



## 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 Tuesday, June 21, 2011 at 9:00 a.m. (Toronto time) at the TMX Broadcast Centre, 130 King Street West, Toronto, Ontario, M5X 1J2 for the following purposes:

- (1) to receive the audited financial statements of the Corporation for the fiscal year ended December 31, 2010, 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, a special resolution (the full text of which is reproduced as Schedule B to the accompanying Management Information Circular) authorizing the Corporation to amend its articles to consolidate its issued and outstanding common shares on the basis of one post-consolidation common share for a number of pre-consolidation common shares, to be determined by the board of directors of the Corporation, that is not more than 65;
- (6) to consider, and if thought advisable, to adopt, with or without variation, an ordinary resolution (the full text of which is reproduced as Schedule C to the accompanying Management Information Circular) authorizing the Corporation to issue up to 114,620,000 common shares, in lieu of approximately \$22.9 million in secured interest bearing promissory notes, conditional upon the achievement of certain milestones and the occurrence of certain future events pursuant to the terms of an agreement and plan of merger dated April 15, 2011 by and among the Corporation, Nuvo Research Delaware Inc., ZARS Pharma, Inc. and the Representative (as defined therein) (all as more particularly described in the accompanying Management Information Circular); and
- (7) to transact such other business as may properly be brought before the Meeting or any adjournment thereof.

DATED at Mississauga, Ontario this 19<sup>th</sup> day of May, 2011.

BY ORDER OF THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read "Daniel Chicoine".

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, CIBC Mellon Trust Company, P.O. Box 721, Agincourt, Ontario M1S 0A1, ATTN. PROXY DEPARTMENT, no later than 12:00 p.m. (Toronto time), on Monday, June 20, 2011 or in the case of any adjournment of the Meeting, no later than 5:00 p.m. (Toronto time), 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 Tuesday, June 21, 2011 at 9:00 a.m. (Toronto time) at the TMX Broadcast Centre, 130 King Street West, Toronto, Ontario, M5X 1J2 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, brokerage firms and other custodians, nominees and fiduciaries for any reasonable expenses incurred in sending proxy material to beneficial owners of shares and requesting authority to execute proxies.

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, 2010 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, 2010, and this Circular are available upon request from the Corporation without charge to the security holder. The information contained herein is given as at May 19, 2011, 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 consummation of the ZARS Transaction and the anticipated benefits of the Share Consolidation (each as more particularly described under the heading “Special Business” below), 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. Some forward-looking statements may be identified by words like “expects”, “anticipates”, “plans”, “intends”, “indicates” or similar expressions. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking 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, 2010 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 such as, among others, a bank, trust company, securities dealer or broker, or a trustee or administrator of self-administered RRSPs, RRIFs, RESPs and similar plans (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, CIBC Mellon Trust Company, P.O. Box 721, Agincourt, Ontario M1S 0A1, ATTN. PROXY DEPARTMENT no later than 12:00 p.m. (Toronto time) on Monday, June 20, 2011 or in the case of any adjournment of the Meeting, no later than 5:00 p.m. (Toronto time) 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 of the Corporation, 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 (or "**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, 2010 (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 CIBC Mellon Trust

Corporation, P.O. Box 721, Agincourt, Ontario M1S 0A1, ATTN. PROXY DEPARTMENT, 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.*

A Non-Registered Holder may revoke a voting instruction form or a waiver of the right to receive meeting materials and to vote given to an Intermediary at any time by written notice to the Intermediary, except that an Intermediary is not required to act on a revocation of a voting instruction form or of a waiver of the right to receive meeting materials and to vote that is not received by the Intermediary at least seven days prior to the Meeting.

#### **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 May 19, 2011 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, except that a transferee of Common Shares after the Record Date shall be entitled to vote at the meeting if s/he produces properly endorsed certificates for such shares or otherwise establishes that s/he owns such shares, and has requested not later than two clear days before the meeting that the Transfer Agent of the Corporation, CIBC Mellon Trust Company, P.O. Box 721, Agincourt, Ontario M1S 0A1, ATTN. PROXY DEPARTMENT, include his or her name in the list of shareholders entitled to vote at the Meeting, such list having been prepared as of the Record Date.

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

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 other than in respect of the “special business” described herein.

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

As of the Record Date, the Corporation had outstanding 518,600,868 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, other than funds affiliated with the venture capital firm Draper Fisher Jurvetson who, collectively, exercise control or direction over 53,117,243 Common Shares, or approximately 10.2% of the voting rights attached to the outstanding Common Shares. The foregoing information has been derived directly from Draper Fisher Jurvetson.

## 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, 2010, 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, 2010 which is being mailed to shareholders with the Notice and this Circular and which is available at [www.sedar.com](http://www.sedar.com).

### Election of Directors

On February 24, 2011, 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 May 19, 2011.

In addition, the table sets forth the members of the Corporation's Compensation, Corporate Governance and Nominating Committee and Audit Committee.

Name and Residence	Principal Occupation	Director Since	Number of Common Shares Beneficially Owned or Controlled
Daniel Chicoine <sup>(5)</sup> Ontario, Canada	Chairman and Co-CEO	September 21, 2004	3,015,839
David A. Copeland <sup>(4, 7, 8)</sup> Ontario, Canada	Private Investor and Business Consultant	September 21, 2004	724,637
Anthony E. Dobranowski <sup>(1, 3, 6)</sup> Ontario, Canada	Private Business Consultant	September 21, 2004	300,000
Dr. Henrich R.K. Guntermann Aachen, Germany	President, Europe and Immunology Group	September 21, 2004	37,076
Dr. Klaus von Lindeiner <sup>(1, 3)</sup> Munich, Germany	Private Business Consultant	September 21, 2004	100,000
John C. London <sup>(8)</sup> Ontario, Canada	President and Co-CEO	September 21, 2004	1,199,507
Dr. Jacques Messier <sup>(2)</sup> Saskatchewan, Canada	Director, Veterinary Teaching Hospital, University of Saskatchewan	September 21, 2004	950
Dr. Theodore H. Stanley Utah, United States	Professor of Anesthesiology at the University of Utah	N/A	5,512,326

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 is a trustee of Heating Oil Partners Income Fund. 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 Elektronik, 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.

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 2004 to 2007, was General Manager of The Semex Alliance, a developer and marketer of genetic technologies, products and services, and since 2008, is Director of the Veterinary Teaching Hospital at the University of Saskatchewan; and Anthony E. Dobranowski who from 1995 to 2005 held various positions as Vice Chairman, President, Executive Vice President and Chief Financial Officer of Tesma International Inc., a publicly traded subsidiary of Magna International Inc. and from 2005 to September 2007 was a Vice President of Magna International Inc.

Pursuant to the terms of the agreement and plan of merger entered into by the Corporation on April 15, 2011 with, among others, ZARS Pharma, Inc. (as described in more detail under the section entitled "Issuance of Shares in Connection with the ZARS Transaction"), the Corporation agreed to appoint Dr. Stanley as a director of the Corporation following the closing of the ZARS Transaction and nominate Dr. Stanley to the Board for the three years following the closing of the ZARS Transaction. Dr. Stanley has been a Professor of Anesthesiology at the University of Utah for the past 35 years, is the co-founder and non-executive chairman of ZARS Pharma, Inc., is the co-founder of Anesta Corp., a drug delivery company, which was acquired by Cephalon, Inc. in 2000 and is an executive officer of the National Academy of Perioperative Echocardiography, NeuroAdjvants, Inc. and the Stanley Research Foundation.

As previously announced, the ZARS Transaction closed on May 12, 2011. It is expected that Dr. Stanley will be appointed to the Board prior to the Meeting. Following the appointment of Dr. Stanley to the Board, the Board will consist of eight directors, four of which are independent under applicable securities laws. The Corporation's Board Charter contemplates that a majority of the Board should meet the independence requirements under applicable securities laws and the Corporation continues to believe that this is an appropriate corporate governance policy. Accordingly, the Corporation is committed to changing the composition of the Board within six months of Dr. Stanley's election, such that the Board would consist of a majority of independent directors following such appointment.

#### **Appointment of Auditors**

At the Meeting, shareholders will be asked to appoint BDO Canada LLP as the auditors of the Corporation (the "Auditors"), based on the recommendations of the Audit Committee and the Board. BDO Canada LLP was appointed as the Auditors by the Audit Committee and the Board on December 16, 2005. 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 BDO Canada 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 the interest of Dr. Stanley in the ZARS Transaction or 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 Chief Executive Officer ("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, 2010 are: (i) Daniel Chicoine; (ii) John London; (iii) James Moulds; (iv) Henrich Guntermann and (v) Bradley Galer.

### **Compensation Discussion and Analysis**

The Corporation's executive compensation program is administered by the Compensation, Corporate Governance and Nominating Committee (previously the Compensation and Corporate Governance Committee) which is comprised of entirely independent directors.

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 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 March 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.

#### **a) Objective of Compensation Program**

Within the Corporation, 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, 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 align the interests of executive officers with the longer term interests of shareholders. In determining the number of Common Shares subject to each option, the Compensation, Corporate Governance and Nominating Committee gives consideration to the individual's present and potential contribution to the success of the Corporation.

As discussed above, the Compensation, Corporate Governance and Nominating Committee retained Radford in March, 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:

<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.
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.

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 the Comparator Group 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 and increasing share value. 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) long term incentive awards, which consist of options and 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. In addition, the Corporation provides the NEOs with a package of medical benefits 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.

**COMPENSATION PHILOSOPHY**

With the benefit of the advice of Radford, 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 an equal blend of compensation for the companies included in the Comparator Group utilizing an equal weighting for companies based in Canada and companies based in the United States. Target pay positioning for the NEOs and other senior executives should be:
  - Base Salary – 25th to 50th percentile
  - Annual Incentive Awards – 50th percentile
  - Long-term Incentive Awards – 50th 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, 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.

**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. Annual incentive awards are designed to increase alignment with the Corporation's strategic and operational goals. The Corporate Objectives for 2010 established by the Compensation, Corporate Governance and Nominating Committee and the Board were: (i) acquire rights to a late stage drug product that is at least entering Phase 2 or Phase 3 of clinical development in 2010; (ii) maintain a strong balance sheet and sufficient liquidity to support ongoing operations; (iii) advance the most promising internal pipeline products by executing defined development steps; and (iv) initiate and obtain top line results for WF10 allergic rhinitis proof of concept study, weighted at 40%, 20%, 20% and 20%, respectively, as to the effect on annual bonus payouts.

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. Based on the recommendation of Radford, the Compensation, Corporate Governance and Nominating Committee and the Board approved a target bonus range for the NEOs between 40% and 50% of base salary.

For each Corporate Objective, there are performance levels set. Upon 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 2010, the Corporation achieved two and partially achieved one of the Corporate Objectives.

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

The Corporation's long-term incentive 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**"). On the recommendation of Radford, the Compensation, Corporate Governance and Nominating Committee and the Board approved a benchmark for long-term incentive awards for the NEOs at the 50th percentile of the Comparator Group.

The PSUs are awarded based on achieving Corporate Objectives. As with annual incentive awards, for each Corporate Objective, there are performance levels set. Upon meeting or exceeding the threshold performance level for a fiscal year, participants become eligible for a long-term incentive award determined as a percentage of their annual base salary with an ability to earn one and a half times the target long-term incentive award if the maximum performance level is achieved.

### ***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 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 May 1, 2008. Accordingly, all unallocated options, rights or other entitlements have been cancelled as of May 1, 2011 and the Corporation is not permitted to grant any further entitlements until such time as shareholder approval is obtained; 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 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 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 Radford, the Compensation, Corporate Governance and Nominating Committee and the Board have determined that options granted to the NEOs under the Share Incentive Plan in 2010 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.

### ***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.

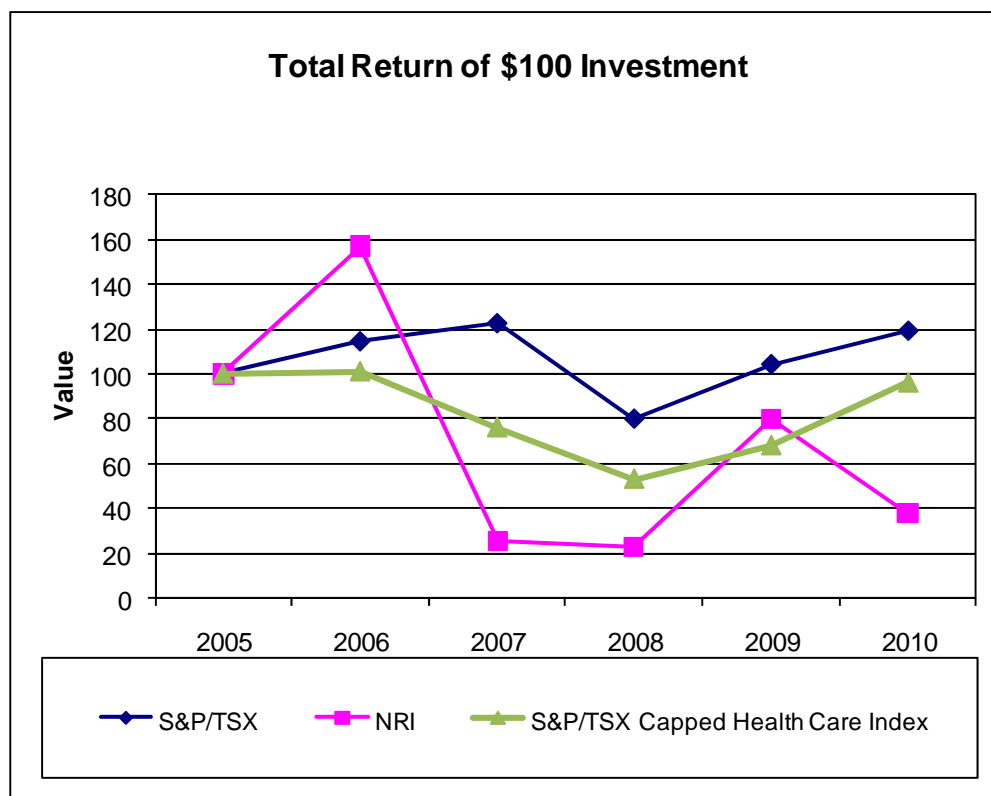
On the recommendation of Radford, the Compensation, Corporate Governance and Nominating Committee and the Board have determined to grant PSUs to the NEOs and certain employees as a long-term incentive award. PSUs are performance-based share awards granted by the Corporation under the Share Bonus Plan. Grants of PSUs are contingent on the Corporation achieving performance milestones and, for 2010, these performance milestones were the Corporate Objectives described above. The Corporation will issue actual Common Shares to the participating NEOs and other senior executives when (i) the performance milestones have been achieved and (ii) the PSUs have vested. PSUs vest in thirds: one third within 30 days following Board approval of the audited annual financial statements of the Corporation; one third on December 31st of the second year following the grant; and one third on December 31st of the third year following the grant.

### ***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.

### ***Performance Graph***

The following graph compares the yearly percentage change in the cumulative total shareholder return on the Common Shares from January 1, 2006 to December 31, 2010, 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	2005	2006	2007	2008	2009	2010
	\$	\$	\$	\$	\$	\$
S&P/TSX	100	115	123	80	104	119
S&P/TSX Capped Health Care Index	100	101	76	53	68	96
NRI	100	157	25	23	80	38

The trend shown by the above performance graph demonstrates a decrease in cumulative shareholder return from 2006 to 2010. The trend in the Corporation's compensation to the NEOs is generally divergent from the trend shown in the performance graph. 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, 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 and Pennsaid Plus.

### **Summary Compensation Table**

The following table sets forth the annual compensation, including total compensation, for the financial year ended December 31, 2010 for each of the NEOs of the Corporation.

## Summary Compensation Table

Name and principal position	Year	Salary (\$)	Share-based awards <sup>(1)</sup> (\$)	Option-based awards <sup>(2)</sup> (\$)	Non-equity incentive plan compensation <sup>(3)</sup> (\$)		All other compensation <sup>(4)</sup> (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans		
Daniel Chicoine Chairman and Co-CEO	2010	386,250	67,793	128,472	135,188	Nil	15,000	732,703
	2009	343,750	Nil	Nil	386,250 <sup>(6)</sup>	Nil	15,000	745,000
	2008	343,750	Nil	Nil	137,600 <sup>(5)</sup>	Nil	15,000	496,350
John London President and Co-CEO	2010	386,250	67,793	128,472	135,188	Nil	15,000	732,703
	2009	343,750	Nil	Nil	386,250 <sup>(6)</sup>	Nil	15,000	745,000
	2008	343,750	Nil	Nil	137,600 <sup>(5)</sup>	Nil	15,000	496,350
James Moulds Executive Vice President and CFO	2010	284,280	38,205	72,435	79,598	Nil	9,600	484,118
	2009	216,300	Nil	Nil	236,314 <sup>(6)</sup>	Nil	9,600	462,214
	2008	216,300	Nil	Nil	86,500	Nil	9,600	312,400
Henrich Guntermann President, Europe and Immunology Group	2010	343,750	35,753	67,771	116,620	Nil	15,000	578,894
	2009	343,750	Nil	Nil	386,250 <sup>(6)</sup>	Nil	15,000	745,000
	2008	343,750	Nil	Nil	137,600 <sup>(5)</sup>	Nil	15,000	496,350
Bradley Galer President, Pain Group, fqubed, Inc. (Nuvo Subsidiary)	2010	US305,000	US33,458	US66,090	US66,738	Nil	US9,600	US480,886
	2009	US225,000	Nil	Nil	US230,000 <sup>(6)</sup>	Nil	US9,600	US464,600
	2008	US225,000	Nil	Nil	US100,000	Nil	US9,600	US334,600

Notes:

- (1) Represents the fair value of the performance stock units that were awarded. The fair value is determined using the market price of the underlying common shares on the grant date.
- (2) Represents the Black-Scholes fair value at the grant date. As of the date hereof, none of the options issued are "in-the-money".
- (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) In August of 2009, a bonus of \$172,000 was approved by the Board for payment relating to performance for the last quarter of 2007 and for the calendar year 2008: \$34,400 is attributable for performance for the last quarter of 2007 and \$137,600 is attributable for performance for 2008 (which later amount is included in the above table).
- (6) Other than \$150,000 of the bonus paid to James Moulds and US\$150,000 of the bonus paid to Bradley Galer which were approved by the Board in December 2009 and January 2010, respectively, bonuses for the calendar year 2009 were approved by the Board in May of 2010. The bonus relates to 2009 performance including Pennsaid® U.S. FDA approval and entering into a license and development agreement with Mallinckrodt Inc., a subsidiary of Covidien plc, granting it exclusive rights to market and sell Pennsaid®, and its follow-on product, Pennsaid® Gel, in the United States.

### 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 2010 financial year.

Name	Option-based awards					Share-based awards	
	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 <sup>(1)</sup> (\$)
Daniel Chicoine Chairman and Co-CEO	1,079,600	\$0.215	June 16, 2010	June 16, 2020	Nil		
	3,500,000	\$0.135	Nov 7, 2007	Nov 7, 2017	52,500		
	2,000,000	\$0.200	Sep 21, 2005	Sep 21, 2015	Nil		
	1,380,000	\$0.300	Dec 17, 2004	Dec 17, 2014	Nil		

Name	Option-based awards					Share-based awards	
	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 <sup>(1)</sup> (\$)
	100,000	\$0.390	Sep 21, 2004	Sep 21, 2014	Nil		
						210,910	31,637
John London President and Co-CEO	1,079,600	\$0.215	June 16, 2010	June 16, 2020	Nil		
	3,500,000	\$0.135	Nov 7, 2007	Nov 7, 2017	52,500		
	2,000,000	\$0.200	Sep 21, 2005	Sep 21, 2015	Nil		
	930,000	\$0.300	Dec 17, 2004	Dec 17, 2014	Nil		
	100,000	\$0.390	Sep 21, 2004	Sep 21, 2014	Nil		
						210,910	31,637
James Moulds Executive Vice President and CFO	608,700	\$0.215	June 16, 2010	June 16, 2020	Nil		
	1,600,000	\$0.135	Nov 7, 2007	Nov 7, 2017	24,000		
	600,000	\$0.380	Jun 29, 2006	Jun 29, 2016	Nil		
						118,860	17,829
Henrich Guntermann President, Europe & Immunology Group	569,500	\$0.215	June 16, 2010	June 16, 2020	Nil		
	3,500,000	\$0.135	Nov 7, 2007	Nov 7, 2017	52,500		
	2,000,000	\$0.200	Sep 21, 2005	Sep 21, 2015	Nil		
	830,000	\$0.300	Dec 17, 2004	Dec 17, 2014	Nil		
	100,000	\$0.390	Sep 21, 2004	Sep 21, 2014	Nil		
						111,230	16,685
Bradley Galer President, Pain Group, fqubed, Inc. (Nuvo Subsidiary)	569,500	\$0.215	June 16, 2010	June 16, 2020	Nil		
	2,000,000	\$0.135	Nov 7, 2007	Nov 7, 2017	30,000		
	200,000	\$0.390	Nov 13, 2006	Nov 13, 2016	Nil		
						111,230	16,685

Notes:

(1) A PSU is equivalent to one Common Share and each such PSU has been valued at the closing price of the Common Shares on the Toronto Stock Exchange on December 31, 2010.

### ***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 2010 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 <sup>(1)</sup> (\$)
Dan Chicoine	Nil	Nil	Nil
John London	Nil	Nil	Nil
James Moulds	Nil	Nil	Nil
Henrich Guntermann	Nil	Nil	Nil
Bradley Galer	Nil	Nil	Nil

Notes:

(1) This information appears in the table on page 12.

## **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 Nuvo'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, Dan Chicoine, in addition to his role as Chairman of the Board, will serve as Co-Chief Executive Officer and John London was appointed to the role of 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. James Moulds, the Corporation's executive vice president and chief financial officer; and Dr. Bradley Galer, president, of the Corporation's Pain Group. Mr. Moulds is employed by the Corporation. Dr. Galer is employed by the Corporation's wholly owned subsidiary, fqubed, Inc. Under the terms of Mr. Moulds' employment agreement, if terminated for cause, he will not be entitled to any payment or compensation from the Corporation. If the Corporation terminates Mr. Moulds without cause, he will be entitled to receive a retiring allowance of \$293,880 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 in the preceding paragraph), for a period of twelve months thereafter, any termination of his employment by the Corporation for any reason, shall entitle Mr. Moulds to receive a lump sum payment of \$587,760 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. Moulds receives an annual salary of \$284,280 and an annual car allowance of \$9,600. Under the terms of Dr. Galer's employment agreement, if terminated for cause, he will not be entitled to any payment or compensation. If the Corporation's subsidiary fqubed, Inc. terminates Dr. Galer without cause, he will be 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 in the preceding paragraph), for a period of twelve months thereafter, any termination of his employment by the Corporation for any reason, shall entitle 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 will have the right, for a period of twelve months thereafter, to terminate his employment by providing fqubed, Inc. 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. Dr. Galer receives an annual salary of US\$305,000 and an annual car allowance of US\$9,600.

### **Compensation of Directors**

Directors are compensated for their services through a combination of retainer fees, meeting attendance fees, share-based awards and stock options. Share-based awards and stock options are described in the Statement of Executive Compensation section.

### ***Deferred Share Unit ("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.

The annual aggregate compensation for each independent director during 2010 was comprised of a combination of cash and the fair value attributed to the grant of DSUs as follows: \$12,000 annual board retainer; \$1,000 for each Board or committee meeting attended in person or \$500 if attended by telephone; \$2,000 annual committee retainer;

\$3,000 retainer for audit committee chair and \$2,000 retainer for compensation committee chair; and the grant of DSUs having a value of \$16,500. Directors are also reimbursed for expenses incurred in attending Board and committee meetings or otherwise in the performance of their duties.

### **Independent Directors' Compensation for the Fiscal Year Ended December 31, 2010**

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	38,500	16,500	Nil	Nil	Nil	Nil	55,000
Anthony Dobranowski	37,500	16,500	Nil	Nil	Nil	Nil	54,500
Klaus von Lindeiner	38,500	16,500	Nil	Nil	Nil	Nil	55,000
Jacques Messier	36,000	16,500	Nil	Nil	Nil	Nil	52,500

Notes:

(1) Annual grant of DSUs.

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

The Corporation annually renews and purchases insurance coverage for directors' and officers' liability. The current term (December 1, 2010 to November 30, 2011) premium of \$87,000 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 (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 May 1, 2008. Accordingly, all unallocated options, rights or other entitlements have been cancelled as of May 1, 2011 and the Corporation is not be permitted to grant any further entitlements until such time as shareholder approval is obtained; 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 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**”).

On September 21, 2005 Shareholders approved an amendment to the Share Incentive Plan (i) increasing the maximum number of shares reserved for issue pursuant to the Share Option Plan to 10% of the then issued and outstanding shares; (ii) increasing the maximum number of Common Shares that may be issued under the Share Purchase Plan to 3% of the then issued and outstanding shares; and (iii) increasing the maximum number of shares reserved for issue pursuant to the Share Bonus Plan to 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 37,401,518 Common Shares (representing approximately 7.2% of the issued and outstanding Common Shares), leaving unallocated options with respect to an aggregate of 14,458,569 Common Shares available for future grants (representing approximately 2.8% of the outstanding Common Shares) based on the number of currently outstanding Common Shares. In addition, 8,968,005 Common Shares have been issued under the Share Purchase Plan and 2,710,448 Common Shares have been issued under the Share Bonus Plan, leaving 6,590,021 and 7,661,569 unallocated Common Shares, respectively, available for future grants based on the number of currently outstanding Common Shares (representing approximately 1.3% and 1.5%, 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 2014 annual shareholders’ meeting (provided that such meeting is held on or prior to June 21, 2014). If shareholder approval is not obtained at the Meeting, options which have not been allocated as of May 1, 2011 and options which are outstanding as of May 1, 2011 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 “insiders” (as defined by the TSX) who would be entitled to receive a benefit under the Share Incentive Plan. Accordingly, the votes attaching to 16,577,780 securities beneficially owned by insiders 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.**

### **PROPOSED SHARE CONSOLIDATION**

On April 20, 2011, the Board approved the submission to Shareholders of the special resolution set forth in Schedule B to this Management Information Circular (the “**Consolidation Resolution**”) authorizing the Board to amend the Corporation’s articles to consolidate the issued and outstanding Common Shares (the “**Share Consolidation**”) on the basis of one post-consolidation Common Share for a number of pre-consolidation Common Shares, to be determined by the Board, that is not more than 65 (the “**Consolidation Ratio**”).

Subject to the approval of the TSX, approval of the Consolidation Resolution by Shareholders would grant the Board authority to implement the Share Consolidation at any time prior to the next annual meeting of Shareholders. In addition, notwithstanding approval of the Share Consolidation by Shareholders, the Board, in its sole discretion, may revoke the Consolidation Resolution, and abandon the Share Consolidation without further approval or action by or prior notice to Shareholders.

## **Background and Reasons for the Share Consolidation**

The Board has determined that it is in Nuvo's best interests for the Board to have the authority to implement a consolidation of Nuvo's issued and outstanding Common Shares. The Board is of the view that the current market price of the Common Shares may limit the ability of Nuvo to attract significant investors, especially in the United States. A higher Common Share price may provide Nuvo with the ability to obtain a listing on a United States stock exchange (a "U.S. Exchange"), such as the NASDAQ or NYSE Amex, should the opportunity arise and the Board determines that it is in the best interest of Nuvo. The Board is reviewing whether seeking a listing on a U.S. Exchange would be a net benefit to Nuvo and is currently exploring options in this regard. A listing of Nuvo's securities on a U.S. Exchange would be expected to enhance Nuvo's profile among a broader group of investors and provide access to much larger pools of capital. Listing on one or more U.S. Exchanges has enabled some TSX-listed companies to expand their investor base (specifically those with minimum price or U.S. listing criteria), increase the liquidity of their equity securities and reduce their cost of capital.

The current price of the Common Shares may not be the required minimum or optimum trading price for these other markets, and where this is the case, if Nuvo were to decide to pursue an additional listing on such a U.S. Exchange, it would first need to complete a consolidation. For example, the minimum trading price is US\$4 for NASDAQ and US\$2 for NYSE Amex. Given that the Board has not determined which U.S. Exchange, if any, on which it would seek to list the Common Shares, it is not appropriate for the Board to set the Consolidation Ratio for the Share Consolidation at this time.

In addition to possibly obtaining a listing on a U.S. Exchange, the Board believes that a higher anticipated Common Share price may meet investing guidelines for certain institutional investors and investment funds that are currently prevented under their investing guidelines from investing in the Common Shares at current price levels. Shareholders may also benefit from relatively lower trading costs, as many investors pay commissions based on the number of Common Shares traded when they buy or sell Common Shares. If the Common Share price were higher, investors may pay lower commissions to trade a fixed dollar amount than they would if the Common Share price is lower. The combination of potentially lower transaction costs and increased interest from some investors could potentially positively impact the trading liquidity of the Common Shares.

The Board believes that, in the event it determines to implement the Share Consolidation for one of the foregoing reasons (including, for certainty, applying to list the Common Shares on a U.S. Exchange), the authority granted to the Board by the Consolidation Resolution will allow the Board to effect the Share Consolidation on a basis that results in a trading price per Common Share that is appropriate for the circumstances.

As of the date of this Management Information Circular, the Board has not yet determined whether to seek to list the Common Shares on a U.S. Exchange. Shareholders are cautioned that there can be no guarantee that the Board will proceed with such an application and, even if the Board does proceed with such an application, there can be no guarantee that any such application would be successful, regardless of whether the Share Consolidation is implemented.

**If the Consolidation Resolution is approved, the Share Consolidation would be implemented, if at all, only upon a determination by the Board that it is in the best interests of the Corporation at that time.** In connection with any determination to implement the Share Consolidation, the Board will set the timing for the Share Consolidation and the Consolidation Ratio for the Share Consolidation and no further action on the part of Shareholders would be required.

## **Risks Associated with the Share Consolidation**

- ***The Corporation's total market capitalization immediately after the proposed Share Consolidation may be lower than immediately before the proposed Share Consolidation.*** There are numerous factors and contingencies that could affect the Corporation's share price following the Share Consolidation, including the status of the market for the Common Shares at the time, the Corporation's reported results of operations in future periods, and general economic, stock market and industry conditions. Accordingly, the market price of the Corporation's Common Shares may not be sustainable at the direct arithmetic result of the Share Consolidation.

- ***The trading liquidity of the Common Shares may be affected.*** While the Board believes that a higher share price may help generate investor interest in the Common Shares, the trading liquidity of the Corporation's Common Shares may not necessarily improve and may get worse.
- ***The consolidation may result in some shareholders owning "odd lots" of less than 100 Common Shares.*** The Share Consolidation may result in some Shareholders owning "odd lots" of less than 100 Common Shares on a post-consolidation basis. Odd lots may be more difficult to sell, or require greater transaction costs per share to sell, than shares in "board lots" of even multiples of 100 shares.

### ***Principal Effects of the Share Consolidation and Fractional Shares***

If approved and implemented, the Share Consolidation will occur simultaneously for all of the Common Shares. The Share Consolidation will affect all Shareholders uniformly and will not affect any Shareholder's percentage ownership interest in the Corporation, except to the extent that the Share Consolidation would otherwise result in any shareholder owning a fractional share (as described below). No fractional Common Shares will be issued in connection with the Share Consolidation. Shareholders otherwise entitled to a fractional share interest as a result of the consolidation will be entitled to a cash payment in lieu of the fractional interest. Each Common Share outstanding after the Share Consolidation will be entitled to one vote and will be fully paid and non-assessable.

The principal effects of the Share Consolidation will be that:

- the number of issued and outstanding Common Shares will be reduced in proportion to the Consolidation Ratio; and
- the exercise or conversion price and/or number of post-consolidation Common Shares issuable under any of the Corporation's outstanding share incentives, including the Share Option Plan, will be proportionately adjusted based on the Consolidation Ratio.

### ***Effect on Non-Registered Shareholders***

Non-registered Shareholders holding their Common Shares through a bank, broker or other nominee should note that such banks, brokers or other nominees may have different procedures for processing the Share Consolidation than those that will be put in place by the Corporation for registered Shareholders. Non-registered Shareholders having questions in this regard are encouraged to contact their nominees.

### ***Effect on Share Certificates***

If the Share Consolidation is approved by Shareholders and implemented by the Board, registered shareholders will be required to exchange their existing share certificates for new share certificates representing post-consolidation Common Shares. Following the effective date of the Share Consolidation, registered shareholders will be sent a transmittal letter from the Corporation's transfer agent, The CIBC Mellon Trust Company, as soon as practicable after the effective date of the Share Consolidation. The letter of transmittal will contain instructions on how to surrender certificate(s) representing pre-consolidation Common Shares to the transfer agent. The transfer agent will forward to each registered shareholder who has sent the required documents a new share certificate representing the number of post-consolidation Common Shares to which the shareholder is entitled.

Until surrendered, each share certificate representing pre-consolidation Common Shares of the Corporation will be deemed for all purposes to represent the number of whole post-consolidation Common Shares into which such pre-consolidation Common Shares are exchanged pursuant to the Share Consolidation.

**SHAREHOLDERS SHOULD NOT DESTROY ANY SHARE CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY SHARE CERTIFICATE(S) UNTIL REQUESTED TO DO SO.**

### **Procedure for Implementing Share Consolidation**

If the Consolidation Resolution is approved by Shareholders and the Board implements the Share Consolidation, the Corporation will promptly file articles of amendment with the Director under the *Business Corporations Act*

(Ontario) in the prescribed form to amend the Corporation's articles. The Share Consolidation will become effective on the date shown in the certificate of amendment issued by the Director under the *Business Corporations Act* (Ontario) or such other date indicated in the articles of amendment provided that, in any event, such date will be prior to date of the next annual meeting of Shareholders.

### **No Dissent Rights**

Under the *Business Corporations Act* (Ontario), Shareholders do not have dissent and appraisal rights with respect to the proposed Share Consolidation.

### **Vote Required and Recommendation of the Board**

The text of the Consolidation Resolution, which will be submitted to shareholders at the Meeting, is set forth in Schedule B to this Management Information Circular. To be effective, the Consolidation Resolution must be approved by not less than two-thirds of the votes cast by the holders of Common Shares present in person or represented by proxy at the Meeting. The Consolidation Resolution provides that the Board may revoke the Consolidation Resolution before the issuance of the certificate of amendment by the Director under the *Business Corporations Act* (Ontario) without the approval of Shareholders.

**For the reasons indicated above, the Board believes that the proposed Share Consolidation is in the best interests of the Corporation and, accordingly, recommends that Shareholders vote FOR the Consolidation Resolution.**

## **ISSUANCE OF SHARES IN CONNECTION WITH ZARS TRANSACTION**

On April 18, 2011 the Corporation announced that it had entered into an agreement and plan of merger (the "**Merger Agreement**") with, among others, ZARS Pharma, Inc. ("**ZARS**"), a specialty pharmaceutical company based in Salt Lake City, Utah, pursuant to which the Corporation agreed to acquire all of the outstanding securities of ZARS (the "**ZARS Transaction**"). The ZARS Transaction, which does not materially affect control of the Corporation, closed on May 12, 2011. The following discussion describes certain material provisions of the Merger Agreement and is subject to, and qualified in its entirety by reference to, the Merger Agreement, a copy of which has been filed by the Corporation on SEDAR and is available at [www.sedar.com](http://www.sedar.com). Capitalized terms used in the following discussion not otherwise defined herein shall have the meanings ascribed to them in the Merger Agreement.

Under the terms of the Merger Agreement, the Corporation paid cash of approximately \$150,000 and issued 99,822,136 Common Shares to the shareholders of ZARS at closing of the ZARS Transaction, representing approximately 19.2% of the Corporation's outstanding Common Shares upon completion of the ZARS Transaction (i.e., 23.8% of its outstanding Common Shares immediately prior to the closing of the ZARS Transaction). In addition, upon the achievement of certain post-closing milestones described in the Merger Agreement (collectively, the "**Milestones**"), the Corporation has agreed to issue to the shareholders of ZARS promissory notes in the aggregate principal amount of approximately \$22.9 million. The foregoing promissory notes (collectively, the "**Notes**") will (a) bear interest at a rate of 18% per annum (payable upon maturity), increasing to 23% per annum following and during the continuance of an Event of Default (as defined in the Merger Agreement), (b) mature upon the date that is 18 months from the date of issuance, and (c) be secured by all accounts receivable due in connection with the sale of ZARS' Pliaglis® and Synera® products following the closing of the ZARS Transaction (all as described in more detail in the term sheet attached as Exhibit A to the Merger Agreement). In lieu of issuing the Notes upon the achievement of the Milestones, the Corporation wishes to issue up to 114,620,000 Common Shares (the "**Milestone Shares**"). Such Milestone Shares would be issued at an implied price of \$0.20 per share, such that if all of the Milestones were achieved, the total number of Milestone Shares to be issued would be 114,620,000, which, together with the Common Shares issued at closing, would represent approximately 34% of the Corporation's outstanding Common Shares (after completion of the ZARS Transaction), or 51.2% of the Corporation's outstanding Common Shares (prior to the Completion of the ZARS Transaction). The issuance of the Milestone Shares is conditional upon, among other things, approval by the shareholders of the Corporation of the Milestone Share Resolution (as described below) and the achievement of the Milestones; as such, there is no guarantee that any of the Milestone Shares will be issued. The first and most significant Milestone, which relates to the achievement by ZARS, prior to December 31, 2012, of both (i) the re-approval of Pliaglis by the FDA and the

first commercial sale of Pliaglis in the United States by Galderma after such re-approval and (ii) the approval of Pliaglis by the BfArM and the first commercial sale of Pliaglis in Europe by Galderma, contemplates the issuance of 74,870,000 Milestone Shares (whereas the other three Milestones each contemplate the issuance of 13,250,000 Milestone Shares).

Section 611(c) of the TSX Company Manual provides that security holder approval is required in those instances where the number of securities issued or issuable in payment of the purchase price for an acquisition exceeds 25% of the number of securities of the listed issuer which are outstanding, on a non-diluted basis, prior to the acquisition. Accordingly, 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 C) authorizing the issuances of the Milestone Shares, in lieu of the Notes, upon the achievement of the Milestones (the “**Milestone Share Resolution**”). To be effective, the Milestone Share 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 any Common Shares held by the (then former) shareholders of ZARS or any parties related to them.

In the event that the Milestone Share Resolution is approved, the Corporation shall issue Milestone Shares in accordance with the terms of the Merger Agreement (i.e. upon the achievement of the Milestones). In the event that the Milestone Share Resolution is not approved, and the Milestones are met, the Corporation shall not be entitled to issue, and the ZARS shareholders shall not be entitled to receive, any Milestone Shares. In such case, the Corporation shall, upon the achievement of the Milestones, issue the Notes to the shareholders of ZARS.

**The Board has unanimously determined that the issuances of the Milestone Shares, in lieu of the Notes, is in the best interests of the Corporation and recommends that shareholders vote in favour of the Milestone Share Resolution.**

**Unless otherwise instructed by a shareholder, the persons named in the accompanying form of proxy will vote “FOR” the Milestone Share 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 D 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, four of the eight nominated directors meet all requisite independence requirements. The four 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; and Dr. Jacques Messier, Director, Veterinary Teaching Hospital, University of Saskatchewan.

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

Within the meaning of NI 58-101, four of the eight nominated directors are not independent. The four 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, Dr. Henrich Guntermann, president, Europe and Immunology Group of the Corporation and Dr. Theodore Stanley, consultant to ZARS Pharma, Inc.

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

Four 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. As discussed under the heading “Election of Directors” above, the Corporation continues to believe that a majority of the Board should meet the independence requirements under applicable securities laws. Accordingly, if Dr. Stanley is elected as a director, the Corporation is committed to changing the composition of the Board within six months of his election, such that the Board would consist of a majority of independent directors following such appointment.

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

The following directors are also directors of reporting issuers in the jurisdictions set out below:

Name	Company	Jurisdiction
David Copeland	B.E.S.T. Total Return Fund Inc.	Ontario
	B.E.S.T. Discovery Fund Inc.	Ontario
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 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 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, 2010, the Board met 13 times. The number of meetings attended by each director is set out below:

	<b>Meetings Attended (#)</b>
Daniel Chicoine	13
John London	13
Henrich Guntermann	12
David Copeland	13
Klaus von Lindeiner	12
Anthony Dobranowski	13
Jacques Messier	13
Theodore Stanley	N/A

## **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 D 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 D 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 executive 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 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 D 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 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 D 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.

## **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 D 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 24, 2011 and available at [www.sedar.com](http://www.sedar.com).

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available at [www.sedar.com](http://www.sedar.com). Financial information related to the Corporation is provided in its comparative financial statements for the fiscal year ended December 31, 2010 and management's discussion and analysis thereon.

The Corporation's Report to Shareholders for the fiscal year ended December 31, 2010, containing the Corporation's consolidated financial statements for the fiscal year ended December 31, 2010, is being mailed to the shareholders of the Corporation 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  
May 19, 2011

## 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 May 19, 2011 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 21, 2014, 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

### BE IT RESOLVED AS A SPECIAL RESOLUTION OF THE SHAREHOLDERS THAT:

1. Nuvo Research Inc. (the “**Corporation**”) is hereby authorized to amend its articles to provide that:
  - (a) the authorized capital of the Corporation is altered by consolidating all of the issued and outstanding common shares in the capital of the Corporation (the “**Common Shares**”) on the basis of one post-consolidation Common Share for a number of pre-consolidation Common Shares, to be determined by resolution of the board of directors of the Corporation (the “**Board of Directors**”), that is not more than 65 (the “**Consolidation Ratio**”);
  - (b) in the event that the consolidation would otherwise result in the issuance of a fractional Common Share, no fractional Common Share shall be issued and such fraction will be rounded down to the nearest whole number; and
  - (c) the effective date of such consolidation shall be the date shown in the certificate of amendment issued by the Director appointed under the *Business Corporations Act* (Ontario) or such other date indicated in the articles of amendment provided that, in any event, such date shall be prior to the Corporation’s next annual meeting of shareholders.
2. The Board of Directors be and is hereby authorized to determine the Consolidation Ratio; provided that, for greater certainty, the number of pre-consolidation Common Shares to be exchanged for each post-consolidation Common Share shall be not more than 65.
3. Any one officer or director of the Corporation be and is hereby authorized and empowered, for and on behalf of the Corporation, to execute and deliver all agreements and documents and to do all such acts and things as he or she may determine to be necessary or desirable in order to carry out the foregoing provisions of this resolution including, without limitation, the execution and delivery of articles of amendment in the prescribed form to the Director appointed by the *Business Corporations Act* (Ontario), the execution of any such document or the doing of any such acts and things being conclusive evidence of such determination.
4. Notwithstanding the foregoing, the directors of the Corporation are hereby authorized, without further approval of or notice to the shareholders of the Corporation, to revoke this special resolution at any time before a certificate of amendment is issued by the Director.

## Schedule C

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

1. Nuvo Research Inc. (the “**Corporation**”) is hereby authorized to issue up to 114,620,000 common shares, in lieu of approximately \$22.9 million in secured interest bearing promissory notes, conditional upon the achievement of certain post-closing milestones and the occurrence of certain future events pursuant to the terms of an agreement and plan of merger dated April 15, 2011 (the “**Merger Agreement**”) by and among the Corporation, Nuvo Research Delaware Inc., ZARS Pharma, Inc. and the Representative (as defined therein).
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.

## Schedule D

### 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 Executive Vice President 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.