

Protox

THERAPEUTICS

PROTOX THERAPEUTICS INC.

MANDATE OF THE BOARD OF DIRECTORS

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Protox Therapeutics Inc.
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MANDATE OF THE BOARD OF DIRECTORS

1. Role and Responsibilities

The Board of Directors (the “Board”) is responsible for the stewardship of the Company. This requires the Board to oversee the conduct of the business and supervise management, which is responsible for the day-to-day conduct of the business.

The Board, as a whole, oversees the development and application of policies regarding corporate governance and is responsible for:

1. the adoption of a strategic planning process and the approval and review, at least annually, of the Company’s strategic business plan proposed by management, including a statement of the vision, mission and values, and to adopt such a plan with such changes as the Board deems appropriate.
2. the identification of the principal risks of the Company’s business and overseeing the implementation of appropriate systems to manage these risks.
3. succession planning, including appointing, training and monitoring senior management and, in particular, the CEO.
4. overseeing the integrity of the CEO and other Officers and that the CEO and the other Officers create a culture of integrity throughout the Company.
5. overseeing the development and application of the Company’s internal control and management information systems.

The Board and each individual director is responsible for acting in accordance with the obligations imposed by the *Business Corporations Act* (British Columbia). In exercising their powers and discharging their duties, each director shall:

- (a) act honestly and in good faith with a view to the best interests of the Company;
- (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;
- (c) exercise independent judgement regardless of the existence of relationships or interests which could interfere with the exercise of independent judgement;
- (d)
 - (1) disclose to the Company, in writing or by having it entered in the minutes of meetings of directors, the nature and extent of any interest that the director has in a material contract or material transaction, whether made or proposed, with the Company if the director is a party to the contract or transaction, is a director or officer, or an individual acting in a similar capacity, of a party to the contract or transaction, or, has a material interest in a party to the contract or transaction; and
 - (2) such director shall refrain from voting on any resolution to approve such contract or transaction unless it relates to the directors’ remuneration in that capacity, is for the directors’ indemnity or insurance or is a contract or transaction with an affiliate; and

- (e) Demonstrate a willingness to listen as well as to communicate their opinions, openly and in a respectful manner.

The Board has the authority to appoint a Chairman or to establish committees and appoint directors to act as Chairman or to be members of these committees. The Board may not delegate to such Chairman or committees the power to:

- (a) submit to the shareholders any question or matter requiring the approval of the shareholders;
- (b) fill a vacancy among the directors or in the office of auditor, or appoint additional directors;
- (c) issue securities, except as authorized by the directors;
- (d) issue shares of a series, except as authorized by the directors;
- (e) declare dividends;
- (f) purchase, redeem or otherwise acquire shares issued by the Company;
- (g) pay a commission to any person in consideration of his purchasing or agreeing to purchase shares of the Company from the Company or from any other person, or procuring or agreeing to procure purchasers for any such shares;
- (h) approve a management proxy circular, take-over bid circular or directors' circular;
- (i) approve financial statements to be put before an annual meeting of shareholders; and
- (j) adopt, amend or repeal bylaws.

The matters to be delegated to committees of the Board and the constitution of such committees are to be assessed annually or more frequently, as circumstances require. From time to time the Board may create an ad hoc committee to examine specific issues on behalf of the Board. The following are the current committees of the Board:

- (a) the Audit Committee, consisting of not less than three directors, each of whom must be an "unrelated" or "independent" director under applicable securities laws and applicable stock exchange rules. The role of the Audit Committee is to provide oversight of the Company's financial management and of the design and implementation of an effective system of internal financial controls as well as to review and report to the Board on the integrity of the financial statements of the Company, its subsidiaries and associated companies.
- (b) the Corporate Governance and Nominating Committee, consisting of not less than three directors, each of whom must be an "unrelated" or "independent" director under applicable securities laws and applicable stock exchange rules.

- (c) the Compensation Committee, consisting of not less than three directors, each of whom must be an “unrelated” or “independent” director under applicable securities laws and applicable stock exchange rules.

2. Composition

At least annually, the Board or an appropriate committee of the Board shall review the size of the Board to ensure that the size facilitates effective decision-making.

The Board shall be composed of a majority of directors who qualify as “unrelated” or “independent” directors under applicable securities laws and applicable stock exchange rules. The determination of whether an individual director is unrelated or independent is the responsibility of the Board.

If at any time the Company has a significant shareholder, meaning a shareholder with the ability to exercise a majority of the votes for the election of the Board, the Board will include a number of directors who do not have interests in or relationships with either the Company or the significant shareholder and who fairly reflects the investment in the Company by shareholders other than the significant shareholder.

The Board should, as a whole, have the following competencies and skills:

- (a) knowledge of the biotechnology and pharmaceutical industry, including knowledge of current corporate governance guidelines;
- (b) scientific knowledge sufficient to understand the challenges and risks associated with the development of the Company’s product candidates;
- (c) financial and accounting expertise.

3. Procedures to ensure effective operation

The Board recognizes the importance of having procedures in place to ensure the effective and independent operation of the Board.

As the Chair of the Board is not a member of management, the Chair shall be responsible for overseeing that the Board discharges its responsibilities.

The Board has complete access to the Company’s management. The Board shall require timely and accurate reporting from management and shall regularly review the quality of management’s reports.

An individual director may engage an external adviser at the expense of the Company in appropriate circumstances. Such engagement is subject to the approval of the Corporate Governance and Nominating Committee.

The Board shall provide an orientation and education program for new recruits to the Board as well as continuing education on topics relevant to all directors.

The Board shall institute procedures for receiving shareholder feedback.

The Board requires management to run the day-to-day operations of the Company, including internal controls and disclosure controls and procedures.

The non-management directors shall meet at least twice yearly without any member of management being present.

The Board sets appropriate limits on management's authority. Accordingly, the following decisions require the approval of the Board:

- (a) the approval of the annual and quarterly (unless delegated to the Audit Committee) financial statements;
- (b) the approval of the annual budget;
- (c) any equity or debt financing, other than debt incurred in the ordinary course of business such as trade payables;
- (d) entering into any license, strategic alliance, partnership or other agreement outside the ordinary course of business;
- (e) the acquisition and assignment of material assets (including intellectual property and fixed assets) outside of the ordinary course of business;
- (f) the commencement or termination of any human clinical trial;
- (g) the creation of subsidiaries;
- (h) the creation of new Company bank accounts;
- (i) payment of dividends;
- (j) proxy solicitation material;
- (k) projected issuances of securities from treasury by the Company as well as any projected redemption of such securities;
- (l) any material change to the business of the Company;
- (m) the appointment of members on any committee of the Board;
- (n) capital expenditures in excess of CAD\$50,000 outside of the annual budget;
- (o) entering into any professional engagements where the fee is likely to exceed CAD\$50,000 outside of the annual budget;
- (p) entering into any arrangements with banks or other financial institutions relative to borrowing (either on a term or revolving basis) of amounts in excess of CAD\$100,000 outside the annual budget;
- (q) entering into any guarantee or other arrangement such that the Company is contingently bound financially or otherwise in excess of CAD\$50,000 other than product guarantees outside the annual budget;

- (r) the appointment or discharge of any senior officer of the Company;
- (s) entering into employment contracts with any senior officers; and
- (t) initiating or defending any law suits or other legal actions.

The Board, together with the CEO and with the assistance of the Corporate Governance and Nominating Committee, shall develop position descriptions for the CEO. The Board, together with the CEO, shall also approve or develop the corporate objectives that the CEO is responsible for meeting and the Board shall assess the CEO against these objectives.