

## SPECTRA INC.

Form 51-102 F6 – Statement of Executive Compensation

**YEAR ENDED DECEMBER 31, 2017**

### **Compensation Discussion and Analysis**

This discussion describes the compensation program of Spectra Inc. (the "**Corporation**" or "**Spectra**") for each person who acted as Chief Executive Officer ("**CEO**"), Chief Financial Officer ("**CFO**") and the three most highly compensated executive officers (or three most highly compensated individuals acting in a similar capacity), other than the CEO and the CFO, whose compensation was more than \$150,000 during the financial year ended December 31, 2017 (each a "**Named Executive Officer**" or "**NEO**" and collectively the "**Named Executive Officers**" or "**NEOs**"). This document will address the Corporation's executive compensation philosophy and objectives and provide a review of the process Spectra's compensation committee undertakes in deciding how to compensate the Corporation's NEOs for the financial year ended December 31, 2017.

During the year ended December 31, 2017, the Corporation had three Named Executive Officers, namely Michael Faye, Former Chairman, Chief Financial Officer and Secretary, Andrew Malion, President and Chief Executive Officer, and, following the resignation of Mr. Faye effective March 31, 2017, Glen Campbell, Chairman, Chief Financial Officer and Secretary. There were no other Named Executive Officers in 2017 as no other officers or employees earned in excess of \$150,000 during the year ended December 31, 2017.

#### *Compensation Program Objectives*

The Corporation's objectives in determining executive compensation are to attract qualified executives who can provide the leadership and management skills necessary to achieve the Corporation's business plan goals and build long-term shareholder value. The compensation program is designed to reward its executives financially for achieving and surpassing annual operating performance targets through revenue growth and productivity improvement.

### **Elements of Compensation**

The Corporation's compensation is comprised of two key elements that apply to the Corporation's executive positions:

1. *Compensation level* - The Corporation establishes a basic compensation level unique to each executive based on the executive's business credentials, level and length of experience, past compensation history and existing levels of executive compensation. This element is necessary to ensure that the Corporation can attract experienced and qualified executives.
2. *Corporate Share Ownership* - The compensation program provides an opportunity for each executive to acquire equity in the Corporation through its Stock Option Plan. The Corporation believes that ownership of common shares of the Corporation ("**Common Shares**") aligns executive focus on shareholder value and activity geared to increasing shareholder value. The Corporation establishes annual stock option ("**Option**") grants pursuant to its stock option plan ("**Stock Option Plan**") based on management recommendation and approval by the Corporation's board of directors (the "**Board**").
3. *Performance Bonuses* - Commencing in 2015, in recognition of the compensation reductions for senior management personnel in place since 2008, a performance bonus program, tied to the overall performance of Spectra Products Inc. ("**SPI**"), a wholly owned subsidiary of the Corporation, was introduced. Under this program, senior management are entitled to performance bonuses which, when combined with the settled amount of any annual participation fee payable under a consulting services contract with a director (see "*Risk-Adjusted Compensation*" below), together do not exceed 10% of the net operating income of SPI, excluding any bad debt provisions, which, for purposes of these calculations will only be deducted in the year the actual bad debt is incurred. The final amount of any bonus is subject to the approval of the Board.

The Corporation does not establish industry compensation benchmarks. It reviews compensation annually and modifies each compensation element as required based on financial and operational performance taking into consideration the economic climate facing the Corporation and the Corporation's financial strength.

### **Risk-Adjusted Compensation**

As part of its review of the Corporation's compensation program, the Board considered whether the Corporation's compensation policies and practices provided executive officers of the Corporation with adequate incentives to achieve both short and long-term objectives without motivating them to take inappropriate or excessive risk. The Board concluded that the compensation program and policies of the Corporation did not encourage its NEOs to take inappropriate or excessive risks based on a number of considerations, including, without limitation, the terms of the Stock Option Plan provide that Options vest immediately and expire on the fifth anniversary from the date of grant. This encourages executive officers to continue to develop favourable results over a longer period of time and reduces the risk of actions which may have short term advantages.

Following his resignation as Director and Chairman on October 23, 2014, Mr. Campbell entered into a new three-year consulting contract with the Corporation, ending December 31, 2017. His consulting contracting has now been extended until December 31, 2022. As part of his compensation under this extended arrangement his compensation continues to carry a variable component of an annual participation fee equal to 5% of the annual net income before taxes of SPI. The Board does not believe that this arrangement carries any risks to the Corporation as, since the fee is paid on an annual basis, it encourages Mr. Campbell to continue to develop favourable results for SPI over a longer period of time. On March 31, 2017, following the resignation of Mr. Faye, Mr. Campbell was again appointed as Chief Financial Officer, Secretary, a director and Chairman.

### **Executive Hedging**

The Corporation's NEO's and directors are not permitted to purchase financial instruments, such as prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, any of which are designed to hedge or offset a decrease in market value of the securities granted as compensation or held, directly or indirectly, by the Named Executive Officer or director.

### **Compensation Governance**

The Board's Corporate Governance, Nominating and Compensation Committee (the "**Compensation Committee**") is responsible for reviewing all aspects of compensation to be provided to the Corporation's Named Executive Officers and a recommendation is made by the Compensation Committee for the compensation package payable to each of the Named Executive Officers for the Board's approval. During 2017, the Corporation's Compensation Committee was comprised of three members, namely Glen Campbell (previously Mike Faye prior to his resignation from the Board on March 31, 2017), Kam Patel and Jorge Goncalves. Mr. Patel and Mr. Goncalves are independent as they do not hold any position with the Corporation other than that of director and do not own nor control any Common Shares in the Corporation. Mr. Campbell was not independent in 2017 as he was the Chairman, Chief Financial Officer and Secretary of the Corporation.

Mr. Faye had been with the Corporation for over 21 years, over which time he had been active in the review and compilation of the Corporation's financial statements. Mr. Faye obtained his Bachelor of Arts in Economics from the University of Toronto in 1968, and his Masters in Business Administration from the University of Toronto in 1970. Mr. Faye has over 28 years of executive experience. On March 31, 2017, Mr. Faye resigned from the Board and from his various other positions with the Corporation and retired on December 31, 2017. Following his resignation, Mr. Glen Campbell was appointed to the Compensation Committee.

Mr. Campbell is a Chartered Accountant and has held various executive positions during his over 45 years in business that would have required him to evaluate and monitor executive compensation policies and practices.

Mr. Patel and Mr. Goncalves have many years involvement in the business community and have dealt with numerous compensation issues in the course of their leadership roles.

The Compensation Committee is responsible for: (i) overseeing and assessing the functioning of the Board and the committees of the Board and for the development, recommendation to the Board, implementation, and assessment of effective governance principles and for the nomination of appropriate candidates to serve the Board as directors, as chair of the Board, as committee members and as committee chairs for the Board; (ii) undertaking on behalf of the Board such other governance initiatives as may be necessary or desirable to enable the Board to provide effective governance for the Corporation; and (iii) implementing and overseeing compensation policies and general human resources policies and guidelines concerning employee compensation and benefits approved by the Board for the Corporation.

### Fees for Compensation Consultants

At no time since the most recently completed financial year of the Corporation, has a compensation consultant or advisor been formally retained by the Corporation to assist the Board in determining the compensation of the directors or executive officers of the Corporation.

### Summary Compensation Table

The following table sets forth information concerning the compensation paid to the NEOs for the years ended December 31, 2017, 2016 and 2015.

Name and Principal Position	Year	Salaries and Fees (\$)	Share-Based Awards <sup>(1)</sup> (\$)	Option-Based Awards <sup>(2)</sup> (\$)	Non-Equity Incentive Plan Compensation (\$) <sup>(3)</sup>		Pension Value <sup>(8)</sup> (\$)	All Other Compensation (\$)	Total Compensation (\$)
					Annual Incentive Plan	Long-Term Incentive Plan			
Glen Campbell, Chairman, Chief Financial Officer, and Secretary <sup>(9)</sup>	2017	75,000 <sup>(7)</sup>	N/A	Nil	9,010 <sup>(7)</sup>	Nil	N/A	Nil	84,010
Michael Faye, Former Chairman, Chief Financial Officer and Secretary <sup>(9)</sup>	2017	56,137 <sup>(5)</sup>	N/A	Nil	3,000 <sup>(5)</sup>	Nil	N/A	Nil	59,137
	2016	93,462 <sup>(5)</sup>	N/A	Nil	5,000 <sup>(5)</sup>	Nil	N/A	Nil	98,462
	2015	90,000 <sup>(5)</sup>	N/A	Nil	9,000 <sup>(5)</sup>	Nil	N/A	Nil	99,000
Andrew Malion President and Chief Executive Officer	2017	86,248 <sup>(6)</sup>	N/A	Nil	9,000 <sup>(6)</sup>	Nil	N/A	Nil	95,248
	2016	71,879 <sup>(6)</sup>	N/A	Nil	5,000 <sup>(6)</sup>	Nil	N/A	Nil	76,879
	2015	71,817 <sup>(6)</sup>	N/A	Nil	9,000 <sup>(6)</sup>	Nil	N/A	Nil	80,817

Notes:

- (1) No share-based awards were granted to NEOs in 2017, 2016, 2015, 2014 or 2013.
- (2) No Options were granted during the years ended December 31, 2017, 2016, 2015, 2014 or 2013.
- (3) No amendments to prior awards were made in 2017, 2016, 2015, 2014 or 2013.
- (4) The Corporation does not generally have non-equity incentive compensation plans for the NEOs. For the years ended December 31, 2016 and 2017, each of Mr. Faye and Mr. Malion received a cash performance bonus, as described in notes 5 and 6 below.
- (5) Mr. Faye's annual compensation was amended on a temporary basis to \$60,000 per annum effective October 1, 2008, to \$72,000 per annum effective January 1, 2011, \$81,000 per annum effective January 1, 2012 and \$90,000 per annum effective January 1, 2013 and \$93,462 effective January 1, 2016. A performance bonus of \$3,000, \$5,000 and \$9,000 was paid to Mr. Faye in 2017, 2016 and 2015, respectively.
- (6) Mr. Malion's compensation is solely based on a percentage of sales in any fiscal period. A performance bonus of \$9,000, \$5,000 and \$9,000 was paid to Mr. Malion in 2017, 2016 and 2015, respectively.

- (7) Mr. Campbell's compensation is payable pursuant to the terms of his consulting contract and is comprised of base fees of \$75,000 and an annual participation fee equal to 5% of the annual net income before taxes of SPI. The annual participation fee for 2017 was settled at \$9,010 and was paid to Mr. Campbell in 2017.
- (8) The Corporation does not currently have a pension plan.
- (9) On March 31, 2017, Mr. Faye resigned from the Board and all of his positions with the Corporation. Effective that date, Mr. Campbell was appointed Chairman, Chief Financial Officer and Secretary.

### **Summary Compensation Agreements**

The Corporation has signed an employment agreement with Mr. Faye with annual compensation of \$127,800. To alleviate cash flow demands on the Corporation, the salary payable pursuant to this agreement was amended to \$60,000 per annum effective October 1, 2008 until December 31, 2010, to \$72,000 for the 2011 calendar year, to \$81,000 for the 2012 calendar year, to \$90,000 for the 2013, 2014 and 2015 calendar years and \$93,462 for the 2016 calendar year. In 2017, a performance bonus of \$3,000 was also paid to Mr. Faye (in 2016, \$5,000 and in 2015, \$9,000).

The compensation arrangement for Mr. Malion is calculated as a percentage of all SPI sales in a fiscal period. In 2017, a performance bonus of \$9,000 was also paid to Mr. Malion (in 2016, \$5,000 and in 2015, \$9,000).

The compensation arrangement for Mr. Campbell is set out in a consulting contracting entered into in 2017 and continuing until December 31, 2022. Base annual fees are \$75,000 and as part of his compensation under this arrangement his compensation also carries a variable component of an annual participation fee equal to 5% of the annual net income before taxes of SPI.

The Corporation did not make any significant changes to its compensation policies during (or after) the year ended December 31, 2017 that could or will have any effect on director or NEO compensation.

### **Stock Option Plan**

Eligible participants under the Stock Option Plan are directors, officers, employees and consultants engaged by the Corporation.

The maximum number of Common Shares which may be reserved for issuance to any one optionee under the Stock Option Plan shall not exceed 5% of the total number of issued and outstanding Common Shares (on a non diluted basis), less Common Shares reserved for issuance under any stock option agreement. Notwithstanding the foregoing provision, no more than 5% of the issued Common Shares of the Corporation may be granted to any one insider of the Corporation in any 12 month period, no more than 2% of the issued Common Shares of the Corporation may be granted to any one consultant to the Corporation in any 12 month period and no more than an aggregate of 2% of the issued Common Shares of the Corporation may be granted to an employee of the Corporation conducting Investor Relations Activities (as defined in the policies of the TSX Venture Exchange ("TSXV")) in any 12 month period.

The exercise price for the Common Shares of the Corporation under each option is determined by the Board on the basis of the market price, where "market price" is the prior trading day closing price of the Common Shares of the Corporation on the TSXV. Where there is no such closing price, or if the Board determines that such closing price would not be representative of the market price of the Common Shares, then the exercise price is calculated using the weighted average price per share for the Common Shares for the 5 consecutive trading days ending on the last trading day preceding the date of grant. The exercise price is subject to the TSXV minimum pricing guidelines and cannot be set below the market price.

The term of the Option is determined by the Board provided that Options shall not be granted for a term exceeding 5 years. Options are fully vested on the grant date. Notwithstanding the foregoing, unless otherwise permitted by the TSXV, Options issued to consultants performing Investor Relations Activities: (i) must vest in stages over a period of not less than 12 months, with no more than one quarter of the Options vesting in any three month period; and (ii) must expire within 30 days after the consultant ceases to be employed or retained to provide Investor Relations Activities.

The Stock Option Plan does not provide for stock appreciation rights.

If any optionee who is a director, officer or employee shall cease to be a director, officer or employee of the Corporation or any subsidiary for any reason, save and except the death of an optionee, the optionee may exercise his Options, but only within the period of 90 days succeeding such cessation and in no event after the expiry date of the optionee's Options. In the event of the optionee's death, the Options may be exercised during a period of one year next succeeding the optionee's death, and in no event after the expiry date of the optionee's Options.

The entitlement of a consultant to Options, including the entitlement to Options upon termination, shall be determined by the terms of the consultant's agreement and the requirements of the Stock Option Plan and in no event shall continue after the expiry date of the consultant's option agreement.

No Option granted under the Stock Option Plan is transferable or assignable by an optionee except otherwise than by will or by the laws of descent and distribution, and such Option is exercisable only by the optionee during his lifetime.

The Board may at any time amend the terms of a stock option agreement or the Stock Option Plan upon requisite regulatory and TSXV approval. If the optionee is an insider of the Corporation at the time of the amendment, the Corporation must obtain disinterested Shareholder approval.

The Corporation does not provide any financial assistance to participants under the Stock Option Plan to facilitate the purchase of securities.

### **Outstanding Share-Based Awards and Option-Based Awards**

#### ***Option-Based Awards***

The Corporation provides option-based awards to executive officers and employees. Previous grants of option-based awards are taken into account when considering new grants. Management recommends to the Board the award level for each potential grantee and the independent board members evaluate the recommendation. The Corporation's equity incentive plan under which an option-based award is granted is reviewed by management, including executives and any amendments are approved by the Board prior to seeking the requisite Shareholder approval.

The following table sets forth all option-based awards and share-based awards outstanding for each Named Executive Officer at the end of the year ended December 31, 2017:

Name	Option-based Awards				Share-based Awards <sup>(2)</sup>		
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of share-based awards not paid out or distributed (\$)
Andrew Malion	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Michael Faye <sup>(3)</sup>	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Glen Campbell <sup>(3)</sup>	Nil	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

- (1) As at December 31, 2017, the Corporation did not have any Options outstanding.
- (2) The Corporation does not offer share-based awards.
- (3) On March 31, 2017, Mr. Faye resigned from the Board and all of his positions with the Corporation. Effective that date, Mr. Campbell was appointed Chairman, Chief Financial Officer and Secretary.

### ***Incentive Stock Option Plan Awards – Value Vested or Earned During the Year***

The following table sets forth for each NEO, the value of option-based awards and share-based awards which vested during the year ended December 31, 2017, and the value of non-equity incentive plan compensation earned during the year ended December 31, 2017:

<b>Name</b>	<b>Option-based awards – Value vested during the year<sup>(1)</sup> (\$)</b>	<b>Share-based awards – Value vested during the year<sup>(2)</sup> (\$)</b>	<b>Non-equity incentive plan compensation – Value earned during the year<sup>(3)</sup> (\$)</b>
Andrew Malion	Nil	Nil	9,000
Michael Faye <sup>(4)</sup>	Nil	Nil	3,000
Glen Campbell <sup>(4)</sup>	Nil	Nil	9,010

Notes:

- (1) Calculated based on the difference between the market price of the Common Shares on the vesting date and the exercise price of the Options on the vesting date.
- (2) The Corporation does not offer share-based awards.
- (3) In 2017, Mr. Faye and Mr. Malion were each paid a cash performance bonus of \$3,000 and \$9,000, respectively. Pursuant to the terms of Mr. Campbell's consulting contract, he receives an annual participation fee equal to 5% of the annual net income before taxes of SPI. The annual participation fee for 2017 was settled at \$9,010 and was paid to Mr. Campbell in 2017.
- (4) On March 31, 2017, Mr. Faye resigned from the Board and all of his positions with the Corporation. Effective that date, Mr. Campbell was appointed Chairman, Chief Financial Officer and Secretary.

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

Under the terms of the Corporation's employment agreement with Mr. Faye, if his contract was terminated by the Corporation, the Corporation would be obligated to pay Mr. Faye's entitlement under existing employment standards legislation. Mr. Faye's employment agreement did not contain non-competition provisions. As Mr. Faye retired from the Corporation on December 31, 2017, no termination payments were made to Mr. Faye under the terms of his employment agreement.

Under the terms of the Corporation's employment agreement with Mr. Malion, if his contract is terminated by the Corporation, the Corporation is obligated to pay Mr. Malion's entitlement under existing employment standards legislation. Mr. Malion's employment agreement does not contain non-competition provisions.

Under the terms of Mr. Campbell's consulting contracting entered into in 2017 and continuing until December 31, 2022, in the event that Mr. Campbell is terminated as a result of a criminal offense, wilful or gross misconduct, failure to comply with the instructions or directions of the Board, a breach of the terms of his employment contract that is not remedied in 10 days, or personal bankruptcy, no payments are required to be made to Mr. Campbell on termination. In all other circumstances, Mr. Campbell may be terminated upon payment of continued base payments for a period of eight months. Mr. Campbell's consulting contract contains a two year non-competition provision.

### **Director Compensation**

The Corporation recently introduced a compensation plan for Independent Directors (the "**Plan**"). Under the terms of the Plan each Independent Director received \$500 for each Board Meeting that they attend during the fiscal year ended December 31, 2017. The Corporation's directors received no cash-based compensation for their service in 2016 and prior years. The Corporation has granted directors option-based awards in past years, including an aggregate of 250,000 Options, which were granted to the directors in the year ended December 31, 2011 and have subsequently expired. No Options were granted by the Corporation during the years ended December 31, 2017, 2016, 2015, 2014, 2013 and 2012.

### Directors' Summary Compensation Table

The following table sets forth for the year ended December 31, 2017, information concerning the compensation paid to the directors of the Corporation, other than directors who are also Named Executive Officers:

Name	Fees earned (\$)	Share-based awards <sup>(1)</sup> (\$)	Option-based awards <sup>(2)</sup> (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Jorge Goncalves <sup>(3)</sup>	2,500	Nil	Nil	Nil	Nil	Nil	2,500
Kam Patel <sup>(3)</sup>	2,500	Nil	Nil	Nil	Nil	Nil	2,500

Notes:

- (1) The Corporation does not offer its directors share-based awards.
- (2) No Options were granted during the year ended December 31, 2017.
- (3) Member of the Compensation Committee.

### Directors' Outstanding Option-Based Awards and Share-Based Awards

The following table sets forth for each of the directors of the Corporation, other than directors who are also Named Executive Officers, all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2017:

Name	Option-based Awards				Share-based Awards <sup>(2)</sup>		
	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options <sup>(1)</sup> (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of share-based awards not paid out or distributed (\$)
Jorge Goncalves	Nil	N/A	N/A	N/A	N/A	N/A	N/A
Kam Patel	Nil	N/A	N/A	N/A	N/A	N/A	N/A

Notes:

- (1) The Corporation did not have any Options outstanding as at December 31, 2017.
- (2) The Corporation does not offer its directors share-based awards.

### Directors' Incentive Stock Option Plan Awards – Value Vested or Earned During the Year

The following table sets forth for each of the directors of the Corporation, other than directors who are also Named Executive Officers, the value of option-based awards and share-based awards which vested during the year ended December 31, 2017, and the value of non-equity incentive plan compensation earned during the year ended December 31, 2017:

Name	Option-based awards – Value vested during the year <sup>(1)</sup> (\$)	Share-based awards – Value vested during the year <sup>(2)</sup> (\$)	Non-equity incentive plan compensation – Value earned during the year <sup>(2)</sup> (\$)
Jorge Goncalves	Nil	N/A	Nil
Kam Patel	Nil	N/A	Nil

Notes:

- (1) Calculated based on the difference between the market price of the Common Shares on the vesting date and the exercise price of the Options on the vesting date.

- (2) The Corporation does not offer directors share-based awards or non-equity incentive plan compensation.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following sets forth information in respect of securities authorized for issuance under the Corporation's equity compensation plans as at December 31, 2017:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)<sup>(1)</sup></b>
Equity compensation plans approved by securityholders	Nil	N/A	6,050,997
Equity compensation plans not approved by securityholders	Nil	N/A	Nil
<b>Total</b>	Nil	N/A	6,050,997

Note:

- (1) The Corporation is authorized to issue a maximum of 10% of its issued and outstanding Common Shares as Options. At December 31, 2017, the Corporation had 60,509,971 Common Shares issued and outstanding and no Options outstanding.