

Spectral Medical Inc.

Condensed Interim Consolidated Financial Statements

September 30, 2021

Spectral Medical Inc.

Condensed Interim Consolidated Financial Statements

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Spectral Medical Inc.

Condensed Interim Consolidated Statements of Financial Position
(unaudited)

(in thousands of Canadian dollars)

	Notes	September 30, 2021 \$	December 31, 2020 \$
Assets			
Current assets			
Cash		10,923	5,807
Trade and other receivables		567	260
Inventories		399	348
Prepayments and other assets		792	389
		12,681	6,804
Non-current assets			
Right-of-use-asset		555	625
Property and equipment		538	488
Intangible asset		233	246
Total assets		14,007	8,163
Liabilities			
Current liabilities			
Trade and other payables		1,335	2,141
Current portion of contract liabilities		729	676
Current portion of lease liability		91	85
		2,155	2,902
Non-current liability			
Lease liability		513	582
Non-current portion of contract liabilities		4,846	5,348
Total liabilities		7,514	8,832
Shareholders' equity (deficiency)			
	6, 12		
Share capital		84,357	71,870
Contributed surplus		7,985	7,981
Share-based compensation		7,842	6,771
Warrants		2,251	2,418
Deficit		(95,942)	(89,709)
Total shareholders' equity (deficiency)		6,493	(669)
Total liabilities and shareholders' equity (deficiency)			
		14,007	8,163
Going concern	(Note 1)		
Contingencies and commitments	(Note 5)		

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,	
		2021 \$	2020 \$	2021 \$	2020 \$
Revenue	8 (b)	230	418	1,535	1,566
Expenses					
Changes in inventories of finished goods and work-in-process		26	72	198	84
Raw materials and consumables used		108	47	273	351
Salaries and benefits	6, 10	826	1,014	3,640	3,505
Consulting and professional fees		913	418	2,075	3,612
Regulatory and investor relations		128	87	402	318
Travel and entertainment		118	6	178	109
Facilities and communication		50	95	196	262
Insurance		98	62	292	186
Depreciation and amortization		71	79	223	223
Interest expense on lease liability		7	8	21	25
Foreign exchange loss (gain)		(57)	110	37	(144)
Other expense (income)		9	(3)	99	(6)
Write down of property and equipment to fair value		-	-	174	-
Gain on disposal of property and equipment		-	-	(40)	(8)
		2,297	1,995	7,768	8,517
Loss and comprehensive loss for the period		(2,067)	(1,577)	(6,233)	(6,951)
Basic and diluted loss per common share	7	(0.008)	(0.007)	(0.025)	(0.030)
Weighted average number of common shares outstanding – basic and diluted	7	260,928,039	236,605,745	247,267,326	231,109,027

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

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(unaudited)

(in thousands of Canadian dollars)

	Notes	Issued capital Number	\$	Contributed surplus \$	Share-based compensation \$	Warrants \$	Deficit \$	Total Shareholders' (deficiency) equity \$
Balance, January 1, 2020		225,876,683	66,837	7,981	6,183	1,870	(80,611)	2,260
Public offering		8,500,000	3,528	-	-	788	-	4,316
Share options exercised		1,129,062	677	-	(248)	-	-	429
Warrants exercised		1,100,000	735	-	-	(240)	-	495
Loss and comprehensive loss for the period		-	-	-	-	-	(6,951)	(6,951)
Share-based compensation		-	-	-	803	-	-	803
Balance, September 30, 2020		236,605,745	71,777	7,981	6,738	2,418	(87,562)	1,352
Public offering		-	(2)	-	-	-	-	(2)
Share options exercised		150,000	95	-	(44)	-	-	51
Loss and comprehensive loss for the period		-	-	-	-	-	(2,147)	(2,147)
Share-based compensation		-	-	-	77	-	-	77
Balance, December 31, 2020		236,755,745	71,870	7,981	6,771	2,418	(89,709)	(669)
Balance, January 1, 2021		236,755,745	71,870	7,981	6,771	2,418	(89,709)	(669)
Bought deal offering	12	23,530,000	7,406	-	-	1,464	-	8,870
Share options exercised		143,333	98	-	(46)	-	-	52
Warrants exercised		7,457,330	4,983	-	-	(1,627)	-	3,356
Warrants expired		-	-	4	-	(4)	-	-
Loss and comprehensive loss for the period		-	-	-	-	-	(6,233)	(6,233)
Share-based compensation		-	-	-	1,117	-	-	1,117
Balance, September 30, 2021		267,886,408	84,357	7,985	7,842	2,251	(95,942)	6,493

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,	
		2021	2020
		\$	\$
Cash flow provided by (used in)			
Operating activities			
Loss and comprehensive loss for the period		(6,233)	(6,951)
Adjustments for:			
Depreciation on right-of-use asset		70	70
Depreciation on property and equipment		140	140
Amortization of intangible asset		13	13
Interest expense on lease liability		21	25
Unrealized foreign exchange loss on cash		42	32
Share-based compensation		1,117	803
Write down of property and equipment to fair value		174	-
Gain on disposal of property and equipment		(40)	(8)
Changes in items of working capital:			
Trade and other receivables		(307)	(59)
Inventories		(51)	(67)
Prepayments and other assets		(403)	(257)
Contract asset		-	519
Trade and other payables		(806)	776
Contract liabilities		(449)	6,183
Net cash (used in) provided by operating activities		(6,712)	1,219
Investing activities			
Proceeds on disposal of property and equipment		77	10
Property and equipment expenditures		(401)	(215)
Net cash used in investing activities		(324)	(205)
Financing activities			
Proceeds from financing	12	10,000	5,100
Transaction costs paid		(1,130)	(784)
Warrants exercised		3,356	495
Share options exercised		52	429
Lease liability payments		(84)	(81)
Net cash provided by financing activities		12,194	5,159
Increase in cash		5,158	6,173
Effects of exchange rate changes on cash		(42)	(32)
Cash, beginning of period		5,807	1,435
Cash, end of period		10,923	7,576

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

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(unaudited)

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

1. Nature of operations and going concern

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 and DIMI usability 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. As at September 30, 2021, there were twelve initiated clinical sites open for enrollment and three clinical sites with investigator agreements in place. This provides visibility on a full fifteen sites to be screening and open for enrollment by the end of November 2021.

The Company's clinical trial operations could continue to be negatively impacted if the pandemic continues which could result in a continued diversion of intensive care unit (ICU) resources, a change in patient intake patterns and reduced availability of physicians and/or support staff for research, which in turn could continue to have a negative impact on enrollment in Tigris and timelines for completion of Tigris. Further, the COVID-19 outbreak could result in further 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 increasing the number of Tigris sites from ten to fifteen. The Company has developed comprehensive on-line training and site support to mitigate any travel restrictions. The Company has added clinical resources following the hiring of a Chief Medical Officer, effective March 1, 2021.

The timing of the start of the DIMI usability trial for home hemodialysis has also been affected by the COVID pandemic and the recent surge of the delta variant. Dialysis clinics are experiencing

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

severe staffing shortages as they work to accommodate current patients and respond to an increase of patients with COVID related kidney injury requiring dialysis.

Going concern

These condensed interim consolidated financial statements of Spectral 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, and 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 substantial 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 substantial 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

These condensed interim consolidated financial statements for the nine-months ended September 30, 2021 have been prepared in accordance with IFRS, 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 ended December 31, 2020, which have been prepared in accordance with IFRS. The Board of Directors approved these condensed interim consolidated financial statements for issue on November 11, 2021.

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

3. Significant accounting policies, critical accounting estimates and judgements

The significant accounting policies, critical accounting estimates and judgements 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, with the exception of the following:

Government grants

In accordance with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, a government grant is recognized only when there is reasonable assurance that the Company will comply with any conditions attached to the grant and the grant will be received. Government grants are recognized in loss and comprehensive loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

4. 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.

These condensed interim consolidated financial statements do not include all financial risk management information and disclosure required in the annual financial statements. They should be read in conjunction with the annual consolidated financial statements as at December 31, 2020. There have been no changes in the risk management or in any 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, SAMI and DIMI. Potential sources of capital could include equity and/or debt financings, the collection of revenue resulting from commercialization activities and/or new strategic partnerships.

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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. 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 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, except for lease liabilities, are classified as current liabilities. Trade and other payables were \$1,335 at September 30, 2021 (December 31, 2020 - \$2,141) which have expected settlement dates within one year.

c. Market risk

1. Currency risk

The majority of the Company's revenue is denominated in U.S. dollars and Euros. As at September 30, 2021, cash included US\$1,401 (December 31, 2020 - US\$3,405). Trade and other receivables included a total of US\$21 (December 31, 2020 - US\$52 and €1). Trade and other payables included a total of US\$315 and €3 (December 31, 2020 - US\$1,041). 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, Euro/Canadian exchange rates on the September 30, 2021 amounts would impact the statements of loss and comprehensive loss by \$141.

2. Interest rate risk

The Company has no significant exposure to fluctuations in interest rates.

5. 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, 2021, the Company has made commitments to certain organizations for approximately \$5,800 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

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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, 2021 with respect to these agreements.

6. Share capital and other equity reserves

- a. The Company is authorized to issue an unlimited number of common shares "Shares".
- b. Details of share capital and other equity reserves are as follows:

On June 4, 2020, the shareholders approved the adoption of the Company's 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 share options, performance share units ("PSUs") and restricted share units ("RSUs"). The Board of Directors can receive options and deferred share units ("DSUs"). 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 PSUs, RSUs and DSUs, Shares or cash, in accordance with the terms of the LTIP. As at September 30, 2021, the Company had not issued any PSUs or DSUs.

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.

- c. Details of share options are as follows:

						2021
Grant Date	Granted to	Number of share options	Exercise price	Vesting Schedule	Expiry Date	
January 11, 2021	Employees	8,700	\$0.44	i.	5 years	

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

January 29, 2021	Key management	400,000	\$0.47	iii.	5 years
	Key management	851,063		i.	5 years
		400,000		ii.	5 years
	Consultants	100,000		ii.	5 years
	Employees	75,000		i.	5 years
March 1, 2021		1,426,063	\$0.63		
April 1, 2021	Key management	241,440	\$0.53	i.	5 years
June 3, 2021	Employees	234,288	\$0.44	i.	5 years
June 22, 2021	Key management	100,000	\$0.44	ii.	5 years
July 26, 2021	Consultants	170,131	\$0.49	ii.	2 years
2020					
Grant Date	Granted to	Number of share options	Exercise price	Vesting Schedule	Expiry Date
	Key Management	800,000		i.	5 years
		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		
June 4, 2020	Employees	210,635	\$0.58	i.	5 years
August 4, 2020	Key management	100,000	\$0.51	ii.	5 years

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.

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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. 25% of the grant amount vest on the grant date, and the balance vests 25,000 on each quarter commencing June 30, and will be fully vested by March 1, 2024.

There is no cash settlement of the share options. To date the Company has not cash-settled any options.

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

							2021	
Grant date	Risk-free interest rate	Expected life	Annualized volatility	Forfeiture Rate	Dividend rate	Grant date share price	Share option fair value	
January 11, 2021	0.46%	5 years	116.59%	3.40%	0%	\$0.440	\$0.352	
January 29, 2021	0.43%	5 years	114.41%	3.40%	0%	\$0.465	\$0.395	
March 1, 2021	0.81%	5 years	117.43%	2.42%	0%	\$0.630	\$0.522	
April 1, 2021	0.97%	5 years	98.23%	4.16%	0%	\$0.530	\$0.389	
June 3, 2021	0.92%	5 years	97.68%	3.08%	0%	\$0.475	\$0.352	
June 22, 2021	0.95%	5 years	116.18%	3.08%	0%	\$0.460	\$0.375	
July 26, 2021	0.46%	2 years	62.69%	3.16%	0%	\$0.380	\$0.102	

							2020	
Grant date	Risk-free interest rate	Expected life	Annualized volatility	Forfeiture Rate	Dividend rate	Grant date share price	Share option fair value	
February 26, 2020	1.21%	5 years	115.18%	4.00%	0%	\$0.68	\$0.554	
June 4, 2020	0.48%	5 years	96.60%	3.74%	0%	\$0.60	\$0.437	
August 4, 2020	0.30%	5 years	116.66%	3.62%	0%	\$0.51	\$0.412	

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Share compensation expense, including compensation expense from RSUs, is allocated as follows:

	Three-months ended September 30, \$		Nine-months ended September 30, \$	
	2021	2020	2021	2020
Key management	58	117	933	665
Employees	34	24	114	82
Consultants	18	-	70	56
	110	141	1,117	803

	September 30, 2021			September 30, 2020		
	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	0.47	8,518,137	6,976,690	0.43	8,584,252	6,934,190
Granted	0.56	2,580,622	1,992,503	0.62	1,685,635	1,300,000
Exercised	0.36	(143,333)	(85,000)	0.38	(1,129,062)	(750,000)
Expired	0.73	(1,047,000)	(750,000)	0.67	(100,000)	-
Forfeited/cancelled	0.53	(327,872)	(312,257)	0.73	(24,000)	-
Balance, September 30	0.46	9,580,554	7,821,936	0.46	9,016,825	7,484,190

Of the 9,580,554 outstanding share options (September 30, 2020 - 9,016,825), 6,895,058 share options (September 30, 2020 - 6,532,097) are exercisable.

d. Details of RSUs are as follows:

	RSUs	
	All participants	Key management
January 1	-	-
Granted	790,588	719,341
Forfeited/cancelled	(73,240)	(73,240)
Balance, September 30	717,348	646,101

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25% of the grant amount of RSUs 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. RSUs are settled in equity.

e. Details of warrants are as follows:

11,765,000 share purchase warrants and 1,529,450 broker warrants were issued on July 27, 2021 with respect to the bought deal prospectus (Note 12) and were valued at \$1,321 and \$143 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	Warrants fair value
0.54%	3 years	61.00%	0%	\$0.360	\$0.112
0.44%	2 years	64.39%	0%	\$0.360	\$0.094

	2021		2020	
	Weighted average exercise price per warrant \$	Warrants	Weighted average exercise price per warrant \$	Warrants
January 1	0.56	12,232,331	0.45	8,572,331
Share purchase warrants granted	0.50	11,765,000	0.75	4,250,000
Broker warrants granted	0.49	1,529,450	0.60	510,000
Exercised	0.45	(7,457,330)	0.45	(1,100,000)
Expired	0.45	(15,001)	-	-
Balance, September 30	0.56	18,054,450	0.56	12,232,331

7. Loss per Share

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

	Three-months ended September 30		Nine-months ended September 30	
	2021	2020	2021	2020
	\$		\$	
Numerator for basic and diluted loss per Share available to shareholders	(2,067)	(1,577)	(6,233)	(6,951)
Denominator for basic and diluted loss per Share	260,928,039	236,605,745	247,267,326	231,109,027
Basic and diluted loss per Share	(0.008)	(0.007)	(0.025)	(0.030)

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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 warrants and broker warrants.

Weighted average Shares outstanding

		2021		2020	
	Note	Weighted average Shares-basic and diluted	Number of Shares	Weighted average Shares-basic and diluted	Number of Shares
Balance, January 1		236,755,745	236,755,745	225,876,683	225,876,683
Public offering		5,602,381	23,530,000	3,226,277	8,500,000
Share options exercised	6	30,501	143,333	947,855	1,129,062
Warrants exercised	6	4,878,699	7,457,330	1,058,212	1,100,000
Balance, September 30		247,267,326	267,886,408	231,109,027	236,605,745

8. 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 operating segments for the purposes of allocating resources and assessing performance. The two operating segments are Spectral Medical Inc. and Dialco Medical Inc., as well as a corporate cost centre. A brief description of each is as follows:

- i. Spectral Medical Inc. is seeking U.S. FDA approval for PMX for the treatment of patients with septic shock. This segment also manufactures and sells its EAA™ diagnostic and certain proprietary reagents.
- ii. Dialco Medical Inc. is seeking U.S. FDA clearance for DIMI in-home use and commercializing products for the RRT market.
- 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.

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements
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(in thousands of Canadian dollars, except for share and per share data)

Details of the operating segments plus corporate are as follows:

	Three-months ended			
	Spectral Medical Inc.	Dialco Medical Inc.	Corporate	September 30, 2021
Revenue	230	-	-	230
Expenses	811	657	829	2,297
Segment loss for the period	(581)	(657)		

	Nine-months ended			
	Spectral Medical Inc.	Dialco Medical Inc.	Corporate	September 30, 2021
Revenue	1,514	21	-	1,535
Expenses	3,083	1,287	3,255	7,625
Segment loss for the period	(1,569)	(1,266)		
Total assets	12,836	1,012	159	14,007
Total liabilities	7,008	231	275	7,514
Intercompany due from/(to)	3,461	(3,461)		

	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)		

Spectral Medical Inc.

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

	Three-months ended September 30,		Nine-months ended September 30,	
	2021	2020	2021	2020
	\$		\$	
Royalties	29	151	254	547
Exclusive distribution rights	167	167	501	445
Product revenue				
Proprietary biochemicals	5	87	329	356
EAA™ diagnostic	29	-	364	140
Instrumentation	-	-	66	20
RRT	-	13	21	58
Total Product revenue	34	100	780	574
Revenue	230	418	1,535	1,566

9. 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,	
	2021	2020	2021	2020
	\$		\$	
Program management	325	79	525	379
Program oversight	13	1	15	2
Clinical site costs	254	133	428	521
Diagnostic supply and training	44	54	67	167
SAMI sub-study	4	6	18	13
Recruitment initiatives	-	-	-	2
Employee benefits	121	120	351	351
	761	393	1,404	1,435

The clinical trial and regulatory program costs have been included within the statement of loss and comprehensive loss as required. Total costs since inception in 2010 are \$47,130.

Spectral Medical Inc.

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11. Related party transactions

a. Toray Industries, Inc.

Toray holds 45,630,105 Shares of the Company as at September 30, 2021, representing approximately 17.0% (December 31, 2020: 19.3%) 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	
	2021	2020 \$	2021	2020 \$
Revenue				
Toray Medical Co., Ltd.	-	-	52	-
Purchases				
Toray International America Inc.	-	-	-	108
Due from (to)				
Toray Medical Co., Ltd.			-	
Toray International America Inc.				-

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

Birch Hill, through a number of its funds and an investee company, holds 36,210,017 Shares of the Company as at September 30, 2021 representing approximately a 13.5% (December 31, 2020: 15.2%) 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.

Spectral Medical Inc.

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- c. Key management consists of the Company's four executive officers and its Board of Directors. Compensation of key management is disclosed in Note 10. There are no other related party transactions.

12. Bought deal offering

On July 27, 2021, the Company closed a bought deal offering ("the Offering") resulting in the issuance of 23,530,000 units (the "Units"), at a price of \$0.425 per Unit. Aggregate gross proceeds of the Offering were approximately \$10,000. Each Unit consists of one Share of the Company and one-half of one Share purchase warrant (each whole share purchase warrant a "Warrant"), with each Warrant entitling the holder to acquire one Share at a price of \$0.50, with an expiry date of July 27, 2024.

The Company also issued a number of compensation options ("Compensation Options") to the underwriters representing 6.5% of the total number of Units issued under the Offering. Each Compensation Option entitles the holder to acquire one Share at an exercise price of \$0.49 per Share for a 2 year period expiring July 27, 2023.

The Company has granted an over-allotment option to the Underwriters ("Over-Allotment Option") to purchase an additional 3,529,500 Units equal to 15% of the Offering. The Over-Allotment Option will be exercisable in whole or in part, at the sole discretion of the Underwriters, for a period of 30 days from July 27, 2021, and could be exercised for additional Units, Warrants and/or Shares, or any combination thereof. The Over-Allotment Option was not exercised.