



SPECTRAL MEDICAL INC.

Condensed Interim Consolidated Financial Statements

September 30, 2024

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Financial Position

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

(Unaudited)

	Notes	September 30, 2024	December 31, 2023 (Refer Note 3)	January 1, 2023 (Refer Note 3)
		\$	\$	\$
Assets				
Current assets				
Cash		5,759	2,952	8,414
Trade and other receivables		337	186	1,056
Inventories		318	366	340
Prepayments and other assets		882	621	276
		7,296	4,125	10,086
Non-current assets				
Right-of-use-asset		475	567	464
Property and equipment		268	326	237
Intangible asset		180	193	211
Investment in Dialco		-	-	998
Total assets		8,219	5,211	11,996
Liabilities				
Current liabilities				
Trade and other payables		3,004	2,820	3,087
Current portion of contract liabilities	7	502	727	696
Current portion of lease liability		126	121	96
Notes Payable	8&3	12,890	7,940	3,566
Derivative Liability	8&4	17,405	6,310	2,674
		33,927	17,918	10,119
Non-current liability				
Lease liability		404	500	420
Non-current portion of contract liabilities	7	5,170	3,342	4,011
Total liabilities		39,501	21,760	14,550
Shareholders' (deficiency) equity				
	10			
Share capital		89,871	87,061	87,050
Contributed surplus		10,148	8,916	8,773
Share-based compensation		11,308	10,385	8,908
Warrants		1,384	2,526	2,490
Deficit		(143,993)	(125,437)	(109,775)
Total shareholders' (deficiency) equity		(31,282)	(16,549)	(2,554)
Total liabilities and shareholders' (deficiency) equity		8,219	5,211	11,996

Going concern (Note 1)

Contingencies and commitments (Note 9)

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 Sep 30, 2024 \$	Revised (Refer Note 16) Three months ended Sep 30, 2023 \$	Nine-month ended Sep 30, 2024 \$	Revised (Refer Note 16) Nine-months ended Sep 30, 2023 \$
Revenue	7&12	502	397	1,641	1,233
Expenses					
Raw materials and consumables used		327	305	994	722
Salaries and benefits	14	1,078	986	3,101	2,918
Consulting and professional fees		1,282	1,198	3,652	3,300
Regulatory and investor relations		284	110	585	414
Travel and entertainment		136	63	407	245
Facilities and communication		90	81	353	245
Insurance		105	102	315	290
Depreciation and amortization		64	57	191	172
Interest expense	8	970	342	2,178	839
Foreign exchange loss		(399)	46	129	(205)
Share-based compensation		241	340	1,497	1,300
Other expense		163	320	704	289
Net loss on joint arrangement	6	-	41	-	205
Fair value adjustment derivative liabilities	8	6,156	81	6,088	(442)
		10,497	4,072	20,194	10,292
Loss and comprehensive loss for the period from continuing operations		(9,995)	(3,675)	(18,553)	(9,059)
Gain (loss) from discontinued operations	5	-	(130)	(3)	(125)
Loss and comprehensive loss for the period		(9,995)	(3,805)	(18,556)	(9,184)
Basic and diluted loss from continuing operations per common share	11	(0.04)	(0.01)	(0.07)	(0.03)
Basic and diluted loss from discontinued operations per common share	11	(0.00)	(0.00)	(0.00)	(0.00)
Basic and diluted loss per common share	11	(0.04)	(0.01)	(0.07)	(0.03)
Weighted average number of common shares outstanding - basic and diluted	11	281,705,359	278,604,718	280,269,516	278,569,902

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

In CAD (000s)

(Unaudited)

	Notes	Number of Shares	Share Capital \$	Contributed surplus \$	Share-based compensation \$	Warrants \$	Deficit \$	Total Shareholders' (deficiency) equity \$
Balance January 1, 2023		278,547,804	87,050	8,773	8,908	2,490	(109,775)	(2,554)
RSU released	10	28,457	11	-	(11)	-	-	-
Warrants issued	10	-	-	-	-	179	-	179
Warrants expired	10	-	-	143	-	(143)	-	-
Loss and comprehensive loss for the period		-	-	-	-	-	(9,184)	(9,184)
Share-based compensation	10	-	-	-	1,300	-	-	1,300
Revised (Refer note 16) Balance, September 30, 2023		278,576,261	87,061	8,916	10,197	2,526	(118,959)	(10,259)
Loss and comprehensive loss for the period		-	-	-	-	-	(6,478)	(6,478)
Share-based compensation	10	-	-	-	188	-	-	188
Balance December 31, 2023		278,576,261	87,061	8,916	10,385	2,526	(125,437)	(16,549)
Balance January 1, 2024		278,576,261	87,061	8,916	10,385	2,526	(125,437)	(16,549)
Warrants exercised	10	982,500	618	-	-	(121)	-	497
Warrants issued	10	-	-	-	-	211	-	211
Warrants expired	10	-	-	1,232	-	(1,232)	-	-
Share Options Exercised	10	1,867,627	1,163	-	(524)	-	-	639
RSU released	10	114,210	50	-	(50)	-	-	-
Notes Conversion	10	1,274,625	979	-	-	-	-	979
Loss and comprehensive loss for the period		-	-	-	-	-	(18,556)	(18,556)
Share-based compensation	10	-	-	-	1,497	-	-	1,497
Balance September 30, 2024		282,815,223	89,871	10,148	11,308	1,384	(143,993)	(31,282)

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

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Cash Flow

In CAD (000s)

(Unaudited)

	Nine months ended September 30, 2024	Revised (Refer note 16) Nine months ended September 30, 2023
Cash flow provided by (used in)		
Operating activities		
Loss and comprehensive loss for the period	(18,556)	(9,184)
Adjustments for:		
Depreciation on right-of-use asset	92	73
Depreciation on property and equipment	85	87
Amortization of intangible asset	13	19
Amortization of deferred financing fee	788	373
Unrealized foreign exchange gain/loss	76	(155)
Interest expense on lease liability	25	30
Accreted interest on notes payable	2,154	809
Share-based compensation expense	1,497	1,300
Net loss on joint venture arrangement	-	205
Fair value adjustment derivative liabilities	6,088	(442)
Changes in items of working capital:		
Trade and other receivables	(151)	337
Inventories	48	36
Prepayments and other assets	(261)	(636)
Trade and other payables	(24)	(781)
Contract liabilities	1,603	(647)
Net cash used in operating activities	(6,523)	(8,576)
Investing activities		
Purchase of property and equipment	(28)	(15)
Net cash used in investing activities	(28)	(15)
Financing activities		
Financing charges paid	(766)	(641)
Interest expense paid	(794)	(472)
Lease liability payments	(115)	110
Proceeds from share options exercised	639	-
Proceeds from share warrants exercised	497	-
Proceeds from 9% convertible notes issued	9,897	6,212
Net cash provided by financing activities	9,358	5,209
Change in cash	2,807	(3,383)
Cash, beginning of period	2,952	8,414
Cash, end of period	5,759	5,031

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. The Company also is continuing its legacy business of manufacturing and selling certain proprietary reagents.

Going concern

The condensed interim consolidated financial statements of Spectral have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) 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 significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

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

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

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 months and nine months ended September 30, 2024 have been prepared in accordance with IFRS Accounting Standards, 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, 2023 and 2022, which have been prepared in accordance with IFRS Accounting Standards. The Board of Directors approved these condensed interim consolidated financial statements for issue on Nov 7, 2024.

3. Summary of material accounting policies

The summary of material accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year and corresponding interim reporting period.

In February 2024, the Company notified Baxter that it had enrolled patient number 90. Subsequently, the Company and Baxter announces amendment to the initial term of the distribution agreement to 10 years post PMA approval and Baxter exercised its right to maintain its exclusive distribution rights for PMX. Prior to its amendment the Company was amortizing the contract liabilities based on the agreement end date of Dec 31, 2029. Post the amendment signed in February 2024, the Company has estimated the end date of the agreement to be June 30, 2036 for amortization of the contract liabilities based on the current patient enrolments.

i. Accounting standards adopted in the current year

a. IAS 1, 'Presentation of Financial Statements'

In 2024, the IASB issued an amendment to IAS 1 these amendments clarify the requirements for classifying liabilities as either current or non-current. In particular, the amendments clarify how an entity classifies debt that an entity may settle by converting it into equity. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, and must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8").

The Non-current Notes payable were regrouped to Current Notes payable bringing the balance as at December 31, 2023 \$7,940 (January 01, 2023 - \$3,566).

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

Pre-amendment	As at December 31, 2023	As at January 1, 2023
Non-Current Notes Payable	\$7,676	\$3,487
Current Notes Payable	\$264	\$79
Post amendment		
Current Notes Payable	\$7,940	\$3,566

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, 2023 and 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™ therapeutic. 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

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In CAD (000s)

(Unaudited)

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.

Trade and other payables were \$3,003 as at September 30, 2024 (December 31, 2023 - \$2,820) which have expected settlement dates within one year. Notes payable \$12,890 as at September 30, 2024 (December 31, 2023 - \$7,940) which is a current financial liability. Derivative liabilities on the conversion option of the Derivative Liability was \$17,405 as at September 30, 2024 (December 31, 2023 - \$6,310) and would be settled in the issuance of shares. Lease liabilities were \$530 as at September 30, 2024 (December 31, 2023 - \$621).

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, 2024, cash included US\$3,622 (December 31, 2023 - US\$2,190). Trade and other receivables included a total of US\$48 and €45 (December 31, 2023 - US\$18 and €0). Trade and other payables included a total of US\$543, €Nil, ¥Nil (December 31, 2023 - US\$921, €16 and ¥4). 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.

5. 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 existing Dialco operations as discontinued operations. The Company classified the results of Dialco as discontinued operations in our Consolidated Statements of Loss and Comprehensive Loss.

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Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

6. 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.

At year end December 31, 2023, the Company impaired its investment in iDialco and no further losses are recorded. As at September 30, 2024, the investment was at \$Nil (December 31, 2023 - \$Nil). The Company will continue to track of the future losses and gains booked by iDialco.

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 S A 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.

7. Contract liabilities

	September 30, 2024 \$	December 31, 2023 \$
Current portion of contract liability related to exclusive distribution rights	485	668
Contract liabilities related to Baxter Substudy	17	59
Total Current Contract liabilities	502	727
Contract liability related to exclusive distribution rights	5,170	3,342
Contract liabilities	5,672	4,069

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 a 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, 2024 is \$254.

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(Unaudited)

In February 2024, the Company notified Baxter that it had enrolled patient number 90. Subsequently, the Company and Baxter announced an amendment to the initial term of the distribution agreement to 10 years post PMA approval and Baxter exercised its right to maintain its exclusive distribution rights for PMX. Baxter paid a non-dilutive US\$1,500 payment to Spectral. Accordingly, the amortization of contract liabilities have been re-estimated to fully amortize by June 30, 2036. Reducing the total monthly amortization of contract liabilities from \$55 (2023) to \$40 (2024).

For nine months ended September 30, 2024, revenue recognized for Baxter Sub-study was \$286(\$44 September 30, 2023) and is included within revenue on the consolidated statements of loss and comprehensive loss. As at September 30, 2024, \$Nil is included in trade and other receivables pertaining to contract billings.

8. Notes Payable

The notes payable are a compound instrument with separate components, being the debt and equity conversion feature. The debt component has been classified as a financial liability and the conversion feature has also been classified as a liability, as the debt is denominated in USD and therefore violates the fixed for fixed requirement to be classified as equity. On initial recognition, proceeds were allocated between debt and derivative liability by determining the fair value of each component.

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 US\$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.

The host foreign currency debt is measured subsequently at amortised cost, using the effective interest rate method. The effective interest rate that discounts the interest and principal payments to its present value of is 24%.

The inputs, which require some judgement, used in determining the fair value of the derivative liability were as follows:

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In CAD (000s)

(Unaudited)

	30-Sep-24	31-Dec-23
Volatility (%)	51.7	52.53
Risk free rate (%)	2.88	3.7
Strike Price (\$)	0.48	0.48
Market Price (\$)	0.61	0.425
Expected Life (years)	2.08	2.83
Fair Value of derivative liability (\$)	4,677	2,797

On September 7, 2023, Spectral received USD \$4,553 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 fundamental change adjustments.

The host foreign currency debt is measured subsequently at amortized cost, using the effective interest rate method. The effective interest rate that discounts the interest and principal payments to its present value of is 24%.

On August 19, 2024, 150 Notes having a face value of USD \$1,000 were converted into 509,850 Common Shares at a conversion rate of 3,399 Common Shares per USD \$1,000 principal amount of the Notes.

On September 25, 2024, 225 Notes having a face value of USD \$1,000 were converted into 764,775 Common Shares at a conversion rate of 3,399 Common Shares per USD \$1,000 principal amount of the Notes.

The inputs, which require some judgement, used in determining the fair value of the derivative liability were as follows:

	30-Sep-24	31-Aug-24	31-Jul-24	31-Dec-23
Volatility %	51.7	52.35	52.63	52.53
Risk free rate %	2.88	3.31	3.43	3.7
Strike Price \$	0.4	0.4	0.4	0.4
Market Price \$	0.61	0.66	0.66	0.425
Expected Life year (years)	2.08	2.17	2.25	2.83
Fair Value of derivative liability (\$)	5,502	6,873	7,219	3,513

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On May 30, 2024, Spectral received USD \$6,232 in convertible notes payable (the "Notes") upon the completion of its private placement. 6,232 Notes were issued and have a face value of USD\$1,000 per Note, bearing interest of 9% and are due May 1, 2028 (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 16,359,000 Common Shares representing a conversion price of approximately CAD\$0.52 per share subject to certain anti-dilution and make whole fundamental change adjustments.

The host foreign currency debt is measured subsequently at amortised cost, using the effective interest rate method. The effective interest rate that discounts the interest and principal payments to its present value of is 39%.

The inputs, which require some judgement, used in determining the fair value of the derivative liability were as follows:

	30-Sep-24	30-May-24
Volatility (%)	51.70	51.14
Risk free rate (%)	2.78	3.65
Strike Price (\$)	0.52	0.52
Market Price (\$)	0.61	0.47
Expected Life (year)	3.67	4.00
Fair Value of derivative liability (\$)	6,227	4,833

On July 19, 2024, Spectral received USD \$1,000 in convertible notes payable (the "Notes") upon the completion of an additional non-brokered offering sold to Birch Hill pursuant to the exercise of their anti-dilution pre-emptive rights relating to the closing of the offering of Notes that was completed on May 30, 2024. 1,000 Notes were issued and have a face value of USD\$1,000 per Note, bearing interest of 9% and are due May 1, 2028 (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 2,644,231 Common Shares representing a conversion price of approximately CAD\$0.52 per share subject to certain anti-dilution and make whole fundamental change adjustments.

The host foreign currency debt is measured subsequently at amortized cost, using the effective interest rate method. The effective interest rate that discounts the interest and principal payments to its present value of is 32%.

The inputs, which require some judgement, used in determining the fair value of the derivative liability were as follows:

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	30-Sep-24	19-July-24
Volatility (%)	51.7	51.21
Risk free rate (%)	2.78	3.47
Strike Price (\$)	0.52	0.52
Market Price (\$)	0.61	0.49
Expected Life (year)	3.67	3.88
Fair Value of derivative liability (\$)	999	710

See the table below:

	September 30, 2024, 2024 \$	December 31, 2023 \$
Notes Payable - current	13,401	8,687
Deferred financing charges	(925)	(925)
Accumulated amortization of financing charges	414	178
Notes Payable, net	12,890	7,940

For the period ended September 30, 2024 the Convertible Notes Payable incurred interest expense of \$ 2,154 (September 30, 2023 \$ 808) which was included within interest expense in the Consolidated Statements of Loss and Comprehensive Loss.

9. Contingencies and commitments

- a. The Company has made commitments to certain organizations for approximately \$480 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.

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In CAD (000s)

(Unaudited)

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, 2024 with respect to these agreements.

- c. The Company had guaranteed minimum annual purchase commitments related to its Canadian exclusive distribution agreement for PMX with Toray Industries Inc. Effective April 1, 2019, the agreement was amended to remove the obligation to purchase minimum quantities.

10. 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.

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

2024

Grant Date	Risk-free interest rate	Expected life	Annualized volatility	Forfeiture Rate	Dividend rate	Grant date share price	Share option fair value
03-Jan-24	3.21%	5 years	67.99%	36.54%	0%	\$0.46	\$0.215
05-Apr-24	3.59%	5 years	64.56%	36.63%	0%	\$0.41	\$0.234
06-Aug-24	2.96%	5 years	68.58%	36.44%	0%	\$0.59	\$0.394

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

	2024		2023	
	Weighted average exercise price per share \$	Share Options	Weighted average exercise price per share \$	Share Options
Opening, January	0.39	12,151,881	0.42	11,331,020
Granted	0.41	1,721,565	-	-
Exercised/Released	0.34	-1,867,627	-	-
Cancelled/Forfeited	0.37	-38,638	0.33	-158,017
Expired	0.37	-315,519	0.40	-1,667,500
Balance, September 30	0.40	11,651,662	0.43	9,505,503
Exercisable September 30		8,014,015		7,354,215

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

	2024		2023		
	RSUs	DSUs	RSUs	DSU	PSUs
Opening, January 1	4,137,196	2,896,368	2,124,172	716,951	4,500,000
Granted	1,619,043	1,177,916	2,107,423	1,995,896	-
Released	(114,210)	-	(28,457)	-	-
Forfeited/cancelled	(38,380)	-	(84,898)	-	(1,500,000)
Balance, September 30	5,603,649	4,074,284	4,118,240	2,712,847	3,000,000

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Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

a. RSUs

- a. 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.
- b. Certain RSUs vest one-third (1/3) on the anniversary of the grant date, and will be fully vested by the end of the 3rd year following the grant date.
- c. Certain RSU's vests 100% on the grant date.

RSUs are settled into equity.

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 as per the discretion of the board.

c. Share compensation expense is as follows for the period ended:

	September 30, 2024	September 30, 2023
	\$	\$
Share Compensation expense	1,497	1,300

d. Details of Warrants are as follows

	2024		2023	
	Weighted average exercise price per warrant \$	Warrants	Weighted average exercise price per warrant \$	Warrants
Opening	0.49	18,714,014	0.49	19,314,925
Broker warrants granted	0.45	981,450	0.40	928,539
Exercised	0.49	(982,500)	-	-
Expired	0.50	(10,982,500)	0.48	(1,529,450)
Balance, September 30	0.49	7,730,464	0.48	18,714,014

Spectral Medical Inc.

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In CAD (000s)

(Unaudited)

981,450 broker warrants were issued on May 30, 2024 with respect to the Private placement of convertible notes (Note 8) and were valued at \$212 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
3.91%	4 years	51.14%	0%	\$0.45	\$0.216

Share Warrants Expired: On July 29, 2024, 10,982,500 share warrants expired. These expired share warrants were issued in conjunction with the Company's approximately \$10 million unit offering which closed on July 27, 2021.

11. 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	Revised (Refer note 16) Three Months ended	Nine Months ended	Revised (Refer note 16) Nine Months ended
	30-September-2024	30-September-2023	30-September-2024	30-September-2023
Loss and comprehensive loss for the period from continuing operations	(9,995)	(3,675)	(18,553)	(9,059)
Loss(gain) from discontinued operations	(0)	(130)	(3)	(125)
Loss and comprehensive loss for the period	(9,995)	(3,805)	(18,556)	(9,184)
Weighted average number of common shares outstanding – basic and diluted	281,705,359	278,604,718	280,269,516	278,569,902
Basic and diluted loss from continuing operations per common share	(0.04)	(0.01)	(0.07)	(0.03)
Basic and diluted" loss (income) "from discontinued operations per share	(0.00)	(0.00)	(0.00)	0.00
Basic and diluted loss per Share	(0.04)	(0.01)	(0.07)	(0.03)

12. Segment reporting

Revenue for the 3 months ended September 30, 2024 from different revenue streams was \$502 (September 30, 2023 - \$397). Revenue for the 9 months ended September 30, 2024 was \$1,641 (September 30, 2023 - \$1,233).

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

	Three months ended September 30, 2024 \$	Three months ended September 30, 2023 \$	Nine months ended September 30, 2024 \$	Nine months ended September 30, 2023 \$
Royalties	-	-	135	126
Exclusive rights distribution	121	167	379	501
Service Revenue	107	44	286	44
Product revenue				
Proprietary biochemicals	127	116	386	349
EAATM diagnostic	68	70	255	150
Instrumentation	-	-	100	63
PMX	79	-	100	-
Total Product revenue	274	186	841	562
Revenue	502	397	1,641	1,233

13. Clinical development and regulatory program

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

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

	Three months ended September 30, 2024 \$	Three months ended September 30, 2023 \$	Nine months ended September 30, 2024 \$	Nine months ended September 30, 2023 \$
Program management	374	355	1,033	1,272
Program oversight	23	46	106	76
Clinical site costs	5	364	1,269	962
Diagnostic supply and training	20	362	97	616

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

SAMI sub-study	17	6	22	23
Employee benefits	199	130	488	309
	638	1,263	3,015	3,258

The clinical trial and regulatory program costs have been included within the Statements of Loss and Comprehensive Loss as required. Total costs since inception in 2010 are \$ 53,871.

14. Salaries and benefits

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

	Three months ended September 30, 2024		Three months ended September 30, 2023	
	All employees	Key management	All employees	Key management
Salaries	890	234	841	274
Short term employee benefits	188	35	145	7
Directors' fees	-	-	-	-
	1,078	269	986	281

	Nine months ended September 30, 2024		Nine months ended September 30, 2023	
	All employees	Key management	All employees	Key management
Salaries	2,624	766	2,422	874
Short term employee benefits	477	115	413	61
Directors' fees	-	-	83	83
	3,101	881	2,918	1,018

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.

Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements

In CAD (000s)

(Unaudited)

15. Related party transactions

Key management consists of the Company's two executive officers and its Board of Directors. Compensation of key management for the periods ended September 30, 2024 and 2023 is disclosed in Note 14.

On July 19, 2024, Spectral received USD \$1,000 in convertible notes payable (the "Notes") upon the completion of an additional non-brokered offering sold to Birch Hill pursuant to the exercise of their anti-dilution pre-emptive rights relating to the closing of the offering of Notes that was completed on May 30, 2024. 1,000 Notes were issued and have a face value of USD\$1,000 per Note, bearing interest of 9% and are due May 1, 2028 (the "maturity date"). Further details are disclosed in Note 8.

There are no other related party transactions.

16. Comparative Financials

The Comparative Financial were revised to classify the note payable into debt and the conversion feature. Refer to Note 15 of Dec 31, 2023 year end financial statement for detailed changes.

The adjustment, and its corresponding impacts, resulted in the following adjustments to the September 30, 2023 financial statements.

Changes in Consolidated statements of Financial Position

	Pre adjustment	September 2023 Post adjustment
Shareholders (deficiency) equity		
Deficit	(118,851)	(118,959)

Changes in Consolidated Statements of Loss and Comprehensive Loss

Expenses	Pre adjustment	Post Adjustment	Change
Interest expense	429	839	(410)
Foreign exchange loss	(89)	(205)	116
Other expense	64	289	(225)
Fair value adjustment derivative Liabilities	-	(442)	442
Totals	404	481	77