

## **CORPORATE GOVERNANCE GUIDELINES OF DIFFUSION PHARMACEUTICALS INC.**

*The following Guidelines have been approved by the Board of Directors and together with the Articles of Incorporation, Bylaws, committee charters, and key practices of the Board Committees, provide the framework for the governance of Diffusion Pharmaceuticals Inc. The Board intends that these Guidelines serve as a flexible framework within which the Board may conduct its business and not as a set of binding legal obligations. These Guidelines should be interpreted in the context of all applicable laws, Diffusion's charter documents and other governing legal documents. The Board from time to time will make such revisions to these Guidelines as are considered appropriate.*

### **Size of Board**

The Nominating and Corporate Governance Committee will periodically review the size of the Board and, as appropriate, make recommendations to the Board. The size of the Board should accommodate the objectives of effective discussion and decision-making, adequate staffing of Board Committees, and desired mix of management and non-employee directors.

### **Composition and Qualifications**

The Board will have a majority of independent directors who meet the criteria required for independence by applicable law, rules and regulations of the Securities and Exchange Commission and listing standards of the stock exchange or market on which Diffusion's securities are listed or quoted. The Board is responsible for determining the independence of each director. The Nominating and Corporate Governance Committee is responsible for articulating and refining any other specific qualifications or criteria for Board membership.

### **Selection of Directors**

All directors are encouraged to submit to the Nominating and Corporate Governance Committee the name of any person deemed qualified to serve on the Board, together with information on the candidate's qualifications. The Nominating and Corporate Governance Committee will screen and submit to the full Board the names and biographical information of those persons considered by the Nominating and Corporate Governance Committee to be viable candidates for election as directors.

### **Board Leadership**

The office of Chairman and Chief Executive Officer may or may not be held by one person. The Board believes it is best not to have a fixed policy on this issue and that it should be free to make this determination based on what it believes is best in the circumstances. However, the Board does strongly endorse the concept of independent directors being in a position of leadership for the rest of the independent directors. If at any time, the Chief Executive Officer and Chairman are the same, the Nominating and Corporate Governance Committee will elect an independent director to serve as the lead director.

### **Board Committees**

The Board believes its current Committee structure, comprised of an Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, is appropriate. Each Committee will have a charter approved by that Committee and the Board of Directors, the adequacy of which will be

assessed on an annual basis by that Committee. The Board will annually review the Committee structure as well as the charter and composition of each Committee and will make modifications as necessary. The Board will review the Committee membership when it annually reappoints its Committees and, therefore, does not have a fixed policy on rotation of Committee memberships. The Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee will be composed entirely of directors who meet the criteria required for independence by applicable law, rules and regulations of the SEC and the listing standards of the stock exchange or market on which Diffusion's securities are listed or quoted.

### **Board Meetings**

Board meetings will be scheduled in advance, at least every quarter. In addition to regularly scheduled meetings, additional Board meetings may be called upon appropriate notice at any time to address specific needs of the company. The Chief Executive Officer and Chairman (if the two offices are separated) will establish the agendas for Board meetings, taking into consideration the "core" agenda items and regular meeting dates that the Board establishes in advance. The Board will be free to suggest agenda topics and the Chief Executive Officer will seek Board input on agenda items. The Board may also take action by unanimous written consent.

### **Committee Meetings**

Meeting frequency and agenda items for Committee meetings will be fixed by each of the respective Committee Chairs, taking into account the regular Committee meeting schedule and core agendas annually fixed by the Board. The Committee Chair will report to the full Board at each regular meeting on Committee actions and recommendations. The agendas and meeting minutes of the Committees will be shared with the full Board, and other Board members are welcome to attend (but may not vote at) Committee meetings, except as otherwise provided by applicable law, rules and regulations of the SEC and the listing standards of the stock exchange or market on which Diffusion's securities are listed or quoted, or where a conflict may exist with respect to any such director and the subject matter of the Committee meeting.

### **Executive Sessions of Independent Directors**

The independent directors will meet privately without the Chief Executive Officer on a regular basis.

### **Meeting Attendance by Non-Directors**

The Board and Chief Executive Officer will select senior executives to attend meetings to make presentations to the Board that provides the Board with the opportunity to evaluate senior executives. Board meetings also may be attended from time to time by outside advisors, to the extent such advisors' participation is deemed necessary and appropriate by the Board or the Company's management, to assist the Board in understanding the material presented to the Board.

### **Attendance and Information Review**

Directors will make a diligent effort to achieve regular attendance at Board and Committee meetings, and carefully review the information furnished by management with respect to matters requiring Board or Committee action or monitoring. Directors also have a responsibility, with the assistance of management, to maintain a current understanding of developments in the industry and to be familiar with Diffusion's operations and its strengths and weaknesses.

## **Appropriate Information and Access**

Directors are entitled to an adequate information flow from management. They should be provided with an agenda and (to the extent practicable) appropriate supporting materials in advance of Board and Committee meetings. Directors are also entitled to direct access to Diffusion's management, independent registered public accounting firm, and legal counsel. The Chief Executive Officer should be kept advised of substantive contacts in this regard.

## **Ability to Retain Advisors**

The Board and its Committees may, as it deems necessary or appropriate and at Diffusion's expense, obtain advice and assistance from internal or external legal or other advisors. If required under applicable laws, rules and regulations, however, before selecting any consultant, counsel or advisor and from time to time as the Board or any of its Committees deems appropriate, the Board or Committee will review and consider factors relevant to the independence of such consultant, counsel or advisor from management in accordance with applicable laws, rules and regulations.

## **Conflicts of Interest and Director Independence**

Directors will promptly disclose to the Board any existing or proposed situation or relationship that could reasonably be considered as a conflict of interest with service as a director, or having the appearance of such or which could affect the independence of the director under applicable listing standards or any additional standards as may be established by the Board from time to time, including direct relationships between Diffusion and the director and his or her family members, and indirect relationships between Diffusion and any business, nonprofit or other organization in which the director is a general partner or manager, officer, or significant stockholder, or is materially financially interested. Both the existence or proposed situation or relationship and the nature thereof (*e.g.*, financial, family relationship, professional, charitable or business affiliation) should be disclosed.

## **Director Attendance at Annual Meeting of Stockholders**

It is the policy of the Board that if a regular Board meeting occurs on the day of the annual meeting of stockholders, such directors should attend the annual meeting of stockholders, if their schedules permit.

## **Board Interaction with Corporate Constituencies**

The Board believes that management speaks for and on behalf of Diffusion. Individual Board members, from time to time, may meet or otherwise communicate with various constituencies, but this would be done only at the request of the Chief Executive Officer or Chairman of the Board.

## **Change of Principal Occupation and Board Memberships**

The Board does not believe that directors who retire, change their principal occupation or business association or serve on other boards of directors should necessarily leave the Board. However, the Board, through the Nominating and Corporate Governance Committee, will review the continued appropriateness of Board membership under those circumstances.

## **Retirement and Term Limits**

The Board does not believe that a fixed retirement age, or term limits, for directors are appropriate. While mandatory retirement and term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who over time have developed increasing insight into the company and its operations and therefore provide an increasing contribution to the Board as a whole.

## **Retirement and Resignation Policy**

All decisions regarding director and officer retirements and resignations will be communicated in advance and in writing to Diffusion's Corporate Secretary.

## **Board Compensation**

Management directors will not be paid for Board membership in addition to their regular employee compensation. To attract and retain qualified non-employee directors, director compensation should be competitive and reviewed periodically to ensure that it meets this standard.

## **Stock Ownership by Directors and Executive Officers**

In order to align the interests of stockholders and management, directors and executive officers are encouraged to have a financial stake in Diffusion.

## **Loans to Directors and Executive Officers**

Loans from Diffusion to directors and executive officers are prohibited.

## **CEO Evaluation**

The Board will ensure that a process is in place, utilizing the Compensation Committee, to annually evaluate the performance of the Chief Executive Officer and to provide a summary of the Board's review to the Chief Executive Officer. The process will ensure that each independent director has the opportunity to provide written or oral input prior to the evaluation being provided to the Chief Executive Officer.

## **Board and Board Committee Evaluations**

The Board from time to time, utilizing the Nominating and Corporate Governance Committee, will evaluate the performance of the Board, with a goal of improving the effectiveness of the Board as a whole. In addition, each of the Board Committees from time to time will evaluate the performance of the Board Committee, with a goal of improving the effectiveness of the Board Committee as a whole. Criteria for such evaluations will include level of director attendance, preparedness, participation and candor.

## **Director Continuing Education**

Directors are encouraged to attend from time to time continuing education programs tailored to directors of publicly held companies.

## **Succession Planning**

The Board will work from time to time with the Chief Executive Officer on advance planning for contingencies, such as the departure, death or disability of the Chief Executive Officer or other senior executives, so that, in the event of an untimely vacancy, Diffusion has in place an emergency succession plan to facilitate the transition to both interim and longer-term leadership.

## **Related Person Transactions**

The Audit Committee will review, approve or ratify reportable related person transactions by use of the following procedures:

- Diffusion's Chief Financial Officer, with the assistance of legal counsel, will evaluate the disclosures provided in the director and officer questionnaires and from data obtained from Diffusion's records for potential related person transactions.
- Management periodically, but no less than annually, will report to the Audit Committee on all related person transactions that occurred since the beginning of the prior fiscal year or that it believes will occur in the next year. Such report should include information as to (i) the related person's relationship to Diffusion and interest in the transaction; (ii) the material facts of the transaction; (iii) the benefits to Diffusion of the transaction; and (iv) an assessment of whether the transaction is (to the extent applicable) in the ordinary course of business, at arm's length, at prices and on terms customarily available to unrelated third party vendors or customers generally, and whether the related party had any direct or indirect personal interest in, or received any personal benefit from, such transaction.
- Taking into account the factors listed above, and such other factors and information as the Audit Committee may deem appropriate, the Audit Committee will determine whether or not to approve or ratify (as the case may be) each related party transaction so identified.
- Transactions in the ordinary course of business, between Diffusion and an unaffiliated corporation of which a non-employee director of Diffusion serves as an officer, that are:
  - at arm's length,
  - at prices and on terms customarily available to unrelated third party vendors or customers generally,
  - in which the non-employee director had no direct or indirect personal interest, nor received any personal benefit, and
  - in amounts that are not material to Diffusion's business or the business of such unaffiliated corporation,

are deemed conclusively pre-approved.

## **Communication with Directors**

Stockholders may communicate with the Board or any one particular director by sending correspondence, addressed to Diffusion's Corporate Secretary, Diffusion Pharmaceuticals Inc., 2020 Avon Court, Suite 4, Charlottesville, Virginia 22902 with an instruction to forward the communication to the Board or one or more particular directors. Diffusion's Corporate Secretary will promptly forward all such stockholder communications to the Board or the one or more particular directors, with the exception of any advertisements, solicitations for periodical or other subscriptions and other similar communications.

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