Spectral Medical Inc.

Condensed Interim Consolidated Financial Statements

September 30, 2020
(Unaudited)

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Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	Notes	September 30 2020 $	December 31 2019 $
Assets			
Current assets			
Cash		7,576	1,435
Trade and other receivables		330	271
Inventories		343	276
Prepayments and other assets		412	155
Contract asset	9	-	519
		8,661	2,656
Non-current assets			
Right-of-use-asset		649	719
Property and equipment		441	368
Intangible asset		250	263
Total assets		**10,001**	**4,006**
Liabilities			
Current liabilities			
Trade and other payables	8	1,778	1,002
Current portion of contract liabilities	9	668	-
Current portion of lease liability		83	77
		2,529	1,079
Non-current liabilities			
Lease liability		605	667
Non-current portion of contract liabilities	9	5,515	-
Total liabilities		**8,649**	**1,746**
Equity	10, 15		
Share capital		71,777	66,837
Contributed surplus		7,981	7,981
Share-based compensation		6,738	6,183
Warrants		2,418	1,870
Deficit		(87,562)	(80,611)
Total equity		**1,352**	**2,260**
Total liabilities and equity		**10,001**	**4,006**

Going concern (Note 1)
Contingencies and commitments (Note 8)

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

(in thousands of Canadian dollars, except for share and per share data)

	Notes	Three-months ended September 30		Nine-months ended September 30	
		2020 $	2019 $	2020 $	2019 $
Revenue	12	**418**	**534**	**1,566**	**2,122**
Expenses					
Changes in inventories of finished goods and work-in-process		72	67	84	278
Raw materials and consumables used		47	107	351	254
Salaries and benefits	10, 14	1,014	954	3,505	2,614
Consulting and professional fees	8	418	423	3,612	1,064
Regulatory and investor relations		87	160	318	437
Travel and entertainment		6	104	109	266
Facilities and communication		95	84	262	219
Insurance		62	57	186	180
Depreciation and amortization		79	71	223	211
Interest expense on lease liability		8	8	25	27
Foreign exchange (gain) loss		110	(35)	(144)	70
Other income		(3)	(65)	(6)	(59)
(Gain) loss on disposal of property and equipment		-	-	(8)	7
		1,995	1,935	8,517	5,568
Loss and comprehensive loss for the period		**(1,577)**	**(1,401)**	**(6,951)**	**(3,446)**
Basic and diluted loss per common share	11	**(0.007)**	**(0.006)**	**(0.030)**	**(0.015)**
Weighted average number of common shares outstanding – basic and diluted	11	**236,605,745**	**225,816,183**	**231,109,027**	**225,695,029**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)

(in thousands of Canadian dollars)

	Notes	Issued capital Number	$	Contributed surplus $	Share-based compensation $	Warrants $	Deficit $	Total equity $
Balance, January 1, 2019		**225,591,183**	**66,646**	**7,981**	**5,564**	**1,930**	**(75,751)**	**6,370**
Warrants exercised		225,000	150	-	-	(49)	-	101
Loss and comprehensive loss for the period		-	-	-	-	-	(3,446)	(3,446)
Share-based compensation	10	-	-	-	560	-	-	560
Balance, September 30, 2019		**225,816,183**	**66,796**	**7,981**	**6,124**	**1,881**	**(79,197)**	**3,585**
Share options exercised		10,500	7	-	(3)	-	-	4
Warrants exercised		50,000	34	-	-	(11)	-	23
Loss and comprehensive loss for the period		-	-	-	-	-	(1,414)	(1,414)
Share-based compensation		-	-	-	62	-	-	62
Balance, December 31, 2019		**225,876,683**	**66,837**	**7,981**	**6,183**	**1,870**	**(80,611)**	**2,260**
Balance, January 1, 2020		**225,876,683**	**66,837**	**7,981**	**6,183**	**1,870**	**(80,611)**	**2,260**
Public offering	15	8,500,000	3,528	-	-	788	-	4,316
Share options exercised	10	1,129,062	677	-	(248)	-	-	429
Warrants exercised	10	1,100,000	735	-	-	(240)	-	495
Loss and comprehensive loss for the period		-	-	-	-	-	(6,951)	(6,951)
Share-based compensation	10	-	-	-	803	-	-	803
Balance, September 30, 2020		**236,605,745**	**71,777**	**7,981**	**6,738**	**2,418**	**(87,562)**	**1,352**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(in thousands of Canadian dollars)

	Notes	Nine-months ended September 30 2020 $	2019 $
Cash flow provided by (used in)			
Operating activities			
Loss and comprehensive loss for the period		(6,951)	(3,446)
Adjustments for:			
Depreciation on right-of-use asset		70	70
Depreciation on property and equipment		140	122
Amortization of intangible asset		13	19
Interest expense on lease liability		25	27
Unrealized foreign exchange loss (gain) on cash		32	36
Share-based compensation	10	803	560
(Gain) loss on disposal of property and equipment		(8)	7
Changes in items of working capital:			
Trade and other receivables		(59)	1,126
Inventories		(67)	(67)
Prepayments and other assets		(257)	(83)
Contract asset	9	519	126
Trade and other payables	15	776	188
Contract liabilities	9	6,183	32
Net cash provided by (used in) operating activities		1,219	(1,283)
Investing activities			
Proceeds on disposal of property and equipment		10	-
Property and equipment expenditures		(215)	(93)
Net cash used in investing activities		(205)	(93)
Financing activities			
Proceeds from public offering	15	5,100	-
Transaction costs paid	15	(784)	-
Lease liability payments		(81)	(78)
Share options exercised	10	429	-
Warrants exercised	10	495	101
Net cash provided by financing activities		5,159	23
Increase (decrease) in cash		6,173	(1,353)
Effects of exchange rate changes on cash		(32)	(36)
Cash, beginning of period		1,435	4,368
Cash, end of period		**7,576**	**2,979**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. Nature of operations, COVID-19 pandemic, and going concern

Nature of operations

Spectral Medical Inc. ("Spectral" or the "Company") was incorporated on July 29, 1991 in Ontario, Canada as Spectral Diagnostics Inc. The address of the registered office is 135 The West Mall, Unit 2, Toronto, Ontario.

The Company's primary strategic focus is to develop and commercialize a treatment for septic shock utilizing its Endotoxin Activity Assay ("EAA™") diagnostic and the Toraymyxin™ therapeutic ("PMX"). If approved, this will be the first targeted therapy guided by a specific diagnostic in the area of sepsis. In addition, the Company is taking steps to co-develop a complimentary platform targeting the renal replacement therapy ("RRT") segment of the market with the addition of continuous renal replacement therapy ("CRRT") machine ("SAMI") and its home hemodialysis machine ("DIMI"). The Company also is continuing its legacy business of manufacturing and selling certain proprietary reagents.

COVID-19 pandemic

As of the date of these condensed interim consolidated financial statements, there has not been a material adverse impact on the Company's business due to the COVID-19 pandemic other than the impacts on the Tigris trial as described below. The Company is in close contact with all of its suppliers, manufacturers and distributors and it has not experienced any material issues such as business interruption, requests for change in terms, supply shortages or similar negative impacts. The ultimate long-term impact of COVID-19 is highly uncertain and cannot be predicted with confidence.

Recruitment of patients into the Tigris trial has been negatively impacted by the COVID-19 pandemic. In the third quarter of 2020, there were nine initiated clinical sites. Of these nine sites, six sites experienced suspended research activities due to the COVID-19 pandemic. By the beginning of September 2020, all Tigris sites had resumed their research activities and were actively screening. Currently, there are eleven initiated clinical sites in Tigris.

The Company's operations could be negatively impacted if the pandemic results in a diversion of intensive care unit (ICU) resources, a change in patient intake patterns and needs or reduced availability of physicians and/or support staff, which in turn could have a negative impact on enrollment in Tigris and timelines for completion of Tigris. Further, the COVID-19 outbreak could result in adverse effects on the Company's business and operations due to prioritization of clinic resources toward the outbreak or if quarantines and/or restrictions (such as travel restrictions) impede physician, staff or patient movement or interrupt healthcare services.

Should the COVID-19 pandemic in the U.S. prolong limited ICU access at Tigris sites, there is a risk that last patient enrollment could be delayed. The Company has developed mitigation strategies to reduce or eliminate any timing delays, including: (i) COVID-19 supplemental Investigational Device Exemption ("IDE") protocol keeps existing Tigris clinician skills current for EAA and PMX; (ii) and potentially increasing the number of sites in Tigris. On August 10, 2020, the United States Food and Drug Administration ("FDA") approved a protocol amendment to increase the number of Tigris sites to fifteen from the ten in the initial protocol. The Company is evaluating potential sites

for its FDA supplemental IDE, which could subsequently be added to Tigris; (iii) data collected under the supplemental IDE protocol could be used as supportive of the PMA for PMX; and (iv) the Company has developed comprehensive on-line training and site support to mitigate any travel restrictions.

Going concern

These condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities during the normal course of operations for the foreseeable future.

The ability of the Company, to realize its assets and meet its obligations as they come due is dependent on obtaining regulatory approval from the FDA of PMX, the successful commercialization of PMX, SAMI, and DIMI, and achieving future profitable operations, the outcome of which cannot be predicted at this time. Furthermore, the Company will require additional funding from commercial transactions or investors to continue the development and commercialization of products. These circumstances cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

Management has assessed the Company's ability to continue as a going concern and concluded that it is dependent on the successful execution of management's operating and strategic plan, which includes among other things, securing additional financing, the commercialization of its products, the continued financial support of its shareholders and, ultimately, the attainment of future profitable operations. There are no assurances that any of these initiatives will be successful which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Factors within and outside the Company's control could have a significant bearing on its ability to obtain additional financing.

These condensed interim consolidated financial statements do not reflect the adjustments to the carrying amounts of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of preparation

The condensed interim consolidated financial statements of Spectral for the three and nine-months ended September 30, 2020, have been prepared in accordance with IFRS as set out in the CPA Canada Handbook, applicable to the preparation of condensed interim consolidated financial statements, including IAS 34, "Interim Financial Reporting". The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS. These condensed interim consolidated financial statements were approved by the Board of Directors for issue on November 10, 2020.

3. Significant accounting policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year and corresponding interim reporting period other than as disclosed in Note 5. There was an addition to the revenue recognition policy related to the exclusive distribution agreement referred to in Note 9.

4. Critical accounting estimates and judgments

The preparation of condensed interim consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Spectral's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financials are consistent with those of the previous financial year and corresponding interim reporting period.

The significant spread of COVID-19 with the U.S., Canada, and elsewhere has resulted in a widespread health crisis and has had adverse effects on local, national and global economies generally and the markets the Company serves.

Uncertain factors, including the duration of the outbreak, the severity of the disease and the actions to contain or treat its impact, could cause interruption of the Company's operations, supply chain and the clinical trial, which could impact the Company's ability to accurately measure the net realizable value of inventories, fair value of trade and other receivables and recoverability of other assets.

5. Accounting standards adopted in the current period

A number of new standards and amendments to standards and interpretations were effective for annual periods beginning on or after January 1, 2020 and have been applied in preparing these condensed interim consolidated financial statements.

a. *IAS 1,' Presentation of Financial Statements', and IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)'*

   In October 2018, the IASB issued *'Definition of Material (Amendments to IAS 1 and IAS 8)'* to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The Company adopted these amendments to IAS 1 and IAS 8 effective January 1, 2020 and determined that there was no impact on the Company's condensed interim consolidated financial statements.

b. *Conceptual Framework for Financial Reporting*

   Together with the revised *'Conceptual Framework'* published in March 2018, the IASB also issued *'Amendments to References to the Conceptual Framework in IFRS Standards'*. The amendments are effective for annual periods beginning on or after January 1, 2020. The

Company adopted these amendments effective January 1, 2020 and determined that there was no impact on the Company's condensed interim consolidated financial statements.

c. *IFRS 3, 'Definition of a Business'*

In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date was for annual periods beginning on or after January 1, 2020. The Company adopted this amendment effective January 1, 2020 and determined that there was no impact on the Company's condensed interim consolidated financial statements.

6. Accounting standards issued but not yet applied

Accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's condensed interim consolidated financial statements. These are as follows:

a. IAS 1, '*Presentation of Financial Statements'*

The amendment to IAS 1 clarifies how to classify debt and other liabilities as either current or non-current. The amendment will be effective for periods beginning on or after January 1, 2022. The Company is currently evaluating the new guidance and impacts on its consolidated financial statements.

b. IFRS 3, '*Reference to Conceptual Framework*'

In May 2020, the IASB issued an amendment to IFRS 3 to (i) clarify references to the 2018 Conceptual Framework in order to determine what constitutes an asset or liability in a business combination, (ii) add an exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.

c. IAS 37, '*Onerous Contracts – Cost of Fulfilling a Contract'*

In May 2020, the IASB issued an amendment to IAS 37 to clarify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.

7. Risk management

a. Financial risk management

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are credit risk, liquidity risk and market risk. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Company's financial performance.

The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the annual consolidated financial statements as at December 31, 2019. There have been no changes in risk management policies since year-end.

b. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities as they become due. The Company is exposed to liquidity risk, as it continues to have net cash outflows to support its operations. The Company's objective for liquidity risk management is to maintain sufficient liquid financial resources to meet commitments and obligations in the most cost effective manner possible.

The Company achieves this by maintaining sufficient cash and managing working capital. The Company monitors its financial resources on a weekly basis and updates its expected use of cash resources on the latest available data.

The Company will need additional capital to fund its clinical and regulatory programs and commercialization of the Toraymyxin™ therapeutic and the RRT products, SAMI and DIMI. Potential sources of capital could include equity and/or debt financings, the collection of revenues resulting from commercialization activities and/or new strategic partnerships.

There can be no assurance that the Company will be able to obtain sufficient capital to meet any or all of the Company's needs. The availability of equity or debt financing will be affected by, among other things, the ability to obtain regulatory approvals, the market acceptance of its products, the state of the capital market generally, strategic alliance agreements and other relevant commercial considerations (Note 1). In addition, if the Company raised additional funds by issuing equity securities, its existing security holders will likely experience dilution, and any incurrence of additional debt would result in debt service obligations and could require the Company to agree to operating and financial covenants that would restrict its operations. Any failure on the Company's part to raise additional funds on terms favourable to it, or at all, may require it to significantly change or curtail its current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in the Company not taking advantage of business opportunities, the curtailment of its product development and commercialization programs, the sale or assignment of rights to its technologies and/or products and the inability to file market approval applications at all or in time to competitively market its products.

All of the Company's financial liabilities are classified as current liabilities. Trade and other payables were $1,778 as at September 30, 2020 with all of them having expected settlement dates within one year.

c. Market Risk

i. Currency risk: The majority of the Company's revenue is denominated in U.S. dollars and Euros. As at September 30, 2020, cash included US$3,562. Trade and other receivables included a total of US$51 and €6. Trade and other payables included a total of US$909. There is no active hedging program currently in place due to the relatively short time frame for settlement of these balances. A 10% change in the U.S. dollar/Canadian dollar or Euro/Canadian dollar exchange rates on the September 30, 2020 amounts would impact loss by $362.

ii. Interest rate risk: The Company has no significant exposure to fluctuations in interest rates.

8. Contingencies and commitments

a. The FDA has determined that the Company is required to continue its clinical and regulatory program to collect more evidence in order to make a final determination to approve the PMX cartridge. As at September 30, 2020, the Company has made commitments to certain organizations for approximately $3,900 in anticipation of its completion of the regulatory path forward.

b. Directors and officers are indemnified by the Company for various items including, but not limited to, costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the costs of any potential future lawsuits or actions. The term of the indemnification covers the period during which the indemnified party served as a director or officer of the Company.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts and licence agreements. These indemnification arrangements may sometimes require such third parties to compensate counterparties for losses as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. No accruals have been required to be made as at September 30, 2020 with respect to these agreements.

c. Trade and other payables include an amount payable to a financial advisory services firm in the amount of US$742 (CA$990). The amount payable relates to a legacy financial advisory agreement with the financial advisory firm for any completed strategic transaction or transaction, including any marketing agreements related to Spectral assets. The commercial

(in thousands of Canadian dollars, except for share and per share data)

transaction agreement completed with Baxter International Inc. ("Baxter") as described in Note 9 was captured under the legacy financial advisory agreement.

9. Contract assets and contract liabilities

	September 30 2020 $	December 31 2019 $
Contract asset related to technology transfer and manufacturing support	-	519
Contract asset	**-**	**519**
Current portion of contract liability related to exclusive distribution rights	668	-
Contract liability related to exclusive distribution rights	5,515	-
Contract liabilities	**6,183**	**-**

The Company completed its performance obligations in connection with the technology transfer and manufacturing support agreement in 2019.

On February 4, 2020, the Company announced that it had completed an exclusive distribution agreement with Baxter, for Toraymyxin™ PMX-20R and EAA™ in the U.S. and Canada. As part of this agreement, Baxter has the right to pay the Company a series of milestone payments including a non-refundable US$5,000 (CA$6,629) upfront rights payment which was received on February 21, 2020. Under the terms of the agreement, Baxter will be the Company's exclusive distributor of the PMX filter in the U.S. and Canada. Baxter also has non-exclusive rights to distribute the EAA™ globally. Under the terms of the agreement, the Company is entitled to access Baxter's market capabilities while retaining control over the PMX regulatory process. Baxter has the option to maintain exclusive rights for PMX distribution through future milestone payments and maintaining minimum purchase requirements for PMX products.

The first milestone payment will become due upon completion of 60% of the Tigris trial and the second milestone payment will become due upon premarket approval for the PMX filter in the U.S. The agreement expires on December 31, 2029 and has two 5-year renewal term extensions, which will automatically renew unless either party provides 7 months notice of its intent not to renew.

Under the provisions of IFRS 15, management has determined that the agreement includes two separate and distinct performance obligations: i) granting the exclusive rights to distribute the PMX filter in the U.S. and Canada and ii) supply of products (PMX and EAA™). The revenue recognition accounting policy associated with the supply of products is consistent with the accounting policy described in the annual consolidated financial statements for the year-ended December 31, 2019.

The non-refundable upfront rights payment relates to the Company granting the exclusive rights to Baxter to distribute the PMX filter in the U.S. and Canada. The Company will be eligible for the

(in thousands of Canadian dollars, except for share and per share data)

future milestone payments if Baxter exercises the option to maintain exclusive distribution rights. Under the provisions of IFRS 15, management has determined that the granting of the exclusive distribution rights to be a distinct performance obligation that is satisfied over time. As such, the non-refundable upfront payment was recorded as a contract liability and is recognized into revenue on a straight-line basis over the initial 9-year and 11-month contract term as it best represents the pattern of the Company's performance obligation.

10. Share capital and other equity reserves

a. The Company is authorized to issue an unlimited number of common shares ("Shares").

b. Details of share options are as follows:

On June 4, 2020, the shareholders' approved the adoption of the Company's omnibus long-term incentive plan ("LTIP"). The LTIP will allow for a variety of equity based awards that provide different types of incentives to be granted to executive officers, employees and consultants of the Company in the form of options, performance share units ("PSU's") and restricted share units ("RSU's"). The Board of Directors can receive options and deferred share units ("DSU's"). Options, PSUs, RSUs and DSUs are collectively referred to as "Awards", and each award will represent the right to receive Shares, or in the case of PSU'S, RSUs and DSUs, shares or cash, in accordance with the terms of the LTIP.

Options granted under the Company's 2008 Amended Stock Option Plan ("Legacy Stock Option Plan"), will continue in accordance with their terms. Options shall no longer be granted pursuant to the Legacy Stock Option Plan.

The maximum number of Shares reserved for issuance, in the aggregate, under the LTIP and the Legacy Stock Option Plan, collectively, will be 10% of the aggregate number of Shares issued and outstanding from time to time.

During the nine-month periods ended September 30, the Company granted the following share options at the discretion of the Board of Directors:

					2020
Grant Date	**Granted to**	**Number of share options**	**Exercise price**	**Vesting Schedule**	**Expiry Date**
	Key	800,000		i.	5 years
	Management	400,000		ii.	5 years
	Consultants	100,000		ii.	5 years
	Employees	75,000		i.	5 years
February 26, 2020		**1,375,000**	**$0.63**		
	Employees	210,635		i.	5 years
June 4, 2020		**210,635**	**$0.58**		

(in thousands of Canadian dollars, except for share and per share data)

	Key Management	100,000		ii.	5 years
August 4, 2020		**100,000**	**$0.51**		

2019

Grant Date	Granted to	Number of share options	Exercise price	Vesting Schedule	Expiry Date
		600,000		iii.	5 years
	Key	400,000		ii.	5 years
	management	650,000		v.	5 years
		100,000		ii.	5 years
	Consultants	250,000		iv.	5 years
	Employees	175,000		iii.	5 years
June 4, 2019		**2,175,000**	**$0.36**		

The exercise prices of the share options are not less than the closing market price of the Company's Shares on the TSX on the immediately preceding day of the grant of the share option.

Vesting schedules are defined as follows:

i. 25% of the grant amount vest on the grant date, and the balance vests equally as to one-twelfth (1/12) on each successive quarter, and will be fully vested by the end of the 3rd year following the grant date.

ii. 100% of the grant amount vested on the grant date.

iii. 33 1/3% of the grant amount vest on the grant date, and the balance vesting equally as to one-twelfth (1/12) on each successive quarter, and will be fully vested by the end of the 3rd year following the grant date.

iv. 100,000 options, vested on the grant date, and the remaining 150,000 options, vested on September 2, 2019.

v. 216,645 options vested on August 2, 2019; 110,500 options vested on September 4, 2019; 9,799 options vested on October 4, 2019; and the remaining options vest equally on the 4th day of each successive month commencing on November 4, 2019 until fully vested.

There is no cash settlement of the share options.

(in thousands of Canadian dollars, except for share and per share data)

Share options granted were valued using the Black-Scholes option pricing model, with the following assumptions:

						2020
Grant date	**Risk-free interest rate**	**Expected life**	**Annualized volatility**	**Dividend rate**	**Grant date share price**	**Share option fair value**
February 26, 2020	1.21%	5 years	115.18%	0%	$0.68	$0.554
June 4, 2020	0.48%	5 years	96.60%	0%	$0.60	$0.437
August 4, 2020	0.30%	5 years	116.66%	0%	$0.51	$0.412

						2019
Grant date	**Risk-free interest rate**	**Expected life**	**Annualized volatility**	**Dividend rate**	**Grant date share price**	**Share option fair value**
June 4, 2019	1.33%	5 years	116.00%	0%	$0.395	$0.324

Share compensation expense is allocated as follows:

	Three-months ended September 30 $		**Nine-months ended September 30 $**	
	2020	**2019**	**2020**	**2019**
Key management	117	169	665	413
Employees	24	10	82	35
Consultants	-	33	56	112
	141	**212**	**803**	**560**

	September 30, 2020			**September 30, 2019**		
	Weighted average exercise price per share $	**Share options**		**Weighted average exercise price per share $**	**Share options**	
		All participants	**Key management**		**All participants**	**Key management**
January 1	0.43	8,584,252	6,934,190	0.46	7,820,752	6,075,190
Granted	0.62	1,685,635	1,300,000	0.36	2,175,000	1,650,000
Exercised	0.38	(1,129,062)	(750,000)	-	-	-
Expired	0.67	(100,000)	-	0.60	(716,000)	(716,000)
Forfeited/cancelled	0.73	(24,000)	-	0.73	(10,000)	-
Balance, September 30	**0.46**	**9,016,825**	**7,484,190**	**0.42**	**9,269,752**	**7,009,190**

Of the 9,016,825 outstanding share options (2019: 9,269,752), 6,532,097 share options (2019: 6,751,980) are exercisable.

(in thousands of Canadian dollars, except for share and per share data)

c. Details of warrants are as follows:

i. 8,847,331 share purchase warrants were issued in 2018 with respect to the private placement financing transaction completed in 2018, were valued at $1,930, or $0.218 per warrant, using the Black-Scholes option pricing model.

ii. 4,250,000 share purchase warrants and 510,000 broker warrants were issued on June 18, 2020 with respect to the public offering (Note15) and were valued at $684 and $104 respectively, using the Black-Scholes option pricing model, with the following assumptions:

Risk-free interest rate	Expected life	Annualized volatility	Dividend rate	Grant date share price	Share purchase warrants fair value	Broker warrants fair value
0.30%	2 years	61.73%	0%	$0.60	$0.161	$0.204

	September 30, 2020		September 30, 2019	
	Weighted average exercise price per warrant $	Warrants	Weighted average exercise price per warrant $	Warrants
January 1	0.45	8,572,331	0.45	8,847,331
Granted	0.73	4,760,000	-	-
Exercised	0.45	(1,100,000)	0.45	(225,000)
Balance, September 30	**0.56**	**12,232,331**	**0.45**	**8,622,331**

11. Loss per Share

	Three-months ended September 30		Nine-months ended September 30	
	2020	2019 $	2020	2019 $
Numerator for basic and diluted loss per Share available to shareholders	(1,577)	(1,401)	(6,951)	(3,446)
Denominator for basic and diluted loss per Share	236,605,745	225,816,183	231,109,027	225,695,029
Basic and diluted loss per Share	(0.007)	(0.006)	(0.030)	(0.015)

(in thousands of Canadian dollars, except for share and per share data)

The following table sets forth the computing of basic and diluted loss per Share:

For the periods noted above, the computation of diluted loss per Share is equal to the basic loss per Share due to the anti-dilutive effect of the outstanding share options, share purchase and broker warrants.

Weighted average Shares outstanding

		September 30, 2020		September 30, 2019	
	Note	Weighted average Shares-basic and diluted	Number of Shares	Weighted average Shares-basic and diluted	Number of Shares
Balance, January 1		225,876,683	225,876,683	225,591,183	225,591,183
Public offering	15	3,226,277	8,500,000	-	-
Share options exercised	10	947,855	1,129,062	-	-
Warrants exercised	10	1,058,212	1,100,000	103,846	225,000
Balance, September 30		**231,109,027**	**236,605,745**	**225,695,029**	**225,816,183**

On June 4, 2020, the shareholders' approved a special resolution (the "Share Consolidation Resolution") authorizing an amendment to the Company's articles to consolidate the issued and outstanding Shares ("the Consolidation"), based on a consolidation ratio in the range of one post-Consolidation Share for ten pre-Consolidation Shares to one post-Consolidation Share for twenty pre-Consolidation Shares as determined by the Board of Directors in their sole discretion.

12. Segment reporting

a. Operating segments

The Company's key management team are the chief operating decision-makers (CODM). Management has determined that there are two reportable operating segments for the purposes of allocating resources and assessing performance. The two reportable segments are Spectral Medical Inc. and Dialco Medical Inc., as well as a corporate cost centre. Intercompany transactions between the two companies include salaries and benefits, and expenses paid by Spectral on behalf of Dialco. A brief description of each segment is as is as follows:

i. Spectral Medical Inc. is a late stage theranostic company seeking U.S. FDA approval for its unique product for the treatment of patients with septic shock. Toraymyxin™ ("PMX") is a therapeutic hemoperfusion device that removes endotoxin, which cause sepsis, from the bloodstream and is guided by the Company's Endotoxin Activity Assay (EAA™), the only FDA cleared diagnostic for the risk of developing sepsis. This segment also manufactures and sells certain proprietary reagents.

(in thousands of Canadian dollars, except for share and per share data)

ii. Dialco Medical Inc. is commercializing a new proprietary platform, "SAMI", targeting the renal replacement therapy ("RRT") market. Dialco is also seeking regulatory approval for "DIMI" which is based on the same RRT platform, but will be intended for home hemodialysis use.

iii. The corporate cost centre represents certain centralized costs including costs associated with the Company's office and costs associated with being a public reporting entity and costs that are not allocated to the reportable segments.

Details of the operating segments are as follows:

			Three-months ended	
	Spectral Medical Inc.	**Dialco Medical Inc.**	**Corporate**	**September 30 2020**
Revenue	405	13	-	418
Expenses	1,002	223	770	1,995
Segment loss for the period	(597)	(210)		

			Nine-months ended	
	Spectral Medical Inc.	**Dialco Medical Inc.**	**Corporate**	**September 30 2020**
Revenue	1,508	58	-	1,566
Expenses	4,831	704	2,982	8,517
Segment loss for the period	(3,323)	(646)		
Total assets	8,680	486	835	10,001
Total liabilities	7,684	26	939	8,649
Intercompany due from/(to)	1,647	(1,647)		

			Three-months ended	
	Spectral Medical Inc.	**Dialco Medical Inc.**	**Corporate**	**September 30 2019**
Revenue	534	-	-	534
Expenses	1,019	176	740	1,935
Segment loss for the period	(485)	(176)		

			Nine-months ended	
	Spectral Medical Inc.	**Dialco Medical Inc.**	**Corporate**	**September 30 2019**
Revenue	2,122	-	-	2,122
Expenses	3,649	338	1,581	5,568
Segment loss for the period	(1,527)	(338)		
Total assets	4,142	91	941	5,174
Total liabilities	729	-	860	1,589
Intercompany due from/(to)	431	(431)		

(in thousands of Canadian dollars, except for share and per share data)

b. Details of the Company's revenue is as follows:

	Three-months ended September 30		Nine-months ended September 30	
	2020	2019	2020	2019
		$		$
Royalties	**151**	**30**	**547**	**100**
Technology transfer	**-**	**-**	**-**	**534**
Exclusive distribution rights	**167**	**-**	**445**	**-**
Product revenue				
Proprietary biochemicals	87	221	356	595
EAA™ diagnostic	-	96	140	333
Instrumentation	-	-	20	39
RRT	13	187	58	521
Total Product revenue	**100**	**504**	**574**	**1,488**
Revenue	**418**	**534**	**1,566**	**2,122**

13. Clinical development and regulatory program

The Company's current clinical development program is focused on obtaining FDA approval for Toraymyxin™, a therapeutic device for the treatment of septic shock that removes endotoxin from the bloodstream.

The Company has incurred the following costs associated with this clinical trial and regulatory program:

	Three-months ended September 30		Nine-months ended September 30	
	2020	2019	2020	2019
		$		$
Program management	79	186	379	434
Program oversight	1	18	2	41
Clinical site costs	133	94	521	97
Diagnostic supply and training	54	9	167	9
SAMI sub-study	6	-	13	-
Recruitment initiatives	-	-	2	-
Employee benefits	120	120	351	287
	393	**427**	**1,435**	**868**

The clinical trial and regulatory program costs have been included within operating loss in the statement of loss and comprehensive loss as required. Total costs since inception in 2010 are $45,149.

(in thousands of Canadian dollars, except for share and per share data)

14. Salaries and benefits

Key management includes the Company's directors and officers. Compensation awarded to key management included:

	Three-months ended September 30, 2020 $		Nine-months ended September 30, 2020 $	
	All employees	**Key management**	**All employees**	**Key management**
Salaries	734	316	2,256	983
Short term employee benefits	85	22	289	78
Directors' fees	54	54	211	211
Share-based compensation	141	117	747	665
Other	-	-	2	-
	1,014	**509**	**3,505**	**1,937**

	Three-months ended September 30, 2019 $		Nine-months ended September 30, 2019 $	
	All employees	**Key management**	**All employees**	**Key management**
Salaries	643	283	1,734	728
Short term employee benefits	78	18	252	64
Directors' fees	51	51	170	170
Share-based compensation	179	169	448	413
Other	3	2	10	2
	954	**523**	**2,614**	**1,377**

Executive employment agreements allow for additional payments to the executives if they are terminated without cause or in the event of a change in control.

15. Public offering and base shelf prospectus

On June 18, 2020, the Company closed a public offering resulting in the issuance of 8,500,000 units ("Units") for aggregate gross proceeds of $5,100. The Company received net cash proceeds of $4,316. Each Unit consisted of one Share priced at $0.60 per Share and one-half of a share purchase warrant ("Warrant"), resulting in the issue of 4,250,000 share purchase warrants to the subscribers (Note 10). Each whole Warrant entitles the holder to acquire one additional Share at an exercise price of $0.75 per Share for a two-year period expiring June 18, 2022. In addition, 510,000 broker warrants were issued, which entitles the broker to acquire one additional Share at an exercise price of $0.60 per Share, expiring June 18, 2022.

On July 6, 2020, the Company announced that it filed a final short form base shelf prospectus with the securities regulatory authorities in each of the provinces of Canada, except Québec,

(in thousands of Canadian dollars, except for share and per share data)

effective July 3, 2020 (the "Effective Date"). This allows the Company to qualify the distribution by way of a prospectus of up to $50,000 of common shares, debt securities, subscription receipts, warrants and units or any combination thereof, from time to time, during the 25-month period from the Effective Date.

16. Related party transactions

a. Toray Industries, Inc.

Toray holds 45,630,105 Shares of the Company as at September 30, 2020, representing approximately 19.3% (2019: 20.2%) ownership interest, calculated on a non-diluted basis.

Toray is entitled to certain pre-emptive rights, including pre-emptive rights upon issuance of additional Shares.

Toray is also entitled to nominate one director to the Board of Directors as long as it owns in the aggregate not less than 10% of the Shares issued and outstanding calculated on a non-diluted basis.

The principal transactions with Toray which were carried out in the ordinary course of business are:

	Three-months ended September 30		Nine-months ended September 30	
	2020	2019	2020	2019
		$		$
Revenue				
Toray Medical Co., Ltd.	-	-	-	-
Purchases				
Toray International America Inc.	-	-	108	-
Reimbursement of expenses	-	-	-	18
Due from (to)				
Toray International America Inc.			-	-
Toray Industries, Inc.			-	18

Effective April 1, 2019, Toray and the Company amended their respective distribution agreements for the purchase of Toraymyxin and EAA™, and agreed to remove the minimum purchase quantities.

b. Birch Hill Equity Partners Management Inc. ("Birch Hill")

Birch Hill, through a number of its funds and an investee company, holds 36,017,718 Shares of the Company as at September 30, 2020 representing approximately a 15.2% (2019: 16.0%) ownership interest, calculated on a non-diluted basis.

Birch Hill is entitled to certain pre-emptive rights, including pre-emptive rights upon issuance of additional Shares.

Birch Hill is also entitled to nominate one director to the Company's Board of Directors so long as it owns in aggregate not less than 5% of the issued and outstanding Shares of the Company calculated on a non-diluted basis.

c. Key management consists of the Company's four executive officers and its Board of Directors. Compensation of key management is disclosed in Note 14.