



**SPECTRAL MEDICAL INC.**

**MANAGEMENT INFORMATION CIRCULAR**

**SOLICITATION OF PROXIES**

**March 28, 2018**

This Management Information Circular (this "**Circular**") is furnished in connection with the **solicitation of proxies by and on behalf of the management of Spectral Medical Inc.** ("**Spectral**" or the "**Company**") for use at the annual meeting (the "**Meeting**") of holders ("**Shareholders**") of common shares in the capital of the Company ("**Shares**") to be held on May 31, 2018 at the offices of Stikeman Elliott LLP, Suite 5300, 199 Bay Street, Toronto, Ontario M5L 1B9 at 4:00 p.m. (Toronto time) and any adjournments or postponements thereof for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders (the "**Notice of Meeting**"). The solicitation will be primarily by mail, but proxies may also be solicited personally or by telephone by directors, officers or employees of the Company. The cost of such solicitation will be borne by the Company.

The Company will not be using the notice-and-access mechanism under National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer* for distribution of the Meeting Materials to Shareholders.

Unless otherwise specified herein, the information contained herein is given as of March 28, 2018.

## **VOTING PROCEDURES**

### **Who Can Vote**

You are entitled to vote if you are a Shareholder of record as of the close of business on April 26, 2018, (the "**Record Date**"). All such Shareholders will be entitled to one vote at the Meeting for each Share held except to the extent that such Shareholder has transferred any of such Shares after the Record Date and the transferee of any of such Shares produces properly endorsed Share certificates or otherwise establishes ownership thereof and makes a written demand not later than seven clear days before the Meeting to be included in the list of Shareholders entitled to vote at the Meeting, in which case the transferee will be entitled to vote such Shares.

### **How to Vote**

Regardless of how many Shares are owned by any particular Shareholder, the board of directors of the Company (the "**Board**") encourages all Shareholders to vote. Please use the enclosed voting instruction form (a "**VIF**") or proxy accompanying this circular to vote using one of the options set out in the chart below. Voting is quick and easy.

<b>REGISTERED SHAREHOLDERS (YOU HOLD A PHYSICAL SHARE CERTIFICATE REGISTERED IN YOUR NAME) THERE ARE 4 WAYS TO VOTE USING THE ENLCOSED PROXY</b>			
<b>1. VOTE BY INTERNET</b> Go to: <a href="http://www.investorvote.com">www.investorvote.com</a> and vote using your Control # located on the front of your proxy. Follow the voting instructions on screen.	<b>2. VOTE BY TELEPHONE:</b> Call toll-free English 1-866-732-8683 and vote using your Control # located on your proxy.	<b>3. VOTE BY FAX:</b> Mark, sign and date your proxy form and return it by facsimile to toll free in North America 1-866-249-7775 or 1-416-263-9524.	<b>4. VOTE BY MAIL:</b> Mark, sign and date your proxy form and return it in the enclosed postage-paid envelope.
<b>CANADIAN BENEFICIAL SHAREHOLDERS (YOU HOLD SHARES THROUGH A CANADIAN BANK, BROKER OR INTERMEDIARY) THERE ARE 4 WAYS TO VOTE USING YOUR VOTING INFORMATION FORM</b>			
<b>1. VOTE BY INTERNET:</b> Go to: <a href="http://WWW.PROXYVOTE.COM">WWW.PROXYVOTE.COM</a> and vote using the 16 digit control number located on your VIF.	<b>2. VOTE BY TELEPHONE:</b> Call toll-free English 1-800-474-7493 or French 1-800-474-7501 and vote using the 16 digit control number located on your VIF.	<b>3. VOTE BY FAX:</b> Mark, sign and date your VIF and return it by facsimile to 1-905-507-7793 or 1-514-281-8911.	<b>4. VOTE BY MAIL:</b> Mark, sign and date your VIF and return it in the enclosed postage-paid envelope.
<b>UNITED STATES BENEFICIAL SHAREHOLDERS (YOU HOLD SHARES THROUGH A BANK, BROKER OR INTERMEDIARY)THERE ARE 3 WAYS TO VOTE USING YOUR VOTING INFORMATION FORM</b>			
<b>1. VOTE BY INTERNET:</b> Go to: <a href="http://WWW.PROXYVOTE.COM">WWW.PROXYVOTE.COM</a> and vote using the 16 digit control number located on your VIF.	<b>2. VOTE BY TELEPHONE:</b> Call the toll-free number listing on your VIF and vote using the 16 digit control number located on your VIF.	<b>3. VOTE BY MAIL:</b> Mark, sign and date your VIF and return it in the enclosed postage-paid envelope.	

## **BOARD RECOMMENDATION**

The Board recommends that Shareholders vote "**FOR**":

- (i) Each of the proposed director nominees, whose names are set forth in the Circular; and
- (ii) The reappointment of PricewaterhouseCoopers LLP, Chartered Professional Accountants, as auditor of the Company, to hold office until the next annual meeting of Shareholders, and for the authorization for the directors to fix the auditor's remuneration.

## **REGISTERED SHAREHOLDERS**

Registered shareholders ("**Registered Shareholders**") are shareholders whose names appear directly on the share register of the Company maintained by the Company's transfer agent, Computershare Investor Services Inc., as the direct holders of Shares. Only Registered Shareholders or the persons they appoint as their proxies are permitted to vote at the Meeting. Registered Shareholders who are unable to attend the Meeting or any adjournment thereof in person are encouraged to vote by completing the enclosed form of proxy or, alternatively, by telephone or over the internet, in each case in accordance with the enclosed

instructions. A proxy will not be valid for use at the Meeting unless the completed form of proxy is deposited to the Company's transfer agent, Computershare Investor Services Inc., 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1, before 4:00 p.m. (Toronto Time) on May 29, 2018 or, if the Meeting is adjourned, 48 hours (excluding Saturdays, Sundays and holidays) preceding the day and time the adjourned Meeting is reconvened. Late proxies may be accepted or rejected by the chairman of the Meeting (the "**Chair**") in his discretion, and the Chair is under no obligation to accept or reject any particular late proxy.

The form of proxy accompanying this Circular confers discretionary authority upon the proxy nominee with respect to any amendments or variations to matters identified in the Notice of Annual Meeting accompanying this Circular and any other matters that may properly come before the Meeting. As at the date of this Circular, Spectral's management is not aware of any such amendments or variations, or of other matters to be presented for action at the Meeting.

### **NON-REGISTERED SHAREHOLDERS (BENEFICIAL SHAREHOLDERS)**

**The information in this section is of significant importance to Shareholders who do not hold their Shares in their own name.** Shares beneficially owned by non-registered Shareholders ("**Non-Registered Shareholders**") are registered either:

- (i) in the name of an intermediary (an "**Intermediary**") that the Non-Registered Shareholder deals with in respect of the Shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or
- (ii) in the name of a depository (a "**Depository**", such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant.

Non-Registered Shareholders, wishing to vote their Shares, must instruct their Intermediary or Depository to vote their Shares on their behalf. Shares of a Non-Registered Shareholder will not be voted at the Meeting unless the Non-Registered Shareholder instructs its Intermediary or Depository to do so. The Intermediary or Depository must receive a Non-Registered Shareholder's voting instructions in sufficient time for the Intermediary or Depository to act on them. Non-Registered Shareholders that wish to vote in person at the Meeting must carefully follow the steps provided by their Intermediary or Depository to appoint themselves or another representative to vote at the Meeting.

In accordance with the requirements of National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*, the Company has distributed copies of the Notice of Meeting, this Circular and the form of proxy (collectively, the "**Meeting Materials**") to the clearing agencies, Intermediaries and Depository for onward distribution to Non-Registered Shareholders. The Company has elected to pay for the delivery of Meeting Materials to Non-Registered Shareholders. Intermediaries often use service companies to forward the Meeting Materials to Non-Registered Shareholders.

If you are a Non-Registered Shareholder of the Company, your Intermediary will send you a VIF or form of proxy accompanying this Circular. The VIF will instruct the Intermediary how to vote your Shares at the Meeting on your behalf. You must follow the instructions from your Intermediary to vote. The majority of Intermediaries now delegate responsibility for obtaining instructions from clients to Broadridge Investor Communications Solutions, Canada ("**Broadridge**"). Broadridge typically mails a VIF to the Non-Registered Shareholders and asks Non-Registered Shareholders to return the VIF to Broadridge (in some cases the completion of the VIF may be by telephone or the internet). Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Shares to be represented at the Meeting.

A Non-Registered Shareholder may also receive, on occasion, a form of proxy that has already been signed by the Intermediary (typically by a facsimile, stamped signature) and is restricted as to the number of Shares beneficially owned by that particular Non-Registered Shareholder. This form of proxy is otherwise not completed. Because the Intermediary has already signed the form of proxy, this form of proxy is not required

to be signed by the Non-Registered Shareholder when submitting it. In this case, the Non-Registered Shareholder who wishes to submit a proxy should otherwise properly complete the form of proxy and deliver it to the Company c/o Computershare Investor Services Inc. as provided above.

In either case, the purpose of these procedures is to permit Non-Registered Shareholders to direct the voting of the Shares that they beneficially own. Should Non-Registered Shareholders who receive one of the above forms wish to vote at the Meeting in person, such Non-Registered Shareholders should strike out the names of the designated proxyholders and insert the Non-Registered Shareholder's name in the blank space provided.

**In either case, Non-Registered Shareholders should carefully follow the instructions of their Intermediary or Depository including those regarding when and where the proxy or proxy authorization form is to be delivered and may be revoked.**

Additionally, the Company may utilize the Broadridge QuickVote™ service to assist eligible Non-Registered Shareholders with voting their Shares. There are two kinds of Non-Registered Shareholders: (i) those who object to their name being made known to the issuers of securities that they own (called "OBOs" or Objecting Beneficial Owners); and (ii) those who do not object (called "NOBOs" or Non-Objecting Beneficial Owners).

#### **APPOINTMENT AND REVOCATION OF PROXIES**

The persons named in the accompanying form of proxy are senior officers of the Company. **A Shareholder has the right to appoint a person, other than the persons specified in the accompanying form of proxy, who need not be a Shareholder, to attend and act for him or her and on his or her behalf at the Meeting. A Shareholder desiring to appoint some other person as his or her proxy holder may do so by either inserting such person's name in the blank space provided in the form of proxy or by completing another legal form of proxy** and, in either case, delivering the completed proxy to the Corporate Secretary of the Company or to the Company's transfer agent, Computershare Investor Services Inc., 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1, before 4:00 p.m. (Toronto Time) on May 29, 2018 or, if the Meeting is adjourned, 48 hours (excluding Saturdays, Sundays and holidays) preceding the day and time the adjourned Meeting is reconvened. Non-Registered Shareholders should carefully follow the procedures provided by their Intermediary to appoint themselves or someone else to represent their Shares at the Meeting. A Non-Registered Shareholder's Intermediary requires sufficient time to submit any proxies to Computershare Investor Services Inc. before the voting deadline.

A Shareholder executing the enclosed form of proxy has the right to revoke it under Subsection 110(4) of the *Business Corporations Act* (Ontario) ("**OBCA**"). A Shareholder may revoke a proxy as to any matter on which a vote has not already been cast pursuant to the authority conferred by such proxy and may do so: (a) by completing and signing a proxy bearing a later date and depositing it as aforesaid; (b) by depositing an instrument in writing revoking the proxy executed by the Shareholder, or by his or her attorney authorized in writing, before 4:00 p.m. (Toronto time) on May 29, 2018 or, if the Meeting is adjourned, 48 hours (excluding Saturdays, Sundays and holidays) preceding the day and time the adjourned Meeting is reconvened; or (c) in any other manner permitted by law. Please note, only a Registered Shareholder can revoke a proxy. Non-Registered Shareholders should follow the instructions provided by their Intermediary or Depository. A Non-Registered Shareholder may revoke a VIF given to an Intermediary by written notice to the Intermediary, except that an Intermediary may not act on a revocation of a VIF which is not received by the Intermediary in sufficient time prior to the Meeting.

#### **EXERCISE OF DISCRETION BY PROXIES**

The management representatives named in the accompanying form of proxy will vote the Shares in respect of which they are appointed or will withhold such Shares from voting in accordance with the direction of the Shareholders appointing them.

**In the absence of such direction, such Shares will be voted in favour of the matters set out in the Notice of Meeting. The accompanying form of proxy confers discretionary authority upon the persons named therein to vote in accordance with his or her best judgment with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting and any reconvened Meeting.** At the date of this Circular, management of the Company knows of no such amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Meeting.

## **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON**

As at the date hereof, other than as disclosed herein, to the knowledge of the directors and senior officers of the Company, none of the directors or officers of the Company who have been a director or executive officer of the Company at any time since the beginning of the Company's last financial year, nor any proposed nominee for election as a director of the Company, nor any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting, other than the election of directors.

## **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

As at March 28, 2018, the Company had 207,796,522 Shares issued and outstanding. Except as otherwise expressly set forth herein, all Shareholders of record at the close of business on the Record Date will be entitled to one vote at the Meeting for each Share held except to the extent that such Shareholder has transferred any of such Shares after the Record Date and the transferee of any of such Shares produces properly endorsed Share certificates or otherwise establishes ownership thereof and makes a written demand not later than seven clear days before the Meeting to be included in the list of Shareholders entitled to vote at the Meeting, in which case the transferee will be entitled to vote such Shares.

Two persons present in person or represented by proxy at the Meeting holding not less than 25 per cent of the Shares entitled to vote at the Meeting constitute a quorum for the transaction of business at the Meeting.

Other than as set forth below, as of the date hereof, to the knowledge of the directors and executive officers of the Company, no persons or corporations beneficially own, or exercise control or direction over, directly or indirectly, 10% or more of the issued and outstanding Shares:

- (i) Toray Industries, Inc. ("**Toray**") owns and controls 45,630,105 Shares, or 22.0%, of the currently issued and outstanding Shares, calculated on a non-diluted basis.
- (ii) Birch Hill Equity Partners Management Inc. ("**Birch Hill**") acts as the general partner of each of Birch Hill Equity Partners IV, LP, Birch Hill Equity Partners (US) IV, LP, and Birch Hill Equity Partners (Entrepreneurs) IV, LP (collectively, "**LPs**"). Birch Hill, on behalf of the LPs, owns and controls 33,517,718 Shares representing approximately 16.2% of the issued and outstanding Shares, calculated on a non-diluted basis.

## **BUSINESS OF THE MEETING**

### **1. CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT**

At the Meeting, the consolidated financial statements for the year ended December 31, 2017 and the auditor's report thereon will be presented by management of the Company. Such consolidated financial statements are contained in the Annual Report of the Company, copies of which have been mailed, together with the Meeting Materials, to Shareholders.

## 2. ELECTION OF DIRECTORS

The articles of the Company (the “**Articles**”) provide that the Board shall consist of a minimum of three and a maximum of ten directors. The Board has been empowered to determine from time to time by resolution the number of directors within that provided for in the Articles.

The Board currently consists of six directors. Directors are elected annually at the annual Shareholder meeting and their term of office expires at the next annual Shareholder meeting, unless earlier terminated.

Toray is entitled to nominate one director to the Board for so long as Toray owns in the aggregate not less than 10% of the issued and outstanding Shares (on a non-diluted basis). Dr. Masayuki Kaneko is currently the Toray representative. However, Dr. Kaneko has notified the Board that he will resign from the Board prior to the Annual General Meeting, as he is being promoted into another Division of Toray Industries not related to Toraymyxin™. Toray’s replacement director nominee will be appointed to the Board at a later date once he or she has been vetted and approved by the Nomination and Governance Committee of the Company.

Birch Hill is entitled to nominate one director to the Board for so long as Birch Hill owns in the aggregate not less than 5% of the issued and outstanding Shares (on a non-diluted basis). Mr. William Stevens is the Birch Hill representative.

Five nominees are proposed for election to hold office until the next annual meeting of Shareholders or until their successors are duly elected or appointed in accordance with the by-laws of the Company. **Unless contrary instructions are indicated on the form of proxy or voting instruction form, the persons designated in the accompanying form of proxy or voting instruction form intend to vote FOR the election of the nominees whose names are set forth below.** Management of the Company does not contemplate that any of the nominees will be unable to serve as a director but, if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy will exercise discretionary authority to vote for the election of any other person or persons as directors unless they have been otherwise instructed on the form of proxy.

On April 15, 2013, the Board adopted a majority voting policy providing that if any proposed nominee receives a greater number of votes “withheld” from his or her election than votes “for” such election, then such nominee is expected to offer to resign. The Nomination & Governance Committee will review any such offer of resignation and make a recommendation to the Board. The Board will determine whether to accept the resignation and will announce its decision within 90 days following the shareholders’ meeting. If the Board rejects the offer, it will disclose the reasons why. If the Board accepts the offer, it may appoint a new director to fill the vacancy. The policy would not, however, apply in circumstances involving contested director elections.

The following table and the notes thereto set out the name, province or state and country of residence of each person proposed to be nominated for election as a director of the Company; all of the major positions and offices held in the Company by such person; the principal occupation or employment of such person; the year in which such person became a director of the Company or a predecessor of the Company; and the number of Shares and options to acquire Shares that each director has advised the Company that he beneficially owns, or controls or directs, directly or indirectly, as at the date of this Circular. The Company has not independently verified such information.

Name Province/State and Country of Residence and Principal Occupation	Director Since	Number of Shares Beneficially Owned <sup>(1)(2)</sup>	Options to Acquire Shares Held <sup>(2)(3)</sup>
<b>MR. ANTHONY BIHL III</b> <sup>(4)(5)</sup> Connecticut, USA CEO of Bioventus LLC	2008	525,000	366,250
<b>MR. KEVIN GIESE</b> <sup>(6)(7)</sup> Alberta, Canada President, Queensbury Ventures Inc.	2010	4,232,424 <sup>(8)</sup>	250,000
<b>MR. GUILLERMO HERRERA</b> <sup>(9) (10) (11)</sup> Florida, USA CEO, Altan Pharma Ltd.	2006	425,000	282,500
<b>MR. WILLIAM STEVENS</b> <sup>(6) (9)</sup> Ontario, Canada President of GS Investment Corp.	2014	295,137 <sup>(12)</sup>	329,750
<b>DR. PAUL M. WALKER</b> Ontario, Canada Director, President & CEO of the Company	2001	1,464,096 <sup>(13)</sup>	3,311,465

Notes:

- (1) Information as to Shares beneficially owned is based on information provided by the respective directors and officers and has not been independently verified by the Company.
- (2) Information is reported as of the date of this Management Information Circular.
- (3) Each option is exercisable on its terms for one Share.
- (4) Chairman of the Board.
- (5) Chairman of the Human Resources & Compensation Committee.
- (6) Member of the Finance and Audit Committee.
- (7) Chairman of the Nomination and Governance Committee.
- (8) These Shares are held directly by Mr. Giese and Queensbury Ventures Inc., a company controlled by Mr. Giese.
- (9) Member of the Human Resources & Compensation Committee.
- (10) Chairman of the Finance and Audit Committee.
- (11) Member of the Nomination and Governance Committee.
- (12) These Shares are held by Mr. Stevens directly and indirectly.
- (13) These Shares are held directly by Dr. Walker and by entities over which he has control or direction.

A brief biography of each nominee follows:

**Paul Walker**

Dr. Walker, M.D., Ph.D., F.R.C.S.C., has served as the Company's President and Chief Executive Officer and as a director since April 2001. Previously, he held the position of Chief Operating Officer of Toronto General Hospital, and was Surgeon in Chief and Vice President of the Surgical Directorate of the University Hospital Network in Toronto, Ontario. Dr. Walker was an active Vascular Surgeon and the Director of the Intensive Care Program, and Professor of Medicine and Laboratory Medicine at the University of Toronto. He received his M.D. from the University of Western Ontario, his Ph.D. from the Salgrenska University of Göteborg, Sweden, and is a graduate of the Advanced Management Program from Harvard School of Business as well as the Advanced Program for Chiefs of Clinical Services from Harvard School of Public Health.

### **Anthony Bihl III**

Mr. Bihl has served on the Board since March 2008. He is an experienced executive with more than 30 years in leadership of global healthcare businesses including a broad base of operational, financial, and senior executive positions. Mr. Bihl is currently the CEO of Bioventus LLC, a global provider of ortho biologic products, effective December 2, 2013. He also served as a director on the board of Greatbatch Inc. from 2011 to 2016, and is currently a board member of Nuvectra Inc. where he serves as Chairman of the Human Resources and Compensation Committee. Mr. Bihl was Group President of American Medical Systems (“AMS”), a subsidiary of Endo Pharmaceuticals, in Minneapolis, Minnesota. From 2008 to 2011, Mr. Bihl was the President and Chief Executive Officer of AMS. From 2000 to 2007, Mr. Bihl served in various senior leadership positions at Bayer Healthcare Diagnostics Division including Vice President of Finance, Senior Vice President of Business Planning and Administration, and President, Diagnostics Division. Subsequently, he was Chief Executive Officer of Siemens DX upon the acquisition of Bayer’s Diagnostics Division by Siemens AG.

### **Kevin Giese**

Mr. Giese has served on the Board since March 2010 and is President of Queensbury Ventures Inc. He was previously President, Chief Executive Officer and a director of Medwell Capital Corp. from 1999 to 2015. Mr. Giese has over 25 years of corporate leadership experience as a Director, Chief Executive Officer and Chief Financial Officer, with over 15 years’ experience in biotech. He was a founder of BioMS Medical Corp., which received the international Scripps award for its technology licensing deal with Eli Lilly, and was named Biotech Company of the Year in Canada in 2008. He has been a member of the board of directors of BioAlberta, an advisory member of the Institute of Corporate Directors (Canada) and has received awards for entrepreneurship from BioAlberta and Ernst & Young. Mr. Giese has a B.A. (economics), a law degree and an M.B.A.

### **Guillermo Herrera**

Mr. Herrera has served on the Board since September 2006. He is a seasoned global healthcare executive with more than 40 years of experience. Mr. Herrera is the Chairman, CEO and founder of Altan Pharma Ltd., and was formerly the Chairman and founder of Pinnacle Biologics Inc. Previously, Mr. Herrera spent 24 years at Abbott Laboratories, most recently serving as Senior Vice President, International Operations and President of Abbott International. In this role, he was accountable for international commercial operations including sales and marketing of pharmaceutical, nutritional and hospital products in markets outside the U.S. Mr. Herrera received a B.A. in industrial economics from the Universidad del Valle, Colombia and his M.B.A. from the Kellogg Graduate School of Management at Northwestern University.

### **William Stevens**

Mr. Stevens has served on the Board since September 2014. Mr. Stevens brings over 20 years of experience in the capital markets and investment industry to the Company. He is currently the President of GS Investment Corp and was Managing Director of Westerkirk Capital Corp., both private investment management companies. He has held senior roles in investment banking and private equity and has a successful track record of value creation for shareholders. Mr. Stevens’ educational background includes an M.B.A from the Harvard University Graduate School of Business Administration.

Other than as set out in this Circular, to the knowledge of management, no proposed director or a holding company of such proposed director has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

Other than as set out in this Circular, no proposed director of the Company:



- (i) is, as at the date of this Circular, or has been, within 10 years before the date of this Circular, a director, chief executive officer or chief financial officer of any company (including the Company) that,
  - a. was subject to an order that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or
  - b. was subject to an order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;
- (ii) is, as at the date of this Circular, or has been within 10 years before the date of this Circular, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (iii) has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

No proposed director has been subject to:

- (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

### 3. REAPPOINTMENT OF AUDITORS

**Unless contrary instructions are indicated on the form of proxy or voting instruction form, the persons designated in the accompanying form of proxy or voting instruction form intend to vote FOR the reappointment of PricewaterhouseCoopers LLP, Chartered Professional Accountants, as auditors of the Company, to hold office until the next annual meeting of Shareholders, and for the authorization of the directors to fix the auditors' remuneration.** PricewaterhouseCoopers LLP, and their predecessor Coopers & Lybrand, have been the auditors of the Company since its incorporation in 1991.

### STATEMENT OF EXECUTIVE COMPENSATION

#### Compensation Discussion and Analysis

The Company's executive compensation program is designed to provide short and long-term rewards to executive officers and other employees that are consistent with individual and corporate performance and the employee's contribution to Spectral's objectives. The objectives of the Company with respect to compensation of executive officers are to provide compensation levels necessary to attract and retain high quality executives and to motivate key executives to contribute to the success of the Company. These objectives are to be met by the principal components of the Company's executive compensation program, as set out in greater detail below.

The total compensation plan for senior executives of the Company includes four components: base salary, annual discretionary cash bonus, annual benefits and a long-term component based on stock options.

The Company does not intend to make any significant changes to its compensation policies and practices in the next financial year.

#### *Base Salary*

Base salary is reflective of responsibilities and annual increases should, at a minimum, reflect inflationary pressures and changes in duties. At the date of hire, base salary is determined using a number of factors including industry comparators and relevant experience and is set out in the employment agreement. Annual increases are determined based upon reference to data on compensation levels of executives in comparable companies (i.e. public companies in the drug development/biotech/healthcare sector) as well as annual performance evaluation and underlying economic circumstances. The Human Resources & Compensation Committee recommends the annual base salary increases for the Chief Executive Officer and the direct reports of the Chief Executive Officer to the Board for approval.

#### *Annual Incentive Plans and Benefits*

Cash bonuses are awarded to recognize the achievement of annual corporate objectives and to recognize contributions that enhance the intrinsic value of the Company. Benefits commensurate with those paid to senior officers of companies of similar size and scope to the Company are paid to Spectral's executive officers.

The annual incentive plan is a cash performance plan under which a payment is made to executives following the end of the Company's fiscal year, based on the achievement of established Company and individual goals. Generally, management of the Company prepares an annual business plan, comprised of a budget and corporate/strategic and financial objectives, which is reviewed and approved by the Board. Bonuses are generally paid to management if the corporate/strategic and financial objectives in such business plan are achieved by the Company, as evaluated at the end of the year by the Human Resources & Compensation Committee. The Human Resources & Compensation Committee may also recommend bonuses based on other criteria where circumstances merit. The Board can exercise discretion, either to award compensation absent attainment of the relevant performance goals or to reduce or increase the size of any award or payout. The Board did not exercise any discretion in this regard during 2017.

The annual objectives of the Company are presented to the Human Resources & Compensation Committee early in the fiscal year and regular updates are provided to the Human Resources & Compensation Committee by the Chief Executive Officer during the year. Following the completion of the fiscal year, the Chief Executive Officer presents an evaluation of corporate performance versus objectives to the Human Resources & Compensation Committee. The Chief Executive Officer also presents the recommended incentive plan payments for each of his direct reports to the Human Resources & Compensation Committee with reference to the achievement of individual objectives. The Board, on recommendation from the Human Resources & Compensation Committee, has final approval of the amounts paid to the Chief Executive Officer and his direct reports under the annual incentive plan.

The Board, upon the recommendations of the Human Resources & Compensation Committee, considers the implications of any risks associated with the Company's compensation policies and practices. On an annual basis, the Compensation Committee reviews the compensation of, among others, the Named Executive Officers (as defined under the heading "Summary Compensation Table" below), including bonuses, and presents their recommendations to the Board for evaluation, review and approval. The Board has not identified any risks arising from the Company's compensation policies or practices that could encourage a Named Executive Officer to take inappropriate or excessive risks.

#### *Stock Options*

The long-term component of compensation for executive officers, including the Chief Executive Officer, is based on stock options. This component of compensation is intended to reinforce management's commitment to long-term improvements in Spectral's performance and increased Shareholder value. The Stock Option Plan V of the Corporation (the "Stock Option Plan") provides for initial option grants upon hire.

Thereafter, options may be granted based upon the recommendations of the Human Resources & Compensation Committee. The Chief Executive Officer recommends the amount of option grants for each of his direct reports to the Human Resources & Compensation Committee. The Human Resources & Compensation Committee, after making any revisions deemed necessary, recommends the option grants to the Board for approval. Previous grants of options are taken into account when considering new grants because the Stock Option Plan is subject to certain limits. The maximum number of Shares that may be reserved for issuance on the exercise of options is 10% of the number of Shares issued and outstanding from time to time. In addition, the maximum number of Shares which may be reserved for issuance to any one participant under the Stock Option Plan, together with any Shares reserved for issuance pursuant to employment agreements and/or other stock option and/or purchase plans of the Company, may not exceed 5% of the number of Shares issued and outstanding at the time of the grant. See “Equity Compensation Plans – Stock Option Plan” below.

Directors and officers are not permitted to purchase financial instruments, including, for greater certainty, prepaid variable forward contracts, equity swaps, collars or units of exchange funds, that are designed to hedge or offset a decrease in market value of the Shares granted as compensation or held, directly or indirectly, by the director or officer.

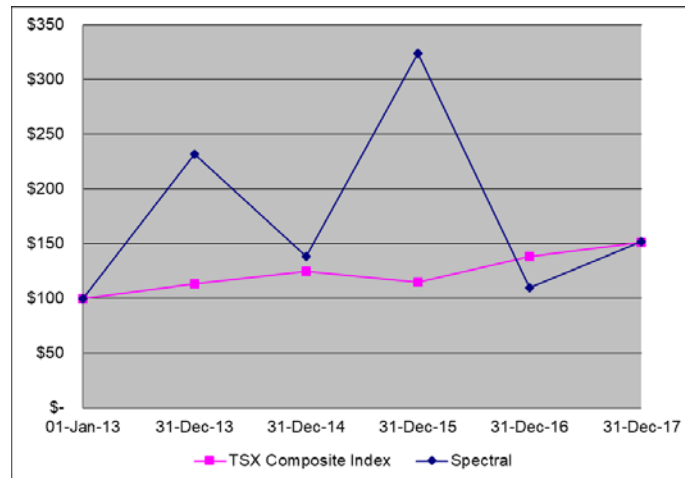
#### *Compensation of the Chief Executive Officer*

The total compensation package available for the Chief Executive Officer includes a base salary, a discretionary-bonus component, benefits and a long-term component based on stock options. Compensation is based upon the factors outlined above, including a comparison with compensation of senior officers of companies of similar size and scope to Spectral and the performance of Spectral. The Chief Executive Officer’s compensation is determined in accordance with the procedures outlined above.

#### **Performance Graph**

The Shares are listed and posted for trading on the Toronto Stock Exchange (“TSX”) under the symbol “EDT”.

The following line graph compares the Company’s total Shareholder return for \$100 invested in Shares on January 1, 2013 with the cumulative total return on the TSX Composite Index for the five most recently completed financial years of the Company.



	January 1	December 31				
	2013	2013	2014	2015	2016	2017
Closing Price of Shares on the TSX	\$0.250	\$0.580	\$0.345	\$0.810	\$0.275	\$0.380
Company Return	\$100.00	\$232.00	\$138.00	\$324.00	\$110.00	\$152.00
TSX Composite Index Return	\$100.00	\$112.99	\$124.92	\$114.53	\$138.67	\$151.25

The performance trend shown by the above graph does not reflect the trend in the Company's compensation to Named Executive Officers reported over the same period. The market price of the Shares, like the share prices of many publicly traded biotechnology companies, has historically been highly volatile. The Company's compensation policies and practices are benchmarked to those of other companies in similar industries.

### Summary Compensation Table

The following table provides a summary of all compensation paid or payable to the Chief Executive Officer, the Executive Vice President, Chief Financial Officer & Corporate Secretary, the Vice President of Sales & Marketing, and the Vice President of Clinical Development (collectively referred to as the "Named Executive Officers") during the years ended December 31, 2017, 2016 and 2015. Mr. Anthony Businskas, the former Executive Vice President and Chief Financial Officer, retired on January 31, 2018 and is therefore no longer a Named Executive Officer. Mr. Richard Wieland was appointed Interim Chief Financial Officer on February 1, 2018.

Name and Principal Position	Fiscal Year	Salary (\$)	Option-Based Awards <sup>(1)</sup> (\$)	Non-Equity Incentive Plan Compensation <sup>(2)</sup> (\$)	All Other Compensation <sup>(3)</sup> (\$)	Total Compensation (\$)
<b>Paul M. Walker President &amp; Chief Executive Officer<sup>(4)</sup></b>	2017	437,091	305,100	-	21,000	763,191
	2016	437,891	171,732	81,000	21,000	711,623
	2015	425,992	79,140	233,398	21,000	759,530
<b>Gualtiero Guadagni Vice President Sales &amp; Marketing</b>	2017	207,619	63,089	-	12,000	282,708
	2016	207,999	42,933	14,000	12,000	276,932
	2015	202,346	19,785	40,314	12,462	274,907
<b>Debra M. Foster Vice President Clinical Development</b>	2017	207,619	65,104	-	12,000	284,723
	2016	207,999	42,933	16,000	12,000	278,932
	2015	202,346	19,785	44,346	12,221	278,698

(1) The options granted to Named Executive Officers in 2017 vested at one quarter of the grant amount at the time of the grant. The balance of the options vests equally as to one-twelfth on each successive quarter such that all such options will be fully vested on February 28, 2020. The grants for 2017 were made on February 28, 2017 and the dollar value is based upon the Share price of \$0.30 and a Black Scholes' factor of 123.09%. An additional grant was made to Named Executive Officers on June 1, 2017. The options will vest upon receiving FDA approval for the Toraymyxin™ cartridge, the dollar value based upon the Share price of \$0.53 and a Black Scholes' factor of 105.08%.

The options granted to Named Executive Officers in 2016 vested at one quarter of the grant amount at the time of the grant. The balance of the options vests equally as to one-twelfth on each successive quarter such that all such options will be fully vested

on February 1, 2019. The grants for 2016 were made on February 1, 2016 and the dollar value is based upon the Share price of \$0.73 and a Black Scholes' factor of 74.04%.

The options granted to Named Executive Officers in 2015 vested at one quarter of the grant amount at the time of the grant. The balance of the options vests equally as to one-twelfth on each successive quarter such that all such options will be fully vested on January 22, 2018. The grants for 2015 were made on January 22, 2015 and the dollar value is based upon the Share price of \$0.38 and a Black Scholes' factor of 65.89%.

- (2) Non-equity incentive plan compensation consists of annual cash bonuses.
- (3) For each Named Executive Officer, the amount includes a car allowance except with respect to Dr. Walker who does not receive a car allowance. For Dr. Walker, this amount also includes annual RRSP contributions of \$21,000 each. Car allowances are a fixed amount and are calculated based on costs associated with car ownership, such as lease payments, maintenance cost, insurance, license and registration and fuel. The annual RRSP contributions are based on the terms set out in the executive employment agreements.
- (4) Dr. Walker is a director as well as an executive officer. Dr. Walker does not receive any additional compensation for his role as director.

### **Executive Employment Agreements**

The Company entered into employment agreements with each of Dr. Paul M. Walker (President & Chief Executive Officer), Ms. Debra Foster (Vice President Clinical Development) and Dr. Gualtiero Guadagni (Vice President Sales & Marketing).

Under the terms of their respective employment agreements with the Company, Dr. Walker, Ms. Foster and Dr. Guadagni are each entitled to an annual base salary, bonuses and grants of stock options (if approved by the Board upon the Company meeting certain performance targets), participation in benefit plans, a car allowance and reimbursement of reasonable out-of-pocket expenses incurred in performing their respective duties as officers of the Company. The employment agreements have indefinite terms.

Annual bonuses for the Executives are based on the level of achievement of objectives as established by the Human Resources & Compensation Committee. These objectives typically include targets related to the implementation of the Company's clinical development and regulatory programs and adherence to the Company's annual business plan. Approximately fifty per cent of bonuses are based on the achievement of overall corporate objectives, with the remainder based on the individual Executive's contribution towards those objectives.

### **Termination without Cause Payments**

Dr. Walker is entitled to a payment equal to two times the sum of his then current annual salary and RRSP contribution. He is also entitled to a continuation of benefits for a two-year period (the "**CEO Notice Period**") from the effective date of termination. All unvested options will continue to vest in accordance with the original vesting schedule during the CEO Notice Period. Vested, unexpired options can be exercised up until the last day of the CEO Notice Period. Any unexercised options will expire on the last day of the CEO Notice Period.

Ms. Foster and Dr. Guadagni are each entitled to a payment equal to the sum of their respective then current annual salaries, car allowance, and the average of their actual annual bonuses over the preceding two years.

Each of Ms. Foster and Dr. Guadagni will also be entitled to a continuation of benefits for a one-year period (the "**NEO Notice Period**") from the effective date of termination. All unvested options will continue to vest in accordance with the original vesting schedule during the NEO Notice Period. Vested, unexpired options can be exercised up until the last day of the NEO Notice Period. Any unexercised options will expire on the last day of the NEO Notice Period.

### **Termination following a Change of Control Event**

Dr. Walker is entitled to a payment equal to two times the sum of (i) his then current annual salary, (ii) RRSP contribution, (iii) the average of his actual annual bonus, in the preceding two years and (iv) the value of benefit plan contributions that would be required to maintain participation in the group health plan for one year. All of Dr. Walker's unvested options will automatically vest and he will be entitled to exercise any unexpired options until their expiry date in accordance with the terms and conditions of the Stock Option Plan.

Ms. Foster is entitled to a payment equal to the sum of (i) her current annual salary, (ii) car allowance, (iii) the average of her actual annual bonus in the preceding two years, and (iv) the value of benefit plan contributions that would be required to maintain participation in the group health plan for one year. All of Ms. Foster's unvested options will automatically vest and any unexpired options will be exercisable until their expiry date in accordance with the terms and conditions of the Stock Option Plan.

### **Executive Compensation Review**

The executive employment agreements described above became effective January 1, 2011 following the approval of the Board and based on the recommendations of an independent executive compensation review completed by Lane Caputo Compensation Inc. in 2010.

The review consisted of a comparison of compensation practices benchmarked against a group of relevant peer companies ranging from approximately half of the Company's size as measured by market capitalization to roughly double the Company's size.

The peer group was comprised of biotechnology companies with operations in similar stages of development to the Company. Like Spectral, the majority of the peer companies are leading a product through Phase III clinical trials, with the remaining companies well along in Phase II trials. The peer companies are all publicly traded and proxy circular compensation data is available for their highest paid positions.

In addition, compensation data from a salary survey of North American-based companies in the biotechnology and life sciences industries was used as a cross-check to the data from the peer group and to benchmark positions that are not typically disclosed in continuous disclosure documents.

The following elements of compensation were compared against Spectral's peer group:

1. Salary (either actual or estimated 2010 levels of compensation);
2. Bonus as a percentage of salary (the average of the three most recent actual annual bonuses paid, where three years of history was available);
3. Total cash compensation (estimated 2010 salary plus average annual bonus); and
4. Equity participation (average grant of stock options and other full-value, equity-based incentives).

There have been no further independent compensation reviews and none are currently planned.

### **Incentive Plan Awards**

Other than grants of options under the Stock Option Plan, the Company does not compensate its executives with share-based awards.

*Outstanding Option-Based Awards*

The following table sets forth the details of all option-based awards granted to Named Executive Officers that are outstanding at December 31, 2017:

<b>Name</b>	<b>Number of Shares Underlying Unexercised Options (#)</b>	<b>Option Exercise Price (\$)</b>	<b>Option Expiration Date</b>	<b>Value of Unexercised in-the-Money Options (\$)</b>
<b>Paul M. Walker President &amp; Chief Executive Officer</b>	400,000	0.21	February 7, 2018	68,000
	400,000	0.60	January 3, 2019	-
	400,000	0.375	January 22, 2020	2,000
	400,000	0.73	February 1, 2021	-
	737,500	0.30	February 28, 2022	59,000
	418,965	0.53	June 1, 2022	-
<b>Gualtiero Guadagni Vice President Sales &amp; Marketing</b>	100,000	0.20	May 1, 2018	18,000
	66,000	0.60	January 3, 2019	-
	100,000	0.375	January 22, 2020	500
	100,000	0.73	February 1, 2021	-
	158,335	0.30	February 28, 2022	12,667
	79,610	0.53	June 1, 2022	-
<b>Debra M. Foster Vice President Clinical Development</b>	37,500	0.21	February 7, 2018	6,375
	100,000	0.60	January 3, 2019	-
	100,000	0.375	January 22, 2020	500
	100,000	0.73	February 1, 2021	-
	166,670	0.30	February 28, 2022	13,334
	79,610	0.53	June 1, 2022	-

*Incentive Plan Awards - Value Vested or Earned During the Year*

The following table sets forth the value of all option-based awards granted to Named Executive Officers that vested during the financial year ended December 31, 2017 and the value of all non-equity incentive plan compensation earned by Named Executive Officers during such year:

<b>Name</b>	<b>Option-Based Awards – Value Vested During the Year (\$)</b>	<b>Non-Equity Incentive Plan Compensation – Value Earned During the Year (\$)</b>
<b>Paul M. Walker President &amp; Chief Executive Officer</b>	12,000	-

<b>Name</b>	<b>Option-Based Awards – Value Vested During the Year (\$)</b>	<b>Non-Equity Incentive Plan Compensation – Value Earned During the Year (\$)</b>
<b>Gualtiero Guadagni Vice President Sales &amp; Marketing</b>	3,000	-
<b>Debra M. Foster Vice President Clinical Development</b>	3,000	-

### **Pension Plan Benefits**

The Company does not maintain any defined benefit pension plans or defined contribution pension plans.

### **Termination and Change of Control Benefits**

The termination benefits to which the Named Executive Officers are entitled are set out above under “*Executive Employment Agreements*”. The following are the amounts of the severance payments that would have been made to each of the Named Executive Officers in the event of a termination without cause and termination following a change in control by the Company as at December 31, 2017, together with the value of in-the-money options held by such persons:

<b>Name</b>	<b>Termination without Cause Payments (\$)</b>	<b>Termination following a Change of Control Event (\$)</b>
<b>Paul M. Walker</b>	1,047,403	1,156,571
<b>Gualtiero Guadagni</b>	275,302	248,666
<b>Debra M. Foster</b>	256,424	260,956

### **Human Resources & Compensation Committee**

The Human Resources & Compensation Committee is currently comprised of the following three directors: Anthony P. Bihl III, Guillermo Herrera and William Stevens, all of whom are independent directors. The Human Resources & Compensation Committee’s responsibilities include: (i) reviewing and making recommendations to the Board with respect to compensation of the Chief Executive Officer, and (ii) making recommendations to the Board with respect to non-Chief Executive Officer compensation, incentive compensation plans and equity-based plans.

In order to ensure that the compensation process remains objective: (i) the Board is required to review and evaluate all recommendations put forward by the Human Resources & Compensation Committee; (ii) both the Board and the Human Resources & Compensation Committee hold “in camera” sessions at which non-independent directors are not present.

Each of the Human Resources & Compensation Committee members has experience that is relevant to his responsibilities in executive compensation. See the biographies above under “Election of Directors”.



## Director Compensation

On an annual basis, the Human Resources & Compensation Committee reviews the adequacy and form of compensation of the directors and the Chairman of the Board, to ensure the compensation realistically reflects the responsibilities and risks involved in being an effective director, and makes appropriate recommendations to the Board for approval.

### *Director Compensation Table*

The following table presents the details of all compensation provided to directors of the Company for the year ended December 31, 2017:

<b>Name</b>	<b>Fees Earned (\$)</b>	<b>Option-Based Awards <sup>(1)</sup> (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
<b>Anthony Bihl III</b>	75,666	12,078	-	87,744
<b>Kevin Giese</b>	43,000	12,078	-	55,078
<b>Guillermo Herrera</b>	63,673	12,078	-	75,751
<b>Masayuki Kaneko</b>	-	-	-	-
<b>William Stevens</b>	40,750	12,078	-	52,828

(1) The options granted to directors in 2017 vested at the time of the grant. The grants for 2017 were made on February 28, 2017 and the dollar value is based upon the Share price of \$0.29 and a Black Scholes' factor of 123.09%.

Each director who is not a full-time employee of the Company receives an annual retainer of \$22,500 and \$1,500 for attendance at each of the meetings of the Board and its committees. In addition, committee members receive a retainer of \$5,000 for their membership in the Finance & Audit Committee and \$1,250 for each of the Nomination & Governance Committee and the Human Resources & Compensation Committee. In recognition of their additional responsibilities, the Chairman of the Board and the Lead Independent Director each receives double the annual retainer of a director (\$45,000) and the Chairman of the Finance & Audit Committee receives double the committee member retainer amount (\$10,000) in recognition of the additional responsibilities. The Chairman of the Nomination & Governance Committee and the Human Resources & Compensation Committee each receives an annual retainer of \$5,000. Dr. Walker is compensated in his role as Chief Executive Officer; he receives no additional compensation for his role as a director.

All directors are reimbursed for their reasonable out-of-pocket travel and other expenses incurred in attending meetings of the Board or any committee thereof. 100,000 options granted to directors expired unexercised during the 2017 fiscal year. No options granted to directors were exercised in 2017. Directors and officers of the Company are covered by insurance in respect of liability that may be incurred by them for acting in such capacity, unless the liability arises because such director or officer fails to act honestly and in good faith with a view to the best interests of the Company. See below under "*Directors and Officers Insurance*".

### *Outstanding Option-Based Awards*

The following table sets forth the details of all outstanding option-based awards granted to non-executive directors of the Company that are outstanding as at December 31, 2017:

Name	Number of Shares Underlying Unexercised Options	Option Exercise Price (\$)	Option Expiration Date	Value of Unexercised in-the-Money Options (\$)
<b>Anthony Bihl III</b>	50,000	0.21	February 7, 2018	8,500
	50,000	0.60	January 3, 2019	-
	50,000	0.375	January 22, 2020	250
	50,000	0.73	February 1, 2021	-
	50,000	0.30	February 28, 2022	4,000
<b>Kevin Giese</b>	50,000	0.21	February 7, 2018	8,500
	50,000	0.60	January 3, 2019	-
	50,000	0.375	January 22, 2020	250
	50,000	0.73	February 1, 2021	-
	50,000	0.30	February 28, 2022	4,000
<b>Guillermo Herrera</b>	50,000	0.60	January 3, 2019	-
	50,000	0.73	February 1, 2021	-
	50,000	0.30	February 28, 2022	4,000
<b>William Stevens</b>	75,000	0.30	October 15, 2019	-
	50,000	0.375	January 22, 2020	250
	50,000	0.73	February 1, 2021	-
	50,000	0.30	February 28, 2022	4,000

*Incentive Plan Awards - Value Vested or Earned During the Year*

The following table sets forth the value of all option-based awards granted to non-executive directors that vested during the financial year ended December 31, 2017. No non-equity incentive plan compensation earned was earned by any directors during the financial year ended December 31, 2017:

Name	Option-Based Awards – Value Vested During the Year (\$)
<b>Anthony Bihl III</b>	Nil
<b>Kevin Giese</b>	Nil
<b>Guillermo Herrera</b>	Nil
<b>William Stevens</b>	Nil

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS AS OF  
DECEMBER 31, 2017**

*Equity Compensation Plan Information*

<b>Plan Category</b>	<b>Number of Shares to be issued upon exercise of outstanding options</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of Shares remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by Shareholders	7,664,997	\$0.46	13,080,905 <sup>(1)</sup>
Equity compensation plans not approved by Shareholders	N/A	N/A	N/A
<b>Total</b>	7,664,997	\$0.46	13,080,905

(1) Under the Stock Option Plan the aggregate number of Shares issuable is equal to 10% of the total number of Shares issued and outstanding from time to time.

The Company has two types of stock-based compensation plans. The first is a plan established for its employees (excluding officers and employee directors), the Company's 1998 Employee Stock Purchase Plan (the "**Stock Purchase Plan**"). The second is the Stock Option Plan.

The Company grants options to officers and directors under the Stock Option Plan. Options are granted and approved by the Board on the recommendation of the Human Resources & Compensation Committee and are granted at the market price of the Shares on the business day immediately preceding the day of the grant of such options. The vesting and expiry date of the options vary and are determined by the Board at the time of the grant.

The following table sets out the respective exercise prices and expiry dates for the above noted options:

<b>Number of Options Granted</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
787,500	\$0.21	February 7, 2018
100,000	\$0.20	May 1, 2018
355,000	\$0.38	August 12, 2018
916,000	\$0.60	January 3, 2019
100,000	\$0.32	October 1, 2019
75,000	\$0.30	October 15, 2019
1,250,000	\$0.38	January 22, 2020
100,000	\$0.67	March 24, 2020
1,420,000	\$0.73	February 1, 2021
180,000	\$0.76	March 29, 2018
1,637,505	\$0.30	February 28, 2022

<b>Number of Options Granted</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
785,305	\$0.53	June 1, 2022
600,000	\$.0405	October 11, 2022

During the 2017 fiscal year, 293,435 options were exercised, 585,000 options expired and 71,250 options were forfeited/cancelled.

As at December 31, 2017, options to purchase an aggregate of 7,664,997 Shares were outstanding and unexercised. Options to purchase an aggregate 13,080,905 Shares remain available for grant under the Stock Option Plan.

## **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

No executive officers, directors, employees, former executive officers, directors or employees of the Company nor any of its subsidiaries are indebted to the Corporation.

## **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as otherwise disclosed in this Circular, no informed person of the Company, any proposed director of the Company or any associate or affiliate of such persons has had any material interest, direct or indirect, in any transaction of the Company during the last fiscal year or in any proposed transaction which has materially affected or would materially affect the Company or any of its subsidiaries.

## **CORPORATE GOVERNANCE**

Strong, effective corporate governance is a necessary foundation to improved performance and Shareholder confidence and is a key commitment of the Company.

As our Shareholders are aware, a series of guidelines, rules, regulations, listing standards and legislation has been passed or adopted over the last several years to assist companies in establishing best practices and to address concerns about governance. These include National Instrument 58-101 – *Disclosure of Corporate Governance Practices* and National Policy 58-201 – *Corporate Governance Guidelines* passed by the Canadian Securities Administrators.

The Board believes that its effectiveness is a combination of structure, membership and process; and individual director effectiveness is a combination of competence, behaviour and independence.

In developing Spectral's policies and practices, the Board and the Nomination & Governance Committee have carefully considered the Board's structure, membership and its processes.

Set out below are certain key policies and practices that are, in the Company's view, essential in creating a Board and committees of the Board that can function effectively, add value to the Company and evidence the various roles and shared responsibilities of management of the Company and the Board.

### **Board Membership and Independence**

The Company believes that a strong and independent Board is fundamental to effective corporate governance and accordingly all of the Company's current and proposed directors, with the exception of Dr. Walker, are independent. Brief biographies of the directors are included earlier in this Circular and indicate the breadth, scope and diversity of their experience, all of which makes a major contribution to the Company, its operations and evolving needs. The independent directors of the Company meet, without the non-independent directors or management of the Company in attendance, after every regularly scheduled Board meeting. Accordingly, the independent directors met 9 times during 2017 without the non-independent directors or management of the Company.

Mr. Anthony Bihl III is an independent Chairman of the Board and reports to the Board and to the Shareholders. The Chairman of the Board is charged with the responsibility of leading the Board and organizing it to function in partnership with, but independently of, management of the Company in order to facilitate the achievement of the goals of the Company, including sustainable growth and maximizing Shareholder value. The Chairman is also charged with providing appropriate oversight of the management of the ongoing business and affairs of the Company, and fostering and supporting ethical and responsible decision making.

The Nomination & Governance Committee reviews Board composition and meets on a regular basis.

### **Position Descriptions**

The Board has developed written position descriptions for the Chairman of the Board and, the Chair of each of the committees of the Board and the President & Chief Executive Officer. The position descriptions are as follows:

#### **Chairman of the Board of Directors**

The prime responsibility of the Chairman of the Board is to provide leadership to the Board to enhance Board effectiveness. The Chairman serves at the pleasure of and reports to the Board. The Board has ultimate accountability for supervision of the management of the Company. Critical to meeting this accountability is the relationship between the Board, management, Shareholders and other stakeholders. The Chairman, as the presiding member, must ensure that these relationships are effective, efficient and further the best interests of the Company.

The Chairman is tasked to:

- a. along with the Chief Executive Officer, establish the agenda for meetings of the Board and the annual general meeting and special meetings of Shareholders;
- b. chair meetings of the Board and the annual general meeting;
- c. oversee the Board's discharge of its duties assigned to it by law, in the constating documents of the Company and the Company's Corporate Governance Guidelines;
- d. work with the Chief Executive Officer, as appropriate, as a counselor and provide advice on major policy issues;
- e. together with the Chief Executive Officer, represent the Company to employees, Shareholders and other stakeholders;
- f. develop a good working relationship between the office of the Chairman, the president and Chief Executive Officer, and the Board to assure open communications, cooperation, interdependence, mutual trust, respect and commonality of purpose;
- g. take steps to foster the Board's understanding of its responsibilities and boundaries with management;
- h. ensure that procedures to govern effective and efficient conduct of the Board's work are in effect;
- i. ensure that the agenda and materials for annual and special meetings of Shareholders are prepared and distributed;
- j. ensure the distribution of information to the Board in a manageable form, with sufficient time for adequate review;
- k. in collaboration with the Chief Executive Officer, ensure data requested by directors or Board Committees is provided and meets their needs; and
- l. carry out other duties as requested by the Board.

#### **Nomination & Governance Committee Chair**

The prime responsibility of the Chairman of the Nomination & Governance Committee is to provide leadership to the Nomination & Governance Committee to ensure that the Nomination & Governance Committee is organized properly, functions effectively and meets its obligations and responsibilities in accordance with its mandate. The Nomination & Governance Committee is required to meet as many times

as required to carry out its responsibilities effectively. Critical to meeting this accountability is ensuring that the Company has in place an appropriate and effective system of corporate governance.

The Chairman of the Nomination & Governance Committee is tasked to:

- a. set the tone for the Nomination & Governance Committee work;
- b. in consultation with the Chief Executive Officer and other members of senior management, develop the agendas and ensure all required business is brought before the Nomination & Governance Committee to enable the Nomination & Governance Committee to carry out its responsibilities;
- c. chair Nomination & Governance Committee meetings;
- d. ensure meeting information is distributed to committee members with sufficient time for adequate review;
- e. oversee the logistics of the Nomination & Governance Committee's operations and ensure compliance with the Nomination & Governance Committee terms of reference; and
- f. report to the full Board on the Nomination & Governance Committee's decisions and recommendations.

### **Human Resources & Compensation Committee Chair**

The prime responsibility of the Chairman of the Human Resources & Compensation Committee is to provide leadership to the Compensation Committee and to ensure that the Human Resources & Compensation Committee is organized properly, functions effectively and meets its obligations and responsibilities in accordance with its mandate. The Human Resources & Compensation Committee is required to meet as many times as required to carry out its responsibilities effectively. Critical to meeting this accountability is ensuring that the Company has in place an appropriate system of compensation.

The Chairman of the Human Resources & Compensation Committee is tasked to:

- a. set the tone for the Human Resources & Compensation Committee work;
- b. in consultation with Chief Executive Officer and other members of senior management, develop the agendas and ensure all required business is brought before the Human Resources & Compensation Committee to enable it to carry out its responsibilities;
- c. chair the Human Resources & Compensation Committee meetings;
- d. ensure meeting information is distributed to Human Resources & Compensation Committee members with sufficient time for adequate review;
- e. oversee the logistics of Human Resources & Compensation Committee's operations and ensure compliance with the Human Resources & Compensation Committee terms of reference; and
- f. report to the full Board on the Human Resources & Compensation Committee's decisions and recommendations.

### **Finance & Audit Committee Chair**

The prime responsibility of the Chairman of the Finance & Audit Committee is to provide leadership to the Finance & Audit Committee to ensure that it is organized properly, functions effectively and meets its obligations and responsibilities in accordance with its mandate.

The Finance & Audit Committee is required to meet as many times as required to carry out its responsibilities effectively. Critical to meeting this accountability is the relationship between the Finance & Audit Committee, management and the external auditor. The Chairman of the Finance & Audit Committee must ensure that these relationships are effective, efficient and further the best interests of the Company.

The Chairman of the Finance & Audit Committee shall:

- a. set the tone for the Finance & Audit Committee work;
- b. in consultation with the Chief Executive Officer and other members of senior management, develop the agendas and ensure all required business is brought before the Finance & Audit Committee to enable the committee to carry out its responsibilities;
- c. chair Finance & Audit Committee meetings;

- d. ensure meeting information is distributed to Finance & Audit Committee members with sufficient time for adequate review;
- e. oversee the logistics of the Finance & Audit Committee's operations and ensure compliance with the Finance & Audit Committee terms of reference; and
- f. report to the full Board on the Finance & Audit Committee's decisions and recommendations.

### **President & Chief Executive Officer**

The prime responsibility of the President & Chief Executive Officer is to develop and implement a corporate strategy which is expected to make Spectral a leader in the management of endotoxemia related diseases, focusing initially on the treatment of septic shock. The President & Chief Executive Officer is tasked to:

- a. prepare and submit an annual business plan to the Board for approval;
- b. make regular enhancements and modifications to the corporate strategy as market conditions change, as the Company grows and as other factors become significant;
- c. pursue new business developments in core product areas, as well as related areas;
- d. ensure that an implementation plan is in place achieve the corporate strategy and that the plan is carried through;
- e. effectively manage the growth of the Company during normal periods and during periods of significant change;
- f. manage all staff and ensure that the staff is highly productive through personal growth programs and by fostering excellent morale and a progressive corporate culture;
- g. ensure that an effective corporate top management team exists with provision for succession;
- h. maintain a climate which attracts, retains and motivates top quality managers;
- i. develop a finance strategy for raising capital and managing cash flows;
- j. be accountable for the Company's consistent achievement of its financial objectives and goals;
- k. be accountable for meeting all legal and regulated obligations as required, and ensure all actions on behalf of the Company comply with applicable laws;
- l. ensure the Company has an appropriate internal control environment for financial reporting, achievement of corporate objectives and compliance with applicable laws;
- m. report activities to the Board and present new business opportunities with cost and benefit justifications for the purposes of planning capital investment (where required);
- n. manage relationships with major suppliers with the objectives of optimizing costs and ensure a mutually beneficial arrangement, continuity and, where required, mutual growth;
- o. develop and manage alliances and partnerships with complimentary organizations to further market penetration in areas which cannot be dealt with solely by the Company;
- p. ensure that regulatory environments are addressed within the Company's corporate strategy and implementation plans;
- q. serve as the chief spokesperson for the Company and ensure that the Company is properly marketed to its various publics; and
- r. perform such additional duties and functions as may be reasonably requested from time to time by the Chairman of the Board or the Board itself.

### **Board Orientation and Continuing Education**

New directors are introduced to the business of the Company through an initial orientation program, including meetings with the senior executives and tours of the business operations, so that they have a clear understanding of such business operations, and the Company can more effectively leverage their capability in the context of such business. New directors receive a Board orientation binder containing relevant historical material to assist them in learning about the Company, the role of the Board, its committees and its directors. The Board holds meetings each year at which management of the Company reviews with the Board its strategies, business plans, opportunities and risks. In addition, the Board periodically receives relevant articles and reports regarding the diagnostics and health markets and the Company's particular business, strategy and governance.

## **Board and Director Assessments**

Like any process, corporate governance practices must be reviewed on a regular basis to ensure that the practices remain relevant and effective for the Company. In that regard, each of the directors completes a confidential questionnaire evaluating the Board and its committees annually. The questionnaires are reviewed by the Chair of the Nomination & Governance Committee. In addition, the Nomination & Governance Committee reviews the performance of the Board members annually. These assessments consider, in the case of the Board or a committee thereof, its mandate and/or key responsibilities and, in the case of individual directors, any applicable position description and the competencies and skills such director is expected to bring to the Board. The results of these reviews are reported to and discussed with the Board. The Nomination & Governance Committee also regularly reviews and evaluates its practices against various governance guidelines and best practices.

## **Term Limits**

The Nomination & Governance Committee has established guidelines on the term of directors. Board members should anticipate serving for an initial period of three years. However, the Company has not adopted formal term limits for directors on the Board or other mechanisms of Board renewal. Overall tenure is based upon a member's continuing contribution, the ongoing needs of the Company and annual election by the Shareholders. The Nomination & Governance Committee reviews on a regular basis the makeup of the Board and particular skill sets which would be beneficial to the overall strategy and evolving business requirements of the Company. These skill sets include medicine, science, information technology, marketing and sales, general management, business, finance, government relations, academia, human resources and governance. In addition, the Nomination & Governance Committee assesses each director in order to ensure that the Board is balanced between highly experienced directors with long-term institutional knowledge and those with a fresh perspective. The Board is of the view that such a review process is more effective than implementing terms limits or other mechanisms of Board renewal (such as a mandatory retirement age).

## **Women on the Board and in Executive Offices**

The Company has not adopted a written policy specifically relating to the identification and nomination of women directors nor does the Board or the Nomination & Governance Committee consider the level of representation of women on the Board or in executive positions when nominating candidates for election to the Board or when making executive officer appointments. Instead, the Board and the Nomination & Governance Committee evaluates potential nominees to the Board by reviewing the qualifications of the nominee, irrespective of gender, and determines their relevance by taking into consideration the then current Board composition and the anticipated skills required to round out the capabilities of the Board. Similarly, the Board assesses candidates for executive positions with the Company based on experience, skill and merit. However, the Company values diversity, including, without limitation, diversity of experience, perspective, education, race, gender and national origin as part of its overall business strategy.

The Board has not set specific targets as to the number of women board members it will maintain or the number of women executive positions it will maintain given the relatively small number of directors it currently has and the infrequent turnover of directors and executive officers.

As at the date of this Circular, no women are members of the Board and one woman holds an executive position, representing approximately 25% of such positions.

## **Meetings and Strategic Planning**

The Board is actively involved on an ongoing basis in reviewing, providing input on and approving the Company's overall strategic plan, business plan and any strategic investments. The frequency of Board meetings depends upon the state of Spectral's operations and the opportunities and challenges that the Company faces. In addition to the formal meetings, there are informal consultations between senior



management and directors. There were four formal meetings of the Board during the year ended December 31, 2017.

### Summary of Board and Committee Meetings Held During 2017

Board	4
Finance & Audit Committee	5
Human Resources & Compensation Committee	2
Nomination & Governance Committee	1

### Summary of Director Attendance During 2017

Director	Board Meetings Attended	Finance & Audit Committee Meetings Attended	Human Resources & Compensation Committee Meetings Attended	Nomination & Governance Committee Meetings Attended
Mr. A. Bihl III <sup>(1)</sup>	4 of 4	N/A	2 of 2	N/A
Mr. K. Giese <sup>(2)</sup>	4 of 4	5 of 5	N/A	1 of 1
Mr. G. Herrera <sup>(3)</sup>	4 of 4	5 of 5	2 of 2	1 of 1
Dr. M. Kaneko <sup>(4)</sup>	N/A	N/A	N/A	1 of 1
Mr. W. Stevens <sup>(5)</sup>	4 of 4	5 of 5	2 of 2	N/A
Dr. P. Walker	4 of 4	N/A	N/A	N/A

(1) Mr. Bihl is the Chairman of the Board and of the Human Resource & Compensation Committee.

(2) Mr. Giese is the Chairman of the Nomination & Governance Committee. He is a member of the Finance & Audit Committee.

(3) Mr. Herrera is the Chairman of the Finance and Audit Committee. He is also a member of the Human Resources & Compensation Committee and the Nomination & Governance Committee.

(4) Dr. Kaneko is currently a member of the Nomination & Governance Committee. Dr. Kaneko has notified the Board that he will resign from the Board prior to the Annual General Meeting, as he is being promoted into another Division of Toray Industries not related to Toraymyxin™. Toray's replacement director nominee will be appointed to the Board at a later date once he or she has been vetted and approved by the Nomination and Governance Committee.

(5) Mr. Stevens is a member of the Finance & Audit Committee and the Human Resources & Compensation Committee.

### Risk Management

The Board plays a significant oversight role in risk management, principally through the Finance & Audit Committee and the Human Resources & Compensation Committee. Risk is identified and managed at the corporate level and is reviewed with such committees on a regular basis and reported to the Board.

### Shareholder Communications

Spectral has a Disclosure Committee consisting of the Chief Executive Officer, the Chief Financial Officer and the Chairman of the Board with the objective of having a clear and effective process to provide timely, accurate, consistent and non-selective disclosure of all material information to all of the Company's stakeholders. This Committee reviews and, where appropriate, approves all material external communications.

In addition, the Board and/or the Finance & Audit Committee reviews and approves material Company filings including this Circular, the annual information form, interim and annual consolidated financial statements and management's discussion and analysis thereon and financial press releases.

Further information on the Company can be found at [www.sedar.com](http://www.sedar.com). In addition, Shareholders can contact the Company's transfer agent, Computershare Investor Services Inc., at 1-800-564-6253. Current Share prices, financial reports, recent press releases and annual reports are accessible on the Company's website at [www.spectraldx.com](http://www.spectraldx.com) or by contacting Mr. Ali Mahdavi, Spinnaker Capital Markets Inc. at 416-962-3300 or [AM@spinnakercmi.com](mailto:AM@spinnakercmi.com).

## **The Board**

The Board has the statutory duty to manage or supervise the management of the business and affairs of the Company. In carrying out such duties and exercising their powers, each director is required to act honestly and in good faith with a view to the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The directors are also given the right to delegate certain of their duties and responsibilities to committees of the Board. A description of the committees to which the Board has delegated certain duties and responsibilities as well as a description of those duties and responsibilities follows. The principal duties and responsibilities which have been retained by the Board include contributing to the formulation of and approving strategic plans; monitoring Company performance and the execution of its business plans; reviewing the Company's financial performance; reporting and disclosure; approving the annual consolidated financial statements of the Company; obtaining reasonable assurance as to the adequacy of the internal controls; approving all significant Company transactions; appointing the Chairman, Chief Executive Officer and senior executives of the Company and planning their succession on the recommendation of the Human Resources & Compensation Committee; overseeing the identification of the principal risks to the Company and the implementation of appropriate processes and systems to manage such risks; and reviewing and approving key policies developed by management around ethical conduct, compliance and practices. The text of the Board's written mandate, entitled "Corporate Governance Guidelines and Practices", is set out in Schedule "B" to this Circular.

## **The Committees**

The Board does not have an executive committee, but has created and delegated some of its duties to three standing committees of the Board: The Finance & Audit Committee; the Human Resources & Compensation Committee; and the Nomination & Governance Committee. Each of the committees has a written mandate which sets out its principal duties and responsibilities, all of which are reviewed annually. The Finance & Audit Committee and the Nomination & Governance Committees are comprised entirely of independent directors. The Human Resources & Compensation Committee is comprised of two independent directors and one non-independent director.

A summary of the key responsibilities of each of the standing committees is set out in Schedule "B" to this Circular.

## **Trading in Company Securities**

The Company has established blackout periods during which securities of the Company cannot be traded by insiders of the Company, including directors and senior officers. In addition, to the extent that the Company is engaged in material undisclosed activities, additional blackout periods are formally imposed. These blackout periods apply to all securities whether held directly or in any equity compensation plan. There are no separate blackout periods related to non-insider equity compensation plan participants. Directors and senior officers are required to report any trading in securities of the Company within the requisite period required under the *Securities Act* (Ontario).

## **Equity Ownership Guidelines for Directors and Officers**

In November, 2013, the Company adopted share ownership guidelines (the “**Guidelines**”) for directors and officers, to be effected at the discretion of the Board, the details of which are described below:

Under the Guidelines, non-officer directors of the Company should, upon the later of: (a) five years after November 1, 2013, or (b) within five years of joining the Board, own, and continue to own while a director, a combination of the number of Shares and notional units under a deferred share unit or similar plan of the Company, with a market value equal to two times the annual director retainer (“**Board Target Ownership**”). Directors should own 20% of the Board Target Ownership by June 30, 2014, or within one year of joining the Board. As of the date of this Circular, the Board Target Ownership has been met. The Guidelines do not apply to any Board member holding a Board seat as designate of a significant shareholder of the Company, who is authorized to vote that shareholder’s Shares on all Board matters, as appropriate.

Under the Guidelines, officers of the Company should, upon the later of: (a) five years after November 1, 2013, or (b) within five years of initially becoming an officer of the Company own, and continue to own while an officer of the Company, a combination of the number of Shares and notional units under a restricted share unit or similar plan of the Company, with a market value equal to the Officer Target Ownership outlined below. The Officer should own 20% of the Officer Target Ownership by June 30, 2014 or within one year of initially becoming an officer of the Company. As of the date of this Circular, the Officer Target Ownership has been met.

<b>Officer</b>	<b>Officer Target Ownership (Base Salary Multiple)</b>
CEO	2.0 X
CFO	1.0 X
Other Officers	0.5 X

“Market value” is determined at any time or from time to time for purposes of the Guidelines based on the number of the Shares and/or notional units, as applicable, owned or to be owned and using the highest price of the Shares on the TSX during the previous twelve-month period.

### **Equity Compensation Plans**

The equity compensation plans that the Company has in place reflect the recommendations of the independent compensation review completed by Lane Caputo Compensation Inc. during 2010. All equity compensation plans of the Company that provide for the issuance of Shares from treasury to participants have been approved by the Board and the TSX. Pursuant to the TSX rules, any changes to such plans may require Shareholder approval.

#### *Stock Option Plan*

Below is a summary of the material terms of the Stock Option Plan:

- (a) Eligible participants in the Stock Option Plan include consultants, employees, executives or directors of the Company, or an affiliated entity or a consultant’s consultant company or partnership, or an RRSP or RRIF of such consultants, employees, executives or directors.
- (b) The maximum number of Shares that may be issued under the Stock Option Plan is 10% of the number of issued and outstanding Shares from time to time. As a result, any increase in the issued and outstanding number of Shares will result in an increase in the available number of the Shares issuable under the Stock Option Plan, and any exercises of options, warrants or other convertible securities of the Company will make new grants available under the Stock Option Plan, effectively resulting in a re-loading of the number of options available to grant under the Stock Option Plan.

As of the date of this Circular, the current maximum number of Shares that may be issued under the Stock Option Plan is currently 20,779,652 (the “**Current Plan Maximum**”). Options to purchase an aggregate of 9,304,122 Shares are currently outstanding and unexercised (representing approximately 45% of the Current Plan Maximum and approximately 4.5% of the Shares currently outstanding). Options to purchase an aggregate of 11,475,530 Shares remain available for grant under the Stock Option Plan (representing approximately 55% of the Current Plan Maximum).

- (c) The Human Resources & Compensation Committee administers the Stock Option Plan, designates from time to time those directors, officers, employees, advisors and consultants to the Company to whom options are to be granted and determines the number of Shares covered by such options. Options are granted by the Company pursuant to recommendations of the Human Resources & Compensation Committee and approval of the Board.

No member of the Human Resources & Compensation Committee is entitled, during the tenure of his or her membership on the Human Resources & Compensation Committee, to participate in the Stock Option Plan (except where options are granted to all or substantially all of the Board members), but such member is entitled to exercise any options granted to him or her before such person became a member of the Human Resources & Compensation Committee.

- (d) The total number of Shares to be optioned to any participant under the Stock Option Plan, together with any Shares reserved for issuance under employment agreements and employee stock option purchase plans or any other option plans to such participant cannot exceed 5% of the issued and outstanding Shares at the date of the grant of the option.
- (e) The Human Resources & Compensation Committee, or in its absence the Board, is responsible for determining the exercise price of options granted under the Stock Option Plan. However, options granted under the Stock Option Plan must have an exercise price of not less than the closing price of the Shares on the TSX on the last business day preceding the date on which the option grant is approved by the Human Resources & Compensation Committee. In the event that the Shares did not trade on such business day, the exercise price will be the average of the bid and ask prices in respect of the Shares at the close of trading on such date.
- (f) Subject to the other provisions of the Stock Option Plan, the specific terms of an option grant including the number of Shares subject to each option, the exercise price, the vesting period, the expiration date of each option, the extent to which each option is exercisable from time to time during the term of the option are determined by the Human Resources & Compensation Committee or, in its absence, the Board; provided however, that if no specific determination is made by the Human Resources & Compensation Committee or the Board, as the case may be, with respect to the expiration of options, each option will, subject to any other specific provisions of the Stock Option Plan, be exercisable for a maximum term of 10 years from the date the option is granted. Notwithstanding the foregoing, in no event may the term of an option granted under the Stock Option Plan exceed 10 years from the date of grant.
- (g) Unless the Compensation Committee or the Board, as the case may be, decides otherwise: (i) options granted under the Stock Option Plan terminate on the earlier of (i) the expiration date of the option or (ii) 30 days following the date on which the participant ceases to be eligible to participate in the Stock Option Plan (including, resignation, retirement or termination without cause); (ii) upon the death of a participant, all options held by the participant may, subject to the terms of the option grant and any other terms of the Stock Option Plan, be exercised by the legal personal representative(s) of the estate of the participant during the first six months following the date of the death of the participant, but only to the extent that the participant was entitled to exercise such option at the date of death and at the date of exercise; and (iii) if, before the expiry of an option in accordance with its terms, the employment of a participant by the Company or by a subsidiary is terminated for legal cause, all unexercised options held by the participant will terminate immediately.
- (h) An option granted under the Stock Option Plan is personal to the participant and is non-assignable.
- (i) The Board may from time to time amend the Stock Option Plan or the terms of any previously granted option without obtaining the approval of the Shareholders, provided that, except pursuant to applicable laws, no such amendment to the terms of any previously granted option may, except as

expressly provided in the Stock Option Plan, or with the written consent of the participant, adversely alter or impair the terms or conditions of such option previously granted to such participant under the Stock Option Plan. Notwithstanding the foregoing, Shareholder approval is required for the following amendments to the Stock Option Plan: (i) a change in the number or percentage of Shares reserved for issuance under the Stock Option Plan; (ii) a reduction of the exercise price of an option held by any participant who is an insider or the cancellation and reissue of options; (iii) an extension beyond the original expiry date of an option held by any participant; (iv) an increase to the maximum number of Shares that may be issued to insiders within a one-year period or which would increase the maximum number of Shares issuable to more than 10% of the outstanding Shares; (v) permitting options to be transferable or assignable other than for normal course estate settlement purposes; and (vi) a change to the amendment provisions of the Stock Option Plan.

Pursuant to Section 613(a) of the TSX Company Manual, Shareholders must re-approve any security based compensation arrangement that does not have a maximum aggregate of securities issuable and all unallocated options issuable pursuant thereto every three years.

### **Business Conduct and Ethics**

The Company's business conduct and ethics are embodied in certain core values, including mutual trust, respect for people, integrity and commitment to excellence. At Spectral, ethical behaviour is the responsibility of all employees, not simply that of senior officers. A copy of the Company's code of ethics and business conduct (the "**Code**") can be obtained by contacting the Company at 1-888-426-4264.

Directors are required to notify management of the Company in writing of the existence of any personal or professional relationships which may create a conflict of interest with the Company or with a customer, supplier or other outside party. In addition, directors are required to disclose to the Board any material interest in any proposed transaction/agreement to be entered into by the Company which is subject to Board approval.

The Company's directors, officers, employees and consultants have a responsibility to report any conduct or proposed conduct reasonably believed to be in violation of the Code promptly to the Corporate Secretary of the Company. The Corporate Secretary is required to report any suspected violation of the Code to the Human Resources & Compensation Committee for investigation. The Human Resources & Compensation Committee in turn reports to the Board. On an annual basis, the Board undertakes a self-assessment of its governance practices including compliance with the Code. Management of the Company is also interviewed in connection with such assessment. The Corporate Secretary of the Company is the contact person for employees, officers, and directors who may wish to report any suspected violations of the Code. Employees are asked if they are aware of any violations during annual performance reviews and senior management make enquiries at each of its regularly scheduled meetings. To date there have been no reports of any suspected violations of the Code.

### **Nomination Committee Process**

The Company's current governance practices address a number of the disclosure rules including the requirement for a nomination committee, a nomination committee charter and confirmation as to independence of the committee's members under applicable listing standards.

In addition, Spectral's Nomination & Governance Committee reviews the composition of the Board on a regular basis, taking into account a number of factors, including the evolving needs of the Company, and the breadth and depth of experience of the Board members. Potential nominees for the Board currently come from a number of sources including recommendations of existing independent Board members, senior management and outside search firms.

All proposed candidates are reviewed by members of the Nomination & Governance Committee, the Chairman of the Board and certain members of senior management. Such review takes into consideration the competencies and skills of any proposed candidate as well as the ability to devote the necessary amount

of time to Board member duties. The final decision as to whether such candidates are proposed to the Shareholders as nominees is made by the Board.

### **Director Independence**

It is the objective of the Board that all non-employee directors meet the criteria for independence as set out in applicable securities laws. In addition, the Company's Corporate Governance Guidelines and Practices require that members of the Finance & Audit Committee satisfy the independence requirements under applicable securities laws for members of audit committees.

Based upon the information provided by the directors, the Board has determined that all of the directors are independent other than Dr. Walker, who is also the Chief Executive Officer.

### **Shareholder Communications with the Board**

Shareholders and other interested parties may communicate directly with the Board or the independent directors. All communications should be in writing and should be directed to the Chairman of the Board c/o Spectral Medical Inc., 135 The West Mall, Unit 2, Toronto, Ontario, M9C 1C2 or to the President and CEO at Spectral Medical Inc., 135 The West Mall, Unit 2, Toronto, Ontario, M9C 1C2 or by e-mail to: [pwalker@spectraldx.com](mailto:pwalker@spectraldx.com).

The sender should indicate in the address whether it is intended for the entire Board, the independent directors as a group, or an individual director. Each communication intended for the Board or independent directors received by the Chairman or Corporate Secretary will be forwarded to the intended recipients subject to compliance with instructions from the Board in effect from time to time concerning the treatment of inappropriate communications.

### **Overall Approach**

The Board and senior management believe that the Company's current governance practices are appropriate and comply in all material respects with applicable statutory, regulatory and exchange requirements.

### **DIRECTORS AND OFFICERS INSURANCE**

Spectral's directors' and officers' insurance was renewed in January 2018. The amount of the annual premium paid by Spectral was \$148,500; no amount was payable by the directors or officers in respect of such insurance. The insurance policy is subject to a \$30 million limit, both per claim and in the aggregate. A \$75,000 deductible applies to each claim up to \$10 million made by the Company on its own behalf and on behalf of each director and officer insured for corporate indemnity. There is no deductible for all other claims.

### **ADDITIONAL INFORMATION**

Shareholders who wish additional information should contact Computershare Investor Services Inc. toll-free at 1-800-564-6253, locally at 514-982-7555 or by email at [service@computershare.com](mailto:service@computershare.com) with any questions regarding the deposit of proxies.

Financial information is provided in the Company's comparative annual consolidated financial statements and MD&A for the fiscal year ended December 31, 2017. The Company has complied with Section 5.1 of National Instrument 52-110 – *Audit Committees*, and the disclosure required by Form 52-110F1 is included in the Company's Annual Information Form commencing on page 30 under the heading, "Finance and Audit Committee".

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). Shareholders may also contact the Company at 1-888-426-4264 to request copies of the Company's current annual

report, annual information form, consolidated financial statements, MD&A and other continuous disclosure documents filed by the Company.

**APPROVAL**

The content and the sending of this Circular have been approved by the Board and a copy of the Circular has been sent to each director of the Company, the auditors of the Company and each Shareholder entitled to notice of the Meeting.

**DATED at** Toronto, Ontario, the 28<sup>th</sup> day of March, 2018.

**Dr. Paul Walker**  
President and Chief Executive Officer

### **Schedule “A”: Corporate Governance Guidelines**

The Board of Directors of Spectral Medical Inc. (“**Spectral**”) is responsible for overseeing the effective management of the Company’s business. In carrying out those responsibilities, the Board has the authority and duty to protect and enhance the Company’s assets in the interests of all stakeholders.

The Board recognizes that Board effectiveness is an interplay of structure, membership and process and individual Director effectiveness is an interplay of independence, competence and behaviour. The Board’s responsibility is an active one and the involvement and commitment of each Director, as evidenced by attendance, preparation and participation at meetings are essential ingredients in the overall success of the Company.

This document summarizes certain guidelines and practices of Spectral’s Board of Directors relating to matters of corporate governance. These guidelines are not meant to be static and will be reviewed and evaluated on a regular basis and modified as determined by the Nomination & Governance Committee to meet the changing needs of the Company and regulatory requirements.

#### 1. Chair of the Board and CEO

The Board has separated the roles of Chair and CEO. Currently, the Company has an independent, Non-Executive Chair of the Board (“**Chair**”). The Chair is appointed by the independent Board on the recommendation of the Nomination & Governance Committee.

#### 2. Lead Independent Director

The Board has determined that at such time as the Chair is not an independent Director that a Director who is independent should serve as “Lead Independent Director”. The Lead Independent Director would chair regular meetings of the independent Directors and would assume other responsibilities, which the independent Directors may from time to time designate. The Lead Independent Director would be appointed by the independent Board on the recommendation of the Nomination & Governance Committee.

#### 3. Director Responsibilities

In discharging his or her duties, each Director shall act honestly and in good faith with a view to the best interests of the Company; and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

#### 4. Board Composition

The Board believes and the Company’s by-laws provide that a majority of the Directors should be independent of the Company. Independent means free from any relationship which could materially interfere with his or her ability to act in the best interests of the Company as determined by the Board or a Committee thereof, in accordance with applicable regulatory Governance Guidelines and Standards (currently OSC and TSX). In addition, the Board believes that there should generally be no more than one or two non-independent Directors.

#### 5. Board Size

The Articles of the Company provide for a minimum of three and a maximum of ten Directors. The Board believes at this time, given the size and scope of the Company’s Business, that seven Directors is the right number to provide the depth, breadth and diversity of expertise and experience required, while allowing for efficient operation and decision-making. The Board has the ability to increase or decrease its size, within the limits set out in its Articles. The Nomination & Governance Committee reviews the size and composition of the Board annually and makes recommendations to the Board when it believes a change would be in the best interests of the Company.

#### 6. Board Meeting Agendas

The Chair and the CEO, in consultation with the Corporate Secretary, develop the agenda for each Board meeting. Notice of the principal matters to be addressed at all Board meetings are distributed to Directors in advance of each meeting, and all Board members are free to suggest additions to meeting topics. The Chair will establish the agenda items for meetings of the independent Directors.



## 7. Board Meetings

Information and reports pertaining to Board meeting agenda items are generally circulated to the Directors a week in advance of the meeting. Materials are prepared in a way to focus attention on critical issues to be considered by the Board. Reports may be presented during Board meetings by members of the Board, senior management and/or staff, or by invited outside advisors.

Directors are expected to attend all meetings of the Board and the Committees upon which they serve, to come to such meetings fully prepared, and to remain in attendance for the duration of the meeting. Where a Director's absence from a meeting is unavoidable, the Director should, as soon as practicable after the meeting, contact the Board Chair, the Committee Chair, the CEO, or the Corporate Secretary for a briefing on the substantive elements of the meeting.

## 8. Regular Attendance of Non-Directors at Board Meetings

The Board appreciates the value of having certain members of senior management attend each Board meeting to provide information and opinion to assist the Directors in their deliberations and to allow Directors to evaluate the caliber of the senior management team. The CEO will seek the Board's concurrence in the event of any proposed change to the management attendees at Board meetings. Management attendees will not attend the portion of each meeting, which is reserved for discussion among the independent Directors only.

## 9. Executive Sessions of Independent Directors

The independent Directors of the Board will meet separately, as determined by the Chair or, if there is a Lead Independent Director, by the Lead Independent Director.

## 10. Board Contacts with Senior Management

All of the Directors have open access to the Company's senior management. It is expected that Directors will exercise judgment to ensure that their contacts with senior management are carried out in such a manner as to limit such management's distraction from the Company's business operations. Written communications from Directors to members of senior management will be copied to the Chair and to the CEO. The Board also encourages individual Directors to make themselves available for consultations with senior management outside Board meetings in order to provide specific advice and counsel on subjects where such Directors have special knowledge and experience.

## 11. Board Compensation

The compensation program for Directors is reviewed and agreed to on an annual basis by the Nomination & Governance Committee, with the opportunity to obtain assistance from outside consultants. Overall compensation is established based on a comparator peer group of companies as determined from time to time by the Committee.

## 12. Delegation and Committees of the Board

In carrying out its duties, the Board has established and delegated certain responsibilities to separate Committees of the Board. The current Committees of the Board are Finance & Audit; Human Resources & Compensation; and Nomination & Governance. Each of the Committees operates under a separate and distinct mandate approved by the Board, which describes both the structure of the Committee and its duties and responsibilities and each is comprised entirely of independent Board members.

## 13. Committee Members

Committee membership is approved by the Board in consultation with the Chair and the CEO and upon recommendation of the Nomination & Governance Committee.

## 14. Committee Composition

Members of the Committees of the Board shall be appointed from among the members of the Board.

#### 15. Committee Meetings

The schedule of meetings of each Committee will be determined by its Chair and its members, based upon an annual work plan designed to discharge the responsibilities of the Committee as set out in its mandate. The Chair of the Committee will develop the agenda for each Committee meeting through consultation as appropriate with members of management, staff and the Committee. Each Committee will report to the Board on the results of each Committee meeting. Minutes will be prepared for all Committee meetings and copies provided to all Board members.

#### 16. Board Review of "Independence" of Directors

Directors will notify the Chair of the Nomination & Governance Committee of their employment affiliations, including both director and committee memberships, in other organizations, in order to enable the Committee to assess their independence and/or the continued appropriateness of their membership under the circumstances.

The Committee will review on an annual basis any relationships between Directors and the Company, which might be construed in any way to compromise the designation of any Director as being independent of the Company. The objective of such review will be to determine the existence of any material relationships, to ensure that the composition of the Board remains such that the majority of the Directors are independent and that where any such relationships exist, the Director is acting appropriately.

#### 17. Criteria for Board Membership

The Nomination & Governance Committee will review each year the composition and general and specific criteria applicable to candidates to be considered for nomination to the Board. The objective of this review will be to maintain the composition of the Board in a way, which provides the best mix of skills and experience to guide the long term strategy and ongoing business operations of the Company. This review will take into account such common characteristics such as personal integrity, good judgment, high ethics and standards, outstanding ability in their individual fields of expertise and a willingness to devote necessary time to Board matters.

The Company does not have a policy limiting the number of other public company boards of directors upon which a director may sit, in general. However, the Nomination & Governance Committee shall consider the number of other public company board and other boards (or comparable governing bodies) on which a prospective nominee is a member.

Although the Company does not impose a limit on outside directorships, it does recognize the substantial time commitments attendant to Board membership and expects that the members of its Board be fully committed to devoting all such time as is necessary to fulfill their Board responsibilities, both in terms of preparation for, and attendance and participation at meetings.

#### 18. Selection of New Director Candidates

The Board is responsible for identifying suitable candidates to be recommended for election to the Board by the shareholders. The Nomination & Governance Committee has been given the responsibility in consultation with the Chair and CEO of gathering the names of potential nominees, screening their qualifications against the current skill and experience needs of the Board and making recommendations in this regard to the full Board. All Directors are encouraged to identify potential candidates and to provide their names to the Chair of the Committee. In addition, independent search firms shall be engaged as appropriate to assist in identifying potential candidates.

An invitation to stand as a nominee for election to the Board will normally be made to a candidate by the Board through the Chair or the Chair of the Nomination & Governance Committee.

#### 19. New Director Orientation and Continuing Education

New Directors will be provided with an orientation and education program which will include written information about the duties and obligations of Directors, the business of the Company, material policies, meetings and discussion with senior management and other Directors, and tours of the Company's operations. When first appointed to a Board Committee, Directors will be offered appropriate information and orientation to prepare them to participate effectively in the work of the Board or any Committee to which

they are appointed. Continuing education will include meeting with local management, regular receipt of articles, reports and other papers regarding the diagnostics market, presentations related to industry trends, markets, opportunities in such markets and governmental and regulatory changes impacting the Company.

#### 20. Assessing Corporate Governance Practices and the Board's Performance

The Nomination & Governance Committee, with the assistance of the Chair and Corporate Secretary, is responsible for conducting annual assessments of the effectiveness of the Company's governance practices and conducting a self-assessment of the overall performance of the Board and its Committees and reporting on the same to the Board. In addition, the Chair of the Board and the Chair of the Nomination & Governance Committee shall review on an annual basis the performance of individual members of the Board and the Chair of the Board, in consultation with the Chairs of the Committees, the performance of Members of each Committee. It is expected that the result of such reviews will be to identify any areas where the Directors believe the governance practices can be improved or where the Directors and/or management believe that the Board could make a better collective contribution to overseeing the affairs of the Company. Items identified through this process as requiring improvement will become an accountability of senior management and/or the Chair or Committee and regular monitoring and progress reports provided to the Nomination & Governance Committee.

#### 21. Withhold Votes for Directors at Shareholder Meetings

The Nomination & Governance Committee will take into account the number of withheld votes by shareholders with respect to a Director in determining his or her candidacy for re-election at the next annual meeting.

#### 22. Term Limits for Directors

Directors should anticipate serving on the Board for an initial period of three years. Overall, tenure will be based upon a Directors' continuing contribution, the overall requirements of the Company and annual election by the shareholders.

#### 23. Evaluation of the CEO

The Human Resource & Compensation Committee conducts an annual review of the performance of the CEO as measured against objectives established mutually in advance by the Committee and the CEO. The evaluation will also be used by the Committee in its deliberations concerning the CEO's annual compensation, which shall be reviewed and approved by the Board.

#### 24. Management Development and Succession Planning

The Board expects that management development should be an ongoing process and that a report be prepared on such activity annually and provided to the Human Resource & Compensation Committee.

The Committee shall review on an annual basis the succession plans of the Company at the senior management level, including the CEO, and shall report thereon to the Board.

The Board shall review such plans annually and provide input thereon to the Committee.

#### 25. Board Communication with Stakeholders

The Board believes that it is the function of management to speak for the Company in its communications with the investment community, the media, customers, suppliers, employees, governments and the general public. It is understood that the Chair or other individual Directors may from time to time be requested by management to assist with such communications. If communications from stakeholders are made to the Chair or to other individual independent Directors, management will be informed. The Board, either directly or through the Finance & Audit Committee, approves the content of the Company's major communications to shareholders and the investing public, including the annual and interim Consolidated financial statements and corresponding Press Releases, the annual and interim Management's Discussion and Analysis, the Proxy Circular, the Annual Information Form and any prospectuses which may be issued.

#### 26. Corporate Strategy

The Board believes that management is responsible for the development of long-term corporate strategy, while the role of the Board is to review, question and validate, and ultimately to approve the strategies

proposed by management and to monitor progress against such strategies. A dedicated meeting of the Board will be held annually to address long-term corporate strategy and management shall report to the Board on a regular basis any events both internal or external which might impact such strategy.

#### 27. Shareholder Communication with the Board

Shareholders and other interested parties may communicate directly with the Board or the independent Directors. All communications should be in writing and should be directed to either the Company's Chair at Spectral Medical Inc., 135 The West Mall, Unit 2, Toronto, Ontario, M9C 1C2 or to the Corporate Secretary at Spectral Medical Inc., 135 The West Mall, Unit 2, Toronto, Ontario, M9C 1C2 or by e-mail to [pwalker@spectraldx.com](mailto:pwalker@spectraldx.com)

Matters relating to the Company's accounting, internal accounting controls or auditing matters will be referred to the Chair of the Audit Committee.

Matters relating to Board or executive compensation will be referred to the Chair of the Human Resources & Compensation Committee.

Other matters will be referred to the Board Chair.

To further facilitate communication between the Company's shareholders and the Board, all Directors standing for re-election and all new Director nominees are encouraged to attend the annual meeting of shareholders.

#### 28. Individual Directors Engaging Outside Advisors

The Charters for the Board and each of the Committees provide the Board or a Committee with the right to engage outside advisors at the expense of the Company. Any Board or Committee member wishing to engage an outside advisor should discuss such engagement with the Chair, the CEO and, if applicable, the Chair of the relevant Committee.

## **Schedule “B”: Key Board and Committee Responsibilities**

### **BOARD OF DIRECTORS**

- contribute to the formulation of and approve strategic plans;
- monitor Company performance and the execution of its business plans;
- oversee the identification by management of the principal risks of the Company’s businesses as well as the implementation, by management, of appropriate processes and systems to manage such risks;
- appoint the CEO and approve the appointment of the Senior Executives of the Company and review their performance and compensation and plan for their succession upon recommendation of the Human Resources & Compensation Committee;
- review and approve management’s recommendations regarding major decisions and actions, including acquisitions, divestitures, financings and capital expenditures;
- review and approve key policies developed by management on various issues such as ethics, compliance, communications and public disclosures and review, approve and monitor compliance with policies adopted by the Board;
- oversee the Company’s public communication policies and their implementation, including disclosure of material information, investor relations and shareholder communications;
- oversee, with the Finance & Audit Committee, financial reporting and disclosure of the Company to obtain reasonable assurance that:
  - the Company complies with all applicable laws and regulations of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure; and
  - the accounting policies and practices, significant judgments and disclosures which underlie or are incorporated in the Company’s consolidated financial statements are appropriate having regard to the Company’s businesses; and
- review and approve the annual consolidated financial statements, financial reporting and disclosure and obtain reasonable assurance as to the integrity of the Company’s internal control and management system.

### **FINANCE & AUDIT**

- **Independent Auditor**
  - recommend to the Board the appointment or replacement of the independent auditor;
  - establish the compensation of the independent auditor;
  - have the independent auditor report directly to the Finance & Audit Committee;
  - determine the extent of involvement of the independent auditor in reviewing unaudited quarterly financial results;
  - meet with the independent auditor prior to the annual audit to discuss the planning, scope and staffing of the audit;
  - approve the selection of the senior audit partners having primary responsibility for the audit;
  - provide for the periodic rotation of the senior audit partners having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law;
  - at least on an annual basis, evaluate the qualifications, performance and independence of the independent auditor and the senior audit partners having primary responsibility for the audit; and
  - pre-approve all auditing services and permitted non-audit services performed by the independent auditor.

- **Financial Reporting**
  - prior to their public release and filing with securities regulatory agencies, review and discuss with management and the independent auditor the:
    - press release;
    - consolidated financial statements and notes thereto;
    - management's discussion and analysis; and
    - results of any independent auditor's review requested/approved by the Committee.
  - review the Company's unaudited quarterly financial results including:
    - any significant judgments made in the preparation of consolidated financial statements;
    - any significant disagreements among management and the independent auditor in connection with the preparation of consolidated financial statements;
    - significant financial reporting issues and judgments made in connection with the preparation of the Company's consolidated financial statements;
    - critical accounting policies and practices;
    - integrity of the Company's financial reporting processes; and
    - any correspondence with regulators or governmental agencies and any published reports, which raise material issues regarding the Company's consolidated financial statements or accounting policies.
- **Year-end Audit**
  - review of the Company's audited financial results, including:
    - all matters described above with respect to unaudited quarterly financial results;
    - results of the independent audit; and
    - all matters required to be discussed by Statement of Auditing Standards No. 61.
- **Annual Proxy Statement and Regulatory Filings**
  - issue any reports required of the Audit Committee to be included in the Company's annual proxy statement; review and recommend to the Board the approval of all material documents filed with securities regulatory agencies including:
    - Consolidated Year-end Consolidated financial statements;
    - Annual Information Form; and
    - Prospectuses.
- **Related Party Transactions and Off-Balance Sheet Structure**
  - review all related-party transactions and, if deemed appropriate, recommend approval of any particular transaction to the Board; and
  - review all material off-balance sheet structures, which the Company is a party to.
- **Internal Controls, Risk Management and Legal Matters**
  - consider the effectiveness of the Company's internal controls over financial reporting and related information technology security and control;
  - discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures; and
  - review with management, and if necessary, the Company's counsel, any legal matter which could reasonably be expected to have a material impact on the Company's consolidated financial statements or accounting policies.
- **Capital Structure, Investment and Cash Management Policies, Disclosure Policy**
  - review and approve any changes to the Company's capital structure;
  - review and approve the Company's investment and cash management policy; and
  - review and approve the Company's disclosure policy.

- **“Whistle Blower” and Related Procedures**
  - establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.
- **Review of Charter and Self-Assessment**
  - review and reassess annually the adequacy of the Committee’s Charter; and
  - review annually the Committee’s own performance.
- **Reporting to the Board**
  - make regular reports to the Board, but not less frequently than quarterly.

## **HUMAN RESOURCES & COMPENSATION COMMITTEE**

- **Human Resources**
  - review of human resources development and organization structure and approve any significant programs or changes to structure.
- **Succession Planning**
  - review and report to the Board on the Company’s succession planning process for the CEO and senior officers reporting to the CEO.
- **Compensation**
  - review compensation principles and practices and approve any significant changes to such principles and practices;
  - review and make recommendations to the Board on the compensation of the CEO;
  - review and report to the Board on annual objectives against which to assess the CEO and on its assessment of the CEO’s performance against those objectives;
  - review and approve the compensation of senior officers reporting to the CEO;
  - evaluate periodically the competitiveness of the cash and equity compensation programs for senior management and initiate action or make recommendations to the Board as appropriate;
  - review all employee compensation and stock equity plans including Short-Term Incentive Plan, Mid-Term Incentive Plan, Stock Option Plan, Stock Purchase Plans and approve changes to such plans, provided that any plan amendments which will have a material cost increase or material effect on the Company or the participants requires Board approval;
  - administer the Company’s Employee Stock Option Plan, Stock Purchase Plan, Mid-Term Incentive Plan and such other equity based plans as may be delegated to it from time to time by the Board; and
  - report on an annual basis to the Board and Shareholders, the policies of the Committee for determining executive compensation.
- **Director Compensation**
  - review and recommend to the Board, the form and adequacy of compensation for independent Directors.
- **Review of Charter and Self-Assessment**
  - review and reassess annually the adequacy of the Committee’s Charter; and
  - review annually the Committee’s own performance.
- **Report to the Board**
  - the Chair of the Committee or designate shall report to the Board after each meeting the significant matters addressed by the Committee at such meeting.

## **NOMINATION & GOVERNANCE COMMITTEE**

- **Corporate Governance**
  - develop and recommend to the Board, corporate governance guidelines applicable to the Company;
  - annually review the corporate governance guidelines and practices of the Company and, if appropriate, recommend changes to such guidelines and practices to the Board or management;
  - monitor the appropriateness of the Company's governance systems with regard to external governance standards and with emphasis on "continuous improvement";
  - review regularly the effectiveness of the Board and its committees in meeting its governance objectives and in its relationship with management; and
  - review any shareholder proposal received by the Company and recommend to the Board the Company's response.
  
- **Nominating**
  - review the makeup and needs of the Board, identify and recommend candidates for Board membership;
  - establish the criteria for membership; such criteria should cover, among other things, diversity, experience, skill set and the ability to act on behalf of shareholders;
  - in consultation with the Board and CEO and, on an ongoing basis, maintain a database of potential candidates;
  - utilize such outside agencies or third parties at the cost of the Company, as the Committee deems necessary to assist in identifying potential candidates; and
  - recommend to the Board the annual nominees to the Board for presentation to the Shareholders.
  
- **Director Indemnification and D&O Insurance**
  - review and recommend to the Board the appropriateness and adequacy of the policy of indemnification of directors. In that regard, the Chair of the Committee and the Chair of the Audit Committee shall consult in connection with any renewal or change to the Directors' and Officers' liability insurance coverage.
  
- **Review of Charter and Self-Assessment**
  - review and reassess annually the adequacy of the Committee's Charter; and
  - review annually the Committee's own performance.
  
- **Report to the Board**
  - the Chair of the Committee or designate shall report to the Board after each meeting the significant matters addressed by the Committee at such meeting.

Date: **March 28, 2018**

"Dr. Paul Walker" (signed)

Dr. Paul Walker  
 President and Chief Executive Officer  
 Spectral Medical Inc.