

BANK OF NOVA SCOTIA
Form 424B2
July 31, 2017

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Registration Statement No. 333-215597
(To Prospectus dated February 1,
2017,
Prospectus Supplement dated
February 13, 2017 and
Product Prospectus Supplement
EQUITY INDICES
SUN-1 dated February 23, 2017)

2,762,229 Units
\$10 principal amount per unit
CUSIP No. 064160146

Pricing Date July 27, 2017
Settlement Date
Maturity Date August 3, 2017
July 29, 2022

Autocallable Market-Linked Step Up Notes Linked to the Russell 2000® Index

§ Maturity of approximately five years, if not called prior to maturity

§ Automatic call of the notes per unit at \$10 plus the applicable Call Premium (\$0.605 on the first Observation Date, \$1.210 on the second Observation Date, \$1.815 on the third Observation Date, and \$2.420 on the final Observation Date) if the Index is flat or increases above 100.00% of the Starting Value on the relevant Observation Date

§ The Observation Dates will occur approximately one year, two years, three years and four years after the pricing date

§ If the notes are not called, at maturity:

§ a return of 35.00% if the Index is flat or increases up to the Step Up Value

§ a return equal to the percentage increase in the Index if the Index increases above the Step Up Value

§ 1-to-1 downside exposure to decreases in the Index beyond a 15.00% decline, with up to 85.00% of your principal at risk

§ All payments are subject to the credit risk of The Bank of Nova Scotia

§ No periodic interest payments

§ In addition to the underwriting discount set forth below, the notes include a hedging-related charge of \$0.075 per unit. See Structuring the Notes

§ Limited secondary market liquidity, with no exchange listing

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The notes are unsecured debt securities and are not savings accounts or insured deposits of a bank. The notes are not insured or guaranteed by the Canada Deposit Insurance Corporation (the CDIC), the U.S. Federal Deposit Insurance Corporation (the FDIC), or any other governmental agency of Canada, the United States or any other jurisdiction

The notes are being issued by The Bank of Nova Scotia (BNS). There are important differences between the notes and a conventional debt security, including different investment risks and certain additional costs. See Risk Factors and Additional Risk Factors beginning on page TS-7 of this term sheet and Risk Factors beginning on page PS-7 of product prospectus supplement EQUITY INDICES SUN-1.

The initial estimated value of the notes as of the pricing date is \$9.67 per unit, which is less than the public offering price listed below. See Summary on the following page, Risk Factors beginning on page TS-7 of this term sheet and Structuring the Notes on page TS-13 of this term sheet for additional information. The actual value of your notes at any time will reflect many factors and cannot be predicted with accuracy.

None of the U.S. Securities and Exchange Commission (the SEC), any state securities commission, or any other regulatory body has approved or disapproved of these securities or determined if this Note Prospectus (as defined below) is truthful or complete. Any representation to the contrary is a criminal offense.

	<u>Per Unit</u>		<u>Total</u>
Public offering price	\$ 10.00	\$	27,622,290.00
Underwriting discount	\$ 0.20	\$	552,445.80
Proceeds, before expenses, to BNS	\$ 9.80	\$	27,069,844.20

The notes:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
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Merrill Lynch & Co.

July 27, 2017

Autocallable Market-Linked Step Up Notes

Linked to the Russell 2000® Index, due July 29, 2022

Summary

The Autocallable Market-Linked Step Up Notes Linked to the Russell 2000® Index, due July 29, 2022 (the notes) are our senior unsecured debt securities. The notes are not guaranteed or insured by the CDIC or the FDIC, and are not, either directly or indirectly, an obligation of any third party. **The notes will rank equally with all of our other unsecured senior debt. Any payments due on the notes, including any repayment of principal, will be subject to the credit risk of BNS.** The notes will be automatically called at the applicable Call Amount if the Observation Level of the Market Measure, which is the Russell 2000® Index (the Index), is equal to or greater than the Call Level on the relevant Observation Date. If not called, at maturity, the notes provide you with a Step Up Payment if the Ending Value of the Index is equal to or greater than the Starting Value, but is not greater than the Step Up Value. If the Ending Value is greater than the Step Up Value, you will participate on a 1-for-1 basis in the increase in the level of the Index above the Starting Value. If the Ending Value is less than the Starting Value but greater than or equal to the Threshold Value, you will receive the principal amount of your notes. If the Ending Value is less than the Threshold Value, you will lose a portion, which could be significant, of the principal amount of your notes. Payments on the notes, including the amount you receive at maturity or upon an automatic call, will be calculated based on the \$10 principal amount per unit and will depend on the performance of the Index, subject to our credit risk. See Terms of the Notes below.

The economic terms of the notes (including the Call Premiums and Call Amounts) are based on our internal funding rate, which is the rate we would pay to borrow funds through the issuance of market-linked notes, and the economic terms of certain related hedging arrangements. Our internal funding rate is typically lower than the rate we would pay when we issue conventional fixed rate debt securities. This difference in funding rate, as well as the underwriting discount and the hedging related charge described below, reduced the economic terms of the notes to you and the initial estimated value of the notes on the pricing date. Due to these factors, the public offering price you pay to purchase the notes is greater than the initial estimated value of the notes.

On the cover page of this term sheet, we have provided the initial estimated value for the notes. This estimated value was determined by reference to our internal pricing models, which take into consideration certain factors, such as our internal funding rate on the pricing date and our assumptions about market parameters. For more information about the initial estimated value and the structuring of the notes, see Structuring the Notes on page TS-13.

Terms of the Notes

Issuer:	The Bank of Nova Scotia (BNS)	Call Settlement Dates:	Approximately the fifth business day following the applicable Observation Date, subject to postponement if the related Observation Date is postponed, as described beginning on page PS-20 of product prospectus supplement EQUITY INDICES SUN-1.
Principal Amount:	\$10.00 per unit	Call Premiums:	\$0.605 per unit if called on the first Observation Date (which represents a return of 6.05% over the principal amount), \$1.210 per unit if called on the second Observation Date (which represents a return of 12.10% over the principal amount), \$1.815 per unit if called on the third Observation Date (which represents a

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Term:	Approximately five years, if not called	Ending Value:	return of 18.15% over the principal amount), and \$2.420 per unit if called on the final Observation Date (which represents a return of 24.20% over the principal amount). The closing level of the Market Measure on the scheduled calculation day. The calculation day is subject to postponement in the event of Market Disruption Events, as described beginning on page PS-21 of product prospectus supplement EQUITY INDICES SUN-1.
Market Measure:	The Russell 2000® Index (Bloomberg symbol: RTY), a price return index 1,433.624	Step Up Value:	1,935.392 (135.00% of the Starting Value, rounded to three decimal places).
Starting Value:	1,433.624	Step Up Payment:	\$3.50 per unit, which represents a return of 35.00% over the principal amount.
Observation Level:	The closing level of the Market Measure on the applicable Observation Date.	Threshold Value:	1,218.580 (85.00% of the Starting Value, rounded to three decimal places).
Observation Dates:	August 3, 2018, July 19, 2019, July 24, 2020 and July 23, 2021, subject to postponement in the event of Market Disruption Events, as described beginning on page PS-20 of product prospectus supplement EQUITY INDICES SUN-1.	Calculation Day:	July 22, 2022
Call Level:	1,433.624 (100.00% of the Starting Value)	Fees and Charges:	The underwriting discount of \$0.20 per unit listed on the cover page and the hedging related charge of \$0.075 per unit described in Structuring the Notes on page TS-13.
Call Amounts (per Unit):	\$10.605 if called on the first Observation Date, \$11.210 if called on the second Observation Date, \$11.815 if called on the third Observation Date, and \$12.420 if called on the final Observation Date.	Calculation Agent:	Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S).

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Autocallable Market-Linked Step Up Notes

Linked to the Russell 2000® Index, due July 29, 2022

Determining Payment on the Notes

Automatic Call Provision

The notes will be called automatically on an Observation Date if the Observation Level on that Observation Date is equal to or greater than the Call Level. If the notes are called, you will receive \$10 per unit plus the applicable Call Premium.

Redemption Amount Determination

If the notes are not automatically called, on the maturity date, you will receive a cash payment per unit determined as follows:

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The terms and risks of the notes are contained in this term sheet and in the following:

§ Product prospectus supplement EQUITY INDICES SUN-1 dated February 23, 2017:
https://www.sec.gov/Archives/edgar/data/9631/000110465917011241/a17-4372_4424b5.htm

§ Prospectus supplement dated February 13, 2017:
https://www.sec.gov/Archives/edgar/data/9631/000110465917008642/a17-4372_1424b3.htm

§ Prospectus dated February 1, 2017:
<https://www.sec.gov/Archives/edgar/data/9631/000119312517027656/d338678d424b3.htm>

These documents (together, the Note Prospectus) have been filed as part of a registration statement with the SEC, which may, without cost, be accessed on the SEC website as indicated above or obtained from MLPF&S by calling 1-800-294-1322. Before you invest, you should read the Note Prospectus, including this term sheet, for information about us and this offering. Any prior or contemporaneous oral statements and any other written materials you may have received are superseded by the Note Prospectus. Capitalized terms used but not defined in this term sheet have the meanings set forth in product prospectus supplement EQUITY INDICES SUN-1. Unless otherwise indicated or unless the context requires otherwise, all references in this document to we, us, our, or similar references are to BNS.

Investor Considerations

You may wish to consider an investment in the notes if:

§ You are willing to receive a return on your investment capped at the applicable Call Premium if the relevant Observation Level is equal to or greater than the Call Level.

§ You anticipate that the notes will be automatically called or the Index will increase from the Starting Value to the Ending Value.

§ You are willing to risk a substantial loss of principal and return if the notes are not automatically called and the Index decreases from the Starting Value to an Ending Value that is less than the Threshold Value.

§ You are willing to forgo the interest payments that are paid on conventional interest bearing debt securities.

The notes may not be an appropriate investment for you if:

§ You want to hold your notes for the full term.

§ You believe that the notes will not be automatically called and the Index will decrease from the Starting Value to the Ending Value.

§ You seek 100.00% principal repayment or preservation of capital.

§ You seek interest payments or other current income on your investment.

§ You want to receive dividends or other distributions paid on the stocks included in the Index.

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§ You are willing to forgo dividends or other benefits of owning the stocks included in the Index.

§ You seek an investment for which there will be a liquid secondary market.

§ You are willing to accept a limited or no market for sales prior to maturity, and understand that the market prices for the notes, if any, will be affected by various factors, including our actual and perceived creditworthiness, our internal funding rate and fees and charges on the notes.

§ You are unwilling or are unable to take market risk on the notes or to take our credit risk as issuer of the notes.

§ You are willing to assume our credit risk, as issuer of the notes, for all payments under the notes, including the Redemption Amount.

We urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes.

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Autocallable Market-Linked Step Up Notes

Linked to the Russell 2000® Index, due July 29, 2022

Hypothetical Payout Profile and Examples of Payments at Maturity

These hypothetical values show a payout profile at maturity, which would only apply if the notes are not called on any Observation Date.

Autocallable Market-Linked Step Up Notes

This graph reflects the returns on the notes, based on the Threshold Value of 85.00% of the Starting Value, the Step Up Payment of \$3.50 per unit and the Step Up Value of 135.00% of the Starting Value. The green line reflects the returns on the notes, while the dotted gray line reflects the returns of a direct investment in the stocks included in the Index, excluding dividends.

This graph has been prepared for purposes of illustration only.

The following table and examples are for purposes of illustration only. They are based on hypothetical values and show hypothetical returns on the notes, assuming the notes are not called on any Observation Date. They illustrate the calculation of the Redemption Amount and total rate of return based on a hypothetical Starting Value of 100, a hypothetical Threshold Value of 85, a hypothetical Step Up Value of 135, the Step Up Payment of \$3.50 per unit and a range of hypothetical Ending Values. **The actual amount you receive and the resulting total rate of return will depend on the actual Starting Value, Threshold Value, Ending Value, Step Up Value, whether the notes are called on an Observation Date, and whether you hold the notes to maturity.** The following examples do not take into account any tax consequences from investing in the notes.

For recent actual levels of the Market Measure, see The Index section below. The Index is a price return index and as such the Ending Value will not include any income generated by dividends paid on the stocks included in the Index, which you would otherwise be entitled to receive if you invested in those stocks directly. In addition, all payments on the notes are subject to issuer credit risk.

Ending Value	Percentage Change from the Starting Value to the Ending Value	Redemption Amount per Unit	Total Rate of Return on the Notes
0.00	-100.00%	\$1.50	-85.00%
50.00	-50.00%	\$6.50	-35.00%

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75.00	-25.00%	\$9.00	-10.00%
80.00	-20.00%	\$9.50	-5.00%
85.00(1)	-15.00%	\$10.00	0.00%
90.00	-10.00%	\$10.00	0.00%
94.00	-6.00%	\$10.00	0.00%
95.00	-5.00%	\$10.00	0.00%
97.00	-3.00%	\$10.00	0.00%
100.00(2)	0.00%	\$13.50(3)	35.00%
102.00	2.00%	\$13.50	35.00%
105.00	5.00%	\$13.50	35.00%
110.00	10.00%	\$13.50	35.00%
120.00	20.00%	\$13.50	35.00%
130.00	30.00%	\$13.50	35.00%
135.00(4)	35.00%	\$13.50	35.00%
140.00	40.00%	\$14.00	40.00%
150.00	50.00%	\$15.00	50.00%
154.00	54.00%	\$15.40	54.00%
160.00	60.00%	\$16.00	60.00%

(1) This is the **hypothetical** Threshold Value.

(2) The **hypothetical** Starting Value of 100 used in these examples has been chosen for illustrative purposes only. The actual Starting Value is 1,433.624, which was the closing level of the Market Measure on the pricing date.

(3) This amount represents the sum of the principal amount and the Step Up Payment of \$3.50.

(4) This is the **hypothetical** Step Up Value.

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Autocallable Market-Linked Step Up Notes

Linked to the Russell 2000® Index, due July 29, 2022

Redemption Amount Calculation Examples

Example 1

The Ending Value is 75.00, or 75.00% of the Starting Value:

Starting Value: 100.00

Threshold Value: 85.00

Ending Value: 75.00

Redemption Amount per unit

Example 2

The Ending Value is 95.00, or 95.00% of the Starting Value:

Starting Value: 100.00

Threshold Value: 85.00

Ending Value: 95.00

Redemption Amount per unit = **\$10.00**, *the principal amount, since the Ending Value is less than the Starting Value, but is equal to or greater than the Threshold Value.*

Example 3

The Ending Value is 110.00, or 110.00% of the Starting Value:

Starting Value: 100.00

Step Up Value: 135.00

Ending Value: 110.00

$\$10.00 + \$3.50 = \$13.50$

Redemption Amount per unit, *the principal amount plus the Step Up Payment, since the Ending Value is equal to or greater than the Starting Value, but less than the Step Up Value.*

Example 4

The Ending Value is 154.00, or 154.00% of the Starting Value:

Starting Value: 100.00

Step Up Value: 135.00

Ending Value: 154.00

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Redemption Amount per unit

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Autocallable Market-Linked Step Up Notes

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Risk Factors

There are important differences between the notes and a conventional debt security. An investment in the notes involves significant risks, including those listed below. You should carefully review the more detailed explanation of risks relating to the notes in the Risk Factors sections beginning on page PS-7 of product prospectus supplement EQUITY INDICES SUN-1, page S-2 of the prospectus supplement, and page 6 of the prospectus identified above. We also urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes.

§ If the notes are not automatically called, depending on the performance of the Index as measured shortly before the maturity date, your investment may result in a loss; there is no guaranteed return of principal.

§ Your return on the notes may be less than the yield you could earn by owning a conventional fixed or floating rate debt security of comparable maturity.

§ If the notes are called, your investment return is limited to the return represented by the applicable Call Premium.

§ Your investment return may be less than a comparable investment directly in the stocks included in the Index.

§ Payments on the notes are subject to our credit risk, and actual or perceived changes in our creditworthiness are expected to affect the value of the notes. If we become insolvent or are unable to pay our obligations, you may lose your entire investment.

§ Our initial estimated value of the notes is lower than the public offering price of the notes. Our initial estimated value of the notes is only an estimate. The public offering price of the notes exceeds our initial estimated value because it includes costs associated with selling and structuring the notes, as well as hedging our obligations under the notes with a third party, which may include MLPF&S or one of its affiliates. These costs include the underwriting discount and an expected hedging related charge, as further described in Structuring the Notes on page TS-13.

§ Our initial estimated value of the notes does not represent future values of the notes and may differ from others' estimates. Our initial estimated value of the notes is determined by reference to our internal pricing models when the terms of the notes are set. These pricing models consider certain factors, such as our internal funding rate on the pricing date, the expected term of the notes, market conditions and other relevant factors existing at that time, and our assumptions about market parameters, which can include volatility, dividend rates, interest rates and other factors. Different pricing models and assumptions could provide valuations for the notes that are different from our initial estimated value. In addition, market conditions and other relevant factors in the future may change, and any of our assumptions may prove to be incorrect. On future dates, the market value of the notes could change significantly based on, among other things, the performance of the Index, changes in market conditions, our creditworthiness, interest rate movements and other relevant factors. These factors, together with various credit, market and economic factors over the term of the notes, are expected to reduce the price at which you may be able to sell the notes in any secondary market and will affect the value of the notes in complex and unpredictable ways. Our initial estimated value does not represent a minimum price at which

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we or any agents would be willing to buy your notes in any secondary market (if any exists) at any time.

§ Our initial estimated value is not determined by reference to credit spreads or the borrowing rate we would pay for our conventional fixed-rate debt securities. The internal funding rate used in the determination of our initial estimated value of the notes generally represents a discount from the credit spreads for our conventional fixed-rate debt securities and the borrowing rate we would pay for our conventional fixed-rate debt securities. If we were to use the interest rate implied by the credit spreads for our conventional fixed-rate debt securities, or the borrowing rate we would pay for our conventional fixed-rate debt securities, we would expect the economic terms of the notes to be more favorable to you. Consequently, our use of an internal funding rate for the notes would have an adverse effect on the economic terms of the notes, the initial estimated value of the notes on the pricing date, and the price at which you may be able to sell the notes in any secondary market.

§ A trading market is not expected to develop for the notes. Neither we nor MLPF&S is obligated to make a market for, or to repurchase, the notes. There is no assurance that any party will be willing to purchase your notes at any price in any secondary market.

§ Our business, hedging and trading activities, and those of MLPF&S and our respective affiliates (including trades in shares of companies included in the Index), and any hedging and trading activities we, MLPF&S or our respective affiliates engage in for our clients' accounts, may affect the market value and return of the notes and may create conflicts of interest with you.

§ The Index sponsor may adjust the Index in a way that may adversely affect its level and your interests, and the Index sponsor has no obligation to consider your interests.

§ You will have no rights of a holder of the securities included in the Index, and you will not be entitled to receive securities or dividends or other distributions by the issuers of those securities.

§ While we, MLPF&S or our respective affiliates may from time to time own securities of companies included in the Index, we, MLPF&S and our respective affiliates do not control any company included in the Index, and have not verified any disclosure made by any other company.

§ There may be potential conflicts of interest involving the calculation agent, which is MLPF&S. We have the right to appoint and remove the calculation agent.

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Autocallable Market-Linked Step Up Notes

Linked to the Russell 2000® Index, due July 29, 2022

§ The U.S. federal income tax consequences of the notes are uncertain, and may be adverse to a holder of the notes. See Summary of U.S. Federal Income Tax Consequences below.

§ The conclusion that no portion of the interest paid or credited or deemed to be paid or credited on a note will be Participating Debt Interest subject to Canadian withholding tax is based in part on the current published administrative position of the CRA. There cannot be any assurance that CRA's current published administrative practice will not be subject to change, including potential expansion in the current administrative interpretation of Participating Debt Interest subject to Canadian withholding tax. If, at any time, the interest paid or credited or deemed to be paid or credited on a note is subject to Canadian withholding tax, you will receive an amount that is less than the Redemption Amount. You should consult your own adviser as to the potential for such withholding and the potential for reduction or refund of part or all of such withholding, including under any bilateral Canadian tax treaty the benefits of which you may be entitled. For a discussion of the Canadian federal income tax consequences of investing in the notes, see Summary of Canadian Federal Income Tax Consequences below, Canadian Taxation Debt Securities on page 50 of the prospectus dated February 1, 2017, and Supplemental Discussion of Canadian Federal Income Tax Consequences on page PS-29 of product prospectus supplement EQUITY INDICES SUN-1.

Additional Risk Factors

The notes are subject to risks associated with small-size capitalization companies.

The stocks composing the Index are issued by companies with small-sized market capitalization. The stock prices of small-size companies may be more volatile than stock prices of large capitalization companies. Small-size capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small-size capitalization companies may also be more susceptible to adverse developments related to their products or services.

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Autocallable Market-Linked Step Up Notes

Linked to the Russell 2000® Index, due July 29, 2022

The Index

All disclosures contained in this term sheet regarding the Index, including, without limitation, its make-up, method of calculation, and changes in its components, have been derived from publicly available sources. The Index was developed by Russell Investments (Russell) before FTSE International Limited and Russell combined in 2015 to create FTSE Russell, which is wholly owned by London Stock Exchange Group. The information reflects the policies of, and is subject to change by, FTSE Russell (the Index sponsor). The Index sponsor, which licenses the copyright and all other rights to the Index, has no obligation to continue to publish, and may discontinue publication of, the Index. The consequences of the Index sponsor discontinuing publication of the Index are discussed in the section entitled Description of the Notes- Discontinuance of an Index beginning on page PS-22 of product prospectus supplement EQUITY INDICES SUN-1. None of us, the calculation agent, or MLPF&S accepts any responsibility for the calculation, maintenance or publication of the Index or any successor index.

General

The Index measures the composite price performance of stocks of 2,000 companies in the U.S. equity market. As of May 31, 2017, the top five Russell Global Sectors were Financial Services, Technology, Producer Durables, Consumer Discretionary and Health Care. (Sector designations are determined by the Index sponsor using criteria it has selected or developed. Index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between indices with different index sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices.)

The Index includes approximately 2,000 of the smallest securities that form the Russell 3000® Index. The Russell 3000® Index is comprised of the 3,000 largest companies, or 98% based on market capitalization, of the investable U.S. equity market. The Index is designed to track the performance of the small capitalization segment of the U.S. equity market.

Selection of Constituent Stocks of the Index

The Index is a sub-index of the Russell 3000® Index. To be eligible for inclusion in the Russell 3000® Index, and, consequently, the Index, a company's stocks must be listed on the last trading day of May of a given year and FTSE Russell must have access to documentation verifying the company's eligibility for inclusion. Eligible initial public offerings are added to Russell U.S. Indices at the end of each calendar quarter, based on total market capitalization rankings within the market-adjusted capitalization breaks established during the most recent reconstitution. To be added to any Russell U.S. index during a quarter outside of reconstitution, initial public offerings must meet additional eligibility criteria.

A company is included in the U.S. equity markets and is eligible for inclusion in the Russell 3000® Index, and consequently, the Index, if that company incorporates in, has its headquarters in and also trades with the highest liquidity (as defined by a two-year average daily dollar trading volume from all exchanges) in the United States or its territories. If a company satisfies any one of these criteria and the primary location of that company's assets or its revenue, based on an average of two years of assets or revenues data, is also in the United States, that company will also be considered part of the U.S. equity market. In addition, if there is insufficient information to assign a company to the U.S. equity markets based on its assets or revenue, the company may nonetheless be assigned to the U.S. equity markets if the headquarters of the company is located in certain

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benefit-driven incorporation countries, or BDIs, and that company's most liquid stock exchange is also in the United States. The BDI countries are Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Channel Islands, Cook Islands, Curacao, Faroe Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Liberia, Marshall Islands, Panama, Saba, Sint Eustatius, Sint Maarten and Turks and Caicos Islands. ADRs and ADSs are not eligible for inclusion in the Index.

Exclusions from the Index

FTSE Russell specifically excludes the following companies and securities from the Index: (i) preferred and convertible preferred stock, redeemable shares, participating preferred stock, warrants, rights, installment receipts and trust receipts; (ii) royalty trusts, U.S. limited liability companies, closed-end investment companies (companies that are required to report Acquired Fund Fees and Expenses, as defined by the SEC, including business development companies), blank check companies, special purpose acquisition companies and limited partnerships; (iii) companies with a total market capitalization less than \$30 million; (iv) companies with only a small portion of their shares available in the marketplace (companies with 5% or less float); (v) bulletin board, pink sheets or over-the-counter traded securities; (vi) companies that generate, or have historically generated, unrelated business taxable income and have not taken steps to block their unrelated business taxable income to equity holders; and (vii) exchange traded funds and mutual funds.

Initial List of Eligible Securities

The primary criterion FTSE Russell uses to determine the initial list of securities eligible for the Russell 3000® Index and consequently, the Index, is total market capitalization, which is calculated by multiplying the total outstanding shares for a company times the market price as of the rank day (typically the last trading day in May but a confirmed timetable is announced each spring) in May. All common stock share classes are combined in determining market capitalization. If multiple share classes have been combined, the pricing vehicle will be designated as the share class with the highest two-year trading volume as of the rank day in May. In cases where the common stock share classes act independently of each other (e.g., tracking stocks), each class is considered for inclusion separately. Stocks must have a closing price at or above \$1.00 on their primary exchange on the last trading day of May of each year to be eligible for inclusion in the Index. In order to reduce unnecessary turnover, if an existing member's closing price is less than \$1.00 on the last trading day of May, it will be considered eligible if the average of the daily closing prices from their primary exchange during the month of May is equal to or greater than \$1.00.

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Autocallable Market-Linked Step Up Notes

Linked to the Russell 2000® Index, due July 29, 2022

Annual Reconstitution

The Index is reconstituted annually by FTSE Russell to reflect changes in the marketplace. The list of companies is ranked based on total market capitalization on the rank day in May, with the actual reconstitution effective on the first trading day following the final Friday of June each year, unless the final Friday in June is the 29th or 30th, in which case reconstitution will be effective on the preceding Friday. Changes in the constituents are preannounced and subject to change if any corporate activity occurs or if any new information is received prior to release.

Index Calculation and Capitalization Adjustments

As a capitalization-weighted index, the Index reflects changes in the capitalization, or market value, of the underlier stocks relative to the capitalization on a base date. This discussion describes the price return calculation of the Index. The current Index value is the compounded result of the cumulative daily (or monthly) return percentages, where the starting value of the Index is equal to the base value (100) and base date (December 31, 1978). Returns between any two dates can then be derived by dividing the ending period index value (IV1) by the beginning period (IV0) index value, so that the return equals $[(IV1 / IV0) - 1] * 100$. The ending period index value, for purposes of calculating the Index value, on any date is determined by adding the market values of the underlier stocks, which are derived by multiplying the primary closing price of each stock by the number of available shares, to arrive at the total market capitalization of the 2,000 stocks.

Constituent stocks of the Index are weighted in the Index by their free-float market capitalization, which is calculated by multiplying the primary closing price by the number of free-float shares. Free-float shares are shares that are available to the public for purchase as determined by FTSE Russell. FTSE Russell determines shares available to the public for purchase based on information recorded in corporate filings with the Securities and Exchange Commission and other reliable sources in the event of missing or questionable data. FTSE Russell removes the following types of shares from total market capitalization to arrive at free-float market capitalization:

Officers and directors holdings shares held by officers and directors.

Large private holdings shares held by an individual, a group of individuals acting together or a corporation (that is included in the Index) if such shareholdings constitute 10% or more of the shares outstanding. Institutional holdings shares held by investment companies, partnerships, insurance companies, mutual funds, or banks are excluded if the holding is greater than 30%. If a firm has a direct relationship to the company, such as board representation, they are considered strategic holdings and excluded regardless of the size of holding per the officers and directors exclusion rule.

Publicly listed companies shares held by publicly listed companies. Holdings considered as Institutional will be considered as available unless the 30% threshold is surpassed, regardless of listing.

ESOP or LESOP shares shares held by employee stock ownership plans and leveraged employee stock ownership plans.

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Initial public offering lock-ups shares locked-up during an initial public offering are not available to the public and will be excluded from the market value at the time the initial public offering enters the Index.

Government holdings shareholdings listed as government of. Shares held by government investment boards and/or investment arms are treated like shares held by large private shareholdings and are excluded if the number of shares is greater than 10% of outstanding shares. Shares held by a government pension plan are considered institutional holdings and will not be excluded unless the holding is greater than 30%.

Corporate Actions Affecting the Index

FTSE Russell adjusts the Index on a daily basis in response to certain corporate actions and events. Therefore, a company's membership in the Index and its weight in the Index can be impacted by these corporate actions. The adjustment is applied based on sources of public information, including press releases and Securities and Exchange Commission filings. Prior to the completion of a corporate action or event, FTSE Russell estimates the effective date. FTSE Russell will then adjust the anticipated effective date based on public information until the date is considered final. Depending on the time on a given day that an action is determined to be final, FTSE Russell will generally either (1) apply the action before the open on the ex-date or (2) apply the action after providing appropriate notice to its clients regarding the impact of the action and the effective date. FTSE Russell applies the following methodology guidelines when adjusting the Index in response to corporate actions and events:

No Replacement Rule Securities that are deleted from the Index between reconstitution dates, for any reason (e.g., mergers, acquisitions or other similar corporate activity) are not replaced. Thus, the number of securities in the Index over the past year will fluctuate according to corporate activity.

Mergers and Acquisitions Between constituents: When mergers and acquisitions take place between companies that are both constituents of a Russell index, the target company is deleted and its market capitalization simultaneously moves to the acquiring company's stock. In the absence of an active market for the target company at the time of index implementation, the target company will be deleted from the Index using a synthetic price based on the offer terms. Given sufficient market hours after confirmation, FTSE Russell effects this action after the close on the last day of trade of the target company, or at an appropriate time once the transaction has been deemed to be final (implementation may occur prior to the last day of trade to avoid potential delays with the associated synthetic pricing).

Between a constituent and a non-constituent: If the target company is a member of the Index, it is deleted from the Index after FTSE Russell determines that the action or event is final. If the acquiring company is a member of the Index, its shares are adjusted by adding the target company's market capitalization (if the increase in shares is greater than 5%). If the target company is not a member of a

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Russell index shares of the acquiring company will remain unchanged. If a non-index member acquires an index member, the acquired member will be deleted from the Index once the action is final.

Reincorporation Members of the Index that reincorporate to another country and continue to trade in the United States and companies that reincorporate to the United States during the year are analyzed for assignment by FTSE Russell during annual reconstitution. Members that reincorporate in another country and no longer trade in the United States are immediately deleted from the Russell U.S. indices.

Reclassification of shares (pricing vehicles) Pricing vehicles will not be assessed or changed outside of a reconstitution period unless the existing class ceases to exist. In the event of extenuating circumstances signaling a necessary pricing vehicle change, proper notification will be made.

Rights Offerings Rights offered to shareholders are reflected in the Index only if the subscription price of the rights is at a discount to the market price. Provided that FTSE Russell has been alerted to the rights offer prior to the ex-date, it will adjust the price of the stock for the value of the rights and increased shares according to the terms of the offering before the open on the ex-date. Where the Rights Issue / Entitlement offer subscription price remains unconfirmed on the ex-date, an estimated price will be used. FTSE Russell will estimate the subscription price using the value being raised and the offer terms. This treatment applies for both transferable and non-transferable rights. Rights issued as part of a poison pill arrangement or entitlements that give shareholders the right to purchase ineligible securities such as convertible debt are excluded from this treatment.

Changes to Shares Outstanding Changes to shares outstanding due to buybacks (including Dutch auctions), secondary offerings, and other potential changes are generally updated at the end of each month. FTSE Russell only applies month-end changes to available shares outstanding if the cumulative change in the number of shares outstanding is greater than 5%. Share changes that are confirmed by their vendors and verified by FTSE Russell by use of an SEC filing at least six days prior to month end are implemented and communicated to clients who subscribe at the Premier level five trading days prior to month end. The float factor last determined (either at reconstitution or due to a corporate action implementation) is applied to the new shares. No such changes are made in June due to the most recent annual reconstitution. Month-end changes in November and December will be processed as one event after the close on the third Friday of each December along with fourth quarter initial public offerings additions due to low liquidity in the financial markets at the end of the year and the proximity of a separate November month-end process.

Spin-offs Spin-offs will be valued using an estimate prior to ex-date. When a spin-off results in an eligible security type being listed on an eligible exchange, the spin-off company will remain in the Index until the next index review, regardless of size. When an index constituent spins off an ineligible security type or the spin-off company is listed on an ineligible exchange only, the security will be added to the Index on the ex-date and subsequently removed with notice at market price once regular way trade has commenced.

Tender Offers A company acquired as a result of a cash tender offer is removed if (i) Where offer acceptances are below 90%, there is reason to believe that the remaining free float is under 5% based on information available at the time; or (ii) Following completion of the offer the acquirer has stated intent to finalize the acquisition via a short-form merger, squeeze-out, top-up option or any other compulsory mechanism; or (iii) Offer acceptances reach 90% (initial, extension or subsequent); and (iv) Shareholders have validly tendered and the shares have been irrevocably accepted for payment; and all pertinent offer conditions have been reasonably met and the acquirer has not explicitly stated that it does not intend to acquire the remaining shares.

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Voluntary Exchange Offers A publicly traded company may offer to exchange or split-off some or all of its ownership in a separate publicly traded company. Once the offer expires, FTSE Russell will decrease the available shares in the offering company, and increase the available shares of split-off company, based on the results of the offering. FTSE Russell will effect this change based on, but not limited to, preliminary results, company filings, and exchange notices.

Bankruptcy and Voluntary Liquidations Companies that file for a Chapter 7 liquidation bankruptcy or have filed a liquidation plan will be removed from the Index at the time of the bankruptcy filing; whereas companies filing for a Chapter 11 reorganization bankruptcy will remain a member of the Index, unless the company is de-listed from the primary exchange, in which case normal de-listing rules apply. If a company files for bankruptcy, is delisted and it can be confirmed that it will not trade OTC, FTSE Russell may remove the stock at a nominal price of \$0.0001.

Stock Distributions A price adjustment for stock distributions is applied on the ex-date of the distribution. When the number of shares for the distribution is fixed, FTSE Russell increases the number of shares on the ex-date. When the number of shares is an undetermined amount based on future earnings and profits, FTSE Russell increases the number of shares on the pay-date.

Dividends FTSE Russell includes gross dividends in the daily total return calculation of the Index on the basis of their ex-dates. If a dividend is payable in stock and cash and the number of shares to be issued cannot be determined by the ex-date, the dividend is treated as all cash. Regular cash dividends are reinvested across the Index at the close on the dividend ex-date, while special cash dividends are subtracted from the price of the stock before the open on the ex-date.

Halted Securities Halted securities are not removed from the Index until the time they are actually delisted from the exchange. If a security is halted and declared bankrupt without any indication of compensation to shareholders, the last traded price will be adjusted down to zero value and it will subsequently be removed from the Index with T+2 notice. In all other cases, the security will continue to be included in the Index for a period of up to 20 business days at its last traded price. If the security continues to be suspended at the end of a period of up to 20 business days, FTSE Russell will review it to decide whether to remove it at zero value, repeating such review as applicable at successive 20 business day intervals until trading recommences or specified time limits expire and the security is removed.

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The following graph shows the daily historical performance of the Index in the period from January 1, 2008 through July 27, 2017. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On the pricing date, the closing level of the Index was 1,433.624.

Historical Performance of the Index

This historical data on the Index is not necessarily indicative of the future performance of the Index or what the value of the notes may be. Any historical upward or downward trend in the level of the Index during any period set forth above is not an indication that the level of the Index is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the Index.

License Agreement

FTSE Russell has entered into a non-exclusive license agreement with us, granting us, and certain of our affiliates, in exchange for a fee, permission to use the Index in connection with the offer and sale of the notes. We are not affiliated with FTSE Russell; the only relationship between

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FTSE Russell and us is the licensing of the use of the Russell 2000® Index (a trademark of FTSE Russell) and trademarks relating to the Index. We do not accept any responsibility for the calculation, maintenance or publication of the Index or any successor index.

The notes are not sponsored, endorsed, sold or promoted by FTSE Russell. FTSE Russell makes no representation or warranty, express or implied, to the owners of the notes or any member of the public regarding the advisability of investing in securities generally or in the notes particularly or the ability of the Index to track general stock market performance or a segment of the same.

FTSE Russell's publication of the Index in no way suggests or implies an opinion by FTSE Russell as to the advisability of investment in any or all of the securities upon which the Index is based. FTSE Russell's only relationship to us is the licensing of certain trademarks and trade names of FTSE Russell and of the Index which is determined, composed and calculated by FTSE Russell without regard to us or the notes. FTSE Russell is not responsible for and has not reviewed the notes nor any associated literature or publications and FTSE Russell makes no representation or warranty express or implied as to their accuracy or completeness, or otherwise. FTSE Russell reserves the right, at any time and without notice, to alter, amend, terminate or in any way change the Index. FTSE Russell has no obligation or liability in connection with the administration, marketing or trading of the notes.

FTSE RUSSELL DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN AND FTSE RUSSELL SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. FTSE RUSSELL MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY US, INVESTORS, HOLDERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN. FTSE RUSSELL MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL FTSE RUSSELL HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

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Supplement to the Plan of Distribution

Under our distribution agreement with MLPF&S, MLPF&S will purchase the notes from us as principal at the public offering price indicated on the cover of this term sheet, less the indicated underwriting discount.

We will deliver the notes against payment therefor in New York, New York on a date that is greater than three business days following the pricing date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes more than three business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The notes will not be listed on any securities exchange. In the original offering of the notes, the notes will be sold in minimum investment amounts of 100 units. If you place an order to purchase the notes, you are consenting to MLPF&S acting as a principal in effecting the transaction for your account.

MLPF&S may repurchase and resell the notes, with repurchases and resales being made at prices related to then-prevailing market prices or at negotiated prices, and these prices will include MLPF&S's trading commissions and mark-ups. MLPF&S may act as principal or agent in these market-making transactions; however, it is not obligated to engage in any such transactions. At MLPF&S's discretion, for a short, undetermined initial period after the issuance of the notes, MLPF&S may offer to buy the notes in the secondary market at a price that may exceed the initial estimated value of the notes. Any price offered by MLPF&S for the notes will be based on then-prevailing market conditions and other considerations, including the performance of the Index and the remaining term of the notes. However, none of us, MLPF&S, or any of our respective affiliates is obligated to purchase your notes at any price or at any time, and we cannot assure you that we, MLPF&S or any of our respective affiliates will purchase your notes at a price that equals or exceeds the initial estimated value of the notes.

The value of the notes shown on your account statement produced by MLPF&S will be based on MLPF&S's estimate of the value of the notes if MLPF&S or another of its affiliates were to make a market in the notes, which it is not obligated to do. That estimate will be based upon the price that MLPF&S may pay for the notes in light of then-prevailing market conditions, and other considerations, as mentioned above, and will include transaction costs. At certain times, this price may be higher than or lower than the initial estimated value of the notes.

The distribution of the Note Prospectus in connection with these offers or sales will be solely for the purpose of providing investors with the description of the terms of the notes that was made available to investors in connection with their initial offering. Secondary market investors should not, and will not be authorized to, rely on the Note Prospectus for information regarding BNS or for any purpose other than that described in the immediately preceding sentence.

Structuring the Notes

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The notes are our unsecured senior debt securities, the return on which is linked to the performance of the Index. As is the case for all of our debt securities, including our market-linked notes, the economic terms of the notes reflect our actual or perceived creditworthiness at the time of pricing. The internal funding rate we use in pricing the market-linked note is typically lower than the rate we would pay when we issue conventional fixed-rate debt securities of comparable maturity. This generally relatively lower internal funding rate, which is reflected in the economic terms of the notes, along with the fees and charges associated with market-linked notes, resulted in the initial estimated value of the notes on the pricing date being less than their public offering price.

Payments on the notes, including the amount you receive at maturity or upon an automatic call, will be calculated based on the performance of the Index and the \$10 per unit principal amount. In order to meet these payment obligations, at the time we issue the notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) with MLPF&S or one of its affiliates. The terms of these hedging arrangements are determined by seeking bids from market participants, including MLPF&S and its affiliates, and take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Index, the tenor of the notes and the tenor of the hedging arrangements. The economic terms of the notes and their initial estimated value depend in part on the terms of these hedging arrangements.

MLPF&S has advised us that the hedging arrangements will include a hedging related charge of approximately \$0.075 per unit, reflecting an estimated profit to be credited to MLPF&S from these transactions. Since hedging entails risk and may be influenced by unpredictable market forces, additional profits and losses from these hedging arrangements may be realized by MLPF&S or any third party hedge providers.

For further information, see [Risk Factors - General Risks Relating to the Notes](#) beginning on page PS-7 and [Use of Proceeds and Hedging](#) on page PS-17 of product prospectus supplement EQUITY INDICES SUN-1.

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Summary of Canadian Federal Income Tax Consequences

An investor should read carefully the description of principal Canadian federal income tax considerations under "Canadian Taxation" in the accompanying prospectus relevant to a holder (as defined on page 19 of the prospectus) owning debt securities, and the description of principal Canadian federal income tax considerations under "Supplemental Discussion of Canadian Federal Income Tax Consequences" in the applicable product prospectus supplement.

Summary of U.S. Federal Income Tax Consequences

The following is a general description of certain U.S. federal tax considerations relating to the notes. Prospective purchasers of the notes should consult their tax advisors as to the consequences under the tax laws of the country of which they are residents for tax purposes and the tax laws of the U.S. of acquiring, holding and disposing of the notes and receiving payments under the notes. This summary is based upon the law as in effect on the date of this pricing supplement and is subject to any change in law that may take effect after such date. We urge you to read the more detailed discussion in the "Supplemental Discussion of U.S. Federal Income Tax Consequences" section beginning on page PS-30 of product prospectus supplement EQUITY INDICES SUN-1.

No statutory, judicial or administrative authority directly discusses how the notes should be treated for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of your investment in the notes are uncertain. Accordingly, we urge you to consult your tax advisor as to the tax consequences of your investment in the notes (and of having agreed to the required tax treatment of your notes described below) and as to the application of state, local or other tax laws to your investment in your notes and the possible effects of changes in federal or other tax laws.

Pursuant to the terms of the notes, BNS and you agree, in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary, to characterize your notes as a pre-paid derivative contract with respect to the reference asset. If your notes are so treated, you should generally recognize long-term capital gain or loss if you hold your notes for more than one year (and otherwise, short-term capital gain or loss) upon the sale, exchange, redemption, automatic call or maturity of your notes in an amount equal to the difference between the amount you receive at such time and the amount you paid for your notes. The deductibility of capital losses is subject to limitations.

However, it is possible that the Internal Revenue Service (IRS) could assert that your holding period in respect of your notes should end on the date on which the amount you are entitled to receive upon maturity or automatic call of your notes is determined, even though you will not receive any amounts from the issuer in respect of your notes prior to the maturity or automatic call of your notes. In such case, you may be treated as having a holding period in respect of your notes prior to the maturity or automatic call of your notes, and such holding period may be treated as less than one year even if you receive cash upon the maturity or automatic call of your notes at a time that is more than one year after the beginning of your holding period.

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In the opinion of our counsel, Cadwalader, Wickersham & Taft LLP, it would be reasonable to treat your notes in the manner described above. However, because there is no authority that specifically addresses the tax treatment of the notes, it is possible that your notes could alternatively be treated for tax purposes as a single contingent payment debt instrument or pursuant to some other characterization, such that the timing and character of your income from the notes could differ materially from the treatment described above.

Possible Change in Law. In 2007, the IRS released a notice that may affect the taxation of holders of the notes. According to Notice 2008-2, the IRS and the U.S. Treasury Department are actively considering whether a holder of an instrument such as the notes should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The IRS and the U.S. Treasury Department are also considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital, whether foreign holders of such instruments should be subject to withholding tax on any deemed income accruals, and whether the special constructive ownership rules of Section 1260 of the Internal Revenue Code of 1986, as amended (the Code) should be applied to such instruments.

Medicare Tax on Net Investment Income. U.S. holders that are individuals or estates and certain trusts are subject to an additional 3.8% tax on all or a portion of their net investment income, or undistributed net investment income in the case of an estate or trust, which may include any income or gain with respect to the notes, to the extent of their net investment income or undistributed net investment income (as the case may be) that, when added to their other modified adjusted gross income, exceeds \$200,000 for an unmarried individual, \$250,000 for a married taxpayer filing a joint return (or a surviving spouse), \$125,000 for a married individual filing a separate return, or the dollar amount at which the highest tax bracket begins for an estate or trust (which, in 2017, is \$12,500). The 3.8% Medicare tax is determined in a different manner than the regular income tax. U.S. holders should consult their advisors with respect to the 3.8% Medicare tax.

Specified Foreign Financial Assets. U.S. holders may be subject to reporting obligations with respect to their notes if they do not hold their notes in an account maintained by a financial institution and the aggregate value of their notes and certain other specified foreign financial assets (applying certain attribution rules) exceeds \$50,000. Significant penalties can apply if a U.S. holder is required to disclose its notes and fails to do so.

Backup Withholding and Information Reporting. The proceeds received from a sale, exchange, redemption, automatic call or maturity of the notes will be subject to information reporting unless you are an exempt recipient and may also be subject to backup withholding at

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the rate specified in the Code if you fail to provide certain identifying information (such as an accurate taxpayer number, if you are a U.S. holder) or meet certain other conditions.

Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is furnished to the IRS.

Non-U.S. Holders. This section applies only if you are a non-U.S. holder. For these purposes, you are a non-U.S. holder if you are the beneficial owner of the notes and are, for U.S. federal income tax purposes:

- a non-resident alien individual;
- a foreign corporation; or
- an estate or trust that, in either case, is not subject to U.S. federal income tax on a net income basis on income or gain from the notes.

If you are a non-U.S. holder, subject to Section 871(m) and FATCA, you should generally not be subject to generally applicable information reporting and backup withholding requirements with respect to payments on your notes if you comply with certain certification and identification requirements as to your foreign status including providing us (and/or the applicable withholding agent) a properly executed and fully completed applicable IRS Form W-8. Subject to Section 897 and Section 871(m) discussed below, gain from the sale, exchange or redemption of the notes, automatic call or settlement at maturity generally will not be subject to U.S. tax unless such gain is effectively connected with a trade or business conducted by you in the U.S. or unless you are a non-resident alien individual and are present in the U.S. for 183 days or more during the taxable year of such sale, exchange or settlement and certain other conditions are satisfied.

We will not attempt to ascertain whether the issuer of any underlying equity constituent of the Index would be treated as a United States real property holding corporation (USRPHC) within the meaning of Section 897 of the Code. If an issuer of any underlying equity constituent of the Index or the notes were so treated, certain adverse U.S. federal income tax consequences could possibly apply, including subjecting any gain realized by a non-U.S. holder in respect of the notes upon a sale, exchange, early redemption or other taxable disposition (including cash settlement) of the notes to U.S. federal income tax on a net basis, and the proceeds from such a taxable disposition to a withholding tax. Non-U.S. holders should consult their tax advisors regarding the potential treatment of any underlying equity constituent for their notes as a United States real property holding corporation or the notes as United States real property interests.

Section 871 (m). A 30% withholding tax (which may be reduced by an applicable income tax treaty) is imposed under Section 871(m) of the Code on certain dividend equivalents paid or deemed paid to a non-U.S. holder with respect to a specified equity-linked instrument that references one or more dividend-paying U.S. equity securities or indices containing U.S. equity securities. The withholding tax can apply even if the instrument does not provide for payments that reference dividends. Treasury regulations provide that the withholding tax applies to all dividend equivalents paid or

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deemed paid on specified equity-linked instruments that have a delta of one (delta one specified equity-linked instruments) issued after 2016 and to all dividend equivalents paid or deemed paid on all other specified equity-linked instruments issued after 2017.

Based on our determination that the notes are not delta-one with respect to the Index or any U.S. Index components our counsel is of the opinion that the notes should not be delta one specified equity-linked instruments and thus should not be subject to withholding on dividend equivalents. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Furthermore, the application of Section 871(m) of the Code will depend on our determinations made upon issuance of the notes. If withholding is required, we will not make payments of any additional amounts.

Nevertheless, after issuance, it is possible that your notes could be deemed to be reissued for tax purposes upon the occurrence of certain events affecting the Index or Index components or your notes, and following such occurrence your notes could be treated as delta one specified equity-linked instruments that are subject to withholding on dividend equivalents. It is also possible that withholding tax or other tax under Section 871(m) of the Code could apply to the notes under these rules if a non-U.S. holder enters, or has entered, into certain other transactions in respect of the Index or Index components or the notes. A non-U.S. holder that enters, or has entered, into other transactions in respect of the Index or Index components or the notes should consult its own tax advisor regarding the application of Section 871(m) of the Code to its notes in the context of its other transactions.

Because of the uncertainty regarding the application of the 30% withholding tax on dividend equivalents to the notes, you are urged to consult your tax advisor regarding the potential application of Section 871(m) of the Code and the 30% withholding tax to an investment in the notes.

U.S. Federal Estate Tax Treatment of Non-U.S. Holders. A note may be subject to U.S. federal estate tax if an individual non-U.S. holder holds the note at the time of his or her death. The gross estate of a non-U.S. holder domiciled outside the U.S. includes only property situated in the U.S. Individual non-U.S. holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the notes at death.

FATCA. The Foreign Account Tax Compliance Act (FATCA) was enacted on March 18, 2010, and imposes a 30% U.S. withholding tax on withholdable payments (i.e., certain U.S.-source payments, including interest (and original issue discount), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S.-source interest or dividends) and passthru payments (i.e., certain payments attributable to withholdable payments) made to certain foreign financial institutions (and certain of their affiliates) unless the payee foreign financial institution agrees (or is required), among other things, to disclose the identity of any U.S. individual with an account at the institution (or the relevant affiliate) and to annually report certain information about such account. FATCA also requires withholding agents making withholdable payments to certain foreign entities that do not disclose the name, address, and taxpayer identification number of any

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Board and Committee Meetings and Attendance in 2018

The board of directors met five times in 2018 and took certain additional actions by unanimous written consent. In 2018, the audit committee met five times, the compensation committee met three times and the corporate governance committee met two times. During 2018, none of our incumbent directors attended fewer than 75 percent of the aggregate number of meetings of the board of directors and committees during the period served.

It is our policy to encourage the members of our board of directors to attend all annual meetings of stockholders. All nine members of our board of directors attended our 2018 annual meeting of stockholders.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that applies to all of our directors, officers and employees, the text of which appears on our website at www.lexpharma.com under the caption "Investors - Corporate Governance." We intend to disclose on our website the nature of any amendment to or waiver from our code of business conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions within four business days following the date of such amendment or waiver. In the case of any such waiver, including an implicit waiver, we also intend to disclose the name of the person to whom the waiver was granted and the date of the waiver. To date, we have not granted any waivers under our code of business conduct and ethics.

Corporate Governance Guidelines

We have adopted corporate governance guidelines, including, among other things, guidelines with respect to the structure of our board of directors, director selection and qualifications, and non-employee director compensation. The text of our corporate governance guidelines appears on our website at www.lexpharma.com under the caption "Investors - Corporate Governance."

Stockholder Communications with the Board of Directors

We believe that our stockholders are currently provided a reasonable means to communicate with our board of directors and individual directors. As a result, our board of directors has not established a formal process for stockholders to send communications to the board of directors or individual directors. However, the corporate governance committee will consider, from time to time, whether adoption of a formal process for such stockholder communications has become necessary or appropriate. Stockholders may send communications to the board of directors or individual directors by mail at 8800 Technology Forest Place, The Woodlands, Texas 77381, Attn: Board of Directors or any individual director.

Compensation Committee Interlocks and Insider Participation

During 2018, Frank P. Palantoni, Philippe J. Amouyal and Samuel L. Barker, Ph.D. served as members of the compensation committee of our board of directors. Mr. Amouyal is a designee of Invus pursuant to our stockholders' agreement with Invus, L.P. described under the heading "Transactions with Related Persons - Arrangements with Invus." During 2018, none of our executive officers served as a member of the board of directors or compensation committee of another entity, one of whose executive officers served as a member of our board of directors or compensation committee.

TRANSACTIONS WITH RELATED PERSONS

Arrangements with Invus

In June 2007, we entered into a securities purchase agreement with Invus, L.P., under which Invus, L.P. made an initial investment in our common stock in August 2007. Invus, L.P. and its affiliates have subsequently made additional investments in our common stock and currently own approximately ____% of our outstanding common stock.

Board of Directors. Concurrently with the execution of the securities purchase agreement, we entered into a stockholders' agreement with Invus, L.P. under which Invus, L.P. and Invus C.V., which we collectively refer to as Invus, have the right to designate a number of directors equal to the percentage of all the outstanding shares of our common stock owned by Invus and its affiliates, rounded up to the nearest whole number of directors. Invus has designated three of the nine current members of our board of directors. While Invus has not presently exercised its director designation rights in full, it may exercise them at any time in the future in its sole discretion. To facilitate the exercise of such rights, we have agreed, upon written request from Invus, to take all necessary steps in accordance with our obligations under the stockholders' agreement to (1) increase the number of directors to the number specified by Invus (which number shall be no greater than reasonably necessary for the exercise of Invus' director designation rights under the stockholders' agreement) and (2) cause the appointment to the newly created directorships of directors so designated by Invus pursuant to its rights under the stockholders' agreement.

Invus also has the right to require proportionate representation of Invus-appointed directors on the audit, compensation and corporate governance committees of our board of directors, subject to certain restrictions. Invus-designated directors currently serve as one of the three members of each of the compensation committee and corporate governance committee of our board of directors. No Invus-designated directors currently serve on the audit committee of our board of directors.

The provisions of the stockholders' agreement relating to Invus' rights to designate members of our board of directors and its audit, compensation and corporate governance committees will terminate if the percentage of all the outstanding shares of our common stock owned by Invus and its affiliates falls below 10%. Invus also has the right to terminate these provisions at any time in its discretion.

Registration Rights. Concurrently with the execution of the securities purchase agreement, we also entered into a registration rights agreement with Invus, L.P., pursuant to which Invus and its affiliates have certain demand and piggyback registration rights with respect to shares of our common stock held by them.

Related Party Transaction Policies

We have adopted written policies and procedures for the review, approval and ratification of interested transactions with related parties. Subject to certain exceptions provided in Item 404(a) of Regulation S-K, an “interested transaction” means any transaction, arrangement or relationship in which we are a participant and the amount involved will or may be expected to exceed

\$120,000 in any calendar year, and in which any related party has or will have a direct or indirect material interest. A “related party” means (a) any executive officer, director, nominee for election as a director or any person beneficially owning five percent or more of our common stock and (b) any immediate family member of such parties.

All interested transactions are subject to the review and approval of our audit committee and if advance audit committee approval is not feasible, then the interested transaction will be considered for ratification at the audit committee’s next regularly scheduled meeting. In determining whether to approve or ratify any interested transaction, the audit committee will consider, among other factors it may deem appropriate, whether the interested transaction is on terms no less favorable than terms generally available to an unaffiliated third party under similar circumstances and the extent of the related party’s interest in the transaction. No director participates in any discussion or approval of an interested transaction for which he or she is a related party. On at least an annual basis, the audit committee reviews and assesses any ongoing interested transactions to ensure that the transaction remains appropriate.

EXECUTIVE AND DIRECTOR COMPENSATION

Compensation Discussion and Analysis

We have developed a compensation policy that is designed to attract and retain key executives responsible for our success and motivate management to enhance long-term stockholder value. All compensation decisions are made by our compensation committee pursuant to authority delegated by our board of directors. The annual compensation package for executive and other officers typically consists primarily of three elements:

- a base salary, which reflects the responsibilities relating to the position and individual performance;
- variable annual cash bonus awards, determined relative to pre-established bonus targets expressed as a percentage of base salary; and

- long-term stock-based incentive awards, designed to provide a continuing proprietary interest in our success.

We generally seek to set targeted total cash compensation, consisting of base salaries and annual cash bonus award targets, and total direct compensation, consisting of targeted total cash compensation and long-term stock-based incentive awards, at or near the median of a peer group of biopharmaceutical companies if such compensation level is justified by company performance, individual performance and prevailing financial conditions.

In determining peer group compensation, we use available data from a comprehensive survey of the compensation practices of several hundred companies in the biopharmaceutical industry. We expand on this survey data with reviews of the publicly-disclosed compensation practices of a group of biopharmaceutical companies selected for comparison purposes based on one or more factors, including market capitalization, revenues and stage of development.

For compensation decisions made in February 2016, this group of companies consisted of:

Acceleron Pharma Inc.	Exelixis, Inc.	Orexigen Therapeutics, Inc.
Anacor Pharmaceuticals, Inc.	Keryx Biopharmaceuticals, Inc.	Portola Pharmaceuticals, Inc.
Arena Pharmaceuticals, Inc.	MacroGenics, Inc.	Sangamo BioSciences, Inc.
Array Biopharma Inc.	OncoMed Pharmaceuticals, Inc.	Sarepta Therapeutics, Inc.

Dynavax Technologies Corporation

For compensation decisions made in February 2017, this group of companies consisted of:

Acceleron Pharma Inc.	Clovis Oncology, Inc.	MacroGenics, Inc.
Anacor Pharmaceuticals, Inc.	Corcept Therapeutics Incorporated	Neurocrine Biosciences, Inc.
Ariad Pharmaceuticals, Inc.	Exelixis, Inc.	Portola Pharmaceuticals, Inc.
Array Biopharma Inc.	Halozyme Therapeutics, Inc.	Sarepta Therapeutics, Inc.
Avanir Pharmaceuticals, Inc.	Ironwood Pharmaceuticals, Inc.	Supernus Pharmaceuticals, Inc.

For compensation decisions made in February 2018, this group of companies consisted of:

Acadia Pharmaceuticals Inc.	Corcept Therapeutics Incorporated	Portola Pharmaceuticals, Inc.
Acceleron Pharma Inc.	Dermira, Inc.	Sangamo BioSciences, Inc.
Arena Pharmaceuticals, Inc.	Dynavax Technologies Corporation	Sarepta Therapeutics, Inc.
Ariad Pharmaceuticals, Inc.	Halozyme Therapeutics, Inc.	Spark Therapeutics, Inc.
Array Biopharma Inc.	Intercept Pharmaceuticals, Inc.	Tesaro, Inc.

Clovis Oncology, Inc. Ironwood Pharmaceuticals, Inc.

For compensation decisions made in February 2019, this group of companies consisted of:

Acadia Pharmaceuticals Inc.	Blueprint Medicines Corporation	Intercept Pharmaceuticals, Inc.
Acceleron Pharma Inc.	Clovis Oncology, Inc.	MyoKardia, Inc.
Agios Pharmaceuticals, Inc.	Corcept Therapeutics Incorporated	Portola Pharmaceuticals, Inc.
Arena Pharmaceuticals, Inc.	Enanta Pharmaceuticals, Inc.	

Array Biopharma Inc.

Fibrogen, Inc.

Reata
Pharmaceuticals, Inc.
Sangamo
BioSciences, Inc.

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The peer group of biopharmaceutical companies for which we obtained survey data and the additional groups of companies listed above do not necessarily coincide with the companies comprising the Nasdaq Biotechnology Index. Although we acknowledge the inherent limitations in comparing our compensation practices with the compensation practices of these companies, we believe that these comparisons are useful and important points of reference in making compensation determinations.

In making compensation determinations and reviewing comparative data, the compensation committee reviews total direct compensation in its totality, assigning dollar values to each of the elements of such compensation, including base salary, annual cash bonus award targets and long-term stock-based incentive awards. The committee generally allocates a greater percentage of total direct compensation to long-term stock-based incentive awards in acknowledgment of the unique challenges present in the biopharmaceutical industry and in order to reinforce the alignment of interests between our executive and other officers and our stockholders.

In determining the level and composition of compensation of each of our executive and other officers, we take into account various qualitative and quantitative indicators of corporate and individual performance. In evaluating the performance of management, the compensation committee takes into consideration such factors as the commercial performance of our approved drug products, our efforts and preparations for regulatory approval and commercial launch of our drug candidates, the progress exhibited by our drug candidates in human clinical trials, the number and quality of drug candidates in clinical trials, the number and quality of preclinical drug candidates, the value and scope of strategic collaborations and alliances with leading pharmaceutical companies, and the ability to otherwise finance our operations from external sources. In addition, the compensation committee recognizes performance and achievements that are more difficult to quantify, such as the successful supervision of major corporate projects and demonstrated leadership ability.

The compensation committee generally makes executive compensation determinations in February of each year, taking into account both company and individual performance over the preceding year, as well as prevailing financial conditions. The compensation committee meets at least once in advance of the meeting in which executive compensation determinations are actually made to discuss considerations relating to those determinations.

The compensation committee may also retain compensation consultants, legal counsel or other advisors when it deems appropriate to assist in its evaluation of executive compensation. In May 2015, the compensation committee engaged Hay Group, Inc. as an independent compensation consultant to assess the market competitiveness of our executive compensation and provide the compensation committee with recommendations based on such assessment. At the compensation committee's request, Hay Group produced and reviewed market executive compensation data, conducted interviews of certain officers, participated in certain compensation committee meetings and prepared an assessment of and recommendations with respect to our executive compensation. In May 2015, the committee assessed the independence of Hay Group and concluded that no conflict of interest exists that would prevent Hay Group from providing the services performed for the compensation committee under such engagement. In March 2017, the compensation committee engaged Korn Ferry Hay Group as an independent compensation consultant to assess the market competitiveness of the long-term stock-based incentive awards granted to our executive officers and provide the compensation committee with recommendations based on such assessment. At the compensation committee's request, Korn Ferry Hay Group produced and reviewed market data relating to long-term stock-based incentive awards, participated in certain compensation committee meetings and prepared an assessment of and recommendations with respect to the long-term stock-based incentive awards granted to our executive officers. In March 2017, the committee assessed the independence of Korn Ferry Hay Group and concluded that no conflict of interest exists that would prevent Korn Ferry Hay Group from providing the services performed for the compensation committee under such engagement. The compensation committee did not engage any other consultants with respect to 2016, 2017 or 2018 compensation matters.

We received a favorable advisory vote on the compensation of our named executive officers at our 2018 annual meeting of stockholders, with over 98% of the votes cast with respect to such matter voting in favor of such compensation. The compensation committee believes those voting results affirm our stockholders' support of our approach to executive compensation and did not make any material changes to its approach. The compensation committee will continue to consider the outcome of our advisory votes on executive compensation when making future decisions with respect to the compensation paid to our named executive officers.

Corporate and Individual Performance Criteria

February 2016 Compensation Determinations

In February 2016, the compensation committee made determinations regarding 2015 cash bonus awards and 2016 base salaries, bonus targets and long-term stock-based incentive awards, taking into account the following factors in its evaluation of corporate performance in 2015:

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- our entry into a strategic partnership with Sanofi for the worldwide development and commercialization of sotagliflozin;
- the expansion of our strategic partnership with Ipsen Pharma SAS for the commercialization of telotristat ethyl in Canada;
- the completion of a pivotal Phase 3 clinical trial and a second companion Phase 3 clinical trial of telotristat ethyl in patients with carcinoid syndrome, with positive results;
- our progress relative to our objectives in preparing for the filing of a new drug application and the commercial launch of telotristat ethyl in the United States;
- the initiation of and progression of enrollment for Phase 3 clinical trials of sotagliflozin in patients with type 1 diabetes;
- our progress relative to our objectives in advancing our other nonclinical drug development programs; and
- our performance relative to our objectives for financial performance, specifically relating to year-end cash and investments and management of our financial resources.

The committee's compensation determinations in February 2016 reflected its assessment that we largely achieved our objectives relating to our drug development programs and achieved our objectives relating to our financial performance. Taking into account the balance of factors described above, it was the committee's assessment that our overall corporate objectives were achieved.

For named executive officers other than Mr. Coats, the compensation committee also took into account individual goals, which consisted principally of the expected individual contributions of each named executive officer towards the achievement of the year's corporate goals, together with Mr. Coats' and the committee's independent assessment of each named executive officer's overall performance and contributions to the company during the year, in the course of making subjective judgments about individual performance in connection with compensation determinations. Mr. Coats had no individual goals for 2015 apart from the corporate goals.

The committee's determinations for Mr. Coats were based entirely upon its determination of achievement of the year's corporate goals, together with the compensation committee's assessment of his strategic and operational leadership. For other named executive officers, the compensation committee based its determinations principally upon its determination of achievement of the year's corporate goals, but also took into account, to a lesser extent, each named executive officer's individual goals. In the case of Mr. Wade, the compensation committee took into account his contributions toward the establishment of our strategic collaboration with Sanofi, our financial management and our other business development and alliance management activities, as well as his strategic and operational leadership. In the case of Dr. Lapuerta, the compensation committee took into account his contributions toward the progress in our drug development programs, with favorable results in two Phase 3 clinical trials of telotristat ethyl, and commercialization preparations, as well as his strategic and operational leadership and participation in business development activities. In the case of Mr. Santini, the compensation committee took into account his contributions toward the progress in our commercialization preparations, as well as his strategic and operational leadership.

February 2017 Compensation Determinations

In February 2017, the compensation committee made determinations regarding 2016 cash bonus awards and 2017 base salaries, bonus targets and long-term stock-based incentive awards, taking into account the following factors in its evaluation of corporate performance in 2016:

- our announcement of positive top-line results from two pivotal Phase 3 clinical trials and the completion of enrollment in a third Phase 3 clinical trial of sotagliflozin in patients with type 1 diabetes;
- the completion of two additional Phase 2 clinical trials of sotagliflozin in patients with type 1 diabetes;
- our filing of a new drug application for telotristat ethyl and the acceptance and granting of priority review of such new drug application by the United States Food and Drug Administration;
- our progress relative to our objectives in preparing for the commercial launch of telotristat ethyl in the United States;
- our progress relative to our objectives in advancing our other preclinical drug development programs; and
- our performance relative to our objectives for financial performance and business development, specifically relating to year-end cash and investments and management of our financial resources.

The committee's compensation determinations in February 2017 reflected its assessment that we largely achieved our objectives relating to our drug development programs and achieved our objectives relating to our financial performance. Taking into account the balance of factors described above, it was the committee's assessment that our overall corporate objectives were achieved.

For named executive officers other than Mr. Coats, the compensation committee also took into account individual goals, which consisted principally of the expected individual contributions of each named executive officer towards the achievement of the year's corporate goals, together with Mr. Coats' and the committee's independent assessment of each named executive officer's overall performance and contributions to the company during the year, in the course of making subjective judgments about individual performance in connection with compensation determinations. Mr. Coats had no individual goals for 2016 apart from the corporate goals.

The committee's determinations for Mr. Coats were based entirely upon its determination of achievement of the year's corporate goals, together with the compensation committee's assessment of his strategic and operational leadership.

For other named executive officers, the compensation committee based its determinations principally upon its determination of achievement of the year's corporate goals, but also took into account, to a lesser extent, each named executive officer's individual goals. In the case of Mr. Wade, the compensation committee took into account his contributions toward our financial management and our other business development and alliance management activities, as well as his strategic and operational leadership. In the case of Dr. Lapuerta, the compensation committee took into account his contributions toward the filing of a new drug application and commercialization preparations for telotristat ethyl, as well as his strategic and operational leadership. In the case of Mr. Santini, the compensation committee took into account his contributions toward the progress in our commercialization preparations, as well as his strategic and operational leadership. In the case of Dr. Tyle, the compensation committee took into account his contributions toward the progress in our clinical and preclinical development programs, as well as his strategic and operational leadership.

February 2018 Compensation Determinations

In February 2018, the compensation committee made determinations regarding 2017 cash bonus awards and 2018 base salaries, bonus targets and long-term stock-based incentive awards, taking into account the following factors in its evaluation of corporate performance in 2017:

- the approval of our application for regulatory approval to market XERMELO® (telotristat ethyl) in the United States;
- our progress relative to our objectives for the launch and commercial performance of XERMELO in the United States;
- our announcement of positive additional data from two pivotal Phase 3 clinical trials of sotagliflozin in patients with type 1 diabetes and positive pooled continuous glucose monitoring data from such studies;
- our announcement of positive top-line results from a third Phase 3 clinical trial of sotagliflozin in patients with type 1 diabetes and the publication of data from such study in the New England Journal of Medicine;
- our progress relative to our objectives in preparing, in collaboration with Sanofi, for the filing of applications for regulatory approval to market sotagliflozin for type 1 diabetes in the United States and the European Union;
- our progress relative to our objectives in advancing our other clinical and preclinical drug development programs; and
- our performance relative to our objectives for financial performance and business development, specifically relating to year-end cash and investments and management of our financial resources.

The committee's compensation determinations in February 2018 reflected its assessment that we partially achieved our objectives relating to the launch and commercial performance of XERMELO and largely achieved our objectives relating to our drug development programs and our financial performance. Taking into account the balance of factors described above, it was the committee's assessment that our overall corporate objectives were partially achieved.

For named executive officers other than Mr. Coats, the compensation committee also took into account individual goals, which consisted principally of the expected individual contributions of each named executive officer towards the achievement of the year's corporate goals, together with Mr. Coats' and the committee's independent assessment of each named executive officer's overall performance and contributions to the company during the year, in the course of making subjective judgments about individual performance in connection with compensation determinations. Mr. Coats had no individual goals for 2017 apart from the corporate goals.

The committee's determinations for Mr. Coats were based entirely upon its determination of achievement of the year's corporate goals, together with the compensation committee's assessment of his strategic and operational leadership. For other named executive officers, the compensation committee based its determinations principally upon its determination of achievement of the year's corporate goals, but also took into account, to a lesser extent, each named executive officer's individual goals. In the case of Mr. Wade, the compensation committee took into account his contributions toward our financial management and capital raising efforts, the establishment of our commercial financial systems and our other business development and alliance management activities, as well as his strategic and operational leadership. In the case of Dr. Lapuerta, the compensation committee took into account his contributions toward the medical support of XERMELO and our drug development programs, as well as his strategic and operational leadership. In the case of Mr. Santini, the compensation committee took into account his contributions toward the launch and commercial performance of XERMELO, as well as his strategic and operational leadership. In the case of Dr. Tyle, the compensation committee took into account his contributions toward the progress in our clinical and preclinical development programs, as well as his strategic and operational leadership.

February 2019 Compensation Determinations

In February 2019, the compensation committee made determinations regarding 2018 cash bonus awards and 2019 base salaries, bonus targets and long-term stock-based incentive awards, taking into account the following factors in its evaluation of corporate performance in 2018:

our efforts in support of applications for regulatory approval filed by Sanofi to market sotagliflozin for type 1 diabetes in the United States and the European Union and the acceptance of such applications by the United States Food and Drug Administration and the European Medicines Agency;

- our progress relative to our objectives in preparing for the commercial launch of sotagliflozin in the United States for the treatment of type 1 diabetes;

our progress relative to our objectives for the commercial performance of and medical support for XERMELO in the United States;

our progress relative to our objectives in advancing the clinical development of telotristat ethyl in biliary tract cancer;

our progress relative to our objectives in advancing our other clinical and preclinical drug development programs; and

our performance relative to our objectives for financial performance and business development, specifically relating to year-end cash and investments and management of our financial resources.

The committee's compensation determinations in February 2019 reflected its assessment that we largely achieved our objectives relating to sotagliflozin, partially achieved our objectives relating to XERMELO (telotristat ethyl) and largely achieved our objectives relating to our other drug development programs and our financial performance.

Taking into account the balance of factors described above, it was the committee's assessment that our overall corporate objectives were partially achieved.

For named executive officers other than Mr. Coats, the compensation committee also took into account individual goals, which consisted principally of the expected individual contributions of each named executive officer towards the achievement of the year's corporate goals, together with Mr. Coats' and the committee's independent assessment of each named executive officer's overall performance and contributions to the company during the year, in the course of making subjective judgments about individual performance in connection with compensation determinations. Mr. Coats had no individual goals for 2018 apart from the corporate goals.

The committee's determinations for Mr. Coats were based entirely upon its determination of achievement of the year's corporate goals, together with the compensation committee's assessment of his strategic and operational leadership.

For other named executive officers, the compensation committee based its determinations principally upon its determination of achievement of the year's corporate goals, but also took into account, to a lesser extent, each named executive officer's individual goals. In the case of Mr. Wade, the compensation committee took into account his contributions toward our financial management, the successful operation of our commercial financial systems and our other business development and alliance management activities, as well as his strategic and operational leadership. In the case of Dr. Lapuerta, the compensation committee took into account his contributions toward the medical support of XERMELO, sotagliflozin and our drug development programs, as well as his strategic and operational leadership. In the case of Mr. Santini, the compensation committee took into account his contributions toward the commercial performance of XERMELO and preparations for the commercial launch of sotagliflozin, as well as his strategic and

operational leadership. In the case of Dr. Tyle, the compensation committee took into account his contributions toward the progress in our clinical and preclinical development programs, as well as his strategic and operational leadership.

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Compensation Elements

Base Salary

Base salary of executive and other officers is established through negotiation between the company and the officer at the time he or she is hired, and then subsequently adjusted when the officer's base compensation is subject to review or reconsideration. While we have entered into employment agreements with certain of our executive officers, these agreements provide that base salaries after the initial year will be reviewed and determined by the compensation committee. When establishing base salary levels for executive and other officers, the compensation committee, in accordance with its general compensation policy, considers numerous factors, including the responsibilities relating to the position, the qualifications of the executive and the relevant experience the individual brings to the company, strategic goals for which the executive has responsibility, and compensation levels of companies at a comparable stage of commercialization and development who compete with us for business, scientific and executive talents. When considering increases to base salary levels for officers, which typically occurs each February, we consider corporate and individual performance in addition to the foregoing factors. No pre-determined weights are given to any one of these factors.

In February 2016, February 2017, February 2018 and February 2019, we increased base salaries for each of our named executive officers following reviews of peer group salary data. The base salaries of our named executive officers are generally competitive with those paid by our peer group companies, with most falling near the median for such peer group companies. In establishing base salaries for 2016, 2017, 2018 and 2019, we considered the competitiveness of our cash compensation arrangements for executive officers and our cash position and needs for the applicable year.

Cash Bonus Awards

In addition to base salary, we may award variable annual cash bonus awards to executive and other officers with reference to certain predefined corporate and personal performance goals. These performance goals include those discussed generally above, as well as strategic and operational goals for the company as a whole. We typically consider the award of cash bonuses each February relating to performance for the preceding year. For each of our officers, the compensation committee establishes a bonus target, expressed as a percentage of base salary, which is used to determine the cash bonus amount, assuming that corporate and individual goals are fully achieved. The compensation committee retains broad discretion over the amount and payment of such awards and is not bound by any pre-determined agreement, formula or other standard with respect to such decisions.

In determining the cash bonus awards paid in February 2017 with respect to 2016 performance, the compensation committee included the relevant factors described above under “- Corporate and Individual Performance Criteria - February 2017 Compensation Determinations” in its evaluation of corporate and individual performance. After taking into account these factors, the compensation committee determined that our objectives for the year had been achieved, and awarded bonuses for 2016 performance to our named executive officers in amounts reflecting such level of achievement.

In determining the cash bonus awards paid in February 2018 with respect to 2017 performance, the compensation committee included the relevant factors described above under “- Corporate and Individual Performance Criteria - February 2018 Compensation Determinations” in its evaluation of corporate and individual performance. After taking into account these factors, the compensation committee determined that our objectives for the year had been partially achieved, and awarded bonuses for 2017 performance to our named executive officers in amounts reflecting such level of achievement.

In determining the cash bonus awards paid in February 2019 with respect to 2018 performance, the compensation committee included the relevant factors described above under “- Corporate and Individual Performance Criteria - February 2019 Compensation Determinations” in its evaluation of corporate and individual performance. After taking into account these factors, the compensation committee determined that our objectives for the year had been partially achieved, and awarded bonuses for 2018 performance to our named executive officers in amounts reflecting such level of achievement.

Long-Term Stock-Based Incentive Awards

All of our employees, including our named executive officers, are eligible to receive long-term stock-based incentive awards under our 2017 Equity Incentive Plan as a means of providing such individuals with a continuing proprietary interest in our success. These grants are typically awarded each February and align the interests of our employees and

our stockholders by providing significant incentives for our employees to achieve and maintain high levels of performance. Our 2017 Equity Incentive Plan enhances our ability to attract and retain the services of qualified individuals. Factors considered in determining whether, in what form and in what amounts such awards are granted to an employee include the employee's position, his or her performance and responsibilities, the amount of stock options, restricted stock units and other stock awards currently held by the employee, the vesting schedules of any such stock options, restricted stock units and stock awards and the employee's other compensation. While we do not adhere to any firmly established formulas or schedules for the issuance of long-term stock-based incentive awards, we take into account, in making award decisions, the total direct compensation objectives described above. In addition, we will

generally tailor the terms of any such grant to achieve its goal as a long-term incentive award by providing for a vesting schedule encompassing several years.

In February 2016, 2017, 2018 and 2019, the compensation committee approved a mix of annual stock option grants and restricted stock unit awards under our 2017 Equity Incentive Plan to eligible employees, with stock options comprising a larger portion of such mix for executive and other officers. In making such grants, the compensation committee considered corporate and individual performance in the prior year, total direct compensation objectives for individual officers, and information regarding stock incentive award grants made by other companies in the biopharmaceutical industry.

Summary Compensation Table for 2018

The following table presents summary information regarding the compensation of each of Lonnel Coats, our principal executive officer, Jeffrey L. Wade, our principal financial officer, and our three other most highly compensated executive officers who were serving as executive officers as of December 31, 2018. We have entered into employment arrangements with certain of our named executive officers, the material terms of each of which are described below. Based on the summary compensation information provided below, “Salary” accounted for approximately 27.5%, 33.3% and 30.1% of the total compensation paid to our named executive officers in 2018, 2017 and 2016, respectively, and “Bonus” accounted for approximately 10.1%, 13.2% and 16.8% of the total compensation paid to our named executive officers for 2018, 2017 and 2016, respectively.

Name and Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	All Other Compensation (3)	Total
Lonnel Coats President, Chief Executive Officer and Director	2018	\$634,159	\$402,399	\$690,587	\$1,384,268	\$ 12,020	\$3,123,433
	2017	\$618,259	\$392,585	\$309,738	\$879,785	\$ 11,820	\$2,212,187
	2016	\$597,568	\$444,675	\$275,192	\$850,441	\$ 6,770	\$2,174,646
Jeffrey L. Wade Executive Vice President, Corporate and Administrative Affairs and Chief Financial Officer	2018	\$436,644	\$158,450	\$280,630	\$520,384	\$ 11,895	\$1,408,003
	2017	\$427,038	\$154,963	\$161,584	\$459,175	\$ 11,675	\$1,214,435
	2016	\$416,783	\$182,393	\$147,436	\$455,790	\$ 11,202	\$1,213,604
Pablo Lapuerta, M.D. Executive Vice President and Chief Medical Officer	2018	\$401,482	\$121,646	\$251,701	\$473,154	\$ 11,827	\$1,259,810
	2017	\$394,604	\$100,233	\$149,310	\$424,303	\$ 11,609	\$1,080,059
	2016	\$385,949	\$144,400	\$138,662	\$428,547	\$ 11,158	\$1,108,716
Alexander A. Santini Executive Vice President and Chief Commercial Officer	2018	\$399,719	\$102,501	\$248,568	\$470,603	\$ 11,828	\$1,233,219
	2017	\$393,830	\$93,313	\$149,743	\$425,329	\$ 11,611	\$1,073,826
	2016	\$313,572	\$162,000	\$77,162	\$139,132	\$ 11,051	\$702,917
Praveen Tyle, Ph.D. Executive Vice President, Research and Development	2018	\$464,600	\$160,903	\$285,672	\$541,775	\$ 11,956	\$1,464,906
	2017	\$454,383	\$165,645	\$172,702	\$490,867	\$ 11,736	\$1,295,333
	2016	\$278,509	\$182,500	\$—	\$942,900	\$ 26,373	(4) \$1,430,282

(1) Reflects the aggregate grant date fair value, computed in accordance with FASB ASC Topic 718, of stock awards granted in 2018, 2017 and 2016, in each case based on the market price of our common stock on the date of grant, calculated in accordance with the process for determination of fair market value under our 2017 Equity Incentive Plan.

(2) Reflects the aggregate grant date fair value, computed in accordance with FASB ASC Topic 718, of stock options granted in 2018, 2017 and 2016. See the information appearing under the heading entitled “Stock-Based Compensation” in footnote 2 to our consolidated financial statements included as part of our Annual Report on Form 10-K for the year ended December 31, 2018 for certain assumptions made in the valuation of such stock

options.

Includes the following amounts in respect of company matching contributions under our 401(k) plan and
(3) company-paid premiums for group term life insurance. The company-paid life insurance premiums reflect payments for group term life policies maintained for the benefit of all employees.

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	Year	Company 401(k) Matching Contribution	Company-Paid Group Term Life Insurance Premiums
Lonnell Coats	2018	\$ 11,000	\$ 1,020
	2017	\$ 10,800	\$ 1,020
	2016	\$ 6,050	\$ 720
Jeffrey L. Wade	2018	\$ 11,000	\$ 895
	2017	\$ 10,800	\$ 875
	2016	\$ 10,600	\$ 602
Pablo Lapuerta, M.D.	2018	\$ 11,000	\$ 827
	2017	\$ 10,800	\$ 809
	2016	\$ 10,600	\$ 558
Alexander A. Santini	2018	\$ 11,000	\$ 828
	2017	\$ 10,800	\$ 811
	2016	\$ 10,600	\$ 451
Praveen Tyle, Ph.D.	2018	\$ 11,000	\$ 956
	2017	\$ 10,800	\$ 936
	2016	\$ —	\$ 378

⁽⁴⁾ Includes \$25,995 in relocation expenses paid to Dr. Tyle.

Employment Arrangements

Lonnell Coats. In July 2014, we entered into an offer letter with Lonnell Coats to serve as our president and chief executive officer. Under the offer letter, Mr. Coats receives a base salary, currently \$656,294 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The compensation committee has established a current bonus target for Mr. Coats of 70% of his base salary, subject to adjustment. The offer letter provides for certain severance payments upon the termination of Mr. Coats' employment, as described below under the heading "Executive and Director Compensation - Potential Payments upon Termination or Change in Control."

Jeffrey L. Wade. In December 1998, we entered into an employment agreement with Jeffrey L. Wade to serve as our senior vice president and chief financial officer starting in January 1999. Mr. Wade has served as executive vice president, corporate and administrative affairs and chief financial officer since February 2015. Under the agreement, Mr. Wade receives a base salary, currently \$450,042 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The compensation committee has established a current bonus target for Mr. Wade of 40% of his base salary, subject to adjustment. The employment agreement is at-will and contains a non-competition agreement. The agreement also provides for certain severance payments upon the termination of Mr. Wade's employment, as described below under the heading "Executive and Director Compensation - Potential Payments upon Termination or Change in Control."

Pablo Lapuerta, M.D. In March 2011, we entered into an offer letter with Pablo Lapuerta, M.D. to serve as our senior vice president, clinical development and chief medical officer. Dr. Lapuerta has served as executive vice president and chief medical officer since February 2015. Under the offer letter, Dr. Lapuerta receives a base salary, currently \$415,648 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The compensation committee has established a current bonus target for Dr. Lapuerta of 35% of his base salary, subject to adjustment. The offer letter provides for certain severance payments upon the termination of Dr. Lapuerta's employment, as described below under the heading "Executive and Director Compensation - Potential Payments upon Termination or Change in Control."

Alexander A. Santini. In March 2015, we entered into an offer letter with Alexander A. Santini to serve as our head of market access and channel management. Mr. Santini has served as executive vice president and chief commercial officer since November 2016. Under the offer letter, Mr. Santini receives a base salary, currently \$416,920 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The compensation committee has established a current bonus target for Mr. Santini of 40% of his base salary, subject to adjustment.

Praveen Tyle, Ph.D. In March 2016, we entered into an offer letter with Praveen Tyle, Ph.D. to serve as our executive vice president, research and development. Under the offer letter, Dr. Tyle receives a base salary, currently \$481,064 a year, subject to adjustment, with an annual discretionary bonus based upon specific objectives to be determined by the compensation committee. The compensation committee has established a current bonus target for Dr. Tyle of 40% of his base salary, subject to adjustment. The offer letter provides for certain severance payments upon the termination of Dr. Tyle's employment, as described below under the heading "Executive and Director Compensation - Potential Payments upon Termination or Change in Control."

Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are providing the following information regarding the annual total compensation of our chief executive officer and our employees:

As disclosed in the Summary Compensation Table above, the annual total compensation of Lonnel Coats, our president and chief executive officer, was \$3,123,433 in 2018; and

The annual total compensation of the employee identified as the median compensated employee of our company (other than Mr. Coats) was \$195,778 in 2018.

Based on this information, the ratio of the annual total compensation of Mr. Coats to the median of the annual total compensation of all employees was 16 to 1.

We identified our median compensated employee using our total employee population as of December 31, 2018 and consistently applying payroll records reflecting taxable wages for 2018. In making this identification, we annualized the compensation of all permanent employees who were newly hired during 2018. We did not use any material estimates, assumptions, adjustments or statistical sampling to identify our median compensated employee. Once identified, we calculated the annual total compensation of our median compensated employee in a manner consistent with that used to calculate the annual total compensation of Mr. Coats and disclosed in the Summary Compensation Table above.

SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, apply certain exclusions and make reasonable estimates and assumptions that reflect their compensation practices. As such, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their pay ratios.

Grants of Plan-Based Awards in 2018

The following table presents each grant of restricted stock units and stock options in 2018 to the individuals named in the summary compensation table.

Name	Grant Date	Number of Restricted Stock Units	Number of Securities Underlying Options	Exercise Price of Option Awards	Closing Market Price on the Grant Date of Option Awards	Grant Date Fair Value of Stock and Option Awards
Lonnel Coats	2/8/2018	70,540				\$690,587
	2/8/2018		211,610	\$ 9.79	\$ 9.30	\$1,384,268
Jeffrey L. Wade	2/8/2018	28,665				\$280,630
	2/8/2018		79,550	\$ 9.79	\$ 9.30	\$520,384
Pablo Lapuerta, M.D.	2/8/2018	25,710				\$251,701
	2/8/2018		72,330	\$ 9.79	\$ 9.30	\$473,154
Alexander A. Santini	2/8/2018	25,390				\$248,568
	2/8/2018		71,940	\$ 9.79	\$ 9.30	\$470,603
Praveen Tyle, Ph.D.	2/8/2018	29,180				\$285,672
	2/8/2018		82,820	\$ 9.79	\$ 9.30	\$541,775

Each of the restricted stock units in the foregoing table was granted under our 2017 Equity Incentive Plan. Each restricted stock unit vested with respect to one third of the shares underlying the restricted stock unit on February 28,

2019 and with respect to an additional one third of the shares underlying the restricted stock unit on February 28 of each of the two following years. Each restricted stock unit becomes fully vested upon the termination of the named executive officer's employment by us without cause or by the named executive officer for good reason following a change in control of our company.

Each of the stock options in the foregoing table was granted under our 2017 Equity Incentive Plan and expires on the tenth anniversary of the grant date. Each option vests with respect to 25% of the shares underlying the option on the first anniversary of the grant date and 1/48th per month for each month of service thereafter. Each option becomes fully vested with respect to all remaining unvested shares upon a change in control of our company. In accordance with the process for determination of fair market value under the plan, the exercise price for each stock option is equal to the closing price of our common stock, as quoted on the Nasdaq Global Select Market, on the last trading day prior to the grant date. The exercise price for each stock option may be paid in cash or in shares of our common stock valued at fair market value on the exercise date or through a cashless exercise procedure involving a same-day sale of the purchased shares.

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Outstanding Equity Awards at December 31, 2018

The following table presents information about unexercised stock options and unvested restricted stock units that were held by each of the individuals listed in the summary compensation table as of December 31, 2018.

	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Restricted Stock Units That Have Not Vested	Market Value of Restricted Stock Units That Have Not Vested ⁽⁴⁾
Lonnell Coats	121,928	—	\$ 11.76	7/7/2024	10,835 ⁽²⁾	\$ 71,944
	166,186	7,185	\$ 6.23	2/5/2025	16,780 ⁽²⁾	\$ 111,419
	95,099	39,131	\$ 8.20	2/11/2026	16,088 ⁽²⁾	\$ 106,824
	39,321	46,459	\$ 14.44	2/9/2027	70,540 ⁽³⁾	\$ 468,386
	—	211,610	\$ 9.79	2/8/2028		
Jeffrey L. Wade	53,571	—	\$ 10.15	2/12/2019	5,807 ⁽²⁾	\$ 38,558
	53,570	—	\$ 13.30	2/15/2020	8,990 ⁽²⁾	\$ 59,694
	14,285	—	\$ 10.64	5/17/2020	8,393 ⁽²⁾	\$ 55,730
	42,857	—	\$ 12.67	2/23/2021	28,665 ⁽³⁾	\$ 190,336
	44,570	—	\$ 12.60	2/15/2022		
	38,856	—	\$ 14.63	2/8/2023		
	46,856	—	\$ 12.04	2/6/2024		
	89,063	3,851	\$ 6.23	2/5/2025		
	50,968	20,972	\$ 8.20	2/11/2026		
20,522	24,248	\$ 14.44	2/9/2027			
—	79,550	\$ 9.79	2/8/2028			
Pablo Lapuerta, M.D.	28,571	—	\$ 12.04	3/23/2021	4,550 ⁽²⁾	\$ 30,212
	29,714	—	\$ 12.60	2/15/2022	8,455 ⁽²⁾	\$ 56,141
	39,999	—	\$ 14.63	2/8/2023		
	45,142	—	\$ 12.04	2/6/2024		
	69,782	3,017	\$ 6.23	2/5/2025		
	47,921	19,719	\$ 8.20	2/11/2026		
	18,964	22,406	\$ 14.44	2/9/2027		
—	72,330	\$ 9.79	2/8/2028			

7,755 ⁽²⁾ \$ 51,493

25,710⁽³⁾ \$ 170,714

	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (1)	Unexercisable (1)	Option Exercise Price	Option Expiration Date	Number of Restricted Stock Units That Not Vested (2)	Market Value of Restricted Stock Units That Not Vested (4)
Alexander A. Santini	17,027	1,544	\$ 7.21	4/20/2025		
	15,558	6,402	\$ 8.20	2/11/2026		
	19,009	22,461	\$ 14.44	2/9/2027		
	—	71,940	\$ 9.79	2/8/2028		
					4,705 (2)	\$ 31,241
					7,778 (2)	\$ 51,646
					25,390(3)	\$ 168,590
Praveen Tyle, Ph.D.	64,596	35,404	\$ 12.24	5/16/2026		
	21,939	25,921	\$ 14.44	2/9/2027		
	—	82,820	\$ 9.79	2/8/2028		
					8,970 (2)	\$ 59,561
					29,180(3)	\$ 193,755

- (1) Each stock option vests with respect to 25% of the shares underlying the stock option on the first anniversary of the grant date and 1/48th per month for each month of service thereafter.
- (2) Vests with respect to 25% of the shares underlying the restricted stock unit on February 28 of each of the four years following the year of grant.
- (3) Vests with respect to one third of the shares underlying the restricted stock unit on February 28 of each of the three years following the year of grant.
- (4) Based on the closing price of our common stock on the Nasdaq Global Select Market of \$6.64 per share on December 31, 2018.

Option Exercises and Stock Vested in 2018

The following table presents information about stock option exercises and the vesting of restricted stock units in 2018 for each of the individuals listed in the summary compensation table. Amounts shown under the columns “Value Realized on Exercise” and “Value Realized on Vesting” are based on the market price of our common stock on the date of exercise or vesting, as applicable, calculated in accordance with the process for determination of fair market value under our 2017 Equity Incentive Plan, without taking into account any taxes that may be payable in connection with the exercise or vesting event, subsequent sale of shares or any shares retained by us in satisfaction of any withholding obligations relating to such taxes.

Name	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting (1)
Lonnel Coats	—	\$	—24,588	\$ 209,736
Jeffrey L. Wade	—	\$	—16,028	\$ 136,719
Pablo Lapuerta, M.D.	—	\$	—14,184	\$ 120,990
Alexander A. Santini	—	\$	—4,945	\$ 42,181

Praveen Tyle, Ph.D. — \$ —2,990 \$ 25,505

(1) Based on the closing price of our common stock on the Nasdaq Global Select Market of \$8.53 per share on February 27, 2018, the last trading day prior to the date of vesting.

Potential Payments upon Termination or Change in Control

Offer Letters

Lonnell Coats. Our offer letter with Mr. Coats provides that if we terminate his employment without “cause,” we would pay Mr. Coats his then-current salary for twelve months pursuant to our normal payroll procedures. If such termination is in connection with a “change in control,” we will pay Mr. Coats an additional one-time payment equal to his bonus target for the year of termination.

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Pablo Lapuerta, M.D. Our offer letter with Dr. Lapuerta provides that if we terminate his employment without “cause,” we would pay Dr. Lapuerta his then-current salary for six months pursuant to our normal payroll procedures. Such payments would be extended to twelve months if Dr. Lapuerta’s employment were terminated without “cause” in connection with a “change in control.”

Praveen Tyle, Ph.D. Our offer letter with Dr. Tyle provides that if we terminate his employment without “cause,” we would pay Dr. Tyle his then-current salary for six months pursuant to our normal payroll procedures. Such payments would be extended to twelve months if Dr. Tyle’s employment were terminated without “cause” in connection with a “change in control.”

Under each of our offer letters with Mr. Coats, Dr. Lapuerta and Dr. Tyle, “cause” means any of the following:

- the individual having engaged in intentional misconduct causing our material violation of any state or federal laws;
- the individual having engaged in a theft of corporate funds or corporate assets or in a material act of fraud upon us;
- an act of personal dishonesty taken by the individual that was intended to result in personal enrichment of the individual at our expense; or
- the individual’s conviction of a felony.

Under each of our offer letters with Mr. Coats, Dr. Lapuerta and Dr. Tyle, a “change in control” shall have occurred upon any of the following events:

- any person becomes the beneficial owner of securities representing 50% or more of the combined voting power of our outstanding voting securities;
- the approval by our stockholders of a reorganization, merger, or consolidation pursuant to which our stockholders immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own or control more than 50% of the combined voting power of the surviving entity’s outstanding voting securities in substantially the same proportions as prior to such reorganization, merger or consolidation; or
- our liquidation or dissolution or the sale of all or substantially all of our assets.

Under our offer letters with Mr. Coats and Dr. Tyle, a “change in control” shall not occur solely as a result of the majority ownership of our outstanding voting securities by Invus, L.P. or any future reduction in the percentage of our outstanding voting securities owned by Invus, L.P. below a majority level.

Employment Agreements

Jeffrey L. Wade. Our employment agreement with Mr. Wade provides that if we terminate his employment without “cause” or if Mr. Wade terminates his employment for “good reason,” we will pay Mr. Wade his then-current salary for twelve months pursuant to our normal payroll procedures, plus an additional single sum payment equal to 50% of his target bonus for the year in which the termination occurred, provided that if such termination occurs within 120 days following a reduction in his salary, the salary continuation payments shall be based on Mr. Wade’s salary prior to such reduction. If his employment is terminated at the end of any renewal term through notice of non-renewal, we will pay Mr. Wade his then-current salary for six months pursuant to our normal payroll procedures.

Under our employment agreement with Mr. Wade, “cause” means any of the following:

- Mr. Wade having engaged in intentional misconduct causing our material violation of any state or federal laws;
- Mr. Wade having engaged in a theft of corporate funds or corporate assets or in a material act of fraud upon us;
- an act of personal dishonesty taken by Mr. Wade that was intended to result in his personal enrichment at our expense;
- Mr. Wade’s final conviction in a court of competent jurisdiction of a felony; or
- a breach by Mr. Wade during his employment of the conflict of interest, confidential information and non-competition covenants under the agreement, if such breach results in a material injury to our company.

Under our employment agreement with Mr. Wade, “good reason” means any of the following, without Mr. Wade’s prior written consent:

- any material diminution in Mr. Wade’s base compensation, followed by Mr. Wade terminating his employment for “good reason” within 120 days after receiving notice of such diminution;
- any material diminution in Mr. Wade’s authority, duties or responsibilities, followed by Mr. Wade terminating his employment for “good reason” within 120 days after receiving notice of such diminution; or
- any material breach by our company of the agreement, followed by Mr. Wade terminating his employment for “good reason” within 120 days after receiving notice of such breach.

Stock Option Agreements

Our stock option agreements with the individuals named in the summary compensation table provide that all remaining unvested stock options shall become fully vested upon a change in control of our company. Under the stock option agreements, a “change in control” shall have occurred upon any of the following events:

- any person other than Invus, L.P. and its affiliates becomes the beneficial owner of securities representing 35% or more of the combined voting power of our outstanding voting securities;
 - the approval by our stockholders of a reorganization, merger, or consolidation pursuant to which our stockholders immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own or control more than 50% of the combined voting power of the surviving entity’s outstanding voting securities in substantially the same proportions as prior to such reorganization, merger or consolidation;
 - our liquidation or dissolution or the sale of all or substantially all of our assets;
 - the election by our stockholders of any person to our board of directors who has not been nominated for election by a majority of the board of directors or any duly appointed committee thereof;
 - following the election or removal of directors, a majority of the board of directors consists of individuals who were not members of the board of directors two years before such election or removal, unless the election of such individuals to the board of directors has been approved in advance by directors representing a majority of the directors then in office who were directors at the beginning of the two-year period; or
 - any other corporate event affecting the company deemed to be a “change in control” by the compensation committee.
- Under the stock option agreements, a change in control shall also have occurred if Invus, L.P. and its affiliates become the beneficial owner of securities representing 50% or more of the combined voting power of our outstanding voting securities other than as a result of the consummation of any of the transactions contemplated by our securities purchase agreement and stockholders’ agreement with Invus, L.P. The pro rata rights offering to our stockholders which we completed in December 2011 and which resulted in Invus and its affiliates becoming the beneficial owner of more than 50% of the outstanding shares of our common stock did not constitute a change in control under the stock option agreements as it was contemplated by our securities purchase agreement with Invus, L.P.

Restricted Stock Unit Agreements

Our restricted stock unit agreements with the individuals named in the summary compensation table provide that the interest of each named executive officer in the shares subject to the restricted stock unit shall become fully vested upon the termination of the named executive officer’s employment by us without cause or by the named executive officer for good reason, in either case following a change in control of our company, or as a result of the named executive officer’s death or disability. Under the restricted stock unit agreements, a “change in control” shall have occurred upon any of the following events:

- any person other than Invus, L.P. and its affiliates becomes the beneficial owner of securities representing 35% or more of the combined voting power of our outstanding voting securities;
- the consummation of a reorganization, merger, or consolidation pursuant to which our stockholders immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own or control more than 50% of the combined voting power of the surviving entity’s outstanding voting securities in substantially the same proportions as prior to such reorganization, merger or consolidation;

our liquidation or dissolution or the sale of all or substantially all of our assets; following the election or removal of directors, a majority of the board of directors consists of individuals who were not members of the board of directors two years before such election or removal, unless the election of such individuals to the board of directors has been approved in advance by directors representing a majority of the directors then in office who were directors at the beginning of the two-year period; or any other corporate event affecting the company deemed to be a “change in control” by the compensation committee. Under the restricted stock unit agreements, a change in control shall also have occurred if Invus, L.P. and its affiliates become the beneficial owner of securities representing 50% or more of the combined voting power of our outstanding voting securities other than as a result of the consummation of any of the transactions contemplated by our securities purchase agreement and stockholders’ agreement with Invus, L.P. The pro rata rights offering to our stockholders which we completed in December 2011 and which resulted in Invus and its affiliates becoming the beneficial owner of more than 50% of the outstanding shares of our common stock did not constitute a change in control under the restricted stock unit agreements as it was contemplated by our securities purchase agreement with Invus, L.P. Under the restricted stock unit agreements, “cause” means any of the following:

- the individual having engaged in intentional misconduct causing our material violation of any state or federal laws;
- the individual having engaged in a theft of corporate funds or corporate assets or in a material act of fraud upon us;
- an act of personal dishonesty taken by the individual that was intended to result in personal enrichment of the individual at our expense;
- the individual’s final conviction, or entry of any plea other than “not guilty,” in a court of competent jurisdiction of a felony; or
- a breach by the individual of any contractual or fiduciary obligation to us, if such breach results in a material injury to us.

Under the restricted stock unit agreements, “good reason” means any of the following, without the individual’s prior written consent:

- any material diminution in the individual’s base salary;
- any material diminution in the individual’s authority, duties or responsibilities; or
- any material breach by our company of any contractual obligation to the individual.

The following table reflects the amounts Mr. Coats, Mr. Wade, Dr. Lapuerta, Mr. Santini and Dr. Tyle would have been entitled to receive if the foregoing termination or change-in-control events had occurred on December 31, 2018. The table does not take into account any taxes that may have been payable in connection with any of those payments:

Name	Aggregate Salary Continuation	Bonus	Other Compensation	Accelerated Portion of Stock Options ⁽⁴⁾	Accelerated Portion of Restricted Stock Units ⁽⁵⁾
Lonnel Coats	\$ 638,729	\$ 447,110	\$ —	\$ 2,946	\$ 758,574
Jeffrey L. Wade	\$ 440,139 ⁽¹⁾	\$ 88,028	\$ —	\$ 1,579	\$ 344,317
Pablo Lapuerta, M.D.	\$ 406,502 ⁽²⁾	\$ —	\$ —	\$ 1,237	\$ 308,561
Alexander A. Santini	\$ —	\$ —	\$ —	\$ —	\$ 251,477
Praveen Tyle, Ph.D.	\$ 470,478 ⁽³⁾	\$ —	\$ —	\$ —	\$ 253,316

Reflects aggregate salary continuation payments due as a result of our termination of Mr. Wade’s employment without “cause” or Mr. Wade’s termination of his employment for “good reason.” If Mr. Wade’s employment had been terminated at the end of a renewal term through notice of non-renewal, the aggregate salary continuation payment for Mr. Wade would have been \$220,070.

(2) Reflects aggregate salary continuation payments due as a result of our termination of Dr. Lapuerta’s employment without “cause” in connection with a “change in control.” If Dr. Lapuerta’s employment had been terminated without “cause” other than in connection with a “change in control,” the aggregate salary continuation payment for Dr. Lapuerta would have been \$203,251.

(3) Reflects aggregate salary continuation payments due as a result of our termination of Dr. Tyle’s employment without “cause” in connection with a “change in control.” If Dr. Tyle’s employment had been terminated without “cause” other than in connection with a “change in control,” the aggregate salary continuation payment for Dr. Tyle would have been \$235,239.

(4) Based on the closing price of our common stock on the Nasdaq Global Select Market on December 31, 2018 of \$6.64 per share, less the exercise price payable with respect to the stock options for which vesting would have been accelerated.

(5) Based on the closing price of our common stock on the Nasdaq Global Select Market on December 31, 2018 of \$6.64 per share.

Director Compensation in 2018

Each non-employee member of our board of directors currently receives the following cash compensation:

- an annual retainer of \$15,000 for service on the board of directors (\$30,000 for service as non-executive chairman of the board of directors), prorated for any partial year of service;

- an annual retainer of \$2,500 for service on each committee of the board of directors of which he or she is a member (\$5,000 for service as chairman of any such committee), prorated for any partial year of service;

- a fee of \$2,500 for each meeting of the board of directors that he or she attends in person (\$500 for each telephonic meeting of the board of directors in which he or she participates); and

- a fee of \$1,000 for each committee meeting that he or she attends in person other than in connection with a meeting of the full board of directors (\$500 for each telephonic committee meeting in which he or she participates).

Lonnell Coats, our president and chief executive officer, does not receive additional compensation for his service as a director. We made additional cash payments to Dr. Lefkowitz for his consulting services and to Dr. Nies for his consulting services as chairman of our medical advisory board until the termination of such consulting agreements on September 30, 2018.

Non-employee directors may also be granted stock options, restricted stock awards or restricted stock unit awards under our 2017 Non-Employee Directors’ Equity Incentive Plan. Our board of directors determines the provision of each award granted under the plan, including the type of award, the number of shares subject to such award and any relevant vesting schedule. In accordance with the process for determination of fair market value under the plan, the exercise price for each stock option granted under the plan is equal to the closing price of our common stock, as quoted on the Nasdaq Global Select Market, on the last trading day prior to the grant date. Non-employee directors may not be granted awards under the plan with an aggregate grant date fair value of more than \$500,000 during any calendar year, taken together with the cash fees paid to such non-employee director in compensation for service on our board of directors during such calendar year.

The following table presents summary information for the year ended December 31, 2018 regarding the compensation of the non-employee members of our board of directors.

Name	Fees Earned or Paid in Cash	Option Awards (1) (2) (3)	Restricted Stock Awards (1) (4)	All Other Compensation	Total
Raymond Debbane	\$45,500	\$14,888	\$19,999	—	\$80,387
Philippe J. Amouyal	\$29,000	\$14,888	\$19,999	—	\$63,887
Samuel L. Barker, Ph.D.	\$34,500	\$14,888	\$19,999	—	\$69,387
Robert J. Lefkowitz, M.D.	\$28,000	\$14,888	\$19,999	\$33,333 (5)	\$96,220
Alan S. Nies, M.D.	\$25,500	\$14,888	\$19,999	\$76,667 (6)	\$137,054
Frank P. Palantoni	\$34,500	\$14,888	\$19,999	—	\$69,387
Christopher J. Sobecki	\$25,500	\$14,888	\$19,999	—	\$60,387
Judith L. Swain, M.D.	\$31,000	\$14,888	\$19,999	—	\$65,887

Reflects the aggregate grant date fair value, computed in accordance with FASB ASC Topic 718, of stock options and restricted stock awards granted in 2018. See the information appearing under the heading entitled “Stock-Based Compensation” in footnote 2 to our consolidated financial statements included as part of our Annual Report on Form 10-K for the year ended December 31, 2018 for certain assumptions made in the valuation of such stock options and restricted stock awards.

(2) The non-employee members of our board of directors held the following aggregate number of unexercised options as of such date:

Name	Number of Securities Underlying Unexercised Options
Raymond Debbane	24,283
Philippe J. Amouyal	24,283
Samuel L. Barker, Ph.D.	28,570
Robert J. Lefkowitz, M.D.	24,283
Alan S. Nies, M.D.	24,283
Frank P. Palantoni	24,283
Christopher J. Sobecki	24,283
Judith L. Swain, M.D.	24,283

(3) The following table presents the fair value of each grant of stock options in 2018 to non-employee members of our board of directors, computed in accordance with FASB ASC Topic 718:

Name	Grant Date	Number of Securities Underlying Options	Exercise Price of Option Awards	Grant Date Fair Value of Options
Raymond Debbane	4/27/2018	2,857	\$ 7.80	\$ 14,888
Philippe Amouyal	4/27/2018	2,857	\$ 7.80	\$ 14,888
Samuel L. Barker, Ph.D.	4/27/2018	2,857	\$ 7.80	\$ 14,888
Robert J. Lefkowitz, M.D.	4/27/2018	2,857	\$ 7.80	\$ 14,888
Alan S. Nies, M.D.	4/27/2018	2,857	\$ 7.80	\$ 14,888
Frank P. Palantoni	4/27/2018	2,857	\$ 7.80	\$ 14,888
Christopher J. Sobecki	4/27/2018	2,857	\$ 7.80	\$ 14,888
Judith L. Swain, M.D.	4/27/2018	2,857	\$ 7.80	\$ 14,888

(4) The following table presents the fair value of each grant of restricted stock awards in 2018 to non-employee members of our board of directors, computed in accordance with FASB ASC Topic 718:

Name	Grant Date	Number of Restricted Stock Awards	Per Share Grant Date Fair Value	Grant Date Fair Value of Restricted Stock Awards
Raymond Debbane	4/27/2018	2,564	\$ 7.80	\$ 19,999
Philippe Amouyal	4/27/2018	2,564	\$ 7.80	\$ 19,999
Samuel L. Barker, Ph.D.	4/27/2018	2,564	\$ 7.80	\$ 19,999
Robert J. Lefkowitz, M.D.	4/27/2018	2,564	\$ 7.80	\$ 19,999
Alan S. Nies, M.D.	4/27/2018	2,564	\$ 7.80	\$ 19,999
Frank P. Palantoni	4/27/2018	2,564	\$ 7.80	\$ 19,999
Christopher J. Sobecki	4/27/2018	2,564	\$ 7.80	\$ 19,999
Judith L. Swain, M.D.	4/27/2018	2,564	\$ 7.80	\$ 19,999

(5) Consists of amounts paid to Dr. Lefkowitz for his consulting services.

(6) Consists of amounts paid to Dr. Nies for his consulting services as chairman of our medical advisory board.

Compensation Committee Report

The compensation committee of our board of directors has been established to oversee the compensation of our employees, including our chief executive officer and other officers. The compensation committee also has responsibility for the evaluation and approval of all compensation plans, policies and programs, including the issuance

of stock options, restricted stock units and other awards under our 2017 Equity Incentive Plan.

In performing these functions, the compensation committee has reviewed and discussed with the management of our company the information set forth above under the heading “Executive and Director Compensation - Compensation Discussion and Analysis.” Based upon that review and discussion, the compensation committee has recommended to the board of directors that the information set forth above under the heading “Executive and Director Compensation - Compensation Discussion and Analysis” be included in this proxy statement and incorporated by reference into our annual report on Form 10-K for the year ended December 31, 2018.

Compensation Committee

Frank P. Palantoni (chair)

Philippe J. Amouyal

Samuel L. Barker, Ph.D.

The foregoing compensation committee report shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this compensation committee report by reference.

PROPOSALS OF STOCKHOLDERS

In order for a stockholder proposal to be considered for inclusion in our proxy statement for next year’s annual meeting, we must receive the written proposal at our principal executive offices no later than November 16, 2019.

Any such proposal must also comply with Securities and Exchange Commission regulations regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Similarly, in order for any stockholder proposal to be otherwise raised during next year’s annual meeting, we must receive written notice of the proposal, containing the information required by our bylaws, at our principal executive offices no later than November 16, 2019. You may contact our corporate secretary at our principal executive offices for a copy of the relevant bylaw provisions for making stockholder proposals.

FINANCIAL INFORMATION

Our annual report to stockholders, including financial statements, accompanies this proxy statement but does not constitute a part of the proxy solicitation materials. You may obtain, without charge, a copy of our annual report on Form 10-K, including the financial statements and exhibits thereto, by written request to Corporate Communications, Lexicon Pharmaceuticals, Inc., 8800 Technology Forest Place, The Woodlands, Texas 77381.

By order of the board of directors,

Brian T. Crum

Secretary

March __, 2019

The Woodlands, Texas

Appendix A

LEXICON PHARMACEUTICALS, INC.
2017 EQUITY INCENTIVE PLAN

This Plan initially was established as the Lexicon Genetics Incorporated 1995 Stock Option Plan (the “1995 Stock Option Plan”), which was adopted by the Board and approved by the Company’s stockholders on September 13, 1995. The 1995 Stock Option Plan was subsequently amended and restated in its entirety and renamed the Lexicon Genetics Incorporated 2000 Equity Incentive Plan (the “2000 Equity Incentive Plan”), which was adopted by the Board on February 3, 2000 and approved by the Company’s stockholders on March 15, 2000 and May 19, 2004. The 2000 Equity Incentive Plan was subsequently amended and restated in its entirety and renamed the Equity Incentive Plan (the “Equity Incentive Plan”), which was adopted by the Board on February 27, 2009 and approved by the Company’s stockholders on April 23, 2009. The Equity Incentive Plan, as amended, was subsequently amended and restated in its entirety and renamed the 2017 Equity Incentive Plan (the “2017 Equity Incentive Plan”), which was adopted by the Board on February 9, 2017 and approved by the Company’s stockholders on April 27, 2017. A subsequent amendment to the 2017 Equity Incentive Plan was adopted by the Board on February 7, 2019, subject to approval by the Company’s stockholders. The terms of this 2017 Equity Incentive Plan, as amended, shall supersede the terms of the 1995 Stock Option Plan, the 2000 Equity Incentive Plan and the Equity Incentive Plan in their entirety; provided, however, that nothing herein shall operate or be construed as modifying the terms of an Incentive Stock Option granted under the 1995 Stock Option Plan, the 2000 Equity Incentive Plan or the Equity Incentive Plan in a manner that would treat the option as being a new grant for purpose of Section 424(h) of the Code.

1. PURPOSES.

(a) ELIGIBLE STOCK AWARD RECIPIENTS. The persons eligible to receive Stock Awards are the Employees, Directors and Consultants of the Company and its Affiliates.

(b) AVAILABLE STOCK AWARDS. The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Bonus Awards, (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards, (vi) Stock Appreciation Rights and (vii) Performance Stock Awards.

(c) GENERAL PURPOSE. The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) “AFFILIATE” means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) “BOARD” means the Board of Directors of the Company.

(c) “CODE” means the Internal Revenue Code of 1986, as amended.

(d) “COMMITTEE” means a committee of one or more members of the Board appointed by the Board in accordance with subsection 3(c).

(e) “COMMON STOCK” means the common stock, par value \$.001 per share, of the Company.

(f) “COMPANY” means Lexicon Pharmaceuticals, Inc. a Delaware corporation.

(g) “CONSULTANT” means any person other than a Director or Employee who is engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services.

(h) “CONTINUOUS SERVICE” means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Participant’s Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or a Director will not constitute an interruption of Continuous Service.

The Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(i) "COVERED EMPLOYEE" means an Employee who is designated by the Committee, at the time of grant of a Performance Stock Award, as likely to be a "covered employee" within the meaning of Section 162(m) of the Code for a specified fiscal year.

(j) "DIRECTOR" means a member of the Board of Directors of the Company.

(k) "DISABILITY" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(l) "EMPLOYEE" means any person (which may include a Director) who is employed by the Company or an Affiliate.

(m) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(n) "FAIR MARKET VALUE" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq Stock Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board in such manner as it deems appropriate and as is consistent with the requirements of Section 409A of the Code.

(o) "INCENTIVE STOCK OPTION" means an option to purchase Common Stock that is intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(p) "NON-EMPLOYEE DIRECTOR" means a Director who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent for a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(q) "NONSTATUTORY STOCK OPTION" means an option to purchase Common Stock other than an Incentive Stock Option.

(r) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(s) "OPTION" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to Section 6 of the Plan.

(t) "OPTION AGREEMENT" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(u) "OPTIONHOLDER" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(v) "OUTSIDE DIRECTOR" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an "affiliated corporation" at any time and is not currently

receiving direct or indirect remuneration from the Company or an “affiliated corporation” for services in any capacity other than as a Director or (ii) is otherwise considered an “outside director” for purposes of Section 162(m) of the Code.

(w)“PARTICIPANT” means a person to whom a Stock Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(x)“PERFORMANCE STOCK AWARD” means a right to receive a Stock Award based upon performance criteria specified by the Committee.

(y)“PLAN” means this Lexicon Pharmaceuticals, Inc. 2017 Equity Incentive Plan.

(z)“RESTRICTED STOCK AWARD” means a right to purchase restricted Common Stock granted pursuant to Section 7(b) of the Plan.

(aa)“RESTRICTED STOCK UNIT AWARD” means a right to receive shares of Common Stock (or a cash payment equal to the Fair Market Value thereof) granted pursuant to Section 7(c) of the Plan.

(bb) “RULE 16B-3” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(cc) “SECTION 162(M) STOCK AWARD” means a Performance Stock Award granted under Section 8 hereof to a Covered Employee that is intended to satisfy the requirements for “performance-based compensation” within the meaning of Section 162(m) of the Code.

(dd) “SECURITIES ACT” means the Securities Act of 1933, as amended.

(ee) “STOCK APPRECIATION RIGHT” means a right to receive an amount equal to any appreciation or increase in the Fair Market Value of Common Stock over a specified period of time granted pursuant to Section 7(d) of the Plan, payable in shares of Common Stock or cash.

(ff) “STOCK AWARD” means any right granted under the Plan, including an Option, a Stock Bonus Award, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right or a Performance Stock Award.

(gg) “STOCK AWARD AGREEMENT” means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(hh) “STOCK BONUS AWARD” means an award of Common Stock granted pursuant to Section 7(a) of the Plan.

(ii) “TEN PERCENT STOCKHOLDER” means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a)ADMINISTRATION BY BOARD. The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in subsection 3(c).

(b)POWERS OF BOARD. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i)To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock pursuant to a Stock Award; and the number of shares of Common Stock with respect to which a Stock Award shall be granted to each such person.

(ii)To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement or other agreement evidencing a Stock Award, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 13.

(iv) To terminate or suspend the Plan as provided in Section 14.

(v) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

(c) DELEGATION TO COMMITTEE.

(i) GENERAL. The Board may delegate administration of the Plan to a Committee or Committees of one (1) or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revert in the Board the administration of the Plan.

(ii) COMMITTEE COMPOSITION WHEN COMMON STOCK IS PUBLICLY TRADED. At such time as the Common Stock is publicly traded, in the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (A) delegate to a committee of one or more members of the Board who are not Outside Directors the authority to grant Stock Awards to eligible persons who are either (1) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (2) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code, and/or (B) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

(d) EFFECT OF BOARD'S DECISION. All determinations, interpretations and constructions made by the Board in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons.

4. SHARES SUBJECT TO THE PLAN.

(a) SHARE RESERVE. Subject to the provisions of Section 12 relating to adjustments upon changes in Common Stock, the Common Stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate twenty million (20,000,000) shares and the Common Stock that may be issued pursuant to Incentive Stock Options shall not exceed in the aggregate twenty million (20,000,000) shares.

(b) REVERSION OF SHARES TO THE SHARE RESERVE. If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full or shares of Common Stock issued to a Participant pursuant to a Stock Award are forfeited to or repurchased by the Company, including any repurchase or forfeiture caused by the failure to meet a contingency or condition required for the vesting of such shares, the shares of Common Stock not issued under such Stock Award or forfeited to or repurchased by the Company shall revert to and again become available for issuance under the Plan; provided, however, that shares subject to a Stock Award that are not delivered to a Participant because (i) such Participant's right to purchase such shares subject to an Option are surrendered in payment of the exercise price for other shares subject to such Option in a "net exercise," or (ii) such shares are withheld in satisfaction of the withholding of taxes incurred in connection with the exercise of an Option or Stock Appreciation Right, or the issuance of shares under a Stock Bonus Award, Restricted Stock Award, Restricted Stock Unit Award or Performance Stock Award, the shares so surrendered or withheld shall not remain available for subsequent issuance under the Plan.

(c) SOURCE OF SHARES. The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) ELIGIBILITY FOR SPECIFIC STOCK AWARDS. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.

(b)TEN PERCENT STOCKHOLDERS. A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c)SECTION 162(m) LIMITATION. Subject to the provisions of Section 12 relating to adjustments upon changes in the shares of Common Stock, no Employee shall be eligible to be granted Options covering more than five hundred thousand (500,000) shares during any calendar year.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a)TERM. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, no Option shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b)EXERCISE PRICE. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the exercise price of each Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c)CONSIDERATION. The purchase price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board (1) by delivery to the Company of other Common Stock, (2) according to a deferred payment or other similar arrangement with the Optionholder, (3) by surrender of Optionholder's right to purchase shares subject to an Option (valued, for such purposes, as the Fair Market Value of such surrendered shares on the date of exercise less the exercise price for such surrendered shares) in payment of the exercise price for other shares subject to such Option in a "net exercise" of such Option, or (4) in any other form of legal consideration that may be acceptable to the Board. At any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment. In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(d)TRANSFERABILITY. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. A Nonstatutory Stock Option shall be transferable to the extent provided in the Option Agreement; provided that, if the Nonstatutory Stock Option does not provide for transferability, then the Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(e)VESTING GENERALLY. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary.

(f)TERMINATION OF CONTINUOUS SERVICE. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous

Service (or such longer or shorter period specified in the Option Agreement), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(g)EXTENSION OF TERMINATION DATE. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's

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death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 6(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(h)DISABILITY OF OPTIONHOLDER. In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement,) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(i)DEATH OF OPTIONHOLDER. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death pursuant to subsection 6(d), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

7. STOCK BONUS AWARD, RESTRICTED STOCK AWARD, RESTRICTED STOCK UNIT AWARD AND STOCK APPRECIATION RIGHT PROVISIONS.

(a)STOCK BONUS AWARDS. Each Stock Bonus Award agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Stock Bonus Award agreements may change from time to time, and the terms and conditions of separate Stock Bonus Award agreements need not be identical, but each Stock Bonus Award agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i)CONSIDERATION. A Stock Bonus Award may be granted in consideration for past services actually rendered to the Company or an Affiliate for its benefit. Unless otherwise provided in the Stock Bonus Award agreement, no further consideration will be payable by Participant upon grant of the Stock Bonus Award. Any such consideration to be paid by the Participant may be paid in any form of legal consideration that may be acceptable to the Board in its discretion and permissible under applicable law.

(ii)VESTING. Shares of Common Stock awarded under the Stock Bonus Award agreement may, but need not, be subject to a share repurchase option or forfeiture restrictions in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii)TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. In the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the Stock Bonus Award agreement.

(iv)TRANSFERABILITY. Rights to acquire shares of Common Stock under the Stock Bonus Award agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Stock Bonus Award agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the Stock Bonus Award agreement remains subject to the terms of the Stock Bonus Award agreement.

(b)RESTRICTED STOCK AWARDS. Each Restricted Stock Award agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the Restricted Stock Award agreement may change from time to time, and the terms and conditions of separate Restricted Stock Award agreements need not be identical, but each Restricted Stock Award agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i)CONSIDERATION. Unless otherwise provided in the Restricted Stock Award agreement, no further consideration will be payable by Participant upon grant of the Restricted Stock Award. Any such consideration to be

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paid by the Participant may be paid in any form of legal consideration that may be acceptable to the Board in its discretion and permissible under applicable law.

(ii) VESTING. Shares of Common Stock acquired under the Restricted Stock Award agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. In the event a Participant's Continuous Service terminates, the Company may repurchase or otherwise reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the Restricted Stock Award agreement.

(iv) TRANSFERABILITY. Rights to acquire shares of Common Stock under the Restricted Stock Award agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the Restricted Stock Award agreement remains subject to the terms of the Restricted Stock Award agreement.

(c) RESTRICTED STOCK UNIT AWARDS. Each Restricted Stock Unit Award agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of Restricted Stock Unit Award agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award agreements need not be identical, provided, however, that each Restricted Stock Unit Award agreement shall include (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) CONSIDERATION. At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board in its sole discretion and permissible under applicable law.

(ii) VESTING. At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) PAYMENT. A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award agreement.

(iv) DIVIDEND EQUIVALENTS. Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all the terms and conditions of the underlying Restricted Stock Unit Award agreement to which they relate.

(v) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. Except as otherwise provided in the applicable Restricted Stock Unit Award agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

(vi) TRANSFERABILITY. Rights under the Restricted Stock Unit Award agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Unit Award agreement, as the Board shall determine in its discretion.

(d) STOCK APPRECIATION RIGHTS. Each Stock Appreciation Right agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the Stock Appreciation Right agreements may change from time to time, and the terms and conditions of separate Stock Appreciation Right agreements need not be identical, but each Stock Appreciation Right agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) CALCULATION OF APPRECIATION. Each Stock Appreciation Right will be denominated in shares of Common Stock equivalents. The appreciation distribution payable on the exercise of a Stock Appreciation Right will be not

greater than an amount equal to the excess of (i) the aggregate Fair Market Value (on the date of the exercise of the Stock Appreciation Right) of a number of shares of Common Stock equal to the number of shares of Common Stock

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equivalents in which the Participant is vested under such Stock Appreciation Right, and with respect to which the Participant is exercising the Stock Appreciation Right on such date, over (ii) an amount (the strike price) that will be determined by the Board at the time of grant of the Stock Appreciation Right for such number of shares of Common Stock, provided that the strike price of a Stock Appreciation Right shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock equal to the number of shares of Common Stock equivalents subject to the Stock Appreciation Right on the date the Stock Appreciation Right is granted.

(ii) VESTING. At the time of the grant of a Stock Appreciation Right, the Board may impose such restrictions or conditions to the vesting of such Stock Appreciation Right as it, in its sole discretion, deems appropriate.

(iii) EXERCISE. To exercise any outstanding Stock Appreciation Right, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right agreement evidencing such Stock Appreciation Right.

(iv) PAYMENT. The appreciation distribution in respect to a Stock Appreciation Right may be paid in cash, shares of Common Stock, a combination of cash and shares of Common Stock or in any other form of consideration, as determined by the Board and contained in the Stock Appreciation Right agreement evidencing such Stock Appreciation Right.

(v) TERMINATION OF PARTICIPANT'S CONTINUOUS SERVICE. In the event that a Participant's Continuous Service terminates, the Participant may exercise his or her Stock Appreciation Right (to the extent that the Participant was entitled to exercise such Stock Appreciation Right as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the Stock Appreciation Right agreement), or (ii) the expiration of the term of the Stock Appreciation Right as set forth in the Stock Appreciation Right agreement. If, after termination, the Participant does not exercise his or her Stock Appreciation Right within the time specified herein or in the Stock Appreciation Right agreement (as applicable), the Stock Appreciation Right shall terminate.

(vi) TRANSFERABILITY. Rights under the Stock Appreciation Right agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the Stock Appreciation Right agreement, as the Board shall determine in its discretion.

8. PERFORMANCE STOCK AWARDS.

(a) GENERAL. The Committee is authorized to designate any of the Stock Awards granted under the Plan as Performance Stock Awards. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions applicable to a Performance Stock Award, and may exercise its discretion to reduce or increase the number of shares issuable under any Performance Stock Award, except as limited under this Section 8 in the case of a Section 162(m) Stock Award. Performance conditions may differ for Performance Stock Awards granted to any one Participant or to different Participants. The performance period applicable to any Performance Stock Award shall be set by the Committee in its discretion, but shall not exceed ten years.

(b) SECTION 162(M) STOCK AWARDS. If the Committee determines that a Performance Stock Award granted to a Covered Employee is intended to qualify as a Section 162(m) Stock Award, the grant, exercise, vesting and/or settlement of such Performance Stock Award shall be contingent upon achievement of a pre-established performance goal or goals and other terms set forth in this Section 8; provided, that nothing in this Section 8 or elsewhere in the Plan shall be interpreted as preventing the Committee from granting Stock Awards to Covered Employees that are not intended to constitute Section 162(m) Stock Awards or from determining that it is no longer necessary or appropriate for a Section 162(m) Stock Award to qualify as such.

(i) PERFORMANCE GOALS GENERALLY. The performance goals for Section 162(m) Stock Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria as specified by the Committee. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder (including Treasury Regulation §1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the Committee must be "substantially uncertain" at the time the Committee actually establishes the performance goal or goals.

(ii) PERFORMANCE CRITERIA.

(A)BUSINESS CRITERIA. One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries or divisions or business or

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geographical units of the Company (except with respect to the total stockholder return and earnings per share criteria), shall be used by the Committee in establishing performance goals for Section 162(m) Stock Awards: (1) earnings per share; (2) revenues; (3) cash flow; (4) cash flow from operations; (5) cash flow return; (6) return on net assets; (7) return on assets; (8) return on investment; (9) return on capital; (10) return on equity; (11) economic value added; (12) operating margin; (13) contribution margin; (14) net income; (15) net income per share; (16) pretax earnings; (17) pretax earnings before interest, depreciation and amortization; (18) pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items; (19) total stockholder return; (20) debt reduction or management; (21) market share; (22) operating income; (23) share price; (24) effective equipment utilization; (25) achievement of savings from business improvement projects; (26) capital projects deliverables; (27) human resources management targets, including medical cost reductions and time to hire; (28) satisfactory internal or external audits; (29) product sales; (30) clinical trial progress and results; (31) product regulatory filings and approvals; and (32) any of the above goals determined pre-tax or post-tax, on an absolute or relative basis, as a ratio with other business criteria, or as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of comparable companies. The terms above are used as applied under generally accepted accounting principles, as applicable.

(B)EFFECT OF CERTAIN EVENTS. The Committee may, at the time the performance goals in respect of a Section 162(m) Stock Award are established, provide for the manner in which actual performance and performance goals with regard to the business criteria selected will reflect the impact of specified events during the relevant performance period, which may mean excluding the impact of any or all of the following events or occurrences for such performance period: (a) asset write-downs or impairments to assets; (b) litigation, claims, judgments or settlements; (c) the effect of changes in tax law or other such laws or regulations affecting reported results; (d) accruals for reorganization and restructuring programs; (e) any extraordinary, unusual or nonrecurring items; (f) any change in accounting principles as defined in the Accounting Standards Codification Topic 250, as the same may be amended or superseded from time to time; (g) any loss from a discontinued operation as described in the Accounting Standards Codification Topic 360, as the same may be amended or superseded from time to time; (h) goodwill impairment charges; (i) operating results for any business acquired during the calendar year; (j) third party expenses associated with any investment or acquisition by the Company or any subsidiary; (k) any amounts accrued by the Company or its subsidiaries pursuant to management bonus plans or cash profit sharing plans and related employer payroll taxes for the fiscal year; (l) any discretionary or matching contributions made to a savings and deferred profit-sharing plan or deferred compensation plan for the fiscal year; (m) interest, expenses, taxes, depreciation and depletion, amortization and accretion charges; and (n) marked-to-market adjustments for financial instruments. In addition, Section 162(m) Stock Awards may be adjusted by the Committee in accordance with the provisions of this Section 8. The adjustments described in this paragraph shall only be made, in each case, to the extent that such adjustments in respect of a Section 162(m) Stock Award would not cause the Award to fail to qualify as “performance-based compensation” under Section 162(m) of the Code.

(iii)TIMING FOR ESTABLISHING PERFORMANCE GOALS. No later than ninety (90) days after the beginning of any performance period applicable to a Section 162(m) Stock Award, or at such other date as may be required or permitted for “performance-based compensation” under Section 162(m) of the Code, the Committee shall establish (i) the Covered Employees who will be granted Section 162(m) Stock Awards and (ii) the objective formula used to calculate the number of shares issuable, if any, under such Section 162(m) Stock Awards, based upon the level of achievement of a performance goal or goals with respect to one or more of the business criteria selected by the Committee from the list set forth in subsection 8(b)(ii)(A).

(iv)SECTION 162(M) STOCK AWARD POOL. The Committee may establish an unfunded pool, with the amount of such pool calculated using an objective formula based upon the level of achievement of a performance goal or goals with respect to one or more of the business criteria selected from the list set forth in this Section 8 during the given performance period, as specified by the Committee for the purpose of granting Section 162(m) Stock Awards. The Committee may specify the amount of the pool as a percentage of any of such business criteria, a percentage in excess of a threshold amount with respect to such business criteria, or as another amount which need not bear a direct relationship to such business criteria but shall be objectively determinable and calculated based upon the level of achievement of pre-established goals with regard to the business criteria.

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(v) **SETTLEMENT OR PAYOUT OF STOCK AWARDS; OTHER TERMS.** Except as otherwise permitted under Section 162(m) of the Code, after the end of each performance period and before any Section 162(m) Stock Award is settled or paid, the Committee shall certify the level of performance achieved with regard to each business criteria established with respect to each Section 162(m) Stock Award and shall determine the number of shares, if any, issuable to each Participant with respect to each Section 162(m) Stock Award. The Committee may, in its discretion, reduce the number of shares otherwise to be issued in connection with a Section 162(m) Stock Award, but may not exercise discretion to increase any such amount issuable to a Covered Employee in respect of a Section 162(m) Stock Award.

(vi) **WRITTEN DETERMINATIONS.** With respect to each Section 162(m) Stock Award, all determinations by the Committee as to (A) the establishment of performance goals and performance period with respect to the selected business criteria, (B) the establishment of the objective formula used to calculate the number of shares issuable, if any, based on the level of achievement of such performance goals, and (C) the certification of the level of performance achieved during the performance period with regard to each business criteria selected, shall each be made in writing. Consistent with the terms of subsection 8(a), when taking any action with respect to Section 162(m) Stock Awards, the Committee shall be made up entirely of outside directors (within the meaning of Section 162(m) of the Code and applicable interpretive authority thereunder). Further, the Committee may not delegate any responsibility relating to a Section 162(m) Stock Award that would cause the Stock Award to fail to so qualify.

(vii) **OPTIONS AND STOCK APPRECIATION RIGHTS.** Notwithstanding the foregoing provisions of this Section 8, Options and Stock Appreciation Rights with an exercise price or grant price not less than the Fair Market Value on the date of grant awarded to Covered Employees are intended to be Section 162(m) Stock Awards even if not otherwise contingent upon achievement of a pre-established performance goal or goals with respect to the business criteria listed above.

(viii) **STATUS OF SECTION 162(M) STOCK AWARDS.** The terms governing Section 162(m) Stock Awards shall be interpreted in a manner consistent with Section 162(m) of the Code and the regulations thereunder, in particular the prerequisites for qualification as “performance-based compensation,” and, if any provision of this Plan as in effect on the date of adoption of any Stock Award Agreements relating to Performance Stock Awards that are designated as Section 162(m) Stock Awards does not comply or is inconsistent with the requirements of Section 162(m) of the Code and the regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

(ix) **LIMITS ON STOCK AWARDS TO COVERED EMPLOYEES.** In each calendar year during any part of which this Plan is in effect, a Covered Employee may not be granted Stock Awards intended to be Section 162(m) Stock Awards to the extent such Stock Award is based on more than 500,000 shares, subject to adjustment in a manner consistent with any adjustment made pursuant to Section 12.

9. COVENANTS OF THE COMPANY.

(a) **AVAILABILITY OF SHARES.** During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.

(b) **SECURITIES LAW COMPLIANCE.** The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained.

10. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

11. MISCELLANEOUS.

(a) **ACCELERATION OF EXERCISABILITY AND VESTING.** Subject to the limitations of Section 8, the Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award

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or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b)STOCKHOLDER RIGHTS. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c)NO EMPLOYMENT OR OTHER SERVICE RIGHTS. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(d)INCENTIVE STOCK OPTION \$100,000 LIMITATION. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e)INVESTMENT ASSURANCES. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (1) the issuance of the shares of Common Stock upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (2) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(f)WITHHOLDING OBLIGATIONS. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Stock Award; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

12. ADJUSTMENTS UPON CHANGES IN STOCK.

(a)CAPITALIZATION ADJUSTMENTS. If any change is made in the Common Stock subject to the Plan, or subject to any Stock Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and the number of securities subject to the Plan pursuant to subsection 4(a) and the maximum number of securities subject to award to any person pursuant to subsection 5(c), and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of Common Stock subject to such outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. For clarity, the conversion of any convertible securities of the Company shall not be treated as a transaction "without

receipt of consideration” by the Company.

(b)DISSOLUTION OR LIQUIDATION. In the event of a dissolution or liquidation of the Company, then all outstanding Stock Awards shall terminate immediately prior to such event.

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(c)ASSET SALE, MERGER, CONSOLIDATION OR REVERSE MERGER. In the event of (i) a sale, lease or other disposition of all or substantially all of the assets of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation or (iii) a reverse merger in which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then any surviving corporation or acquiring corporation shall assume any Stock Awards outstanding under the Plan or shall substitute similar stock awards (including an award to acquire the same consideration paid to the stockholders in the transaction described in this subsection 12(c) for those outstanding under the Plan). In the event any surviving corporation or acquiring corporation fails to assume such Stock Awards or to substitute similar stock awards for those outstanding under the Plan, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the vesting of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full, and the Stock Awards shall terminate if not exercised (if applicable) at or prior to such event. With respect to any other Stock Awards outstanding under the Plan, such Stock Awards shall terminate if not exercised (if applicable) prior to such event.

13. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a)AMENDMENT OF PLAN. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Section 12 relating to adjustments upon changes in Common Stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b)STOCKHOLDER APPROVAL. The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c)CONTEMPLATED AMENDMENTS. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith.

(d)NO IMPAIRMENT OF RIGHTS. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e)AMENDMENT OF STOCK AWARDS. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(f)SUBSTITUTE AWARDS; NO REPRICING. Stock Awards may be granted in substitution or exchange for any other Stock Award granted under the Plan or under another plan of the Company or an Affiliate or any other right of an eligible person to receive payment from the Company or an Affiliate. Stock Awards may also be granted under the Plan in substitution for awards held by individuals who become eligible persons as a result of a merger, consolidation or acquisition of another entity or the assets of another entity by or with the Company or an Affiliate (“Substitute Awards”). Such Substitute Awards referred to in the immediately preceding sentence that are Options or Stock Appreciation Rights may have an exercise price that is less than the Fair Market Value of a share of Common Stock on the date of the substitution if such substitution complies with applicable laws (including rules regarding nonqualified deferred compensation) and exchange rules. Except as provided in this Section 13(f) or in Section 12, without the approval of the stockholders of the Company, the terms of outstanding Stock Awards may not be amended to (i) reduce the exercise price or grant price of an outstanding Option or Stock Appreciation Right, (ii) grant a new Option, Stock Appreciation Right or other Stock Award in substitution for, or upon the cancellation of, any previously granted Option or Stock Appreciation Right that has the effect of reducing the exercise price or grant price thereof, (iii) exchange any Option or Stock Appreciation Right for Common Stock, cash or other consideration when the exercise price or grant price per share of Common Stock under such Option or Stock Appreciation Right exceeds the Fair Market Value of a share of Common Stock.

14. TERMINATION OR SUSPENSION OF THE PLAN.

(a) PLAN TERM. The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate on the day before the tenth (10th) anniversary of the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

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(b)NO IMPAIRMENT OF RIGHTS. Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

15. EFFECTIVE DATE OF PLAN.

The Plan shall become effective upon its adoption by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

16. CHOICE OF LAW.

The law of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

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VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information. Vote by 11:59 P.M. ET on 04/24/2019. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

Electronic Delivery of Future PROXY MATERIALS

LEXICON
PHARMACEUTICALS,
INC.
8800 TECHNOLOGY
FOREST PLACE
THE WOODLANDS, TX
77381

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions. Vote by 11:59 P.M. ET on 04/24/2019. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717

TO
VOTE,
MARK
BLOCKS
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FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN
SIGNED AND DATED

For Withhold All For All To
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authority
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number(s)
of
the
nominee(s)
on
the
line
below

The Board of Directors
recommends you vote FOR the
following:

1. Election of Directors
Nominees

02 Robert

- 01 Raymond Debbane J. 03 Alan S. Nies
Lefkowitz

The Board of Directors recommends you vote FOR the
following proposals.

For Against Abstain

2. Ratification and approval of the amendment to the
Company's 2017 Equity Incentive Plan

For Against Abstain

3. Advisory vote to approve the compensation paid to the
Company's named executive officers

For Against Abstain

4. Ratification and approval of the appointment of Ernst &
Young LLP as the Company's independent auditors for
the fiscal year ending December 31, 2019

Note: In their discretion, upon such other matters that may
properly come before the meeting or any adjournment or
adjournments thereof.

Please sign exactly as your name(s) appear(s) hereon.
When signing as attorney, executor, administrator, or other
fiduciary, please give full title as such. Joint owners should
each sign personally. All holders must sign. If a
corporation or partnership, please sign in full corporate or
partnership name, by authorized officer.

Signature (PLEASE SIGN
WITHIN BOX)

Date

Signature
(Joint
Owners)

Date

Important Notice
Regarding the
Availability of Proxy
Materials for the
Annual Meeting: The
Notice & Proxy
Statement, Annual
Report is/are available
at
www.proxyvote.com.

Lexicon Pharmaceuticals, Inc.
Annual Meeting of Stockholders
April 25, 2019

This Proxy is solicited by the Board of Directors

The stockholder(s) hereby appoint(s) Lonnel Coats and Jeffrey L. Wade, or either of them, as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of Lexicon Pharmaceuticals, Inc. that the stockholder(s) is/are entitled to vote at the Annual Meeting of Stockholders to be held at 8:00 a.m. CDT, on April 25, 2019 at the offices of the company, 8800 Technology Forest Place, The Woodlands, Texas, and any adjournment or postponement thereof.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE STOCKHOLDER(S). IF NO SUCH DIRECTIONS ARE MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES LISTED ON THE REVERSE SIDE FOR THE BOARD OF DIRECTORS AND FOR EACH PROPOSAL.

Continued and to be signed on reverse side