved by Shareholders</b>	785	\$8.91	77	Nil
<b>Equity compensation plans not approved by Shareholders</b>	Nil	Nil	Nil	Nil

Notes:

- (1) The maximum number of Common Shares that may be issued under the Share Incentive Plan is a fixed maximum percentage of 15% of the Corporation's outstanding Common Shares from time-to-time. The Common Shares that may be issued under the plan are allocated to the three sub-plans as follows: Share Option Plan 10%, Share Purchase Plan 3% and Share Bonus Plan 2%. As the Share Incentive Plan is a "rolling plan", the TSX requires that it, along with any unallocated options, rights or other entitlements receive shareholder approval at the Corporation's annual meeting every three years. At the Meeting, shareholders of the Corporation will be asked to vote for an ordinary resolution (in substantially the form of resolution set out in Schedule A) affirming, ratifying and approving the Share Incentive Plan and approving all of the unallocated options, and the underlying Common Shares, issuable pursuant to the Share Incentive Plan, as described under the heading "Special Business" below.

### **Employment Agreements**

Following the election of the Corporation's Board at the annual shareholders meeting on September 21, 2004, the Board appointed a new president and chief executive officer, Dr. Henrich Guntermann. That appointment was made on September 22, 2004. In November 2004, directors Daniel Chicoine and John London officially joined the Corporation's management team as chairman and vice chairman, respectively.

On December 1, 2009, subsequent to approval of the Pennsaid® NDA by the U.S. FDA, the Board reorganized the Corporation's structure to better position the Corporation for future growth by naming presidents for each business segment. Dr. Henrich Guntermann, formerly President & CEO of the Corporation, was appointed President, Europe and Immunology Group and Dr. Bradley Galer was named President, Pain Group. To fill the CEO vacancy created by the appointment of Dr. Guntermann to his new role, Daniel Chicoine, in addition to his role as Chairman of the Board was appointed Co-Chief Executive Officer and John London was appointed President and Co-Chief Executive Officer.

On December 17, 2004, the Board, on recommendation of the Compensation, Corporate Governance and Nominating Committee (then the Compensation and Corporate Governance Committee), approved terms of employment that were incorporated into employment agreements dated April 29, 2005 between the Corporation and each of Messrs. Chicoine and London. These agreements were amended with approval of the Compensation, Corporate Governance and Nominating Committee on June 17, 2010 to reflect the recommendations by Radford. The employment agreement for Mr. London was stated to be effective December 1, 2004. The employment agreement for Mr. Chicoine was stated to be effective January 1, 2005. Under the terms of these agreements, if Mr. Chicoine or Mr. London are terminated for cause, they will not be entitled to any payment or compensation from the Corporation. If they are terminated without cause, they will each be entitled to receive a retiring allowance equal to twelve months of their base salary and automobile allowance payable either in a lump sum or in twelve equal monthly installments commencing within thirty days after the day of termination. The payout for each of the above named NEOs would be \$401,250. In the event of a change of control of the Corporation (defined as (i) an acquisition of 30% or more of the Common Shares by any person or group together with a change of 30% or more of the members of the Board within 12 months thereafter or (ii) a de facto change of control), for a period of twelve months thereafter, any termination of their employment by the Corporation for any reason, shall entitle each of them to receive a lump sum payment of \$802,500 equal to two times the amount that they would have received if their employment was terminated without cause. In addition, upon such change of control, each of them have the right, for a period of twelve months thereafter, to terminate their employment by providing the Corporation with written notice of termination, and upon doing so they will be entitled to a payment of the amount set out in the preceding sentence. Upon a change of control, any options, rights, warrants or other entitlements for the purchase or acquisition of shares in the Corporation that are not then exercisable shall be fully vested and accelerated so that they become immediately exercisable for 180 days. Each of Messrs. Chicoine and London receive an annual base salary of \$386,250 and an annual car allowance of \$15,000.

On December 17, 2004, the Board, on recommendation of the Compensation, Corporate Governance and Nominating Committee (then the Compensation and Corporate Governance Committee), approved terms of employment that were incorporated into an employment agreement dated April 29, 2005 between the Corporation and Dr. Guntermann and was stated to be effective December 1, 2004. This agreement was amended with approval of the Compensation, Corporate Governance and Nominating Committee on June 17, 2010 to reflect the recommendations by Radford. Under the terms of this agreement, if Dr. Guntermann is terminated for cause, he will not be entitled to any payment or compensation from the Corporation. If he is terminated without cause, he will be entitled to receive a retiring allowance equal to twelve months of his base salary and automobile allowance payable either in a lump sum or in twelve equal monthly installments commencing within thirty days after the day of termination. The payout for Dr. Guntermann would be \$358,750. In the event of a change of control of the Corporation (defined as (i) an acquisition of 30% or more of the Common Shares by any person or group together with a change of 30% or more of the members of the Board within 12 months thereafter or (ii) a de facto change of control), for a period of twelve months thereafter, any termination of their employment by the Corporation for any reason, shall entitle Dr. Guntermann to receive a lump sum payment of \$717,500 equal to two times the amount that he would have received if his employment was terminated without cause. In addition, upon such change of control, Dr. Guntermann has the right, for a period of twelve months thereafter, to terminate his employment by providing the Corporation with written notice of termination, and upon doing so he will be entitled to a payment of the amount set out in the preceding sentence. Upon a change of control, any options, rights, warrants or other entitlements for the purchase or acquisition of shares in the Corporation that are not then exercisable shall be fully vested and accelerated so that they become immediately exercisable for 180 days. Dr. Guntermann receives an annual base salary of \$343,750 and an annual car allowance of \$15,000.

The Corporation has also entered into employment agreements with its other NEOs including: Mr. Stephen Lemieux, the Corporation's vice president and chief financial officer, Dr. Bradley Galer, the former president of the Corporation's Pain Group, and Ms. Loucaides, the Corporation's vice president, secretary and general counsel. Mr.



Lemieux and Ms. Loucaides are employed by the Corporation. Dr. Galer was employed by the Corporation's wholly owned subsidiary, ZARS Pharma, Inc.

Under the terms of Mr. Lemieux's employment agreement, if terminated for cause, he will not be entitled to any payment or compensation. If the Corporation terminates Mr. Lemieux without cause, he will be entitled to receive a retiring allowance of \$269,600 equal to twelve months of his base salary and an automobile allowance payable either in a lump sum or in twelve equal monthly installments commencing within thirty days after the day of termination. In the event of a change of control of the Corporation (as defined above), for a period of twelve months thereafter, any termination of his employment by the Corporation for any reason, shall entitle Mr. Lemieux to receive a lump sum payment of \$539,200 equal to two times the amount that he would have received if terminated without cause. In addition, upon such change of control, he will have the right, for a period of twelve months thereafter, to terminate his employment by providing the Corporation with written notice of termination, and upon doing so he will be entitled to payment of the amount set out in the preceding sentence. Upon a change of control, any options, rights, warrants or other entitlements for the purchase or acquisition of shares in the Corporation that are not then exercisable shall be fully vested and accelerated so that they become immediately exercisable for 180 days. Mr. Lemieux currently receives an annual salary of \$260,000 and an annual car allowance of \$9,600.

Under the terms of Dr. Galer's employment agreement, if terminated for cause, he would not have been entitled to any payment or compensation. If the Corporation's subsidiary ZARS Pharma, Inc. terminated Dr. Galer without cause, he would have been entitled to receive a retiring allowance of US\$314,600 equal to twelve months of his base salary and an automobile allowance payable either in a lump sum or in twelve equal monthly installments commencing within thirty days after the day of termination. In the event of a change of control of the Corporation (as defined above), for a period of twelve months thereafter, any termination of his employment by the Corporation for any reason, would have entitled Dr. Galer to receive a lump sum payment of US\$629,200 equal to two times the amount that he would have received if terminated without cause. In addition, upon such change of control, he would have had the right, for a period of twelve months thereafter, to terminate his employment by providing ZARS Pharma, Inc. with written notice of termination, and upon doing so he would have been entitled to payment of the amount set out in the preceding sentence. Upon a change of control, any options, rights, warrants or other entitlements for the purchase or acquisition of shares in the Corporation that are not then exercisable would have been fully vested and accelerated so that they become immediately exercisable for 180 days. Dr. Galer's employment was terminated effective December 13, 2013. Dr. Galer received compensation in 2013 based on an annual salary of US\$305,000 and an annual car allowance of US\$9,600 until December 13, 2013. Thereafter, in lieu of his severance Dr. Galer will receive ten quarterly payments of \$25,000 USD. In addition, Dr. Galer agreed to enter into a consulting agreement with the Corporation to assist with the transition.

Under the terms of Ms. Loucaides employment agreement, if terminated for cause, she will not be entitled to any payment or compensation. If the Corporation terminates Ms. Loucaides without cause, she will be entitled to receive a retiring allowance of \$254,600 equal to twelve months of her base salary and an automobile allowance payable either in a lump sum or in twelve equal monthly installments commencing within thirty days after the day of termination. In the event of a change of control of the Corporation (as defined above), for a period of twelve months thereafter, any termination of her employment by the Corporation for any reason, shall entitle Ms. Loucaides to receive a lump sum payment of \$509,200 equal to two times the amount that she would have received if terminated without cause. In addition, upon such change of control, she will have the right, for a period of twelve months thereafter, to terminate her employment by providing the Corporation with written notice of termination, and upon doing so she will be entitled to payment of the amount set out in the preceding sentence. Upon a change of control, any options, rights, warrants or other entitlements for the purchase or acquisition of shares in the Corporation that are not then exercisable shall be fully vested and accelerated so that they become immediately exercisable for 180 days. Ms. Loucaides currently receives an annual salary of \$245,000 and an annual car allowance of \$9,600.

### **Compensation of Directors**

In 2011, the Compensation, Corporate Governance and Nominating Committee and Board established a compensation plan for non-employee independent directors of the Corporation based on expert advice received from Radford. The compensation plan is structured to take into account the best interests of the Corporation and to ensure that the directors' compensation appropriately reflects their responsibilities and includes short-term and long-term compensation elements. As of July 1, 2011, the compensation structure changed to include cash compensation, share-based awards and stock options. The per meeting attendance fees were removed from the compensation plan

in favour of a structure that pays set annual retainers. Directors who also act as NEOs of the Corporation are not given additional compensation for their role as directors of the Corporation.

### ***Cash Compensation***

As of July 1, 2011, the following cash compensation was set for non-employee independent directors: \$35,000 annual Board retainer; \$10,000 Lead Director additional retainer; \$16,000 audit committee chair retainer; \$12,000 compensation, corporate governance and nominating committee chair retainer; \$8,000 audit committee member; and \$6,000 compensation, corporate governance and nominating committee member. Directors are reimbursed for expenses incurred in attending Board and committee meetings or otherwise in the performance of their duties. Directors are no longer paid fees based on the number of meetings attended.

### ***Deferred Share Unit Plan (“DSU” Plan)***

On January 1, 2009, the Corporation established the DSU Plan, a share-based compensation plan for non-employee directors. Under this DSU Plan, non-employee directors can be allotted and can elect to receive a portion of their annual retainers and other Board-related compensation in the form of DSUs. One DSU has a cash value equal to the market price of one Common Share and the number of DSUs issued to a director’s DSU account for any payment is determined using the five-day volume weighted average price of the Common Shares immediately preceding the payment date. Upon issuance, the fair value of the DSUs is recorded as compensation expense and the DSU Accrual is established. At all subsequent reporting dates, the DSU Accrual is adjusted to the market value of the underlying Common Shares and the adjustment is recorded as compensation cost. Within a specified time after retirement, non-employee directors receive a cash payment equal to the market value of their DSUs.

### **Independent Directors’ Compensation for the Fiscal Year Ended December 31, 2013**

Name	External Directors’ Fees (\$)	Share-based awards <sup>(1)</sup> (\$)	Option-based awards (\$)	Non-equity incentive plan compensation		All other compensation (\$)	Total compensation (\$)
				Annual incentive plans	Long-term incentive plans		
David Copeland	45,750	35,250	Nil	Nil	Nil	Nil	81,000
Anthony Dobranowski	36,750	32,250	Nil	Nil	Nil	Nil	69,000
Klaus von Lindeiner	36,750	32,250	Nil	Nil	Nil	Nil	69,000
Jacques Messier	35,250	31,750	Nil	Nil	Nil	Nil	67,000
Theodore H. Stanley	30,750	30,250	Nil	Nil	Nil	36,053 <sup>(2)</sup>	97,053

Notes:

(1) This includes an annual grant of DSUs plus DSUs issued for 50% of their compensation starting July 1, 2013.

(2) Represents consulting services provided by Dr. Stanley to ZARS Pharma, Inc.

## Incentive Plan Awards

### *Outstanding Share-based Awards and Option-based Awards*

The following table indicates for each of the directors all awards outstanding at the end of the 2013 financial year.

Name	Option-based awards					Share-based awards <sup>(1)</sup>		
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option grant date	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share awards that have not vested (\$)	Market or payout value of vested share awards not paid out (\$)
David Copeland	6,153	\$5.525	Aug 16, 2011	Aug 16, 2021	Nil	24,320	\$52,288	Nil
	2,688	\$8.125	May 6, 2008	May 6, 2018	Nil			
	1,050	\$15.925	May 4, 2007	May 4, 2017	Nil			
	418	\$24.05	June 26, 2006	June 26, 2016	Nil			
	769	\$13.00	Sep 21, 2005	Sep 21, 2015	Nil			
	2,384	\$19.50	Dec 17, 2004	Dec 17, 2014	Nil			
	1,538	\$25.35	Sep 21, 2004	Sep 21, 2014	Nil			
Anthony Dobranowski	6,153	\$5.525	Aug 16, 2011	Aug 16, 2021	Nil	23,257	\$50,003	Nil
	2,688	\$8.125	May 6, 2008	May 6, 2018	Nil			
	1,050	\$15.925	May 4, 2007	May 4, 2017	Nil			
	418	\$24.05	June 26, 2006	June 26, 2016	Nil			
	769	\$13.00	Sep 21, 2005	Sep 21, 2015	Nil			
	1,538	\$25.35	Sep 21, 2004	Sep 21, 2014	Nil			
Klaus von Lindeiner	6,153	\$5.525	Aug 16, 2011	Aug 16, 2021	Nil	22,803	\$49,027	Nil
	2,688	\$8.125	May 6, 2008	May 6, 2018	Nil			
	1,050	\$15.925	May 4, 2007	May 4, 2017	Nil			
	418	\$24.05	June 26, 2006	June 26, 2016	Nil			
	769	\$13.00	Sep 21, 2005	Sep 21, 2015	Nil			
	1,538	\$19.50	Dec 17, 2004	Dec 17, 2014	Nil			
	1,538	\$25.35	Sep 21, 2004	Sep 21, 2014	Nil			

Name	Option-based awards					Share-based awards <sup>(1)</sup>		
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option grant date	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share awards that have not vested (\$)	Market or payout value of vested share awards not paid out (\$)
Jacques Messier	6,153	\$5.525	Aug 16, 2011	Aug 16, 2021	Nil	22,550	\$48,483	Nil
	2,688	\$8.125	May 6, 2008	May 6, 2018	Nil			
	1,050	\$15.925	May 4, 2007	May 4, 2017	Nil			
	418	\$24.05	June 26, 2006	June 26, 2016	Nil			
	769	\$13.00	Sep 21, 2005	Sep 21, 2015	Nil			
	1,538	\$25.35	Sep 21, 2004	Sep 21, 2014	Nil			
Theodore H. Stanley	9,228	\$5.525	Aug 16, 2011	Aug 16, 2021	Nil	18,184	\$39,096	Nil

Notes:

(1) A DSU is equivalent to the cash value of one Common Share and each such DSU has been valued at the closing price of the Common Shares on the TSX on December 31, 2013.

### ***Incentive-Plan Awards – Value Vested or Earned during the Year***

The following table indicates for each of the directors the value on vesting of all awards (had they been exercised on the vesting date) during the 2013 financial year.

Name	Option-based awards – Value during the year on vesting (\$)	Share-based awards – Value during the year on vesting (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
David Copeland	Nil	Nil	Nil
Anthony Dobranowski	Nil	Nil	Nil
Klaus von Lindeiner	Nil	Nil	Nil
Jacques Messier	Nil	Nil	Nil
Theodore H. Stanley	Nil	Nil	Nil

### **Directors' & Officers' Liability Insurance**

The Corporation annually renews and purchases insurance coverage for directors' and officers' liability. The current term (December 1, 2013 to November 30, 2014) premium of \$86,000 covers directors' and officers' liability for \$15,000,000. The policy provides for deductibles ranging from \$25,000 to \$100,000 depending upon the nature of the claim made by the Corporation. However, there shall be no deductible for any claim made by a director or officer. This premium is paid entirely by the Corporation.

## SPECIAL BUSINESS

### Share Incentive Plan

The Board believes that the Share Incentive Plan is a key component of compensation and seeks to integrate compensation incentives with the development and successful execution of strategic and operating plans. The Corporation's Share Incentive Plan is designed to support the achievement of the Corporation's performance objectives and to ensure that the NEOs' and other key employees' interests are aligned with the success of the Corporation. The Share Incentive Plan consists of the Share Option Plan, Share Purchase Plan and Share Bonus Plan and is administered by the Board based on recommendations of the Compensation, Corporate Governance and Nominating Committee. The Share Incentive Plan or Options granted pursuant to the Share Option Plan may be amended or modified by the Board in accordance with the Share Incentive Plan; provided that any such amendment or modification which would, among other things, (i) materially increase the benefits under the Share Incentive Plan or any options granted pursuant to the Share Incentive Plan; (ii) increase the number of Common Shares which may be issued pursuant to the Share Incentive Plan (other than by permitted adjustments described in the Share Incentive Plan); or (iii) materially modify the requirements as to eligibility for participation in the Share Incentive Plan, shall only be effective upon such amendment or modification being approved by the shareholders of the Corporation if required by the TSX or any other applicable regulatory authority. No rights under the Share Incentive Plan and no option awarded pursuant to the provisions of the Share Incentive Plan are assignable or transferable by any participant (other than to the participant's estate in certain circumstances). Further details regarding the Share Incentive Plan are discussed under the heading "Statement of Executive Compensation".

The TSX requires that the Share Incentive Plan of the Corporation, along with any unallocated options, rights or other entitlements, receive shareholder approval at the Corporation's annual meeting every three years. The Share Incentive Plan last received shareholder approval at the Corporation's annual meeting on June 21, 2011. Accordingly, unless securityholder approval is obtained, all unallocated options, rights or other entitlements will be cancelled as of June 21, 2014 and the Corporation will not be permitted to grant any further entitlements under the Share Incentive Plan; however, previously allocated Options or Common Shares will continue to be unaffected. At the Meeting, shareholders of the Corporation will be asked to vote for an ordinary resolution affirming, ratifying and approving the Share Incentive Plan and approving all of the unallocated options and the unallocated Common Shares issuable pursuant to the Share Incentive Plan, substantially in the form presented to the directors of the Corporation (the "**Share Incentive Plan Resolution**").

The maximum number of shares reserved for issue pursuant to the Share Option Plan is 10% of the then issued and outstanding shares; the maximum number of Common Shares that may be issued under the Share Purchase Plan is 3% of the then issued and outstanding shares; and the maximum number of shares reserved for issue pursuant to the Share Bonus Plan is 2% of the then issued and outstanding shares.

As of the date of this Circular, the Corporation has Options outstanding under the Share Option Plan to purchase up to 760,653 Common Shares (representing approximately 7.4% of the issued and outstanding Common Shares). In addition, 260,285 Common Shares have been issued under the Share Purchase Plan and 105,185 Common Shares have been issued under the Share Bonus Plan (representing approximately 2.5% and 1.0%, respectively, of the number of currently outstanding Common Shares). If shareholder approval is obtained at the Meeting, the Corporation will not be required to seek further approval of the grant of unallocated options under the Share Option Plan or Common Shares under the Share Purchase Plan or Share Bonus Plan until the Corporation's 2017 annual shareholders' meeting (provided that such meeting is held on or prior to June 11, 2017). If shareholder approval is not obtained at the Meeting, options which have not been allocated and options which are outstanding as of June 21, 2014 and are subsequently cancelled, terminated or exercised will not be available for a new grant of options under the Share Option Plan. Previously allocated options or Common Shares will continue to be unaffected by the approval or disapproval of the Share Incentive Plan Resolution.

The Board recommends the adoption of the Share Incentive Plan Resolution. To be effective, the Share Incentive Plan Resolution must be approved by not less than a majority of the votes cast by the shareholders of the Corporation who vote in respect of such resolution present in person, or represented by proxy, at the Meeting, excluding votes attaching to securities beneficially owned by certain directors and officers of the Corporation, who are considered "insiders" (as defined by the TSX) and who would be entitled to receive a benefit under the Share Incentive Plan. Accordingly, the votes attaching to 407,154 securities beneficially owned by insiders of the

Corporation, representing approximately 4% of the issued and outstanding shares of the Corporation, will be disqualified in counting the votes for the Share Incentive Plan Resolution. Unless otherwise indicated, the persons designated as proxyholders in the accompanying form of proxy will vote the Common Shares represented by such form of proxy, properly executed, for the Share Incentive Plan Resolution.

The text of the Share Incentive Plan Resolution to be submitted to shareholders at the Meeting is set out in Schedule A to this Circular.

**Unless otherwise instructed by a shareholder, the persons named in the accompanying form of proxy will vote “FOR” the Share Incentive Plan Resolution.**

### **Advance Notice By-Law**

On October 30, 2013, the Board approved the adoption of By-Law Number 2 (the “**Advance Notice By-Law**”), the text of which is reproduced in Schedule B to this Circular. Among other things, the Advance Notice By-Law fixes a deadline by which Shareholders, that wish to nominate directors to the Board, must submit a notice of such nominations to the Corporation prior to any annual or special meeting of Shareholders where Directors are to be elected and sets forth the information that a Shareholder must include in the notice to the Corporation. In the case of an annual meeting of Shareholders, notice to the Corporation must be provided not less than 30 days and not more than 65 days prior to the date of the annual meeting. The Advance Notice By-Law allows the Corporation and its Shareholders to receive adequate prior notice of director nominations, as well as sufficient information on all of the nominees.

The implementation of the Advance Notice Policy would prevent Shareholders from nominating directors to the Board without providing the Corporation with an adequate amount of time and information to respond in an informed manner. The purpose of the Advance Notice Policy is not to discourage Shareholder nominations, but rather to facilitate an organized and efficient meeting process. This will ensure that all Shareholders, including those voting by proxy, receive adequate notice of the nominations and have an opportunity to register an informed vote having been afforded a reasonable amount of time for consideration.

At the Meeting, shareholders of the Corporation will be asked to vote for an ordinary resolution to ratify and confirm the Advance Notice By-Law (the “**Advance Notice By-Law Resolution**”). The Advance Notice Resolution must be passed by a majority of the votes cast on this matter by Shareholders present in person or by proxy at the Meeting. If the Advance Notice By-Law is not ratified and confirmed at the Meeting, it will cease to be effective.

The text of the Advance Notice By-Law Resolution is set out in Schedule B to this Circular.

**Unless otherwise instructed by a shareholder, the persons named in the accompanying form of proxy will vote “FOR” Advance Notice By-Law Resolution.**

## STATEMENT OF CORPORATE GOVERNANCE

In June 2005, the Canadian Securities Administrators adopted National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices (“NI 58-101”), to assist companies in establishing best practices and to address concerns about corporate governance. Pursuant to NI 58-101, each reporting issuer, such as the Corporation, must disclose on an annual basis, the corporate governance practices that it has adopted.

In February 2011, the Board refined the Corporation’s governance policies, procedures and practices to ensure that they promote the effective functioning of the Board and its committees and the interests of shareholders, and to establish a common set of expectations as to how the Board, its committees, individual directors and senior management should perform their functions. The Board believes that the Corporation’s corporate governance policies, procedures and practices, which are described below, are in compliance with applicable guidelines, rules and other legal requirements, and are appropriate in the current circumstances.

The Board recognizes that the Corporation’s corporate governance policies, procedures and practices cannot be static and that further refinements may be necessary as applicable legal and regulatory requirements and the Corporation’s circumstances evolve. The Board intends to continue to ensure that the Corporation’s systems and culture of corporate governance meet the legitimate expectations of shareholders, as well as applicable legal and regulatory requirements.

The Corporation’s Corporate Governance Guidelines (including the Board Charter) are set out in Schedule C to this Circular. The Board has approved the disclosure of the Corporation’s governance practices described below, on the recommendation of the Compensation, Corporate Governance and Nominating Committee.

### 1. **Board of Directors**

#### *(a) Disclosure of the identity of directors who are independent.*

Within the meaning of NI 58-101, five of the eight nominated directors meet all requisite independence requirements. The five nominated directors considered “independent” are: Mr. David Copeland, private investor and business consultant; Mr. Anthony Dobranowski, private business consultant; Dr. Klaus von Lindeiner, private business consultant; Dr. Jacques Messier, CEO, The Toronto Humane Society; and Dr. Theodore H. Stanley, Professor of Anesthesiology at the University of Utah.

#### *(b) Disclosure of the identity of directors who are not independent, and the basis for that determination.*

Within the meaning of NI 58-101, three of the eight nominated directors are not independent. The three non-independent nominated directors are: Mr. Daniel Chicoine, chairman and co-chief executive officer of the Corporation, Mr. John London, president and co-chief executive officer of the Corporation, and Dr. Henrich Guntermann, president, Europe and Immunology Group of the Corporation.

#### *(c) Disclosure of whether or not a majority of directors are independent.*

A majority of the Corporation’s eight nominated directors are independent; their sole relationship with the Corporation is as a member of the Board and in some cases, as shareholders.

#### *(d) Identification of any director who is presently a director of any other reporting issuer.*

As of December 31, 2013 the following directors are also directors of reporting issuers in the jurisdictions set out below:

<b>Name</b>	<b>Company</b>	<b>Jurisdiction</b>
David Copeland	B.E.S.T. Total Return Fund Inc.	Ontario
	B.E.S.T. Discovery Fund Inc.	Ontario

Name	Company	Jurisdiction
Anthony Dobranowski	Heating Oil Partners Income Fund <sup>(1)</sup>	Ontario
Klaus von Lindeiner	Bayerische Landesbank	Germany

Notes:

(1) Subsequent to certain subsidiaries of Heating Oil Partners Income Fund filing for creditor protection in the U.S. and Canada, the units of the fund were delisted from the TSX on November 7, 2005. In March 2006, the OSC issued an issuer cease trade order in respect of the units of the fund and it remains in default with the OSC. The debtors joint plan of reorganization was approved by the U.S. bankruptcy court on June 26, 2006 and Heating Oil Income Fund relinquished all equity interests in the reorganized subsidiaries under the approved plan of reorganization.

(e) *Disclosure of whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors.*

To ensure free and open discussion and communication among directors, the independent directors will meet in executive session (with no members of senior management or non-independent directors present) after every regularly scheduled meeting of the Board and otherwise as those directors determine. The lead director will preside at these executive sessions, unless the directors present at such meetings determine otherwise. Further, the Compensation, Corporate Governance and Nominating Committee and the Audit Committee are comprised of independent directors and hold meetings with no members of senior management or non-independent directors present, unless the directors present at such meetings determine otherwise.

(f) *Disclosure of whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, identify the independent chair or lead director, and describe his or her role and responsibilities.*

The chair of the Board, Daniel Chicoine, is not an independent director. The Board has appointed Mr. David Copeland, an independent director, as the lead director. The lead director's role is to ensure that the Board functions independently of management and that directors have an independent leadership contact. The lead director's responsibilities include acting as an independent liaison between the Board and senior management and ensuring that independent directors have had adequate opportunities to discuss issues without management present.

(g) *Disclosure of the attendance record of each director for all board meetings held since the beginning of the most recently completed financial year.*

During the fiscal year ended December 31, 2013, the Board met 13 times. The number of meetings attended by each director is set out below:

	Meetings Attended (#)
Daniel Chicoine	12
John London	13
Henrich Guntermann	11
David Copeland	12
Klaus von Lindeiner	13
Anthony Dobranowski	13
Jacques Messier	13
Theodore Stanley	13



## 2. Mandate of the Board

In fulfilling its statutory mandate and discharging its duty of stewardship of the Corporation, the Board assumes responsibility for those matters set forth in its Charter (which also is its mandate). The full text of the Board Charter is set out in Schedule 1 to the Corporate Governance Guidelines attached as Schedule C to this Circular.

## 3. Position Descriptions

- (a) *Disclosure of whether or not the board has developed written position descriptions for the chair and the chairs of each board committee. If the board has not developed such written position descriptions, disclosure of how the board delineates the role and responsibilities of each such position.*

The Board has developed written position descriptions for the chair of the Board, the lead director of the Board and the chairs of the Compensation, Corporate Governance and Nominating Committee and Audit Committee. The position descriptions are set out in Schedules 2, 3, 5 and 7, respectively, of the Corporate Governance Guidelines attached as Schedule C to this Circular.

- (b) *Disclosure of whether or not the board and CEO have developed a written position description for the CEO. If the board and CEO have not developed such a position description, describe how the board delineates the role and responsibilities of the CEO.*

A written position description has been developed for the Co-CEOs. Day-to-day executive management of the Corporation is managed by an executive management committee (the “**Executive Management Committee**”) consisting of the chairman and co-chief executive officer, the president and co-chief executive officer, and the vice president and chief financial officer. All managers report to and are supervised by one of the members of the Executive Management Committee. Major decisions respecting the day-to-day operations of the Corporation are made by the Executive Management Committee. The Executive Management Committee reviews the progress of the projects within the Corporation to ensure that the strategic plans approved by the Board are executed and implemented in a timely and effective manner. The Executive Management Committee members are in constant contact with each other, but also frequently meet on a formal basis to discuss and review matters affecting the Corporation.

## 4. Orientation and Continuing Education

- (a) *Description of what measures the board takes to orient new directors regarding:*
- (i) *the role of the board, its committees and its directors*
  - (ii) *the nature and operation of the Corporation’s business*

Senior management, working with the Board, will provide appropriate orientation and education for new directors to familiarize them with the Corporation and its business, as well as the expected contribution of individual directors. All new directors will participate in this program orientation and education, which should be completed within four months of a director first joining the Board.

The Compensation, Corporate Governance and Nominating Committee shall, when necessary or appropriate, and to the extent not otherwise being considered and addressed by the Board, in co-operation with the Corporation’s senior management, oversee an appropriate orientation and education for any new directors in order to familiarize them with the Corporation and its business.

- (b) *Description of what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide continuing education, description of how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.*

Senior management will schedule periodic presentations for the Board to ensure they are aware of major business trends and industry practices as and when required. In addition, materials provided to the directors for meetings of the Board should provide the information needed for the directors to make informed judgments or engage in informed discussions. The chair of the Board and the lead director of the Board are responsible for ensuring the adequacy of such materials and that directors have sufficient time to review such materials.

## **5. Ethical Business Conduct**

- (a) *Disclosure of whether or not the board has adopted a written code for the directors, officers and employees. If the board has adopted a written code:*
- (i) *disclosure of how a person or company may obtain a copy of the code*
  - (ii) *description of how the board monitors compliance with its code, or if the board does not monitor compliance, whether and how the board satisfies itself regarding compliance with its code*
  - (iii) *provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code*

The Corporation has adopted a Code of Business Conduct and Ethics (the “**Code**”) applicable to directors, officers and employees. The purpose of the Code is to:

- Promote honest and ethical conduct
- Promote avoidance of conflicts of interest
- Promote full, fair, accurate, timely and understandable disclosure
- Promote compliance with applicable governmental laws, rules and regulations
- Promote the prompt internal reporting to an appropriate person of violation of the Code

All employees, officers and directors are provided with a copy of the Code and are required to sign an acknowledgement that they have read and agree to comply with the terms of the Code. A copy of the Code may be obtained from the Corporation's web site [www.nuvoresearch.com](http://www.nuvoresearch.com).

It is the responsibility of the Compensation, Corporate Governance and Nominating Committee to review senior management's monitoring of compliance with the Code.

- (b) *Description of any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.*

Under the *Ontario Business Corporations Act* (the “**OBCA**”), to which the Corporation is subject, a general notice to the directors is generally required to be sent by a director or officer disclosing that he or she is a director or officer of or has a material interest in a person. It is the policy of the Corporation that an interested director or officer excuse himself or herself from the decision-making process (including discussions relating to the contract or transaction) pertaining to a contract or transaction in which he or she has an interest, other than in the case of certain permitted matters, such as matters related to his or her compensation as a director, permitted under the OBCA.

- (c) *Description of any other steps the board takes to encourage and promote a culture of ethical business conduct.*

The Board is aware and encourages management's practice of holding meetings with all the Corporation's employees during which senior management provides updates on the state of the Corporation's business. Where appropriate, these meetings are also used to remind employees of their responsibility under corporate policies, including the Code.

## **6. Nomination of Directors**

- (a) *Description of the process by which the board identifies new candidates for board nomination.*

The Board, taking into consideration the recommendations of the Compensation, Corporate Governance and Nominating Committee, will be responsible for selecting the nominees for election to the Board, for appointing directors to fill vacancies, and determining whether a nominee or appointee is independent.

The Compensation, Corporate Governance and Nominating Committee develops criteria for selecting new directors, assists the Board by identifying individuals qualified to become members of the Board (consistent with criteria approved by the Board) and develops a list of director nominees for the annual meeting of shareholders and for each committee of the Board and the chair of each committee. In doing so, the Compensation, Corporate Governance and Nominating Committee periodically reviews the competencies, skills and personal qualities required of directors to add value to the Corporation in light of the opportunities and risks facing the Corporation and the Corporation's proposed strategies, the need to ensure that a majority of the Board is comprised of individuals who meet the independence requirements of applicable legislation and stock exchange requirements, and the policies of the Board with respect to director tenure, retirement and succession and director commitments.

- (b) *Disclosure of whether or not the board has a nominating committee composed entirely of independent directors. If the board does not have a nominating committee composed of entirely independent directors, description of the steps the board takes to encourage an objective nomination process.*

The Compensation, Corporate Governance and Nominating Committee is comprised entirely of independent directors. The members of the Committee are: Jacques Messier, Anthony Dobranowski, Theodore Stanley, and Klaus von Lindeiner.

- (c) *If the board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.*

The Compensation, Corporate Governance and Nominating Committee Charter establishes the purpose, composition, responsibilities, and operation of the Compensation, Corporate Governance and Nominating Committee. The Compensation, Corporate Governance and Nominating Committee Charter is set out in Schedule 4 to the Corporate Governance Guidelines attached as Schedule C to this Circular.

## **7. Compensation**

- (a) *Description of the process by which the board determines the compensation for the Corporation's directors and officers.*

The form and amount of director compensation will be determined by the Board from time to time upon the recommendation of the Compensation, Corporate Governance and Nominating Committee. In addition, the Board shall assess the performance of the Corporation's senior management and periodically monitor the compensation levels of such senior management based on determinations and recommendations made by the Compensation, Corporate Governance and Nominating Committee.

The Compensation, Corporate Governance and Nominating Committee develops a compensation structure for the Board and senior management, including salaries, annual and long-term incentive plans and plans involving share options, share issuances and share unit awards. The Compensation, Corporate Governance and Nominating

Committee reviews the compensation and performance of senior management at least annually, with a view to maintaining a compensation program for senior management at a fair and competitive level, consistent with the best interests of the Corporation, and periodically reviews the compensation of directors to, among other things, ensure their compensation appropriately reflects the responsibilities they are assuming.

In discharging its mandate, the Compensation, Corporate Governance and Nominating Committee has the authority to retain and receive advice from outside advisors.

- (b) *Disclosure of whether or not the board has a compensation committee composed entirely of independent directors.*

The Compensation, Corporate Governance and Nominating Committee is comprised entirely of independent directors. The members of the Committee are: Jacques Messier, Anthony Dobranowski, Theodore Stanley and Klaus von Lindeiner.

- (c) *If the board has a compensation committee, description of the responsibilities, powers and operation of the compensation committee.*

The Compensation, Corporate Governance and Nominating Committee Charter establishes the purpose, composition, responsibilities, and operation of the Compensation, Corporate Governance and Nominating Committee. The Compensation, Corporate Governance and Nominating Committee Charter is set out in Schedule 4 to the Corporate Governance Guidelines attached as Schedule C to this Circular.

- (d) *If a compensation consultant or advisor has, at any time since the beginning of the Corporation's most recently completed financial year, been retained to assist in determining the compensation for any of the Corporation's directors and officers, disclosure of the identity of the consultant or advisor and summary of the mandate for which they were retained.*

The Board retained and obtained executive compensation reports and recommendations from Radford in 2010 to review the structure and value of compensation packages paid to the senior management to ensure that they are effective, competitive and comparable to similar companies. Radford did not provide the Compensation, Corporate Governance and Nominating Committee and the Board with advice during 2013.

## **8. Other Board Committees**

- (a) *If the board has standing committees other than the audit, compensation and nominating committees, identification of the committees and description of their function.*

In addition to its function with respect to compensation and nomination matters, the Compensation, Corporate Governance and Nominating Committee is intended to develop appropriate corporate governance principles for the Corporation and undertake such other initiatives to enable the Board to provide effective corporate governance. Its responsibilities include periodically reviewing the adequacy of the Corporation's Corporate Governance Guidelines, the practices of the Board to ensure compliance with the Corporation's Corporate Governance Guidelines, the relationship between senior management and the Board with a view to ensuring that the Board is able to function independently of senior management and making recommendations to the Board with respect to such matters. The Compensation, Corporate Governance and Nominating Committee Charter is set out in Schedule 4 to the Corporate Governance Guidelines attached as Schedule C to this Circular.

## **9. Assessment**

- (a) *Disclosure of whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively.*

The Compensation, Corporate Governance and Nominating Committee oversees periodic reviews of the Board's, the Audit Committee's and individual directors' performance.

## **OTHER BUSINESS**

At the time of this Circular, the Corporation knows of no matter to come before the Meeting other than the matters referred to in the accompanying Notice of Meeting.

## **AUDIT COMMITTEE**

Information concerning the audit committee of the Corporation can be found in the Corporation's Annual Information Form dated February 20, 2014 and available at [www.sedar.com](http://www.sedar.com).

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation, including financial information related to the Corporation is provided in its comparative financial statements for the fiscal year ended December 31, 2013 and management's discussion and analysis is available at [www.sedar.com](http://www.sedar.com), or may be obtained on request and without charge by contacting Stephen Lemieux, Vice President and CFO, 7560 Airport Road, Unit 10, Mississauga, Ontario L4T 4H4.

The Corporation's Report to Shareholders for the fiscal year ended December 31, 2013, containing the Corporation's consolidated financial statements for the fiscal year ended December 31, 2013, is being mailed to the shareholders of the Corporation that requested such information with the Notice of Meeting and this Circular.

## **BOARD APPROVAL**

The contents and mailing of this Circular have been approved by the directors of the Corporation.

BY ORDER OF THE BOARD OF DIRECTORS



Daniel Chicoine  
Chairman and Co-CEO

Mississauga, Ontario  
April 30, 2014

## Schedule A

### BE IT RESOLVED AS AN ORDINARY RESOLUTION OF THE SHAREHOLDERS THAT:

1. The Share Incentive Plan (the “**Plan**”) of Nuvo Research Inc. (the “**Corporation**”) substantially in the form presented to the directors of the Corporation and described in the management information circular of the Corporation dated April 30, 2014 be and is hereby affirmed, ratified and approved.
2. All unallocated options and unallocated common shares issuable pursuant to the Plan be and are hereby approved.
3. The Corporation shall have the ability to continue issuing options and common shares under the Plan until June 11, 2017, which is the date that is three (3) years from the date of the shareholder meeting at which shareholder approval of the Plan is being sought.
4. Each director and officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute and deliver all such documents and to do all such other acts and things as such director or officer may determine to be necessary or advisable to give effect to this resolution, the execution and delivery of any such document or the doing of any such other act or thing being conclusive evidence of such determination.

## **Schedule B**

### **Advance Notice By-Law Resolution**

#### **BE IT RESOLVED AS AN ORDINARY RESOLUTION OF THE SHAREHOLDERS THAT:**

1. By-Law Number 2 (the “**Advance Notice By-Law**”) of Nuvo Research Inc. (the “**Corporation**”) in the form attached and described in the management information circular of the Corporation dated April 30, 2014 be and is hereby affirmed, ratified and approved.
2. Each director and officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute and deliver all such documents and to do all such other acts and things as such director or officer may determine to be necessary or advisable to give effect to this resolution, the execution and delivery of any such document or the doing of any such other act or thing being conclusive evidence of such determination.

## BY-LAW NUMBER 2

### A by-law relating generally to the nomination of persons for election of directors of Nuvo Research Inc. (the “Corporation”).

#### ADVANCE NOTICE OF NOMINATION OF DIRECTORS

##### Nomination of Directors

1. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation. Nominations of persons for election to the board may be made at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors:

- (a) by or at the direction of the board or an authorized officer of the Corporation, including pursuant to a notice of meeting;
- (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the *Business Corporations Act* (Ontario) (the “Act”) or a requisition of the shareholders made in accordance with the provisions of the Act; or
- (c) by any person (a “**Nominating Shareholder**”):
  - (i) who, at the close of business on the date of the giving of the notice provided for below in this By-Law and on the record date for notice of such meeting, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and
  - (ii) who complies with the notice procedures set forth below in this By-Law.

2. In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the secretary of the Corporation at the principal executive offices of the Corporation in accordance with this By-Law.

3. To be timely, a Nominating Shareholder’s notice to the secretary of the Corporation must be made:

- (a) in the case of an annual meeting of shareholders, not less than thirty (30) nor more than sixty-five (65) days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is called for a date that is less than fifty (50) days after the date (the “**Notice Date**”) on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the tenth (10<sup>th</sup>) day following the Notice Date; and
- (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth (15<sup>th</sup>) day following the day on which the first public announcement of the date of the special meeting of shareholders was made. In no event shall any adjournment or postponement of a meeting of shareholders or the announcement thereof commence a new time period for the giving of a Nominating Shareholder’s notice as described above.



4. To be in proper written form, a Nominating Shareholder's notice to the secretary of the Corporation must set forth:

- (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director:
  - (i) the name, age, business address and residential address of the person;
  - (ii) the principal occupation or employment of the person;
  - (iii) the class or series and number of shares in the capital of the Corporation which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice;
  - (iv) the citizenship of the person;
  - (v) any relationships, agreements or arrangements, including financial, compensation and indemnity related relationships, agreements or arrangements, between the person or any affiliates or associates of, or any person or entity acting jointly or in concert with, the person or the Nominating Shareholder;
  - (vi) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws (as defined below); and
- (b) as to the Nominating Shareholder giving the notice:
  - (i) the name, business and residential address of the Nominating Shareholder;
  - (ii) the direct or indirect beneficial ownership in, or control or direction over, any class or series of securities of the Corporation, including the number or principal amount and the date(s) on which such securities were acquired of the Nominating Shareholder;
  - (iii) the Nominating Shareholder's interests in, or rights or obligations associated with, an agreement, arrangement or understanding, the purpose or effect of which is to alter, directly or indirectly, the person's economic interest in a security of the Corporation or the Nominating Shareholder's economic exposure to the Corporation;
  - (iv) any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Corporation;
  - (v) a representation that the Nominating Shareholder is a holder of record of securities of the Corporation, or a beneficial owner, entitled to vote at the meeting;
  - (vi) a representation as to whether such Nominating Shareholder intends to deliver a proxy circular and/or form of proxy to any shareholder of the Corporation in connection with such nomination or otherwise solicit proxies or votes from shareholders of the Corporation in support of such nomination; and
  - (vii) any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the Act and Applicable Securities Laws (as defined below).

5. The Corporation may require any proposed nominee to furnish such other information, including a written consent to act, as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed nominee.

6. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this By-Law; provided, however, that nothing in this By-Law shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the Act. The chair of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.

7. For purposes of this By-Law,

- (a) “**public announcement**” shall mean disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by or on behalf of the Corporation under its profile on the System of Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com); and
- (b) “**Applicable Securities Laws**” means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission and similar regulatory authority of each province and territory of Canada.

8. Notwithstanding any other provision of the by-laws of the Corporation, notice given to the secretary of the Corporation pursuant to this By-Law may only be given by personal delivery, facsimile transmission or by email (at such email address as stipulated from time to time by the secretary of the Corporation for purposes of this notice), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received) to the secretary at the address of the principal executive offices of the Corporation; provided that if such delivery or electronic communication is made on a day which is not a business day or later than 5:00 p.m. (Toronto time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

9. Notwithstanding the foregoing, the board may, in its sole discretion, waive any requirement in this By-Law.

10. By-law Number 1, as amended from time to time, of the by-laws of the Corporation and this By-Law Number 2 shall be read together and shall have effect, so far as practicable, as though all the provisions thereof were contained in one by-law of the Corporation. All terms contained in this by-law which are defined in By-law Number 1, as amended from time to time, of the by-laws of the Corporation shall, for all purposes hereof, have the meanings given to such terms in the said By-law Number 1 unless expressly stated otherwise herein or the context otherwise requires.

## Schedule C

### NUVO RESEARCH INC. (the “Corporation”)

#### CORPORATE GOVERNANCE GUIDELINES

#### INTRODUCTION

The Board of Directors is committed to fulfilling its statutory mandate to supervise the management of the business and affairs of the Corporation with the highest standards of ethical conduct and in the best interests of the Corporation and its shareholders. The Board of Directors, acting on the recommendation of its Compensation, Corporate Governance and Nominating Committee (the “CCGNC”),<sup>1</sup> has adopted these corporate governance guidelines to promote the effective functioning of the Board of Directors and its committees, to promote the interests of shareholders, and to establish a common set of expectations as to how the Board of Directors, its committees, individual directors and senior management should perform their functions.

The following schedules are attached to these guidelines and form a part hereof:

Schedule 1	-	Board of Directors Charter
Schedule 2	-	Position Description for Chair of the Board
Schedule 3	-	Position Description for Lead Director of the Board
Schedule 4	-	CCGNC Charter
Schedule 5	-	Position Description for CCGNC Chair
Schedule 6	-	Audit Committee Charter
Schedule 7	-	Position Description for Audit Committee Chair

#### GUIDELINES

##### Board of Directors’ Responsibilities

The business and affairs of the Corporation are managed by or under the supervision of the Board of Directors in accordance with applicable legislation, regulatory requirements and policies of the Canadian Securities Administrators. The responsibility of the Board of Directors is to provide direction and oversight and overall stewardship of the Corporation. The Board of Directors approves the strategic direction of the Corporation and oversees the performance of the Corporation’s business and senior management. The senior management of the Corporation is responsible for presenting long-term strategic plans to the Board of Directors for review and approval and for implementing the Corporation’s strategic direction.

The Board of Directors also expects management to report short-term results and long-term goals, on a frequent and timely basis. The Board of Director receives regular input and reports from management through the Chair and Co-Chief Executive Officer and the President and Co-Chief Executive Officer, as well as from the Vice President Finance and Chief Financial Officer and other senior management.

In performing their duties, the primary responsibility of the directors is to exercise their business judgment in what they reasonably believe to be the best interests of the Corporation. In discharging that obligation, directors should be entitled to rely on the honesty and the integrity of the Corporation’s senior management and outside advisors and auditors. The directors also should be entitled to have the Corporation purchase reasonable directors’ and officers’ liability insurance on their behalf, and to the benefits of indemnification to the fullest extent permitted by applicable law and to exculpation as provided by applicable law.

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<sup>1</sup> Prior to the implementation of these guidelines, the relevant committee was called the “Compensation and Corporate Governance Committee”. In connection with the adoption and implementation of these guidelines, the committee’s name is being changed.

In fulfilling its statutory mandate and discharging its duty of stewardship of the Corporation, the Board of Directors assumes responsibility for those matters set forth in its Charter (which also is its mandate).

### **Board of Directors' Size**

It is the current view of the Board of Directors that the Board of Directors should consist of no more than seven members to facilitate its effective functioning.

### **Chair of the Board of Directors**

The Board of Directors believes that, at this time, it is appropriate for the Corporation to have a Chair who is not independent. The Chair should carry out his or her responsibilities in accordance with the position description for the Chair.

Because the Chair is not independent, a Lead Director has been appointed by the Board of Directors. The Lead Director should carry out his or her responsibilities in accordance with the written position description for the Lead Director.

### **Selection of Directors**

As provided in the CCGNC's Charter, the CCGNC will be responsible for identifying and recommending to the Board of Directors individuals qualified to become members of the Board of Directors, based primarily on the following criteria:

- judgment, character, expertise, skills and knowledge useful to the oversight of the Corporation's business,
- diversity of viewpoints, backgrounds, experiences and other demographics,
- business or other relevant experience, and
- the extent to which the interplay of the individual's expertise, skills, knowledge and experience with that of other members of the Board of Directors will build a board that is effective, collegial and responsive to the needs of the Corporation.

The CCGNC also will be responsible for initially assessing whether a candidate would be independent (and in that process applying the "Categorical Standards for Determining Independence of Directors" (that are appended to the Board of Directors Charter) and advising the Board of Directors of that assessment.

The Board of Directors, taking into consideration the recommendations of the CCGNC, will be responsible for selecting the nominees for election to the Board of Directors, for appointing directors to fill vacancies, and determining whether a nominee or appointee is independent.

### **Committee Membership**

Each of the Audit Committee and the CCGNC will be composed of no fewer than three members, each of whom will satisfy the membership criteria set out in the relevant committee charter. Members of committees will be appointed by the Board of Directors upon the recommendation of the CCGNC. A director may serve on more than one committee and committee membership may be rotated periodically as necessary or advisable. The Board of Directors, taking into account the recommendation of the CCGNC, generally will designate one member of each committee as chair of that committee. Committee chairs shall carry out their responsibilities in accordance with their respective position descriptions. Committee chairs may be rotated periodically as well.

### **Evaluating Board of Directors and Committee Performance**

The CCGNC will conduct an annual assessment of the effectiveness of the Board of Directors and each of the committees.

## **Board of Directors and Committee Meetings**

The Board of Directors and each committee should meet as provided in its respective charter.

An agenda for each meeting of the Board of Directors and each committee meeting will be provided to each director and each member of the relevant committee. Any director or member of a committee may suggest the inclusion of subjects on the agenda of meetings of the Board of Directors or a committee. Each director and each member of a committee is free to raise at a meeting of the Board of Directors or a committee meeting, respectively, subjects that are not on the agenda for that meeting.

Materials provided to the directors for meetings of the Board of Directors and committee meetings should provide the information needed for the directors and members of the committee, respectively, to make informed judgments or engage in informed discussions.

To ensure free and open discussion and communication among directors, the independent directors will meet in executive session (with no members of senior management or non-independent directors present) after every regularly scheduled meeting of the Board of Directors and otherwise as those directors determine. The Lead Director will preside at these executive sessions, unless the directors present at such meetings determine otherwise. Any interested party may communicate directly with the Lead Director, who may invite such person to address an executive session.

Unless the chair of a committee otherwise determines, the agenda, materials and minutes for each committee meeting will be available on request to all directors, and all directors will be free to attend any committee meeting. All meetings of a committee will have a session in which the members of the committee will meet with no non-committee members present and at any time in a meeting of a committee, directors who are not members may be asked to leave the meeting to ensure free and open discussion and communication among members of the committee. It is at the Board of Directors' discretion as to whether directors who are not members of a committee will be compensated for attending meetings of that committee.

## **Director Compensation**

As provided for in the CCGNC Charter, the form and amount of director compensation will be determined by the Board of Directors from time to time upon the recommendation of the CCGNC.

## **Expectations of Directors**

The Board of Directors has developed a number of specific expectations of directors to promote the discharge by the directors of their responsibilities and to promote the efficient conduct of the Board of Directors.

***Commitment and Attendance.*** All directors should strive to attend all meetings of the Board of Directors and the committees of which they are members. Attendance by telephone or video conference may be used when necessary to facilitate a director's attendance.

***Participation in Meetings.*** Each director should be sufficiently familiar with the business of the Corporation, including its financial statements and capital structure, and the risks it faces, to ensure active and effective participation in the deliberations of the Board of Directors and of each committee on which he or she serves.

***Loyalty and Ethics.*** In their roles as directors, all directors owe a duty of loyalty to the Corporation. This duty of loyalty mandates that the best interests of the Corporation take precedence over any other interest possessed by a director. Directors should conduct themselves in accordance with the Corporation's Code of Business Conduct and Ethics.

***Contact with Senior Management and Employees.*** All directors should be free to contact any of the members of the Corporation's senior management at any time to discuss any aspect of the Corporation's business. The Board of Directors expects that there will be frequent opportunities for directors to meet with

members of senior management in meetings of the Board of Directors and committees, or in other formal or informal settings.

***Confidentiality.*** The proceedings and deliberations of the Board of Directors and its committees are confidential. Each director will maintain the confidentiality of information received in connection with his or her service as a director.

### **Orientation and Continuing Education**

Senior management, working with the Board of Directors, will provide appropriate orientation and education for new directors to familiarize them with the Corporation and its business, as well as the expected contribution of individual directors. All new directors will participate in this program orientation and education, which should be completed within four months of a director first joining the Board of Directors. In addition, senior management will schedule periodic presentations for the Board of Directors to ensure they are aware of major business trends and industry practices as and when required.

## **SCHEDULE 1**

### **NUVO RESEARCH INC. (the “Corporation”)**

#### **BOARD OF DIRECTORS CHARTER**

##### **PURPOSE**

The Board of Directors is elected by the Corporation’s shareholders to supervise the management of the business and affairs of the Corporation, in the best interests of the Corporation. The Board of Directors shall:

- Review and approve the strategic plan and business objectives of the Corporation that are submitted by senior management and monitor the implementation by senior management of the strategic plan. During at least one meeting each year, the Board of Directors will review the Corporation’s long-term strategic plans and the principal issues that the Corporation expects to face in the future.
- Review the principal strategic, operational, reporting and compliance risks for the Corporation and oversee, with the assistance of the Audit Committee, the implementation and monitoring of appropriate risk management systems and the monitoring of risks.
- Ensure, with the assistance of the Compensation, Corporate Governance and Nominating Committee (the “CCGNC”), the effective functioning of the Board of Directors and its committees in compliance with applicable corporate governance requirements, and that such compliance is reviewed periodically by the CCGNC.
- Ensure internal controls and management information systems for the Corporation are in place and are evaluated and reviewed periodically on the initiative of the Audit Committee.
- Assess the performance of the Corporation’s senior management and periodically monitor the compensation levels of such senior management based on determinations and recommendations made by the CCGNC.
- Ensure that the Corporation has in place a policy for effective communication with shareholders, other stakeholders and the public generally.
- Review and, where appropriate, approve the recommendations made by the various committees of the Board of Directors.

##### **COMPOSITION**

The Board of Directors collectively should possess a broad range of skills, expertise, industry and other knowledge, and business and other experience useful to the effective oversight of the Corporation’s business. The Board of Directors should be comprised of that number of individuals which will permit the Board of Directors’ effective functioning. The appointment and removal of directors shall occur in accordance with the *Business Corporations Act* (Ontario) and the Corporation’s by-laws. A majority of the Board of Directors should meet the independence requirements of applicable legislation, regulatory requirements and policies of the Canadian Securities Administrators. The Board of Directors has adopted a set of categorical standards for determining whether directors satisfy those requirements for independence. A copy of those standards is attached as **Appendix A**. The Board of Directors, upon the recommendation of the CCGNC, shall designate the Chair and Lead Director by majority vote of the Board of Directors.

##### **MEETINGS**

The Board of Directors shall meet at least four times each year and more frequently as circumstances require. All members of the Board of Directors should strive to be at all meetings. The Board of Directors may meet separately,

periodically, without senior management, and may request any member of the Corporation's senior management or the Corporation's outside advisors or auditor to attend meetings of the Board of Directors.

## **COMMITTEES**

The Board of Directors may delegate authority to individual directors and committees where the Board of Directors determines it is appropriate to do so. The Board of Directors expects to accomplish a substantial amount of its work through committees and shall form at least the following two committees: the Audit Committee and the CCGNC. The Board of Directors may, from time to time, establish or maintain additional standing or special committees as it determines to be necessary or appropriate. Each committee should have a written charter and should report regularly to the Board of Directors, summarizing the committee's actions and any significant issues considered by the committee.

## **INDEPENDENT ADVICE**

In discharging its mandate, the Board of Directors shall have the authority to retain (and authorize the payment by the Corporation of) and receive advice from special legal, accounting or other advisors as the Board of Directors determines to be necessary to permit it to carry out its duties.

## **ANNUAL EVALUATION**

Annually, the Board of Directors through the CCGNC shall, in a manner it determines to be appropriate:

- Conduct a review and evaluation of the performance of the Board of Directors and its members and committees, including the compliance of the Board of Directors with this Charter. This evaluation will focus on the contribution of the Board of Directors to the Corporation and specifically focus on areas in which the directors and senior management believe that the contribution of the Board of Directors could be improved.
- Review and assess the adequacy of this Charter and the position description for the Chair and Lead Director and make any improvements the Board of Directors determines to be appropriate.



## APPENDIX A

### CATEGORICAL STANDARDS FOR DETERMINING INDEPENDENCE OF DIRECTORS

For a director to be considered independent under the rules of the Canadian Securities Administrators, he or she must have *no direct or indirect material relationship with the Corporation*, being a relationship that could, in the view of the Board of Directors, reasonably interfere with the exercise of a director's independent judgement.

The Board of Directors, upon the recommendation of the CCGNC, has considered the types of relationships that could reasonably be expected to be relevant to the independence of a director of the Corporation. The Board of Directors has determined that:

1. A director's interests and relationships arising solely from his or her (or any immediate family members<sup>2</sup>) shareholdings in the Corporation are not, in and of themselves, a bar to independence.
2. Unless a specific determination to the contrary is made by the CCGNC as a result of there being another direct or indirect material relationship with the Corporation, a director will be independent unless currently, or at any time within the past three years, he or she or any immediate family member:
  - Employment: Is (or has been) an officer or employee (or, in the case of an immediate family member, an executive officer) or (in the case of the director only) of the Corporation or any of its subsidiaries (collectively, the "**Corporation Group**") or is actively involved in the day-to-day management of the Corporation;
  - Direct Compensation: Receives (or has received) direct compensation during any twelve-month period from the Corporation Group (other than director fees and committee fees and pension or other forms of deferred compensation for prior service, provided it is not contingent on continued service);<sup>3</sup>
  - Auditor Relationship. Is (or has been) a partner or employee of a firm that is the Corporation's auditor (provided that in the case of an immediate family member, he or she participates in its audit, assurance or tax compliance (but not tax planning practice)) and if during that time, he or she or an immediate family member was a partner or employee of that firm but no longer is such, he or she or the immediate family member personally worked on the Corporation's audit;
  - Material Commercial Relationship. Has (or has had), or is an executive officer, employee or significant shareholder of a person that has (or has had), a significant commercial relationship with the Corporation Group;
  - Cross-Compensation Committee Link. Is employed as an executive officer of another entity whose compensation committee (or similar body) during that period of employment included a current executive officer of the Corporation; or
  - Material Association. Has (or has had) a close association with an executive officer of the Corporation.

Notwithstanding the foregoing, no director will be considered independent if applicable securities legislation, rules or regulations expressly prohibit such person from being considered independent.

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<sup>2</sup> A (i) spouse, parent, child, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, or (ii) any person (other than domestic employees) who shares that director's home.

<sup>3</sup> Employment as an interim chair or an interim Chief Executive Officer need not preclude a director from being considered independent following the end of that employment. Receipt of compensation by an immediate family member need not preclude a director from being independent if that family member is a non-executive employee.

## **SCHEDULE 2**

### **NUVO RESEARCH INC. (the “Corporation”)**

#### **CHAIR OF THE BOARD OF DIRECTORS**

##### **POSITION DESCRIPTION**

The Chair is a director who is designated by the Board of Directors to assist the Board of Directors in fulfilling its duties effectively and efficiently.

The designation of the Chair shall take place annually at the first meeting of the Board of Directors after a meeting of the shareholders at which directors are elected, provided that if the designation is not so made, the director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

##### **Chair**

The responsibilities of the Chair include:

- acting as a liaison between the Board of Directors and management,
- promoting a thorough understanding by members of the Board of Directors and senior management of the duties and responsibilities of the Board of Directors,
- recommending procedures to enhance the work of the Board of Directors and cohesiveness among directors,
- ensuring that the Board of Directors is appropriately involved in approving strategy and supervising senior management’s progress against achieving that strategy,
- in connection with meetings of the Board of Directors:
  - taking the principal initiative in scheduling meetings of the Board of Directors,
  - organizing and presenting the agenda for Board of Directors meetings such that,
    - all of the responsibilities assigned to the Board of Directors under the terms of its Charter are discharged on a timely and diligent basis, and
    - members of the Board of Directors have input into the agendas,
  - monitoring the adequacy of materials provided to the Board of Directors by senior management in connection with the Board of Directors deliberations,
  - ensuring that members of the Board of Directors have sufficient time to review the materials provided to them and to fully discuss the business that comes before the Board of Directors, and
  - presiding over meetings of the Board of Directors,
- on an annual basis, facilitating the annual performance review and evaluation of the Board of Directors and its members in accordance with the Charter and facilitating the assessment of the adequacy of the Charter, and
- performing such other functions as may be ancillary to the duties and responsibilities described above and as may be delegated to the Chair by the Board of Directors from time to time.

### **SCHEDULE 3**

#### **NUVO RESEARCH INC. (the “Corporation”)**

#### **LEAD DIRECTOR OF THE BOARD**

##### **POSITION DESCRIPTION**

The Lead Director is an “independent” director who is designated by the Board of Directors to assist the Board of Directors in fulfilling its duties independent of management. The Lead Director role also exists to ensure that directors have an independent leadership contact.

The designation of the Lead Director shall take place annually at the first meeting of the Board of Directors after a meeting of the shareholders at which directors are elected, provided that if the designation is not so made, the director who is then serving as Lead Director shall continue as Lead Director until his or her successor is appointed.

##### **Lead Director**

The responsibilities of the Lead Director include:

- acting as an independent liaison between the Board of Directors and senior management,
- together with the Chair, promoting a thorough understanding by members of the Board of Directors and management of the duties and responsibilities of the Board of Directors,
- together with the Chair, recommending procedures to enhance the work of the Board of Directors,
- working with the Chair to ensure that the Board of Directors is appropriately involved in approving strategy and supervising management’s progress against achieving that strategy,
- ensuring that independent directors have had adequate opportunities to discuss issues without management present,
- communicating to senior management, as appropriate, the results of private discussions among independent directors,
- together with the Chair, in connection with meetings of the Board of Directors:
  - scheduling meetings of the Board of Directors,
  - organizing and presenting the agenda for Board of Directors meetings such that,
    - all of the responsibilities assigned to the Board of Directors under the terms of its Charter are discharged on a timely and diligent basis, and
    - members of the Board of Directors have input into the agendas,
  - monitoring the adequacy of materials provided to the Board of Directors by management in connection with the Board of Directors deliberations,
  - ensuring that members of the Board of Directors have sufficient time to review the materials provided to them and to fully discuss the business that comes before the Board of Directors,
  - presiding over meetings of the Board of Directors where the Chair is not in attendance, and

- presiding over executive meetings of the Board of Directors, its non-management directors and its independent directors,
- on an annual basis, facilitating the annual performance review and evaluation of the Board of Directors and its members in accordance with the Charter and facilitating the assessment of the adequacy of the Charter,
- presiding over meetings of the Corporation's shareholders when the Chair is absent or when the Board of Directors determines the Lead Director should do so, and
- performing such other functions as may be ancillary to the duties and responsibilities described above and as may be delegated to the Lead Director by the Board of Directors from time to time.

## **SCHEDULE 4**

### **NUVO RESEARCH INC. (the “Corporation”)**

#### **COMPENSATION, CORPORATE GOVERNANCE AND NOMINATING COMMITTEE CHARTER**

##### **PURPOSE**

The Compensation, Corporate Governance and Nominating Committee (the “CCGNC”) is appointed by the Board of Directors to, when necessary or appropriate, and to the extent not otherwise being considered and addressed by the Board of Directors:

- Recruit, develop and retain senior management,
- conduct performance evaluations and determine compensation of senior management,
- develop succession planning systems and processes relating to senior management,
- develop a compensation structure for the Board of Directors and senior management, including salaries, annual and long-term incentive plans and plans involving share options, share issuances and share unit awards,
- deal with all material benefit plan matters,
- develop to the Board of Directors appropriate corporate governance principles for the Corporation,
- develop procedures for the conduct of Board meetings, and the proper discharge of the Board of Directors’ mandate,
- oversee periodic reviews of the Board of Directors’, its committees’ and individual directors’ performance and the assessment of the Board of Directors’ and committees charters,
- undertake such other initiatives to enable the Board of Directors to provide effective corporate governance,
- develop criteria for selecting new directors,
- assist the Board of Directors by identifying individuals qualified to become members of the Board of Directors (consistent with criteria approved by the Board of Directors),
- develop a list of director nominees for the annual meeting of shareholders and for each committee of the Board of Directors and the chair of each committee, and
- make recommendations, if required, to the Board of Directors with respect to the matters listed above.

##### **REPORTS**

The CCGNC shall report to the Board of Directors on a regular basis, and in any event at least annually. The CCGNC shall prepare a report on the Corporation’s system of corporate governance practices for inclusion in the management information circular or other public disclosure documents of the Corporation. The CCGNC also shall prepare a report disclosing the extent (if any) to which the Corporation does not comply with the corporate governance guidelines of applicable legislation, regulatory requirements and policies of the Canadian securities administrators.

## **COMPOSITION**

The members of the CCGNC shall be three directors who are appointed (and may be replaced) by the Board of Directors. The appointment of members of the CCGNC shall take place annually at the first meeting of the Board of Directors after a meeting of shareholders at which directors are elected, provided that if the appointment of members of the CCGNC is not so made, the directors who are then serving as members of the CCGNC shall continue as members of the CCGNC until their successors are appointed. The Board of Directors may appoint a member to fill a vacancy that occurs in the CCGNC between annual elections of directors. Any member of the CCGNC may be removed from the CCGNC by a resolution of the Board of Directors. Unless the Chair is appointed by the Board of Directors, the members of the CCGNC may designate a Chair by majority vote of the members of the CCGNC.

Each of the members of the CCGNC shall meet the Corporation's "Categorical Standards for Determining Independence of Directors". Each member of the CCGNC shall have or develop an understanding of corporate governance principles and practices.

## **RESPONSIBILITIES**

### **Corporate Governance and Compliance**

The CCGNC shall, when necessary or appropriate, and to the extent not otherwise being considered and addressed by the Board of Directors:

- Review from time to time the size of the Board of Directors and number of directors who are independent for the purpose of applicable requirements,
- periodically review the adequacy of the Corporate Governance Guidelines and Code of Business Conduct and Ethics of the Corporation and determine any proposed changes to those Guidelines or that Code to the Board of Directors for approval,
- be responsible for granting any waivers from the application of the Corporation's Code of Business Conduct and Ethics and review senior management's monitoring of compliance with that Code,
- periodically review the practices of the Board of Directors (including separate meetings of non-management directors and of independent directors) to ensure compliance with the Corporate Governance Guidelines of the Corporation, periodically review the powers, mandates and performance, and the membership of the various committees of the Board of Directors,
- periodically review the relationship between senior management and the Board of Directors with a view to ensuring that the Board of Directors is able to function independently of senior management, and
- make recommendations, if required, to the Board of Directors with respect to the matters listed above.

### **Compensation**

The CCGNC shall, when necessary or appropriate, and to the extent not otherwise being considered and addressed by the Board of Directors:

- At least annually, review with the Co-Chief Executive Officers the long term goals and objectives of the Corporation which are relevant to the Co-Chief Executive Officers' compensation, evaluate the Co-Chief Executive Officers' performance in light of those goals and objectives, determine and recommend to the independent directors for approval, the Co-Chief Executive Officers' compensation based on that evaluation, and report to the Board of Directors thereon. In determining the Co-Chief Executive Officers' compensation, the CCGNC shall consider the Corporation's performance, the value of similar incentive awards to chief executive officers at comparable companies, and the awards given to the Co-Chief Executive Officers in past years, with a view to maintaining a compensation program for the Co-Chief Executive Officers at a fair and competitive level, consistent with the best interests of the Corporation,

- at least annually, in consultation with the Co-Chief Executive Officers, review the compensation of all members of senior management other than the Co-Chief Executive Officer, with a view to maintaining a compensation program for the senior management at a fair and competitive level, consistent with the best interests of the Corporation,
- periodically review compensation of directors, the Chair, the Lead Director and those acting as committee chairs to, among other things, ensure their compensation appropriately reflects the responsibilities they are assuming,
- fix and determine (and, as it determines to be appropriate, delegate the authority to fix and determine) awards (and the vesting criteria thereof) to employees of stock or stock options pursuant to any of the Corporation's equity-based plans now or from time to time in effect or otherwise as permitted by applicable legislation, regulatory requirements and policies of the Canadian securities administrators and applicable stock exchanges and exercise such other power and authority as may be permitted or required under those plans,
- in co-operation with the Corporation's senior management, oversee the human resources policies and programs which are of strategic significance to the Corporation,
- review all executive compensation disclosure prior to public disclosure by the Corporation,
- periodically review with the Board of Directors the succession plans relating to the senior positions and make selections of individuals to occupy these positions, and
- make recommendations, if required, to the Board of Directors with respect to the matters listed above.

#### **Director Candidates**

The CCGNC shall, when necessary or appropriate, and to the extent not otherwise being considered and addressed by the Board of Directors:

- Review periodically the competencies, skills and personal qualities required of directors to add value to the Corporation in light of the opportunities and risks facing the Corporation and the Corporation's proposed strategies, the need to ensure that a majority of the Board of Directors is comprised of individuals who meet the independence requirements of applicable legislation and stock exchange requirements, and the policies of the Board of Directors with respect to director tenure, retirement and succession and director commitments,
- In co-operation with the Corporation's senior management, oversee an appropriate orientation and education for any new directors in order to familiarize them with the Corporation and its business,
- Actively seek individuals qualified (in context of the Corporation's needs and any formal criteria established by the Board of Directors) to become members of the Board of Directors for recommendation to the Board of Directors,
- Review the membership and allocation of directors to the various committees of the Board of Directors, and the chairs thereof,
- Establish procedures for the receipt of comments from all directors to be included in an periodic assessment of the Board of Director's performance,
- If the need should arise, approve the engagement of independent advisors for individual directors at the expense of the Corporation, and
- make recommendations, if required, to the Board of Directors with respect to the matters listed above.

## **MEETINGS**

The CCGNC shall meet at least twice per year and more frequently as circumstances require. All members of the CCGNC should strive to be at all meetings. The CCGNC shall meet separately, periodically, with senior management and may request any member of the Corporation's senior management or the Corporation's outside counsel to attend meetings of the CCGNC or with any members of, or advisors to, the CCGNC. The CCGNC will also meet in camera at each of its regularly scheduled meetings.

Quorum for the transaction of business at any meeting of the CCGNC shall be a majority of the number of members of the CCGNC or such greater number as the CCGNC shall by resolution determine. The powers of the CCGNC may be exercised at a meeting at which a quorum of the CCGNC is present in person or by telephone or other electronic means or by a resolution signed by all members entitled to vote on that resolution at a meeting of the CCGNC. Each member (including the Chair) is entitled to one (but only one) vote in CCGNC proceedings.

Meetings of the CCGNC shall be held from time to time and at such place as a member of the CCGNC may request upon 48 hours prior notice. The notice period may be waived by a quorum of the CCGNC.

The CCGNC may delegate authority to individual members and subcommittees of its members where the CCGNC determines it is appropriate to do so.

## **INDEPENDENT ADVICE**

In discharging its mandate, the CCGNC shall have the authority to retain (and authorize the payment by the Corporation of) and receive advice from special legal or other advisors as the CCGNC determines to be necessary to permit it to carry out its duties. The CCGNC shall have the sole authority to appoint and, if appropriate, terminate any consultant used to identify director candidates and to approve the consultant's fees and other retention terms.

## **ANNUAL EVALUATION**

Annually, the CCGNC shall, in a manner it determines to be appropriate:

- Conduct a review and evaluation of the performance of the CCGNC and its members, including the compliance of the CCGNC with this Charter.
- Review and assess the adequacy of its Charter and the position description for its Chair and recommend to the Board of Directors any improvements to this Charter or the position description that the CCGNC determines to be appropriate.



## **SCHEDULE 5**

### **NUVO RESEARCH INC. (the “Corporation”)**

#### **CHAIR OF THE COMPENSATION, CORPORATE GOVERNANCE AND NOMINATING COMMITTEE**

##### **POSITION DESCRIPTION**

The Chair is a member of the Compensation, Corporate Governance and Nominating Committee (the “CCGNC”), designated by the Board of Directors to assist the CCGNC in fulfilling its duties effectively and efficiently in accordance with the written charter of the CCGNC.

The Chair will provide leadership to the CCGNC in discharging its mandate as set out in the Charter, including by promoting:

- a thorough understanding by members of the CCGNC and senior management of the duties and responsibilities of the CCGNC, and
- cohesiveness among members of the CCGNC.

The Chair shall be the liaison between the CCGNC, the Board of Directors and the Corporation’s senior management, promoting open and constructive discussions between members of the CCGNC and each of these parties.

In connection with meetings of the CCGNC, the Chair shall be responsible for:

- recommending procedures to enhance the work of the CCGNC,
- taking the principal initiative in scheduling meetings of the CCGNC,
- organizing and presenting the agenda for CCGNC meetings such that:
  - all of the responsibilities assigned to the CCGNC under the terms of its Charter are discharged on a timely and diligent basis, and
  - members of the CCGNC have input into the agendas,
- monitoring the adequacy of materials provided to the CCGNC by senior management in connection with the CCGNC’s deliberations,
- ensuring that members of the CCGNC have sufficient time to review the materials provided to them and to fully discuss the business that comes before the CCGNC, and
- presiding over meetings of the CCGNC.

On an annual basis, the Chair will facilitate:

- the performance review and evaluation of the CCGNC and its members in accordance with the Charter, and
- a review and assessment of the adequacy of the Charter and this position description, and following such review and assessment, make a recommendation to the Board of Directors with respect to any changes the CCGNC deems appropriate.

The Chair shall perform such other functions as may be ancillary to the duties and responsibilities described above and as may be delegated to the Chair by the CCGNC or the Board of Directors from time to time.

## SCHEDULE 6

### **NUVO RESEARCH INC.** (the “Corporation”)

#### AUDIT COMMITTEE CHARTER

##### **PURPOSE**

The purpose of the Audit Committee (the “Committee”) is to assist the Board of Directors of Nuvo Research Inc. (the “Board”) in fulfilling its responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures, the adequacy of internal accounting controls and procedures and the quality and integrity of the consolidated financial statements of Nuvo Research Inc. (the “Company”) and its affiliates. The Committee is also responsible for the audit process.

More specifically the purpose of the Committee is to satisfy itself that:

- A. The Company’s annual financial statements are fairly presented in accordance with Canadian generally accepted accounting principles and to recommend to the Board whether the annual financial statements should be approved.
- B. The information contained in the Company’s quarterly financial statements, annual report and other financial publications, such as management’s discussion and analysis, is complete and accurate in all material respects and to recommend to the Board whether these materials should be approved.
- C. The Company has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance with legal and regulatory requirements.
- D. The external audit functions have been effectively carried out and that any matter which the independent auditors wish to bring to the attention of the Board has been addressed. The Committee will also recommend to the Board the re-appointment or appointment of auditors and their remuneration.

##### **COMPOSITION AND TERMS OF OFFICE**

- A. Following each annual meeting of the Company, the Board shall appoint three or more directors to serve on the Committee. Such appointees shall not be officers or employees of either the Company or its affiliates. Each member of the Committee must be “Independent” as defined by Multilateral Instrument 52-110 and “Unrelated” according to the rules of the Toronto Stock Exchange (the “TSX”) from time to time, and free of any relationship that could, or could reasonably be perceived to, in the opinion of the Board, interfere with the exercise of independent judgment as a member of the Committee. All members of the Committee must be financially literate and be able to read and understand fundamental financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements including the Company’s balance sheet, income statement and cash flow statement, or develop that capability within a reasonable time after appointment.
- B. The chair of Committee shall be appointed by the Board and shall not be an officer or employee of the Company or its affiliates. The chair of the Committee shall be a “financial expert” having an understanding of GAAP and financial statements, internal controls and procedures for financial reporting and, if possible, shall have served as the principal financial officer for another business entity.
- C. Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member upon ceasing to be a director of the Company. Each member of the Committee shall hold office until the close of the next annual meeting of the Company or until the member resigns or is replaced, whichever first occurs.

- D. The Committee will meet at least four times per year. The meetings will be scheduled to permit timely review of the interim and annual financial statements of the Company and its affiliates. Additional meetings may be held as deemed necessary by the chair of the Committee or as requested by any member of the Committee or by the external auditors.
- E. If all members consent, and proper notice has been given or waived, a member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.
- F. A quorum for the transaction of business at all meetings of the Committee shall be a majority of the members of the Committee. Questions arising at any meeting shall be determined by a majority of votes of the members of the Committee present, and in case of an equality of votes the Chair of Committee shall have a second casting vote.
- G. The Committee may invite such directors, officers and employees of as it may see fit from time to time to attend meetings of the Committee and assist in the discussion and consideration of the business of the Committee, but without voting rights.
- H. The Committee shall keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board at such times as the Board may, from time to time, require.
- I. Supporting schedules and information reviewed by the Committee will be available for examination by any director upon request to the Secretary of the Committee.
- J. The Committee shall choose as its secretary such person as it deems appropriate.
- K. The external auditors shall be given notice of, and have the right to appear before and to be heard at, every meetings of the Committee, and shall appear before the Committee when requested to do so by the Committee.

## **DUTIES AND RESPONSIBILITIES**

Subject to the powers and duties of the Board, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board:

### **Financial Reporting Control**

The Committee shall:

- (a) review reports from senior officers of the Company, outlining any significant changes in financial risks facing the Company;
- (b) review the management letter of the external auditors and responses to suggestions made;
- (c) annually review the Audit Committee Charter and the performance of the Committee itself;
- (d) review any new appointments to senior positions of the Company or its affiliates, with financial reporting responsibilities; and,
- (e) obtain assurance the external auditors regarding the overall control environment and the adequacy of accounting system controls.

### **Interim Financial Statements**

The Committee shall:

- (a) review interim financial statements with officers of the Company prior to their release and recommend their approval to the Board. This will include a detailed review of quarterly and year-to-date results; and
- (b) review the Company's MD&A and press releases accompanying interim financial statements.

### **Annual Financial Statements and Other Financial Information**

The Committee shall:

- (a) review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements;
- (b) obtain summaries of significant transactions and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;
- (c) obtain draft annual financial statements in advance of the Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by officers of the Company;
- (d) review a summary provided by the Company's general counsel of the status of any material pending or threatened litigation, claims and assessments;
- (e) discuss the annual financial statements and the auditors' report thereon in detail with officers of the Company and its auditors;
- (f) review the annual report and other annual financial reporting documents including management's discussion and analysis;
- (g) provide to the Board a recommendation as to whether the annual financial statements should be approved;
- (h) review insurance coverage including directors' and officers' liability coverage ; and
- (i) review the Company's Annual Information Form ("AIF") and ensure compliance with FORM 52-110F1, audit committee information required in an AIF.

### **External Audit Terms of Reference, Reports, Planning and Appointment**

The Committee shall:

- (a) ensure that the external auditor explicitly acknowledges that they are ultimately and directly accountable to the Board and the Committee as representatives of the shareholders;
- (b) review the audit plan with the external auditors;
- (c) specify its expectations of the external auditors, including the expected relationship between the external auditors and the Committee;
- (d) discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters, including:
  - the quality (not only acceptability) of Canadian GAAP accounting principles;

- the quality of internal controls;
  - the appropriateness of financial statement disclosures; and
  - any other matters the external auditors may wish to bring to the attention of the Committee.
- (e) recommend to the Board each year the retention or replacement of the external auditors. This process shall include establishment of criteria for and an ongoing assessment of the continued independence of the external auditor. If there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition; and
- (f) annually review and recommend for approval to the Board the terms of engagement and the remuneration of the external auditors.

### **Other Matters**

The Committee shall:

- (a) pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the issuer's external auditor.
- (b) establish procedures for the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and
- (c) establish procedures for the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

### **ACCOUNTABILITY**

- A. The Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.
- B. The Committee is empowered to investigate any activity of the Company and all employees are to cooperate as requested by the Committee. The Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.
- C. The Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the external auditors, senior management, legal counsel or anyone else who could contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Committee, including directors, officers and employees of the Company.

## **SCHEDULE 7**

### **NUVO RESEARCH INC. (the “Corporation”)**

#### **CHAIR OF THE AUDIT COMMITTEE**

##### **POSITION DESCRIPTION**

The Chair is a member of the Audit Committee, designated by the Board of Directors to assist the Audit Committee in fulfilling its duties effectively and efficiently in accordance with the written charter of the Audit Committee.

The Chair will provide leadership to the Audit Committee in discharging its mandate as set out in its Charter, including by promoting:

- a thorough understanding by members of the Audit Committee and senior management of the duties and responsibilities of the Audit Committee, and
- cohesiveness among members of the Audit Committee.

The Chair shall be the liaison between the Audit Committee, the Board of Directors and the Corporation’s senior management, promoting open and constructive discussions between members of the Committee and each of these parties.

In connection with meetings of the Audit Committee, the Chair shall be responsible for:

- recommending procedures to enhance the work of the Committee,
- taking the principal initiative in scheduling meetings of the Audit Committee,
- organizing and presenting the agenda for Audit Committee meetings such that:
  - all of the responsibilities assigned to the Audit Committee under the terms of its Charter are discharged on a timely and diligent basis, and
  - members of the Audit Committee have appropriate input into the agendas,
- monitoring the adequacy of materials provided to the Audit Committee by senior management and the independent auditors in connection with the Audit Committee’s deliberations,
- ensuring that members of the Audit Committee have sufficient time to review the materials provided to them and to fully discuss the business that comes before the Audit Committee, and
- presiding over meetings of the Audit Committee.

On an annual basis, the Chair will facilitate:

- the performance review and evaluation of the Audit Committee and its members in accordance with the Charter, and
- a review and assessment of the adequacy of the Charter and this position description, and following such review and assessment, make a recommendation to the Board of Directors with respect to any improvements the Audit Committee deems appropriate.

The Chair shall perform such other functions as may be ancillary to the duties and responsibilities described above and as may be delegated to the Chair by the Audit Committee or the Board of Directors from time to time.

