

**CHARTER OF THE NOMINATING AND GOVERNANCE COMMITTEE  
OF CIPHER PHARMACEUTICALS INC.**

**GENERAL**

**1. PURPOSE OF THE COMMITTEE**

1.1 Nominating

The Committee's purpose includes responsibility for:

- (a) identifying individuals qualified to become Board members, consistent with criteria established by the Board; and
- (b) recommending to the Board the Directors to be nominated for election at the next annual meeting of shareholders.

1.2 Governance

The Committee's purpose includes responsibility for:

- (a) developing and recommending to the Board a set of corporate governance principles applicable to the Corporation; and
- (b) overseeing the evaluation of the Board and senior management.

1.3 General

The Committee's purpose includes responsibility for such other matters as set out in this Charter or as may otherwise be assigned to the Committee by the Board.

**2. DEFINITIONS AND INTERPRETATION**

2.1 Definitions

In this Charter:

- (a) **"Board"** means the Board of Directors of the Corporation;
- (b) **"CEO"** means the Chief Executive Officer of the Corporation.;
- (c) **"Chair"** means the chair of the Committee;
- (d) **"Committee"** means the Nominating and Governance Committee of the Board;
- (e) **"Corporation"** means Cipher Pharmaceuticals Inc.; and
- (f) **"Directors"** means the directors of the Corporation.

Any words or terms with initial capital letters which are not defined herein shall have the meanings ascribed thereto in the charter of the Directors.

2.2 Interpretation

The provisions of this Charter are subject to any Applicable Laws.

**CONSTITUTION AND FUNCTIONING OF THE COMMITTEE**

**3. ESTABLISHMENT AND COMPOSITION OF COMMITTEE**

3.1 Establishment of the Nominating and Governance Committee

The Committee is hereby established with the constitution, function and responsibilities herein set forth.

3.2 Appointment and Removal of Members of the Committee

- (a) *Board Appoints Members.* The members of the Committee shall be appointed by the Board.
- (b) *Annual Appointments.* The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.
- (c) *Vacancies.* The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors.
- (d) *Removal of Member.* Any member of the Committee may be removed from the Committee by a resolution of the Board.

3.3 Number of Members

The Committee shall consist of three or more Directors, a majority of whom shall be Residents.

3.4 Qualification and Independence of Members

- (a) *Qualification of Members.* A Director is not required to have any specific qualifications in order to serve as a member of the Committee.
- (b) *Independence of Members.* Each member of the Committee shall be independent as defined under Applicable Laws.

#### **4. COMMITTEE CHAIR**

##### **4.1 Board to Appoint Chair**

The Board shall appoint the Chair from the members of the Committee (or if it fails to do so, the members of the Committee shall appoint the Chair of the Committee from among its members).

##### **4.2 Chair to be Appointed Annually**

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

#### **5. COMMITTEE MEETINGS**

##### **5.1 Quorum**

A quorum of the Committee shall be a majority of its members provided that a majority of the members comprising the quorum shall be Residents.

##### **5.2 Secretary**

The Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.

##### **5.3 Time and Place of Meetings**

The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee in accordance with the by-laws of the Corporation.

##### **5.4 Right to Vote**

Each member of the Committee shall have the right to vote on matters that come before the Committee.

##### **5.5 Invitees**

The Committee may invite Directors, officers and employees of the Corporation or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee.

##### **5.6 Regular Reporting**

The Committee shall report to the Board at the Board's next meeting the proceedings at the meetings of the Committee and all recommendations made by the Committee at such meetings.

**6. AUTHORITY OF COMMITTEE**

**6.1 Retaining and Compensating Advisors**

The Committee shall have the sole authority to retain and terminate:

- (a) any firm engaged to assist in identifying Director candidates;
- (b) any firm engaged to assist in the evaluation of Directors; and
- (c) outside counsel and any other advisors as the Committee may deem appropriate in its sole discretion.

The Committee shall have sole authority to approve related fees and retention terms of any such firm and other advisors.

**6.2 Subcommittees**

The Committee may form and delegate authority to subcommittees if deemed appropriate by the Committee.

**6.3 Recommendations to the Board**

The Committee shall have the authority to make recommendations to the Board, but shall have no decision-making authority other than as specifically contemplated in this Charter.

**7. REMUNERATION OF COMMITTEE MEMBERS**

Members of the Committee and the Chair shall receive such remuneration for their service on the Committee as the Board may determine from time to time.

**SPECIFIC DUTIES AND RESPONSIBILITIES  
– THE NOMINATION OF DIRECTORS**

**8. NOMINATION OF NEW DIRECTORS**

**8.1 Evaluating Competencies and Skills**

The Committee shall provide recommendations to the Board with respect to the following matters:

- (a) the competencies and skills the Board, as a whole, should possess;
- (b) the competencies and skills each existing Director possesses and which the Board as a whole therefore possesses; and
- (c) the personality and other qualities of each Director, as these may ultimately determine the boardroom dynamic.

## 8.2 Identifying and Recommending New Nominees

The Committee shall identify the individuals qualified to become new Directors and recommend to the Board new nominees for election by shareholders or for appointment by the Board to fill any vacancy on the Board. In making its recommendations to the Board, the Committee shall consider:

- (a) any selection criteria approved by the Board from time to time, including the competencies and skills that the Board considers to be necessary, as a whole, to possess;
- (b) the competencies and skills that the Board considers each existing Director to possess; and
- (c) the competencies and skills each new nominee would bring to the boardroom.

## 8.3 Exception

If the Corporation is legally required by contract or otherwise to provide third parties with the right to nominate Directors, the Committee shall have no responsibility for the selection and recommendation of such Directors.

# **SPECIFIC DUTIES AND RESPONSIBILITIES – GOVERNANCE**

## **9. GOVERNANCE PRACTICES AND DISCLOSURE**

### 9.1 Governance Practices

- (a) *The Corporation's Approach to Governance.* The Committee shall develop and recommend to the Board the Corporation's approach to corporate governance including, if so instructed by the Board, a set of corporate governance principles and guidelines that are specifically applicable to the Corporation.
- (b) *Annual Review.* The Committee shall review the Corporation's governance practices at least annually and recommend to the Board any changes to the governance practices which it considers appropriate.

### 9.2 Governance Disclosure

The Committee shall review and recommend to the Board for approval any disclosure relating to the Corporation's governance practices.

## **10. BOARD EFFECTIVENESS**

### 10.1 Size of the Board

The Committee shall, on an annual basis, examine the size and composition of the Board and, if appropriate, recommend to the Board, a program to establish a Board comprised of members who facilitate effective decision-making.

## 10.2 Committees of the Board

The Committee shall review the Board's committee structure on an annual basis and recommend to the Board any changes it considers necessary or desirable with respect to the committee structure, including:

- (a) the charters of each committee;
- (b) the criteria for membership on any committee;
- (c) the composition of each committee;
- (d) the appointment and removal of members from any committee;
- (e) the operations of each committee, including the ability of any committee to delegate any or all of its responsibilities to a sub-committee of that committee; and
- (f) the process by which each committee reports to the Board.

## 10.3 Delineating Board and Management Responsibilities

The Committee shall:

- (a) develop and recommend to the Board position descriptions for Directors, including:
  - (i) the chair of each committee of the Board;
  - (ii) the chair of the Board; and
  - (iii) the Vice Chair & Lead Director, if any; and
- (b) together with the CEO develop and recommend to the Board a position description for the CEO, including:
  - (i) defining the limits of management's responsibilities; and
  - (ii) overall corporate goals and objectives that the CEO is responsible for meeting, taking into consideration goals and objectives relevant to CEO compensation approved by the Committee.

## 10.4 Succession Planning

The Committee shall make recommendations to the Board with respect to management succession including:

- (a) policies and principles for CEO and officer selection and performance review with respect to potential successors to the CEO; and

- (b) policies regarding succession in the event of an emergency or the retirement of the CEO.

#### 10.5 Special Outside Advisors

The Chair shall consider and, if determined to be appropriate, approve requests from Directors or committees of Directors for the engagement of special outside advisors from time to time (in addition to any right that a Director may have to engage outside advisors at law).

### **11. ORIENTATION AND CONTINUING EDUCATION**

#### 11.1 Orientation

The Committee shall develop and recommend to the Board a comprehensive orientation program for new Directors, which shall include assisting new Directors to understand:

- (a) the role of the Board and its committees;
- (b) the contribution individual Directors are expected to make (including the commitment of time and energy that the Corporation expects from its Directors); and
- (c) the nature and operation of the Corporation's business.

#### 11.2 Continuing Education

The Committee shall develop and recommend to the Board a continuing education program for all Directors which shall, among other things:

- (a) assist Directors to maintain or enhance their skills and abilities as Directors; and
- (b) assist Directors in ensuring that their knowledge and understanding of the Corporation's business remains current.

### **12. REVIEW PROCESS**

#### 12.1 Board, Committee and Individual Director Review

The Committee shall:

- (a) develop and recommend to the Board a process for reviewing the performance and effectiveness of the Board as a whole, the committees of the Board and the contributions of individual Directors on an annual basis, such process to consider:
  - (i) input from Directors, as appropriate;
  - (ii) attendance of Directors at meetings of the Board and any committee;
  - (iii) the Board's written charter;

- (iv) the charter of each committee of the Board;
  - (v) applicable position description(s) for each individual Director and for the chairs of the Board and of each committee of the Board; and
  - (vi) the competencies and skills each individual Director is expected to bring to the Board; and
- (b) be responsible for overseeing the execution of the review process approved by the Board and management.

### **13. POLICIES**

#### **13.1 Communication Policy**

The Committee shall review and recommend that the Board adopt a disclosure policy and such other policies as may be necessary or desirable for the Corporation's communication of material information to shareholders, the investment community, the media, governments and their agencies, employees and the general public. The Committee shall approve and receive regular reports from management with respect to the policy and the Corporation's compliance with its continuous and timely disclosure obligations thereunder and, as appropriate, shall make recommendations to the Board with respect to the policy. In formulating its recommendations, the Committee shall take into consideration any recommendation of the Corporation's senior management.

#### **13.2 Ethical Compliance and Legal Compliance**

The Committee shall:

- (a) subject to Board approval, establish, review and update periodically the Corporation's code of business conduct and ethics (the "**Code of Conduct**") with a view to complying with all applicable rules and regulations, and ensure that management has established a system to enforce this code;
- (b) review, approve and receive regular reports from management with respect to compliance with the Code of Conduct and the review system in place to ensure that the Corporation's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal requirements;
- (c) satisfy itself that management has established a system to disclose the Code of Conduct, any amendments to the code and any waivers from the code granted by the Committee for the benefit of a Director or senior officer of the Corporation, as required by applicable rules and regulations and receive regular reports from management with respect to compliance with this system; and
- (d) review, approve and receive regular reports from management and the Corporation's legal counsel with respect to legal compliance matters including

compliance with the Corporation's Insider Trading and Confidential Information Policy.

13.3 Share Ownership Policy

If at any time the Corporation should, on recommendation of the Committee, decide to adopt a share ownership policy requiring minimum ownership of shares of the Corporation by Directors and officers, then the Committee shall be responsible for reviewing, approving and receiving regular reports from management with respect to such policy.

**SPECIFIC DUTIES AND RESPONSIBILITIES  
– COMMITTEE ADMINISTRATION**

**14. ANNUAL PERFORMANCE EVALUATION**

On an annual basis, the Committee shall follow the process established by it and adopted by the Board (referred to in Section 12 above) for all committees of the Board for reviewing the performance and effectiveness of the Committee.

**15. CHARTER REVIEW**

The Committee shall review and assess the adequacy of this Charter annually and recommend to the Board any changes it deems appropriate.

August 3, 2006