

## VELAN INC.

### BOARD OF DIRECTORS MANDATE

#### 1. MANDATE

##### 1.1 Mandate – In adopting this Mandate,

- (a) the Board acknowledges that the mandate prescribed for it by the *Canada Business Corporations Act* (the "**CBCA**") is to manage or supervise the management of, the business and affairs of Velan Inc. (the "**Corporation**") and that this mandate includes responsibility for stewardship of the Corporation; and
- (b) the Board explicitly assumes responsibility for the stewardship of the Corporation, as contemplated by the Toronto Stock Exchange and the Canadian securities regulators' governance standards.

#### 2. DEFINITIONS

##### 2.1 Definitions – In this Mandate:

- (a) "Board" means the Board of Directors of the Corporation;
- (b) "CEO" means the Chief Executive Officer of the Corporation;
- (c) "Chair" means the chairperson of the Board;
- (d) "Director" means a member of the Board; and
- (e) "Mandate" means this mandate, as amended from time to time.

#### 3. BOARD MEMBERSHIP

3.1 Number of Members – The Board shall consist of such number of Directors as the Board may determine from time to time, provided that such number shall be within the minimum and maximum number of Directors set out in the Corporation's articles.

##### 3.2 Canadian Residence –

- (a) At least one quarter of the directors shall be resident Canadians.

##### 3.3 Nomination and Appointment of Directors –

(a) The Corporate Governance and Human Resources Committee shall, unless a separate Nominating Committee be established by the Board, make recommendations to the Board with respect to the nomination of individuals for election as directors.

- (b) In selecting candidates for nomination as Directors, the Board shall:

- (i) consider what competencies and skills the Board, as a whole, should possess; and
- (ii) assess what competencies and skills each existing Director possesses.

(c) The Board shall consider recommendations made to it by the Corporate Governance and Human Resources Committee with respect to the size and composition of the Board.

3.4 Election and Appointment of Directors – Directors shall be elected by the shareholders at each annual meeting of shareholders or at such times, in such manner and for such term as the articles or by-law of the Corporation may prescribe, provided that notwithstanding the expiry of his or her term, each Director shall remain in office until he or she is re-elected, replaced or removed.

3.5 Vacancy – The Board may appoint a Director to fill a vacancy which occurs in the Board between annual elections of Directors to the extent permitted by the CBCA.

3.6 Removal of Members – Any Director may be removed from office by an ordinary resolution of the shareholders at a special meeting of shareholders.

3.7 Additional Directors – In addition to filling vacancies on the board, the directors may at any time, without exceeding the number of directors provided by the articles of the Corporation, appoint one or more additional directors who shall hold office for a term expiring not later than the close of the next annual meeting of shareholders, provided that the total number of directors so appointed may not exceed one-third (1/3) of the number of directors elected at the previous annual meeting of shareholders. If a new CEO is appointed, he or she will be appointed by the Board as an additional Director for a term up to the next annual meeting of shareholders

#### 4. **BOARD CHAIR**

4.1 Chair to be Appointed Annually – The Board shall appoint the Chair annually at the first meeting of the Board after a meeting of the members at which Directors are elected. If the Board does not so appoint a Chair, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

#### 5. **MEETINGS OF THE BOARD**

5.1 Time and Place of Meetings – Meetings of the Board shall be held from time to time and at such place as the Board, the Chair, the chairperson of the executive committee of the Board (if such a committee is constituted), the president or any two Directors may determine.

5.2 Frequency of Board Meetings – Subject to the Corporation's by-laws, the Board shall meet at least four times per year on a quarterly basis.

5.3 Quorum – Unless otherwise fixed in the by-laws of the Corporation, a quorum of the Board shall be a majority of Directors.

5.4 Secretary – The Board shall appoint a person who may, but need not, be a member of the Board, to be secretary and who shall attend and be the secretary of all meetings of the Board, shareholders and committees of the Board.

5.5 Right to Vote – Each Director shall have the right to vote on matters that come before the Board unless precluded by the CBCA.

5.6 Invitees – The Board may invite officers and employees of the Corporation or any other person to attend meetings of the Board to assist in the discussion and examination of the matters under consideration by the Board.

5.7 Meeting of Independent Directors – The independent Directors shall have regularly scheduled meetings at which members of management are not present.

## 6. **OUTSIDE ADVISORS**

6.1 Retaining and Compensating Advisors – Each Director shall have the authority to retain outside counsel and any other external advisors as appropriate with the approval of the Audit Committee.

## 7. **REMUNERATION OF BOARD MEMBERS**

7.1 Remuneration – Members of the board and the chairperson shall receive such remuneration for their service on the board as the board may determine from time to time.

## 8. **DELEGATION OF DUTIES**

8.1 Delegation to Committees – The Board may establish and delegate to committees of the Board any duties and responsibilities of the Board which the Board is not prohibited by law from delegating. However, no committee of the Board shall have the authority to make decisions which bind the Corporation, except to the extent that such authority has been specifically delegated to such committee by the Board.

8.2 Delegation to Committees –

- (a) The Board shall establish and maintain the following committees of the Board, each having mandates that incorporate all applicable legal and stock exchange listing requirements and with such recommendations of relevant securities regulatory authorities and stock exchanges as the Board may consider appropriate:
  - (i) Audit Committee; and
  - (ii) Corporate Governance and Human Resources Committee.
- (b) Subject to the Corporation's articles and by-laws, the Board may appoint any other committee of Directors and delegate to such committee any of the powers of the Board, except to the extent that such delegation is prohibited under the CBCA.

8.3 Composition of Committees – The Board will appoint and maintain in office members of each of its committees such that the composition of each such committee is in compliance with all applicable legal and stock exchange listing requirements and with such recommendations of relevant securities regulatory authorities and stock exchanges as the Board may consider appropriate and shall require the Corporate Governance Committee to make recommendations to it with respect to such matters.

8.4 Review of Charters – The Board will review the charters and the composition of each of its committees on a regular basis and will revise those charters or amend the composition of its committees as it considers appropriate and shall require the Corporate Governance and Human Resources Committee to make recommendations to it with respect to such matters.

8.5 Delegation to Management – Subject to the Corporation’s articles and by-laws, the Board may appoint officers, specify their duties and delegate to them powers to manage the business and affairs of the Corporation, except to the extent that such delegation is prohibited under the CBCA.

8.6 Oversight – The Board retains responsibility for oversight of any matters delegated to any committee of the Board or to management.

8.7 Residual Authority – The Board retains responsibility for any matter that has not been delegated to management or to a committee of the Directors.

## 9. **DUTIES AND RESPONSIBILITIES OF THE BOARD**

### **Responsibility for Specific Matters**

9.1 Responsibility for Specific Matters – The Board explicitly assumes responsibility for the matters set out in this Mandate, and specifically those matters set out below, recognizing that these matters represent in part responsibilities reflected in requirements and recommendations adopted by applicable securities regulators and the stock exchanges and do not limit the Board's overall stewardship responsibility or its responsibility to manage the affairs of the Corporation.

9.2 Delegation to Committees – Whether or not specific reference is made to committees of the Board in connection with any of the matters referred to below, the Board may direct any committee of the Board to consider such matters and to report and make recommendations to the Board with respect to these matters.

### **Corporate Governance Generally**

9.3 Corporate Governance Matters –

- (a) Corporate Governance Guidelines. The Board shall adopt and maintain corporate governance guidelines recommended to it by the Corporate Governance Committee and which comply with all applicable legal and stock exchange listing requirements and with such recommendations of relevant securities regulatory authorities and stock exchanges as the Board may consider appropriate.

- (b) Corporate Governance Disclosure. The Board shall review all material disclosure with respect to the Corporation's system of corporate governance and the operation of its system of governance required by the Toronto Stock Exchange and the Canadian securities regulators, as submitted to it by its Corporate Governance Committee.

### **Responsibilities Relating to Management**

9.4 Integrity of Management – The Board shall, to the extent feasible, satisfy itself:

- (a) as to the integrity of the CEO and other senior officers; and
- (b) that the CEO and other senior officers create a culture of integrity throughout the organization.

9.5 Succession Planning – The Board shall be responsible for succession planning, including appointing, training and monitoring senior management.

9.6 Executive Compensation Policy –

- (a) Executive Compensation Policy. The Board shall review the executive compensation policy submitted to it by the Corporate Governance and Human Resources Committee as well as the overall structure of the Corporation's strategy, including the elements of the Corporation's annual and long-term incentive plans, including plan design, performance targets, administration and total funds/shares reserved for payments;
- (b) Board Approval. The Board shall approve the compensation of the CEO in light of the performance assessment by the Corporate Governance and Human Resources Committee and shall consider and, if appropriate, approve the recommendations of the CEO with respect to the compensation of other members of senior management.
- (c) Delegation to Corporate Governance and Human Resources Committee. The Board may direct the Corporate Governance and Human Resources Committee to consider the matters contemplated in Sections 9.4, 9.5 and 9.6 of this Mandate and to report and make recommendations to the Board with respect to these matters.

9.7 Organizational Responsibilities – The Board shall review and approve as appropriate:

- (a) appointments for all mission critical positions (as such positions are defined by the Corporate Governance and Human Resources Committee from time to time) and compensation packages for such appointments;
- (b) the report on executive compensation that is required to be included in the Corporation's management proxy circular;

and shall require the Corporate Governance and Human Resources Committee to make recommendations to it with respect to such matters.

### **Oversight of Operation of Business**

9.8 **Risk Management** – Taking into account the reports of management and such other persons as the Board may consider appropriate, the Board shall identify the principal risks of the Corporation's business and satisfy itself as to the implementation of appropriate systems to manage these risks.

9.9 **Strategic Planning Process** – The Board shall adopt a strategic planning process and shall approve a strategic plan which takes into account, among other things, the opportunities and risks of the Corporation's business.

9.10 **Internal Control and Management Information Systems** – The Board shall review the reports of management and the Audit Committee concerning the integrity of the Corporation's internal control and management information systems. Where appropriate, the Board shall require management and the Audit Committee to implement changes to such systems to ensure integrity of such systems.

9.11 **Communications Policy** – The Board shall review and, if determined appropriate, approve a communication policy for the Corporation for communicating with shareholders, the investment community, the media, governments and their agencies, employees and the general public. The Board shall consider, among other things, the recommendations of management and the Corporate Governance Committee with respect to this policy.

9.12 **Disclosure and Share Trading Policy** – The Board shall review and, if determined appropriate, approve a disclosure and share trading policy for the Corporation which will deal with the disclosure by the Corporation to the public of material information and set standards for share trading by Corporation insiders. The Board shall consider, among other things, the recommendations of management and the Corporate Governance Committee with respect to this policy.

9.13 **Financial Statements** – The Board shall review the recommendation of the Audit Committee with respect to the annual and interim financial statements of the Corporation to be delivered to shareholders. The Board shall approve such financial statements.

9.14 **Pension Plan Matters** – Should the Corporation put in place any pension plans, the Board shall receive and review reports from management and from the Corporate Governance and Human Resources Committee covering administration, investment performance, funding, financial impact, actuarial reports and other pension plan related matters regarding any such plans.

9.15 **Code of Business Conduct and Ethics** - The Board will review and approve a Code of Business Conduct and Ethics for the Corporation. In adopting this code, the Board will consider the recommendations of the Corporate Governance Committee concerning its compliance with applicable legal and stock exchange listing requirements and with such recommendations of

relevant securities regulatory authorities and stock exchanges as the Board may consider appropriate.

9.16 Compliance and Disclosure – The Board will direct the Corporate Governance Committee to monitor compliance with the Code of Business Conduct and Ethics and recommend disclosures with respect thereto. The Board will consider any report of the Corporate Governance Committee concerning these matters, and will approve, if determined appropriate, the disclosure of the Code of Business Conduct and Ethics and of any waiver granted to a director or senior officer of the Corporation from complying with the Code of Business Conduct and Ethics.

9.17 Significant Decisions – The Board shall require management to obtain its approval for all significant decisions, including major financings, acquisitions, dispositions, budgets and capital expenditures.

9.18 Information Flow from Management – The Board shall require management to keep it aware of the Corporation's performance and events affecting the Corporation's business, including opportunities in the marketplace and adverse or positive developments.

## 10. **EVALUATION OF BOARD PERFORMANCE**

10.1 Establish Process – The Board shall establish a process to be carried out by the Corporate Governance and Human Resources Committee for assessing the performance of the Board.

10.2 Amendments to Mandate – The Board will review and reassess the adequacy of its mandate on a regular basis.

## 11. **INTERPRETATION**

11.1 Interpretation – The provisions of this mandate shall at all times be subject to the provisions of the CBCA as well as the articles and the by-laws of the Corporation