



SPECTRAL MEDICAL INC.

Condensed Interim Consolidated Financial Statements

September 30, 2022

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Financial Position

In CAD (000s)

(Unaudited)

	Notes	September 30, 2022	December 31, 2021
		\$	\$
Assets			
Current assets			
Cash		1,191	8,890
Trade and other receivables		76	205
Inventories		660	293
Prepayments and other assets		798	875
		2,725	10,263
Non-current assets			
Right-of-use-asset		461	532
Property and equipment		408	532
Intangible asset		215	228
Total assets		3,809	11,555
Liabilities			
Current liabilities			
Trade and other payables		2,015	1,522
Current portion of contract liabilities		705	689
Current portion of lease liability		95	92
		2,815	2,303
Non-current liability			
Lease liability		418	490
Non-current portion of contract liabilities		4,178	4,679
Total liabilities		7,411	7,472
Shareholders' (deficiency) equity			
	6		
Share capital		84,688	84,357
Contributed surplus		8,773	7,985
Share-based compensation		8,746	7,984
Warrants		1,463	2,251
Deficit		(107,272)	(98,494)
Total shareholders' (deficiency) equity		(3,602)	4,083
Total liabilities and shareholders' equity		3,809	11,555
Going concern	(Note 1)		
Contingencies and commitments	(Note 5)		
Subsequent event	(Note 12)		

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

In CAD (000s), except for share and per share data

(Unaudited)

	Notes	Three-months ended September 30, 2022	Three-months ended September 30, 2021	Nine-months ended September 30, 2022	Nine-months ended September 30, 2021
		\$	\$	\$	\$
Revenue	8 (b)	374	230	1,144	1,535
Expenses					
Changes in inventories of finished goods and work-in-process		78	26	161	198
Raw materials and consumables used		137	108	426	273
Salaries and benefits	6, 10	1,469	826	4,565	3,640
Consulting and professional fees		1,202	913	2,898	2,075
Regulatory and investor relations		123	128	443	402
Travel and entertainment		123	118	326	178
Facilities and communication		159	50	404	196
Insurance		119	98	357	292
Depreciation and amortization		63	71	207	223
Interest expense on lease liability		6	7	19	21
Foreign exchange loss (gain)		31	(57)	43	37
Other (income) expense		(9)	9	(18)	99
Write down of property and equipment to fair value		8	-	91	174
Gain on disposal of property and equipment		-	-	-	(40)
		3,509	2,297	9,922	7,768
Loss and comprehensive loss for the period		(3,135)	(2,067)	(8,778)	(6,233)
Basic and diluted loss per common share	7	(0.012)	(0.008)	(0.033)	(0.025)
Weighted average number of common shares outstanding – basic and diluted	7	268,283,387	260,928,039	268,138,254	247,267,326

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' (Deficiency) Equity

In CAD (000s)

(Unaudited)

	Notes	Number of shares (1)	Share Capital	Contributed surplus	Share-based compensation	Warrants	Deficit	Total Shareholders' (deficiency) equity
			\$	\$	\$	\$	\$	\$
Balance, January 1, 2021		236,755,745	71,870	7,981	6,771	2,418	(89,709)	(669)
Bought deal offering		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
Loss and comprehensive loss for the period		-	-	-	-	-	(2,552)	(2,552)
Share-based compensation		-	-	-	142	-	-	142
Balance, December 31, 2021		267,886,408	84,357	7,985	7,984	2,251	(98,494)	4,083
Balance, January 1, 2022		267,886,408	84,357	7,985	7,984	2,251	(98,494)	4,083
Share options exercised		268,797	157	-	(69)	-	-	88
RSUs released		284,072	174	-	(174)	-	-	-
Warrants expired		-	-	788	-	(788)	-	-
Loss and comprehensive loss for the period		-	-	-	-	-	(8,778)	(8,778)
Share-based compensation		-	-	-	1,005	-	-	1,005
Balance, September 30, 2022		268,439,277	84,688	8,773	8,746	1,463	(107,272)	(3,602)

(1) See Note 6 for details of share consolidation

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

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Cash Flows

In CAD (000s)

(Unaudited)

Notes	Nine-months ended September 30, 2022	Nine-months ended September 30, 2021
	\$	\$
Cash flow provided by (used in)		
Operating activities		
Loss and comprehensive loss for the period	(8,778)	(6,233)
Adjustments for:		
Depreciation on right-of-use asset	71	70
Depreciation on property and equipment	123	140
Amortization of intangible asset	13	13
Interest expense on lease liability	19	21
Unrealized foreign exchange (gain) loss on cash	(33)	42
Share-based compensation	1,005	1,117
Write down of property and equipment to fair value	91	174
Gain on disposal of property and equipment	-	(40)
Changes in items of working capital:		
Trade and other receivables	129	(307)
Inventories	(367)	(51)
Prepayments and other assets	77	(403)
Trade and other payables	493	(806)
Contract liabilities	(485)	(449)
Net cash used in operating activities	(7,642)	(6,712)
Investing activities		
Proceeds on disposal of property and equipment	-	77
Property and equipment acquisitions	(90)	(401)
Net cash used in investing activities	(90)	(324)
Financing activities		
Proceeds from financing	-	10,000
Transaction costs paid	-	(1,130)
Warrants exercised	-	3,356
Share options exercised	88	52
Lease liability payments	(88)	(84)
Net cash provided by financing activities	-	12,194
(Decrease) increase in cash	(7,732)	5,158
Effects of exchange rate changes on cash	33	(42)
Cash, beginning of period	8,890	5,807
Cash, end of period	1,191	10,923

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

In CAD (000s)

(Unaudited)

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.

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.

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited)

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. As at September 30, 2022, there were fourteen initiated clinical sites.

The Company's operations could continue to 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 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.

2. Basis of preparation

These condensed interim consolidated financial statements for the three-months ended September 30, 2022 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 year ended December 31, 2021, which have been prepared in accordance with IFRS. The Board of Directors approved these condensed interim consolidated financial statements for issue on November 9, 2022.

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.

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

There were no new standards or amendments to standards and interpretations that have been applied in preparing the condensed interim consolidated financial statements with the exception of the following

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 was effective for periods beginning on or after January 1, 2022. The Company adopted the amendment effective January 1, 2022 and determined that there was no impact on the Company's condensed interim consolidated financial statements.

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 Company adopted the amendments effective January 1, 2022 and determined that there was no impact on the Company's condensed interim consolidated financial statements.

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 Company adopted the amendments effective January 1, 2022 and determined that there was no impact on the Company's condensed interim consolidated financial statements.

Other 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 consolidated financial statements.

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

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, 2021. 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.

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.

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

All of the Company's financial liabilities, except for lease liabilities, are classified as current liabilities. Trade and other payables were \$2,015 at September 30, 2022 (December 31, 2021 - \$1,522) 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, 2022, cash included US\$100 (December 31, 2021 - US\$710). Trade and other receivables included a total of US\$11 and €nil (December 31, 2021 - US\$2 and €16). Trade and other payables included a total of US\$893, €6 and ¥nil (December 31, 2021 - US\$423 and ¥4,125). 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 Yen/Canadian exchange rates on the September 30, 2022 amounts would impact the statements of loss and comprehensive loss by \$108.

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, 2022, the Company has made commitments to certain organizations for approximately \$3,165 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, 2022 with respect to these agreements.

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

6. Share capital and other equity reserves

The Company is authorized to issue an unlimited number of Shares.

On June 20, 2022, 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.

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.

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.

a. Share options

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

	2022		
	February 28, 2022	April 5, 2022	June 6, 2022
Grant date share price	\$0.320	\$0.330	\$0.320
Share option fair value	\$0.184	\$0.178	\$0.173
Annualized volatility	68.11%	61.62%	62.40%
Forfeiture rate	4.90%	4.84%	9.79%
Expected life	5 years	5 years	5 years
Risk-free interest rate	1.74%	2.50%	3.07%
Dividend yield	0%	0%	0%
Number of share options granted			
Key Management	2,798,973	437,124	575,838
Employees	75,000	-	-
Other	200,000	-	-
	3,073,973	437,124	575,838
<i>Vesting schedule (i)</i>	1,869,213	437,124	575,838

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(Unaudited)

	2022		
Vesting schedule (ii)	1,204,760	-	-
	3,073,973	437,124	575,838

	2021						
	January 11, 2021	January 29, 2021	March 1, 2021	April 1, 2021	June 3, 2021	June 22, 2021	July 26, 2021
Grant date share price	\$0.440	\$0.465	\$0.630	\$0.530	\$0.475	\$0.460	\$0.380
Share option fair value	\$0.352	\$0.395	\$0.522	\$0.389	\$0.352	\$0.375	\$0.102
Annualized volatility	116.59%	114.41%	117.43%	98.23%	97.68%	116.18%	62.69%
Forfeiture rate	3.40%	3.40%	2.42%	4.16%	3.08%	3.08%	3.16%
Expected life	5 years	5 years	5 years	5 years	5 years	5 years	2 years
Risk-free interest rate	0.46%	0.43%	0.81%	0.97%	0.92%	0.95%	0.46%
Dividend yield	0%	0%	0%	0%	0%	0%	0%
Number of share options granted							
Key Management	-	400,000	1,251,063	241,440	-	100,000	-
Employees	8,700	-	75,000	-	234,288	-	-
Other	-	-	100,000	-	-	-	170,131
	8,700	400,000	1,426,063	241,440	234,288	100,000	170,131
Vesting schedule (i)	8,700	-	926,063	241,440	234,288	-	-
Vesting schedule (ii)	-	-	500,000	-	-	100,000	170,131
Vesting schedule (iii)	-	400,000	-	-	-	-	-
	8,700	400,000	1,426,063	241,440	234,288	100,000	170,131

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

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 successive quarter, and will be fully vested in January 2024.

There is no cash settlement of the share options.

	2022			2021		
	Weighted average exercise price per share \$	All participants	Key management	Weighted average exercise price per share \$	All participants	Key management
Balance, January 1	0.46	9,246,471	7,421,936	0.47	8,518,137	6,976,690
Granted	0.32	4,086,935	3,811,935	0.56	2,580,622	1,992,503
Exercised	0.32	(268,797)	(100,000)	0.36	(143,333)	(85,000)
Cancelled/Forfeited	0.46	(570,143)	(490,262)	0.53	(327,872)	(312,257)
Expired	0.38	(1,499,745)	(1,402,745)	0.73	(1,047,000)	(750,000)
Balance, September 30	0.42	10,994,721	9,240,864	0.46	9,580,554	7,821,936
<i>Exercisable</i>		7,873,988			6,895,058	

b. RSUs

	2022		2021	
	All participants	Key management	All participants	Key management
Balance, January 1	731,498	646,101	-	-
Granted	1,502,343	1,502,343	790,588	719,341
Released	(284,072)	(241,714)	-	-
Cancelled/forfeited	(15,678)	-	(73,240)	(73,240)
Balance, September 30	1,934,091	1,906,730	717,348	646,101

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.

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

c. DSUs

	2022	2021
	Key management	Key management
Balance, January 1	-	-
Granted	617,911	-
Balance, September 30	617,911	-

100% of the grant amount of DSUs vest on the grant date. DSUs are awarded to the Board of Directors and are settled in equity.

d. PSUs

PMX MILESTONE

Each of the CEO and CMO were granted PSUs which will vest immediately if FDA approval for PMX is achieved by certain dates (the "PMX Milestone") and shall be payable in Shares as follows:

- (i) 2,250,000 Shares if the PMX Milestone is achieved before June 30, 2023;
- (ii) 1,875,000 Shares if the PMX Milestone is achieved on or after June 30, 2023 and before September 30, 2023;
- (iii) 1,500,000 Shares if the PMX Milestone is achieved on or after September 30, 2023 and before December 31, 2023;
- (iv) 750,000 Shares if the PMX Milestone is achieved on or after December 31, 2023 and before January 31, 2024.

The PSUs will terminate and cease to have any effect with no payout in Shares if the PMX Milestone is not achieved by January 31, 2024.

DIMI MILESTONE

Each of the CEO and CMO were granted PSUs which shall vest immediately if FDA approval for in-home use of DIMI is achieved by certain dates (the "DIMI Milestone") and shall be payable in Shares as follows:

- (i) 750,000 Shares if the DIMI Milestone is achieved before June 30, 2024;
- (ii) 500,000 Shares if the DIMI Milestone is achieved on or after June 30, 2024 and before September 30, 2024;
- (iii) 250,000 Shares if the DIMI Milestone is achieved on or after September 30, 2024 and before October 31, 2024.

The PSUs will terminate and cease to have any effect with no payout in Shares if the DIMI Milestone is not achieved by October 31, 2024.

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

e. Warrants

	2022		2021	
	Weighted average exercise price per warrant \$	Warrants	Weighted average exercise price per warrant \$	Warrants
Balance, January 1	0.56	18,054,450	0.56	12,232,331
Share purchase warrants granted	-	-	0.50	11,765,000
Broker warrants granted	-	-	0.49	1,529,450
Exercised	-	-	0.45	(7,457,330)
Expired	0.73	(4,760,000)	0.45	(15,001)
Balance, September 30	0.50	13,294,450	0.60	18,054,450

f. Share compensation expense

	Three-months ended September 30, 2022	Three-months ended September 30, 2021	Nine-months ended September 30, 2022	Nine-months ended September 30, 2021
	\$	\$	\$	\$
Key management	206	58	939	933
Employees	11	34	48	114
Others	-	18	18	70
	217	110	1,005	1,117

Share compensation expense includes compensation from share options, RSUs and DSUs.

7. Loss per Share

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

	Three-months ended September 30, 2022	Three-months ended September 30, 2021	Nine-months ended September 30, 2022	Nine-months ended September 30, 2021
	\$	\$	\$	\$
Numerator for basic and diluted loss per Share available to shareholders	(3,135)	(2,067)	(8,778)	(6,233)
Denominator for basic and diluted loss per Share	268,283,387	260,928,039	268,138,254	247,267,326
Basic and diluted loss per Share	(0.012)	(0.008)	(0.033)	(0.025)

Spectral Medical Inc.

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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

		2022		2021	
	Note	Weighted average Shares-basic and diluted	Number of Shares	Weighted average Shares-basic and diluted	Number of Shares
Balance, January 1		267,886,408	267,886,408	236,755,745	236,755,745
Public offering				5,602,381	23,530,000
Share options exercised	6	179,919	268,797	30,501	143,333
RSUs released	6	71,927	284,072	-	-
Warrants exercised	6	-	-	4,878,699	7,457,330
Balance, September 30		268,138,254	268,439,277	247,267,326	267,886,408

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. 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 Company also incurs centralised corporate 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.

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Details of the operating segments plus corporate costs are as follows:

	Spectral Medical Inc.	Dialco Medical Inc.	Corporate	Three-months ended September 30, 2022
	\$	\$	\$	\$
Revenue	363	11	-	374
Expenses	1,595	804	1,110	3,509
Segment loss for the period	(1,232)	(793)		

	Spectral Medical Inc.	Dialco Medical Inc.	Corporate	Nine-months ended September 30, 2022
	\$	\$	\$	\$
Revenue	1,123	21	-	1,144
Expenses	4,041	2,362	3,519	9,922
Segment loss for the period	(2,918)	(2,341)		
Total assets	2,426	1,200	183	3,809
Total liabilities	6,678	351	382	7,411
Intercompany due from/(to)	6,435	(6,435)		

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

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	Spectral Medical Inc.	Dialco Medical Inc.	Corporate	Nine-months ended 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)		

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

	Three-months ended September 30, 2022	Three-months ended September 30, 2021	Nine-months ended September 30, 2022	Nine-months ended September 30, 2021
	\$	\$	\$	\$
Royalties	-	29	164	254
Exclusive rights distribution	167	167	501	501
Product revenue				
Proprietary biochemicals	76	5	171	329
EAA™ diagnostic	52	29	199	364
EAA™ instrumentation	68	-	88	66
RRT	11	-	21	21
Total Product revenue	207	34	479	780
Revenue	374	230	1,144	1,535

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.

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

	Three-months ended September 30, 2022	Three-months ended September 30, 2021	Nine-months ended September 30, 2022	Nine-months ended September 30, 2021
	\$	\$	\$	\$
Program management	357	325	799	525
Program oversight	12	13	24	15
Clinical site costs	593	254	1,036	428
Diagnostic supply and training	60	44	142	67
SAMI sub-study	1	4	1	18
Employee benefits	154	121	360	351
	1,177	761	2,362	1,404

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 \$50,118.

10. Salaries and benefits

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

	Three-months ended September 30, 2022		Nine-months ended September 30, 2022	
	\$		\$	
	All employees	Key management	All employees	Key management
Salaries	1,065	407	2,964	1,027
Bonus	6	-	9	-
Government assistance	-	-	(11)	-
Short term employee benefits	131	26	412	86
Directors' fees	48	48	187	186
Share-based compensation	217	206	1,005	939
Other	2	-	(1)	-
	1,469	687	4,565	2,238

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	Three-months ended September 30, 2021		Nine-months ended September 30, 2021	
	\$		\$	
	All employees	Key management	All employees	Key management
Salaries	935	361	2,657	1,057
Bonus	-	-	4	-
Government assistance	(378)	(51)	(628)	(93)
Short term employee benefits	120	22	365	74
Directors' fees	57	57	188	188
Share-based compensation	92	58	1,047	934
Other	-	-	7	-
	826	447	3,640	2,160

The Company received funds from the Canada Emergency Wage Subsidy program established to support businesses during the COVID-19 pandemic. Amounts received are classified as government assistance in the table above.

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.

11. Related party transactions

a. Toray Industries, Inc.

Toray holds 45,630,105 Shares of the Company as at September 30, 2022 representing approximately 17.0% (December 31, 2021 - 17.0%) 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.

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

	Three- months ended September 30, 2022	Three- months ended September 30, 2021	Nine- months ended September 30, 2022	Nine- months ended September 30, 2021
			\$	\$
Revenue				
Toray Medical Co., Ltd.	-	-	68	52
Purchases				
Toray International America Inc.	-	-	40	-
Due (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, 2022 representing approximately a 13.5% (December 31, 2021 – 13.5%) 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 10. There are no other related party transactions.

12. Subsequent event

On November 2, 2022 (the "Closing Date"), the Company closed a short form prospectus offering (the "Offering") of 10,061,250 units (the "Units") at a price of \$0.40 per unit (the "Offering Price") for aggregate gross proceeds of approximately \$4,024. Each Unit consists of one share of the Company (each, a "Share") 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 \$0.48 until November 2, 2025.

In addition, the Company has granted Paradigm Capital Inc. (the "Agent") an over-allotment option (the "Over-Allotment Option"), exercisable, in whole or in part, at the sole discretion

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of the Agent, at any time, and from time to time, for a period of 30 days from and including the Closing Date, to purchase from the Company (i) up to an aggregate of 4,096,688 additional Units at the Offering Price; (ii) up to an aggregate of 4,096,688 additional Shares at a price of \$0.37 per Share; (iii) up to an aggregate of 2,048,344 additional Warrants at a price of \$0.06 per Warrant; or (iv) any combination of (i), (ii) and (iii) provided that, in each case, the aggregate number of additional Shares and the aggregate number of additional Warrants that may be issued under the Over-Allotment Option (in each case either as underlying components of the additional Units or otherwise) does not exceed 4,096,688 Shares and 2,048,344 Warrants, to cover over-allocations, if any, and for market stabilization purposes.

On the Closing Date, the Company concurrent with closing of the Offering, the Company closed a private placement (the "Concurrent Private Placement") of an aggregate of US\$5,000 in aggregate principal of 7.0% convertible senior notes (the "Notes") due November 2, 2026 (the "Maturity Date"). Holders of the Notes may convert all or any portion of the Notes in integral multiples of US\$1 principal amount at any time prior to the Maturity Date at an initial conversion rate of 2,828.9591 Shares per US\$1, subject to customary anti-dilution and make whole adjustments.

In consideration for the services provided by the Agent in connection with the Offering and the Concurrent Private Placement, the Company has agreed to pay a fee equal to: (i) \$510 on gross proceeds of \$8,500; and (ii) 6.0% of the gross proceeds on amounts raised in excess of \$8,500 pursuant to the Offering and the Concurrent Private Placement, including any gross proceeds raised on exercise of the Over-Allotment Option. The Agent will also receive broker warrants, exercisable for a period of 36 months following the Closing Date, to acquire, in the aggregate, that number of Shares equal to: (i) 637,500 pursuant to the sale of \$8,500 of Units and Notes (which includes, for certainty, all of the Notes to be issued under the Concurrent Private Placement); and (ii) 6.0% of the number of Units sold in excess of \$8,500 raised pursuant to the Offering and the Concurrent Private Placement, including any additional Units issued pursuant to the exercise of the Over-Allotment Option.