



SPECTRAL MEDICAL INC.

Condensed Interim Consolidated Financial Statements

September 30, 2023

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Financial Position

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

(Unaudited)

	Notes	September 30, 2023	December 31, 2022
		\$	\$
Assets			
Current assets			
Cash		5,031	8,414
Trade and other receivables		720	1,056
Inventories		304	340
Prepayments and other assets		912	276
		6,967	10,086
Non-current assets			
Right-of-use-asset		598	464
Property and equipment		165	237
Intangible asset		192	211
Investment in iDialco	5	794	998
Total assets		8,716	11,996
Liabilities			
Current liabilities			
Trade and other payables		2,314	3,167
Current portion of contract liabilities	6	757	696
Current portion of lease liability		121	96
		3,192	3,959
Non-current liability			
Lease liability		535	420
Non-current portion of contract liabilities		3,509	4,011
Notes payable	7	11,631	6,129
Total liabilities		18,867	14,519
Shareholders' deficiency			
	9		
Share capital		87,061	87,050
Contributed surplus		8,916	8,773
Share-based compensation		10,197	8,908
Warrants		2,526	2,490
Deficit		(118,851)	(109,744)
Total shareholders' deficiency		(10,151)	(2,523)
Total liabilities and shareholders' deficiency		8,716	11,996

Going concern (Note 1)

Contingencies and commitments (Note 7)

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, 2023	Three- months ended September 30, 2022	Nine- months ended September 30, 2023	Nine- months ended September 30, 2022
		\$	\$	\$	\$
Revenue	10	397	362	1,233	1,114
Expenses					
Changes in inventories of finished goods and work-in-process		-	71	-	160
Raw materials and consumables used		305	121	722	357
Salaries and benefits	12	987	891	2,918	2,555
Consulting and professional fees		1,198	933	3,300	2,060
Regulatory and investor relations		109	123	414	442
Travel and entertainment		63	78	245	197
Facilities and communication		81	81	245	218
Insurance		102	119	290	357
Depreciation and amortization		57	55	172	171
Interest expense	6	173	6	429	19
Foreign exchange (gain) loss		146	19	(89)	30
Share-based compensation	9	340	217	1,300	1,005
Other expense (income)		56	(9)	64	(19)
Net loss on joint arrangement	5	41	-	205	-
		3,658	2,705	10,215	7,552
Loss and comprehensive loss for the year from continuing operations		(3,261)	(2,343)	(8,982)	(6,438)
(Loss) from discontinued operations	4	(130)	(792)	(125)	(2,340)
Loss and comprehensive loss for the year		(3,391)	(3,135)	(9,107)	(8,778)
Basic and diluted loss from continuing operations per common share		(0.01)	(0.00)	(0.03)	(0.02)
Basic and diluted income (loss) from discontinued operations per common share		(0.00)	(0.00)	(0.00)	(0.00)
Basic and diluted loss per common share		(0.01)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares outstanding – basic and diluted		278,604,718	268,283,387	278,569,902	268,138,254

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency

In CAD (000s)

(Unaudited)

	Notes	Number of shares	Share Capital	Contributed surplus	Share-based compensation	Warrants	Deficit	Total Shareholders' (deficiency)
			\$	\$	\$	\$	\$	\$
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, Sep 30, 2022		268,439,277	84,688	8,773	8,746	1,463	(107,272)	(3,602)
Bought deal offering		10,061,250	2,313	-	-	1,027	-	3,340
RSU Released		47,277	49	-	(30)	-	-	19
Loss and comprehensive loss for the period		-	-	-	-	-	(2,472)	(2,472)
Share-based compensation		-	-	-	192	-	-	192
Balance, December 31, 2022		278,547,804	87,050	8,773	8,908	2,490	(109,744)	(2,523)
Balance, January 1, 2023		278,547,804	87,050	8,773	8,908	2,490	(109,744)	(2,523)
RSUs released	9	28,457	11	-	(11)	-	-	-
Warrants issued		-	-	-	-	179	-	179
Warrants expired		-	-	143	-	(143)	-	-
Loss and comprehensive loss for the period		-	-	-	-	-	(9,107)	(9,107)
Share-based compensation		-	-	-	1,300	-	-	1,300
Balance, September 30, 2023		278,576,261	87,061	8,916	10,197	2,526	(118,851)	(10,151)

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Cash Flows

In CAD (000s)

(Unaudited)

	Nine-months ended Sep 30, 2023	Nine-months ended Sep 30, 2022
	\$	\$
Cash flow provided by (used in)		
Operating activities		
Loss and comprehensive loss for the period	(9,107)	(8,778)
Adjustments for:		
Depreciation on right-of-use asset	73	71
Depreciation on property and equipment	72	123
Amortization of intangible asset	19	13
Amortization of deferred financing Fees	147	-
Interest expense	429	19
Unrealized foreign exchange gain	(38)	(33)
Share-based compensation	1,300	1,005
Write down of property and equipment to fair value		91
Loss on investment in iDialco	205	-
Changes in items of working capital:		
Trade and other receivables	336	129
Inventories	36	(367)
Prepayments and other assets	(636)	77
Trade and other payables	(1,253)	493
Contract liabilities	(648)	(485)
Net cash used in operating activities	(9,065)	(7,642)
Investing activities		
Property and equipment acquisitions	-	(90)
Net cash used in investing activities	-	(90)
Financing activities		
Lease liability payments	110	(88)
Note payable	6,213	-
Financing charges paid	(641)	-
Share options exercised	-	88
Net cash provided by financing activities	5,682	-
Decrease in cash	(3,383)	(7,732)
Effects of exchange rate changes on cash	-	33
Cash, beginning of period	8,414	8,890
Cash, end of period	5,031	1,191

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. 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, 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 to fund its operations including the development and commercialization of its products, obtaining regulatory approval from FDA of PMX, 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

In CAD (000s)

(Unaudited)

2. Basis of preparation

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2023 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, 2022, which have been prepared in accordance with IFRS. The Board of Directors approved these condensed interim consolidated financial statements for issue on November 9, 2023.

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.

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, 2022. 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™. Potential sources of capital could include equity and/or debt financings, the collection of revenue resulting from commercialization activities and/or new strategic partnerships.

Spectral Medical Inc.

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(Unaudited)

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 \$2,314 at September 30, 2023 (December 31, 2022 - \$3,167) 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, 2023, cash included US\$4,251 (December 31, 2022 - US\$4,195). Trade and other receivables included a total of US\$ 236 and €52 (December 31, 2022 - US\$109 and €71). Trade and other payables included a total of US\$682, €13 (December 31, 2022 - US\$547 and ¥4,125). There is no active hedging program currently in place due to the relatively short time frame for settlement of these balances.

2. Interest rate risk

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

4. Discontinued Operations

On December 12, 2022, Spectral entered into a joint arrangement in which it obtained a 30% interest in a newly formed dialysis entity named i-Dialco Inc. ("iDialco"), in exchange for contributing certain regulatory approvals and intellectual rights to iDialco. iDialco will continue the development of acute and chronic dialysis devices, and exclusively focus commercialization efforts of the SAMI and DIMI dialysis devices in the North American markets. Due to the establishment of iDialco, the Company has designated the Dialco operations as discontinued operations. We have classified the results of Dialco as discontinued operations in our consolidated statement of Loss and Comprehensive Loss.

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

5. Investment in iDialco

On December 12, 2022, Spectral entered into a joint arrangement in which it obtained a 30% interest in a newly formed dialysis entity named i-Dialco Inc. ("iDialco"), in exchange for contributing certain regulatory approvals and intellectual rights to iDialco. iDialco will continue the development of acute and chronic dialysis devices, and exclusively focus commercialization efforts of the SAMI and DIMI dialysis devices in the North American markets. The principal place of business is in Ontario, Canada.

As at December 31, 2022 and for the period ended December 31, 2022, the Company recorded its investment of \$1,015 in iDialco under the equity method. This represented the estimated fair value of its contributions into iDialco. These contributions included certain DIMI and SAMI device registrations and certifications with an estimated valuation of \$295 in addition to certain developed intellectual rights for the SAMI device with an estimated valuation of \$720. The estimated valuation included estimated internal and external direct and indirect costs in order to acquire and or develop the registrations, certifications and intellectual rights.

As at September 30, 2023, the investment in iDialco was \$794 (\$998 – December 31, 2022). For the nine months period ended September 30, 2023, the Company recorded \$205 (Nil – June 30, 2022) as its 30% proportion of the net loss of the iDialco operations and was recorded in the Consolidated Statements of Loss and Comprehensive Loss.

While the Company maintains a 30% ownership and voting rights within iDialco, there are no specific financial liabilities or cash obligations of Spectral. The iDialco operations are fully funded by Infomed. From time to time, certain services may be rendered by Spectral in support of the joint arrangement or charges incurred directly by Spectral which are then charged back to iDialco. For the period ended September 30, 2023, Spectral invoiced iDialco for charges totaling \$711. These charges were made up predominantly of pass-through charges incurred by Dialco providing transition services for iDialco operations. As at September 30, 2023, \$272 was included within trade receivables and other receivables.

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In CAD (000s)

(Unaudited)

6. Contract liabilities

	September 30, 2023	December 31, 2022
	\$	\$
Current portion of contract liability related to exclusive distribution rights	668	696
Contract liabilities related to Baxter Subsidy	89	-
Total Current Contract liabilities	757	696
Contract liability related to exclusive distribution rights	3,509	4,011
Contract liabilities	4,266	4,707

On August 22, 2023, Spectral executed a collaborative research agreement with Baxter Healthcare Corporation whereby it will provide certain clinical research services for the completion of the Prismax sub study in relation to the PMX product. These services include but are not limited to developing a study protocol, clinical trial and data management, monitoring and regulatory services. Revenue is recognized as performance obligations are satisfied over-time. The performance period is expected to be up to 18 months. The aggregate transaction price of the contract which has not been performed as at September 30, 2023 is \$615.

For the three and nine months ended September 30, 2023, revenue was recognized \$44 (Nil-September 30, 2022) and is included within revenue on the consolidated statements of loss and comprehensive loss. As at September 30, 2023, \$133 is included in trade and other receivables pertaining to contract billings.

7. Notes Payable

On November 2, 2022, Spectral received USD \$5,000 in convertible notes payable (the "Notes") upon the completion of its private placement. 5,000 Notes were issued and have a face value of USD\$1,000 per Note, bearing interest of 7% and are due on November 1, 2026 (the "Maturity Date"). Holders of the Notes may convert all or any portion of the Notes in integral multiples of USD \$1,000 principal amount at any time prior to the Maturity Date. Each Note is convertible into approximately 2,828 Common Shares representing a conversion price of approximately CAD \$0.48 per share, subject to certain anti-dilution and make-whole fundamental change adjustments.

On September 7, 2023, Spectral received USD \$4,553,000 in convertible notes payable (the "Notes") upon the completion of its private placement. 4,553 Notes were issued and have a face value of USD \$1,000 per Note, bearing interest of 9% and are due November 1, 2026 (the "maturity date"). Holders of the Notes may convert all or any portion of the Notes into common shares of the company in integral multiples of USD \$1,000 principal amount at any time prior to the Maturity Date. The notes are convertible into approximately 15,475,647 Common Shares representing a conversion price of approximately CAD \$0.40 per share subject to certain anti-dilution and make-whole

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

fundamental change adjustments. Paradigm Capital Inc. was the Underwriter for the bought deal private placement.

Financing charges of \$1,517 were incurred to execute the Notes Payable. These deferred financing charges are recorded against the Notes payable and will be amortized over the term of the underlying Notes payable, maturing November 1, 2026. See the table below:

	September 30, 2023 \$	December 31, 2022 \$
Notes Payable	12,972	6,798
Deferred financing charges	(1,517)	(698)
Accumulated amortization of financing charges	176	29
Notes Payable, net	11,631	6,129

For the nine months period ended September 30, 2023 the Convertible Notes Payable incurred interest expense of \$399 (Nil - September 30, 2022) and was included within interest expense in the Condensed Interim Consolidated Statement of Financial Position which is payable semi-annually.

8. Contingencies and commitments

- a. The Company has made commitments to certain organizations for approximately \$549 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, 2023 with respect to these agreements.

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In CAD (000s)

(Unaudited)

9. Share capital and other equity reserves

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

Details of Awards are as follows:

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 options.

	2023		2022	
	Weighted average exercise price per share \$	Share Options	Weighted average exercise price per share \$	Share Options
Balance, January 1	0.42	11,331,020	0.46	9,246,471
Granted	0.26	3,057,828	0.32	4,086,935
Exercised/Released	-	-	0.32	(268,797)
Cancelled/Forfeited	0.35	(185,059)	0.46	(570,143)
Expired	0.40	(1,837,631)	0.38	(1,499,745)
Balance, September 30	0.38	12,366,158	0.42	10,994,721
<i>Exercisable September 30</i>		8,963,266		7,873,988

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

Details of the units of RSUs, PSUs and DSUs are as follows:

	2023			2022		
	RSUs	DSUs	PSUs	RSUs	DSUs	PSUs
Balance, January 1	2,124,172	716,951	4,500,000	731,498	-	-
Granted	2,107,423	1,995,896	-	1,502,343	617,911	6,000,000
Released	(28,457)	-	-	(284,072)	-	-
Cancelled/forfeited	(84,898)	-	(1,500,000)	(15,678)	-	-
Balance, September 30	4,118,240	2,712,847	3,000,000	1,934,091	617,911	6,000,000

a. RSUs

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. Certain other RSUs vests equally at the annual anniversary as to one-third (1/3) on each successive annual anniversary, and will be fully vested by the end of the 3rd year following the grant.

b. DSUs

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.

c. 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) 1,500,000 Shares if the PMX Milestone is achieved on or after September 30, 2023 and before December 31, 2023;
- (ii) 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.

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

Warrants

	2023		2022	
	Weighted average exercise price per warrant \$	Warrants	Weighted average exercise price per warrant \$	Warrants
Balance, January 1	0.49	19,314,925	0.56	18,054,450
Granted	0.40	928,539	-	-
Expired	0.48	(1,529,450)	0.73	(4,760,000)
Balance, September 30	0.48	18,714,014	0.50	13,294,450

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

10. Weighted average Shares outstanding and Loss per Share

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

	Three-months ended September 30, 2023	Three-months ended September 30, 2022	Nine-months ended September 30, 2023	Nine-months ended September 30, 2022
Numerator for basic and diluted loss per share available to shareholders	(3,261)	(2,343)	(8,982)	(6,438)
Numerator for basic and diluted loss per share available to shareholders	(130)	(792)	(125)	(2,340)
Numerator for basic and diluted loss per share available to shareholders	(3,391)	(3,135)	(9,107)	(8,778)
Denominator for basic and diluted loss per share available to shareholders	278,604,718	268,283,387	278,569,902	268,138,254
Basic and diluted loss from continuing operations per share	(0.01)	(0.00)	(0.03)	(0.02)
Basic and diluted loss from discontinued operations per share	(0.00)	(0.00)	(0.00)	(0.00)
Basic and diluted loss per Share	(0.01)	(0.00)	(0.03)	(0.02)

11. Segment reporting

The Company's key management team are the chief operating decision-makers (CODM). Effective December 31, 2022, management determined that it had one reportable segment and has aggregated what was previously reported as two operating segments (Spectral

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

Medical Inc. and Dialco Medical Inc.). The Company determined this due to the fact Dialco Medical Inc. operations were considered discontinued as at December 31, 2022.

	Three-months ended	Three-months ended	Nine-months ended	Nine-months ended
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	\$	\$	\$	\$
Royalties	-	-	126	164
Exclusive rights distribution	167	167	501	501
Clinical Research Services	44	-	44	-
Product revenue				
Proprietary biochemicals	116	75	349	161
EAA™ diagnostic	70	52	150	200
EAA™ instrumentation	0	68	63	88
Total Product revenue	186	195	562	449
Revenue	397	362	1,233	1,114

12. 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:

Spectral Medical Inc.

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(Unaudited)

	Three- months ended	Three- months ended	Nine- months ended	Nine- months ended
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	\$	\$	\$	\$
Program management	355	357	1,272	799
Program oversight	46	12	76	24
Clinical site costs	364	593	962	1,036
Diagnostic supply and training	362	60	616	142
SAMI sub-study	6	1	23	1
Employee benefits	130	154	309	360
	1,263	1,177	3,258	2,362

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 \$53,772

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

13. Salaries and benefits

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

	Three-months ended		Nine-months ended	
	September 30, 2022		September 30, 2022	
	\$	\$	\$	\$
	All employees	Key management	All employees	Key management
Salaries	710	407	1,950	1,027
Government assistance	-	-	(11)	-
Short term employee benefits	131	26	419	86
Directors' fees	48	48	186	186
Other	2	-	11	-
	891	481	2,555	1,299

	Three-months ended		Nine-months ended	
	September 30, 2023		September 30, 2023	
	\$	\$	\$	\$
	All employees	Key management	All employees	Key management
Salaries	841	274	2,417	874
Short term employee benefits	144	7	413	61
Directors' fees	-	-	83	83
Other	2	-	5	-
	987	281	2,918	1,018

In 2022, 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.

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

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.

13. Related party transactions

a. Toray Industries, Inc.

Toray holds 45,630,105 Shares of the Company as at September 30, 2023 representing approximately 16.40% (December 31, 2022 – 16.90%) 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 <i>September</i> <i>30, 2023</i>	Three- months ended <i>September</i> <i>30, 2022</i>	Nine- months ended <i>September</i> <i>30, 2023</i>	<i>Nine-</i> <i>months</i> ended <i>September</i> <i>30, 2022</i>
	\$	\$	\$	\$
Revenue				
Toray Medical Co., Ltd.	-	-	-	68
Purchases				
Toray International America Inc.	-	-	-	40
Due (to)				
Toray Medical Co., Ltd.	-	-	-	-
Toray International America Inc.	-	-	-	-

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

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In CAD (000s)

(Unaudited)

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, 2023 representing approximately a 13% (December 31, 2022 – 13%) 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.