

Approved by the Board of Directors – March, 2007



## Corporate Governance Guidelines and Practices

The Board of Directors of Spectral Diagnostics 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.

# CORPORATE GOVERNANCE GUIDELINES AND PRACTICES

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

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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 Director**

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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 Director”. The Lead 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 Director would be appointed by the independent Board on the recommendation of the Nomination & Governance Committee.

## **3. Director Responsibilities**

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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**

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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**

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The Articles of the Company provide for a minimum of three and a maximum of nine Directors. The Board believes at this time, given the size and scope of the Company’s Business, that six 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**

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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**

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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**

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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 calibre 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**

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The independent Directors of the Board will meet at the end of each regularly scheduled meeting of the Board and at such other times as determined by the Chair or, if there is a Lead Director, by the Lead Director.

#### **10. Board Contacts with Senior Management**

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All of the Directors have open access to the Company's senior management. It is expected that Directors will exercise judgement 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**

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The compensation program for Directors is reviewed and agreed to on an annual basis by the Nomination & Governance Committee, with the assistance of 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**

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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**

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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**

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

### **15. Committee Meetings**

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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**

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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**

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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**

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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's delegate.

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

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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**

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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**

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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**

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

## **23. Evaluation of the CEO**

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The Human Resource & Compensation Committee conducts an annual review of the performance of the CEO as measured against objectives established mutually in the prior year 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**

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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**

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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 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**

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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**

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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 Diagnostics Inc., 135 The West Mall, Toronto, Ontario, M9C 1C2 or to the Corporate Secretary at Spectral Diagnostics Inc., 135 The West Mall, Toronto, Ontario, M9C 1C2 or by e-mail to [tbusinkas@spectraldx.com](mailto:tbusinkas@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**

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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.

Inquiries

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