Spectral Medical Inc.

Consolidated Financial Statements

December 31, 2015 and 2014

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March 29, 2016

Independent Auditor's Report

To the Shareholders of
Spectral Medical Inc.

We have audited the accompanying consolidated financial statements of Spectral Medical Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Centre, 354 Davis Road, Suite 600, Oakville ON Canada L6J 0C5
T: 905 949 7400, F:416 814 3220

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Spectral Medical Inc. and its subsidiaries as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

(in thousands of Canadian dollars)

	Notes	December 31 2015 $	December 31 2014 $
Assets			
Current assets			
Cash	5	6,369	10,054
Trade and other receivables	6	630	583
Inventories	7	243	166
Prepayments and other assets	8	141	185
		7,383	10,988
Non-current assets			
Property and equipment	9	717	490
Intangible asset	10	359	384
		1,076	874
Total assets		8,459	11,862
Liabilities			
Current liabilities			
Trade and other payables	11	2,850	2,893
Deferred revenue		176	149
Total liabilities		3,026	3,042
Equity			
Share capital	13	53,058	46,879
Contributed surplus		7,849	7,849
Other equity reserves		3,723	3,542
Deficit		(59,197)	(49,450)
Total equity		5,433	8,820
Total liabilities and equity		8,459	11,862

Contingencies and commitments (Note 12)
Subsequent event (Note 22)

Approved by the Board of Directors

(signed)"Anthony Bihl III" Director **(signed)"Guillermo Herrera"** Director

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

Spectral Medical Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2015 and 2014

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

	Notes	2015 $	2014 $
Revenue	16	3,089	2,964
Expenses			
Changes in inventories of finished goods and work- in-process		199	310
Raw materials and consumables used		469	444
Employee benefits	13,18	3,600	3,460
Consulting and professional fees		6,112	6,584
Product development		16	273
Regulatory and investor relations		624	300
Travel and entertainment		976	989
Depreciation and amortization		172	205
Foreign exchange (gain) loss		(12)	54
Other expenses		540	506
		12,696	13,125
Operating loss		(9,607)	(10,161)
Finance income		83	60
Loss and comprehensive loss before tax		(9,524)	(10,101)
Deferred tax recovery	15	-	609
Loss and comprehensive loss for the year		(9,524)	(9,492)
Basic and diluted loss per common share	14	(0.05)	(0.06)
Weighted average number of common shares outstanding	14	188,064,621	154,540,951

Spectral Medical Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014

(in thousands of Canadian dollars)

	Notes	Issued capital Number	$	Contributed surplus $	Share-based compensation $	Warrants $	Deficit $	Total equity $
Balance, January 1, 2014		134,462,561	33,957	3,864	3,239	4,594	(39,958)	5,696
Private placement	19	45,051,186	12,816	-	-	-	-	12,816
Share options exercised	13	222,500	105	-	(45)	-	-	60
Warrants exercised	13	994	1	-	-	-	-	1
Warrants expiry, net of tax	13,15	-	-	3,985	-	(4,594)	-	(609)
Loss and comprehensive loss for the year		-	-	-	-	-	(9,492)	(9,492)
Share-based compensation	13,18	-	-	-	348	-	-	348
Balance, December 31, 2014		179,737,241	46,879	7,849	3,542	-	(49,450)	8,820
Private placement	19	11,049,464	6,021	-	-	-	-	6,021
Shares repurchased under NCIB	13	(480,000)	(132)	-	-	-	(223)	(355)
Share options exercised	13	464,700	290	-	(124)	-	-	166
Loss and comprehensive loss for the year		-	-	-	-	-	(9,524)	(9,524)
Share-based compensation	13,18	-	-	-	305	-	-	305
Balance, December 31, 2015		190,771,405	53,058	7,849	3,723	-	(59,197)	5,433

Spectral Medical Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014

(in thousands of Canadian dollars)

	Notes	2015 $	2014 $
Cash flow provided by (used in)			
Operating activities			
Loss and comprehensive loss for the year		(9,524)	(9,492)
Adjustments for:			
Depreciation on property and equipment	9	147	180
Amortization of intangible asset	10	25	25
Share-based compensation	13,18	305	348
Loss on disposal of property and equipment	9	7	1
Deferred tax recovery	15	-	(609)
Changes in items of working capital :			
Trade and other receivables	6	(47)	(14)
Inventories	7	(77)	149
Prepayments and other assets	8	44	104
Trade and other payables	11	(43)	(743)
Deferred revenue		27	43
Net cash used in operating activities		(9,136)	(10,008)
Investing activities			
Property and equipment expenditures	9	(403)	(60)
Proceeds on disposal of property and equipment	9	22	16
Net cash used in investing activities		(381)	(44)
Financing activities			
Private placement	19	6,021	12,816
Share options exercised	13	166	60
Shares repurchased under NCIB	13	(355)	-
Warrants exercised	13	-	1
Net cash provided by financing activities		5,832	12,877
(Decrease) increase in cash		(3,685)	2,825
Cash, beginning of year		10,054	7,229
Cash, end of year		6,369	10,054

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

1. Nature of operations

Spectral Medical Inc. (Spectral or the Company) was incorporated on July 29, 1991 in Ontario, Canada as Spectral Diagnostics Inc. Effective December 31, 2014, the Company's name was changed to "Spectral Medical Inc.". The address of the registered office is 135 The West Mall, Unit 2, Toronto, Ontario.

The Company is strategically focused on the development and commercialization of a treatment for septic shock utilizing its Endotoxin Activity Assay (EAA™) diagnostic and the Toraymyxin™ therapeutic. The Company also manufactures and sells certain proprietary reagents.

2. Basis of preparation

The consolidated financial statements of Spectral have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) as set out in the CPA Canada Handbook. These consolidated financial statements were approved by the Board of Directors for issue on March 29, 2016.

3. Significant accounting policies

The significant accounting polices used in the preparation of these consolidated financial statements are described below:

i. Consolidation

The Company has one wholly owned U.S. subsidiary, Spectral Diagnostics (US) Inc., which was incorporated on September 14, 2009 under Section 102 of the General Law of the State of Delaware.

The Company also has a 49% ownership interest in Altercyte Inc., with one director holding a 2% interest for a combined ownership of 51% controlling interest, incorporated July 9, 2012 under the General Law of the State of Delaware.

The subsidiaries do not have any active operations and have no financial impact on the Company.

ii. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention.

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

iii. Foreign currency

a. Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than Canadian dollars are recognized within operating loss in the consolidated statement of loss and comprehensive loss.

iv. Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Spectral's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financials are disclosed below.

The management of Spectral makes estimates and assumptions concerning the future that may not equal actual results.

a. Share options valuation and share-based compensation

Assumptions are used in the underlying calculation of fair values of Spectral's stock options. Fair value is determined using the Black-Scholes pricing model. Significant changes in the assumptions could materially change the recorded amounts.

b. Clinical trial expenses

Clinical trial expenses are accrued based on the services received and efforts expended pursuant to contracts with contract research organizations (CROs), consultants, clinical trial sites, and other vendors. In the normal course of business, the Company contracts third parties to perform various clinical trial activities in the ongoing EUPHRATES trial. The financial terms of these agreements vary from contract to contract, are subject to negotiation and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrolment of patients or the completion of portions of the clinical trial or similar conditions. The Company determines the accruals by reviewing contracts, vendor agreements and purchase orders, and through

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

discussions with internal personnel and external service providers as to the progress or stage of completion of the trial or services and the agreed-upon fee to be paid for such services. However, actual costs and timing of the EUPHRATES trial is uncertain, subject to risks and may change depending upon a number of factors, including the Company's clinical development plan and trial protocol.

c. *Deferred income taxes*

Management uses estimates when assessing the recoverability of deferred income taxes. These estimates are used to determine the recoverability of tax loss carry forward amounts. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable income for the asset to be recovered.

v. Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provision of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and benefits of ownership.

The classification is determined at initial recognition and depends on the nature and purpose for which the instruments were acquired:

a. *Financial assets and financial liabilities at fair value through profit or loss:*

A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are initially and subsequently stated at fair value. Transaction costs are expensed in the consolidated statement of loss and comprehensive loss. Gains and losses arising from changes in fair value are presented within operating loss in the consolidated statement of loss and comprehensive loss in the year in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion that is expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

b. *Loans and receivables:*

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. The Company's cash and trade and other receivables are classified as loans and receivables.

Loans and receivables are initially recognized at the amount expected to be received, less any discounts to reduce the loans and receivables to fair value. Subsequently, they are carried at amortized cost using the effective interest method less impairment losses.

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

The impairment loss of receivables is based on a review of all outstanding amounts at the end of the reporting period. Bad debts are written off in the period in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

c. *Other financial liabilities at amortized cost:*

Other financial liabilities are carried at amortized cost and include trade payables and accrued liabilities. Other financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payable to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are classified as non-current liabilities.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

d. *Financial liabilities and equity instruments:*

Debt and equity instruments are classified as either financial liabilities, or as equity, in accordance with the substance of the contractual arrangement and the definition of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Proceeds received on issuance of units, consisting of common shares and warrants, are allocated to those two instruments based on their relative fair values. Transaction costs are also allocated to the common shares and warrants in proportion to the allocation of proceeds.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities carried at amortized cost.

vi. Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired. If such evidence exists, the Company recognizes an impairment loss as follows:

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

Financial assets carried at amortized cost:

The impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

vii. Cash

Cash consists of cash on hand and deposits in banks that are valued at cost, which approximates fair value.

viii. Trade and other receivables

Trade receivables consist of amounts due from customers for royalties and product sales in the normal course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. As at December 31, 2015, management determined that no provision for impairment was required.

Other receivables include accrued interest and input tax credits receivable.

ix. Prepayments and other assets

Prepayments and other assets consist of amounts paid in advance for items that have future value to the Company, such as insurance policy premiums, lease deposits and other items paid in advance.

x. Inventories

Inventories, comprising antibodies, proteins, EAA™ tests, and PMX cartridges are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and net realizable value, with replacement cost used as the best available measure of net realizable value. Cost is determined using the weighted average method.

The cost of finished goods and work-in-process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Obsolete, redundant and slow moving inventory is identified and written down to net realizable value. As at December 31, 2015, management determined that no write down was required.

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

xi. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of an asset is derecognized when replenishment takes place. Repairs and maintenance costs are recognized within operating loss in the consolidated statements of loss and comprehensive loss in the year in which they are incurred.

Property and equipment are depreciated using the straight-line method based on estimated useful lives, which are as follows:

Laboratory equipment	5 years
Office equipment and furniture	5 years
Computer equipment	3 years
Leasehold improvements	over the term of the lease

The depreciation method, useful life and residual values are reviewed annually and adjusted, if appropriate.

Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment.

Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, are capitalized.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other expenses in the consolidated statement of loss and comprehensive loss.

xii. Intangible asset

Intangible assets with determinable lives are stated at cost less accumulated amortization and impairment losses. The Company's intangible asset is a licence with a finite useful life. This asset is capitalized and amortized on a straight-line basis within operating loss in the consolidated statement of loss and comprehensive loss over the period of its expected useful life. The licence is amortized over twenty years and has a remaining estimated useful life of fourteen years.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying

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

amount of the asset, and are recognized in the consolidated statement of loss and comprehensive loss when the asset is derecognized.

xiii. Impairment of non-financial assets

Property and equipment, and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For purposes of measuring recoverable amounts, assets are grouped at the lowest levels for which there are largely independent cash flows (cash generating units or CGUs). The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use being the present value of the expected future cash flows of the relevant asset or CGU. An impairment loss is recognized immediately in the consolidated statement of loss and comprehensive loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

xiv. Trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers and are classified as current liabilities if payment is due within one year or less. If not, they are classified as non-current liabilities. Other payables include salaries, bonuses, withholding taxes, and vacation earned but not taken.

xv. Provisions

Provisions for legal claims, where applicable, are recognized in other payables when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company has not recorded any provisions as at December 31, 2015.

xvi. Deferred revenue

Deferred revenue consists of amounts received from royalty and other customers in advance of revenue recognition. Amounts expected to be recognized within one year or less are classified as current liabilities, with the balance being classified as non-current liabilities.

xvii. Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

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

xviii.Share options

The fair value of the share options granted for which the Company receives goods or services as consideration for share options is measured at grant date, using the Black Scholes option pricing model, and is recognized at the time goods are received or the services have been rendered.

xix. Warrants

Warrants are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. In 2014, the Company extended the expiration term of the issued warrants which in effect is the expiry of the old warrants and issuance of a new warrant. The Company's policy is not to re-measure the new issue upon the extension of the expiry term.

xx. Employee benefits

The Company recognizes short-term benefits, such as salaries, legislated contributions, paid leave, and non-monetary benefits on an undiscounted basis, as services are rendered. The Company recognizes bonuses (if any) when a legal or constructive obligation exists and the amount of the bonus can be reasonably estimated.

a. Vacation pay:

Employee entitlements to vacation are recognized as they are earned by the employees. A provision, stated at current cost, is made for the estimated liability at period end.

b. Share-based compensation:

The Company grants share options to buy common shares of the Company to directors, officers, employees and others. The Board of Directors grants such share options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to the closing market price on the day preceding the date the share options are granted.

The fair value of the share options granted to directors, officers, employees and others is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period that the individuals earn the share options. The fair value of the share options is recognized as an expense, with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Share options granted to directors vest immediately on the date the option is granted.

Share options granted to officers, employees and others generally vest over a period of three years as follows:

- 25% on the date the share option is granted

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

- 6.25% in each subsequent quarter

Each tranche is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black–Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period based on the number of awards expected to vest, by increasing equity. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. The share-based compensation reserve is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when the options are exercised. Share options that expire unexercised are reclassified to contributed surplus.

c. *Termination benefits:*

The Company recognizes termination benefits when it has demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal, or provide benefits as a result of an offer made to encourage voluntary termination. Benefits which are due more than twelve months after the end of the reporting period are discounted to their present value.

xxi. Current and deferred income taxes

The tax expense for the year comprises current and deferred income taxes. Tax is recognized in the consolidated statement of loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

xxii. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The following specific criteria must be met before revenue is recognized:

a. *Royalties:*

Royalties are earned on certain proprietary biochemicals and patented process applications. Royalties are accrued in accordance with the terms of the relevant agreements and where the stream of royalty revenue can be reasonably estimated.

b. *Product sales:*

Revenue from the sale of the Company's EAA™ diagnostic and certain proprietary biochemicals is recognized when all of the following conditions are satisfied:

- The specific risks and rewards of ownership have been transferred to the purchaser;
- The Company does not retain continuing managerial involvement;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred, or to be incurred, in respect of the sale can be measured reliably.

c. *Instrumentation:*

The Company purchases specialized instrumentation and supplies it to its customers and distributors at negotiated prices. Revenue on the sale of instrumentation is recognized when the conditions as described in item (b) above are satisfied.

Instrumentation is also supplied to various institutions for research and investigative purposes, including clinical sites associated with the EUPHRATES trial.

Where instrumentation is transferred from site to site, it is recorded at the lower of cost or depreciated cost. Depreciation is recorded over its remaining estimated useful life on a straight-line basis and commences when the instrument is supplied to the site.

d. *Interest income:*

Interest income is recognized within operating loss in the consolidated statement of loss and comprehensive loss as it accrues, using the effective interest method.

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

xxiii. Loss per common share

Basic loss per common share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the reporting period. Diluted loss per common share is computed similar to basic loss per common share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of share options and warrants, if dilutive. The number of additional shares is calculated using the treasury share method.

xxiv. Leases

Rents payable under operating leases are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

xxv. Accounting standards adopted in the current year

The following amendment has been adopted by the Company for the financial year beginning on January 1, 2015:

Amendment to IAS 24, *Related Party Transactions*: This standard was amended to revise the definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent and clarify related disclosure requirements. The Company has adopted the amendment to IAS 24 effective January 1, 2015. The adoption of the amendment to IAS 24 did not have an impact on the disclosures in the Company's consolidated financial statements.

xxvi. Accounting standards issued but not yet applied

A number of new standards and amendments to standards and interpretations have not been applied in preparing these consolidated financial statements. None of these standards are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

a. Amendment to IAS 1, *Presentation of Financial Statements*: This standard was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, and the disclosure of accounting policies. The amendment is required for years beginning on or after January 1, 2016. The adoption of the amendment to IAS 1 will not have any material impact on the Company's financial statements.

b. IFRS 15, *Revenue from Contracts with Customers:* This specifies how and when to recognize revenue as well as requiring the Company to provide users of consolidated financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. IFRS 15 was

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

issued in May, 2014 and applies to an annual reporting period beginning on or after January 1, 2018. The Company has not yet assessed the potential impact of IFRS 15.

c. IFRS 9, *Financial Instruments:* This addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling to profit and loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 32. For financial liabilities, there were no changes to classification and comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness test. It requires an economic relationship between the hedged item and the hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 32. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company has not yet assessed the potential impact of IFRS 9.

d. IFRS 16, *Leases*: On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the consolidated balance sheets for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019. The Company has not yet evaluated the impact on the consolidated financial statements.

4. Risk management

i. 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.

a. Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Financial instruments that potentially expose the Company to significant credit risk consist of cash and trade and other receivables.

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

1. *Cash*

   The Company places its cash with Canadian Schedule I banks.

2. *Trade and other receivables*

   The Company sells its products to distribution partners in major markets. The credit risk associated with the trade and other receivables pursuant to these agreements is evaluated during initial negotiations and on an ongoing basis. There have been no events of default under these agreements. As at December 31, 2015 and 2014, no material trade and other receivable balances were considered impaired or past due.

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. All of the Company's financial liabilities are classified as current liabilities. Trade and other payables were $2,850 as at December 31, 2015 with all of them having expected settlement dates within one year. There are uncertainties related to the timing and use of the Company's cash resources.

c. *Market risk*

1. *Currency risk*

   The majority of the Company's revenue is denominated in U.S. dollars and Euros. As at December 31, 2015, cash included US$103. Trade and other receivables included a total of US$354 and €36. Trade and other payables included a total of US$1,120 and €1. There is no active hedging program currently in place due to the relatively short time frame for settlement of these balances. A 10% change in the U.S. dollar/Canadian dollar or Euro/Canadian dollar exchange rates on the December 31, 2015 amounts would impact net loss by $105.

2. *Interest rate risk*

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

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

ii. Capital risk management

The Company's primary objective when managing capital is to maintain appropriate levels of cash for working capital and operating purposes, as well as funding commercialization of its core products. Capital consists of share capital, contributed surplus, other equity reserves, and deficit.

5. Cash

	December 31 2015 $	December 31 2014 $
Cash at bank and on hand	171	512
Premium rate bank account	6,198	9,542
Cash and cash equivalents	**6,369**	**10,054**

6. Trade and other receivables

	December 31 2015 $	December 31 2014 $
Trade receivables	95	76
Accrued royalties	481	456
Input tax credits receivable	48	44
Other receivables	6	7
Trade and other receivables	**630**	**583**

7. Inventories

	December 31 2015 $	December 31 2014 $
Raw materials and supplies	73	71
Work-in-process	7	32
Finished goods	163	63
Inventories	**243**	**166**

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

8. Prepayments and other assets

	December 31 2015	December 31 2014
	$	$
Deposits	41	17
Financing fee	24	-
Travel	20	63
Contract prepayment	11	-
Insurance premiums	7	67
Other prepayments	38	31
Patient fee	-	7
Prepayments and other assets	**141**	**185**

i. Contract prepayment as at December 31, 2015 represents an advance to a third party to purchase a blood purification device.

ii. Financing fee represents a payment for services rendered in connection with the financing that was completed in 2016 (Note 22).

9. Property and equipment

	Laboratory equipment	Office equipment and furniture	Computer equipment	Leasehold improvements	Total
	$	$	$	$	$
Balance, January 1, 2014					
Cost	1,557	346	205	85	2,193
Accumulated depreciation	(980)	(333)	(182)	(71)	(1,566)
Net carrying amount	**577**	**13**	**23**	**14**	**627**
Year ended December 31, 2014					
January 1, 2014	577	13	23	14	627
Additions	10	21	7	22	60
Dispositions	(17)	-	-	-	(17)
Depreciation	(154)	(6)	(14)	(6)	(180)
December 31, 2014	**416**	**28**	**16**	**30**	**490**
	$	$	$	$	$
Balance, December 31, 2014					
Cost	1,459	367	212	107	2,145
Accumulated depreciation	(1,043)	(339)	(196)	(77)	(1,655)
Net carrying amount	**416**	**28**	**16**	**30**	**490**

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

	Laboratory equipment	Office equipment and furniture	Computer equipment	Leasehold improvements	Total
Year ended December 31, 2015					
January 1, 2015	416	28	16	30	490
Additions	322	-	2	79	403
Dispositions	(29)	-	-	-	(29)
Depreciation	(120)	(7)	(9)	(11)	(147)
December 31, 2015	**589**	**21**	**9**	**98**	**717**
Balance, December 31, 2015					
Cost	1,752	367	214	186	2,519
Accumulated depreciation	(1,163)	(346)	(205)	(88)	(1,802)
Net carrying amount	**589**	**21**	**9**	**98**	**717**

10. Intangible asset

	December 31 2015 $	December 31 2014 $
License fee		
Cost	502	502
Accumulated amortization	(143)	(118)
Net carrying amount	**359**	**384**

On April 21, 2010, the Company paid $502 to Toray Industries, Inc. (Toray) pursuant to the terms of a license agreement granting Spectral the exclusive development and commercial rights in the United States for Toraymyxin™. This amount is being amortized on a straight line basis over the 20 year term of the license.

As part of this license agreement, on obtaining market approval from the U.S. Food and Drug Administration for Toraymyxin™, the Company would be required to pay an additional $1,000 in cash and issue 500,000 common shares to Toray.

In addition, on obtaining market approval and commercial sale of Toraymyxin™, the Company would be required to pay royalties to Toray at 8% for net sales of Toraymyxin™ up to US$25,000 per annum and 6% for net sales of Toraymyxin™ in excess of US$25,000.

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

11. Trade and other payables

	December 31 2015 $	December 31 2014 $
Accrued liabilities	1,485	1,433
Trade payables	874	992
Compensation payable to key management	445	327
Compensation payable to employees	46	58
Advance from a related party (i)	-	83
Trade and other payables	**2,850**	**2,893**

i. The Company received a US$100 advance from Toray as reimbursement for expenditures to be incurred related to the analysis of certain clinical trial data in connection with the Toraymyxin™ medical device. These amounts were applied against the related expenses during 2015.

12. Contingencies and commitments

i. The Company has committed to expenditures for its EUPHRATES trial as follows:

	2016 $	2017 $
Program management	3,729	810
Program oversight	283	36
Clinical site costs	1,824	32
Diagnostic supply and training	225	-
Employee benefits	527	264
Consultants	120	-
	6,708	**1,142**

Future commitments for the trial are based on enrolment of 446 evaluable patients in accordance with the approved clinical protocol at up to 60 clinical sites in the U.S. and Canada. These commitments are determined based on the final required sample size of the EUPHRATES trial. The Company is only committed to the costs to the extent that evaluable patients are enrolled.

ii. Future lease payments for the rental of premises are as follows:

	December 31 2015 $	December 31 2014 $
Less than 1 year	151	149
Between 1 and 5 years	90	240
More than 5 years	-	-

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

Lease expense in 2015 was $133 (2014 - $129).

iii. 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 license 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 December 31, 2015 with respect to these agreements.

13. Share capital and other equity reserves

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

ii. On December 15, 2014 the Company announced that the Toronto Stock Exchange (the "TSX") approved its notice of intention to make a normal course issuer bid ("NCIB") for its outstanding Shares. Pursuant to the notice, the Company was able to purchase up to 3,594,745 of its Shares, representing approximately 2% of its issued and outstanding Shares, during the twelve month period commencing December 17, 2014 and ending December 16, 2015.

During the year, the Company repurchased 480,000 Shares under this NCIB for $355. All Shares purchased were cancelled.

iii. Details of share options are as follows:

Under the Company's 2008 Amended Stock Option Plan, the total number of Shares that may be optioned to any director, officer, employee or consultant shall not exceed 5% of the total issued and outstanding shares at the date of the grant of the option. The aggregate number of shares issuable under the Plan shall not exceed 10% of the total number of Shares issued and outstanding.

During the year, the Company granted the following share options to directors, officers, employees and consultants at the discretion of the Board of Directors.

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

December 31, 2015			December 31, 2014		
Date	Number of share options	Exercise price	Date	Number of share options	Exercise price
January 22, 2015	1,250,000	$0.38	January 3, 2014	916,000	$0.60
March 24, 2015	100,000	$0.67	October 1, 2014	100,000	$0.32
			October 15, 2014	75,000	$0.30

The exercise prices of the share options are equal to the closing market price of the Company's Shares on the TSX on the immediately preceding day of the grant of the option. Share options issued to the Company's directors vest 100% at the time of the grant. Share options issued to the Company's officers, employees, and consultants, generally vest at 25% of the grant amount at the time of the grant. The balance of these share options vest equally in each successive quarter and will be fully vested by the end of the third year following the grant date. Share options issued on January 22, 2015 will be fully vested by January 22, 2018. The share options issued March 24, 2015 were fully vested by December 31, 2015. The contractual life of each share option is five years. There is no cash settlement of the share options.

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices over the last five years.

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

						2014
Grant date	Risk-free interest rate	Expected life	Annualized volatility	Dividend rate	Grant date share price	Share option fair value
January 3, 2014	1.95%	5 years	74.89%	0%	$0.580	$0.354
October 1, 2014	1.55%	5 years	67.69%	0%	$0.330	$0.190
October 15, 2014	1.37%	5 years	67.42%	0%	$0.290	$0.161

						2015
Grant date	Risk-free interest rate	Expected life	Annualized volatility	Dividend rate	Grant date share price	Share option fair value
January 22, 2015	0.84%	5 years	65.89%	0%	$0.365	$0.198
March 24, 2015	0.72%	5 years	75.12%	0%	$0.780	$0.496

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

		2015				2014
	Weighted average exercise price per share $	Share options		Weighted average exercise price per share $	Share options	
		All optionees	Key management		All optionees	Key management
January 1	0.37	5,566,000	4,788,500	0.33	4,907,500	4,020,000
Granted	0.40	1,350,000	950,000	0.55	1,091,000	991,000
Forfeited/cancelled	0.38	(39,750)	-	0.38	(210,000)	-
Exercised	0.36	(464,700)	(70,000)	0.27	(222,500)	(222,500)
Expired	0.42	(1,325,050)	(1,250,000)	-	-	-
Balance, December 31	**0.37**	**5,086,500**	**4,418,500**	**0.37**	**5,566,000**	**4,788,500**

Of the 5,086,500 outstanding share options (2014: 5,566,000), 4,182,091 share options (2014: 4,677,627) were exercisable. Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Price range $	Number of share options outstanding	Weighted average remaining contractual life in years	Weighted average exercise price per share $	Number of share options exercisable	Weighted average exercise price per share $
0.200 to 0.300	1,722,500	2.63	0.24	1,442,188	0.25
0.310 to 0.400	2,777,500	1.16	0.36	2,572,189	0.36
0.510 to 0.610	1,066,000	3.32	0.60	663,250	0.60
Balance, December 31, 2014	**5,566,000**	**2.63**	**0.33**	**4,677,627**	**0.34**
0.200 to 0.300	1,622,500	1.75	0.24	1,569,375	0.24
0.310 to 0.370	2,210,500	2.48	0.35	1,640,152	0.34
0.380 to 0.670	1,253,500	3.02	0.56	972,564	0.56
Balance, December 31, 2015	**5,086,500**	**2.38**	**0.37**	**4,182,091**	**0.35**

iv. Details of share purchase warrants are as follows:

During 2014, the Company received $1 cash, on the exercise of 994 share purchase warrants, at an exercise price of $0.60 per Share. The remaining 25,105,256 share purchase warrants, expired on September 2, 2014.

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

14. Loss per common share

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

	December 31 2015	December 31 2014
	$	$
Numerator for basic and diluted loss per common share available to common shareholders	(9,524)	(9,492)
Denominator for basic and diluted loss per common share	188,064,621	154,540,951
Basic and diluted loss per common share	(0.05)	(0.06)

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

Weighted average common shares outstanding

	December 31, 2015		December 31, 2014	
	Weighted average common shares-basic and diluted	Number of Common Shares	Weighted average common shares-basic and diluted	Number of Common Shares
Balance, January 1	179,737,241	179,737,241	134,462,561	134,462,561
Private placement	8,294,666	11,049,464	19,995,321	45,051,186
Shares repurchased under NCIB	(227,682)	(480,000)	-	-
Share options exercised	260,396	464,700	82,686	222,500
Warrants exercised	-	-	383	994
Balance, December 31	**188,064,621**	**190,771,405**	**154,540,951**	**179,737,241**

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

15. Income taxes

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the tax rate applicable to the loss of the Company as follows:

	December 31, 2015 $	%	December 31, 2014 $	%
Loss and comprehensive loss for the year before tax	(9,524)		(10,101)	
Tax calculated at the applicable statutory tax rate	(2,524)	26.5	(2,677)	26.5
Tax effects of:				
Capital losses utilized in the year	-	-	(609)	6.0
Expenses not deductible for tax	102	(1.1)	117	(1.2)
Tax losses and other items for which no deferred income tax was recognized	2,422	(25.4)	2,560	(25.3)
Deferred tax recovery	**-**	**-**	**(609)**	**6.0**

Deferred tax assets have not been recognized for the effects of the following temporary differences and operating losses:

	December 31 2015	December 31 2014
	$	$
Deferred income tax assets		
Operating loss carry-forwards	17,517	15,319
Capital loss carry forward	1,936	1,936
Research and development expenditures	6,528	6,528
Net non-refundable investment tax credits	2,030	2,030
Income tax basis of property and equipment in excess of carrying amount and other temporary differences	1,733	1,739
	29,744	**27,552**

As at December 31, 2015, the Company's income tax benefits, for which no benefit has been recognized in these consolidated financial statements, expire as follows:

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

i. Operating loss carry-forwards expire in varying amounts as follows:

Year of expiry	Operating loss carry-forwards $
2026	11,646
2027	1,052
2028	796
2029	1,844
2030	5,300
2031	6,639
2032	8,549
2033	10,940
2034	10,093
2035	9,244
	66,103

ii. Research and development expenditures of approximately $24,634 (2014: $24,634), which may be used to reduce future years' taxable income, can be carried forward indefinitely.

iii. Non-refundable investment tax credits of approximately $2,761 (2014: $2,761), which may be applied against future income taxes payable; expire in varying amounts from 2018 to 2026.

16. Segment reporting

The Chief Executive Officer and the Chief Financial Officer are the Company's chief operating decision-makers (CODM). Management has determined that there is one operating segment based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

Details of the Company's revenue are as follows:

i. By source:

	December 31 2015 $	December 31 2014 $
Royalties	**2,040**	**1,890**
Product revenue		
Proprietary biochemicals	364	282
EAA™ diagnostic	525	721
Instrumentation	160	71
	1,049	**1,074**
Revenue	**3,089**	**2,964**

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

ii. By Country:

	December 31 2015 $	December 31 2014 $
United States	1,731	1,697
France	518	416
Italy	394	464
Japan	179	189
Russia	75	55
Other	192	143
Revenue	**3,089**	**2,964**

The allocation of revenue is based on the location where product is shipped or license is used.

iii. By Customer:

	December 31 2015 $	December 31 2014 $
Customer A	1,519	1,366
Customer B	518	416
Customer C	333	464
Customer D	166	189
Customer E	115	143
Other	438	386
Revenue	**3,089**	**2,964**

iv. At December 31, 2015 the Company has substantially all of its non-current assets residing in Canada.

17. The EUPHRATES trial

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

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

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

	December 31 2015 $	December 31 2014 $
Program management	3,499	3,454
Program oversight	430	313
Clinical site costs	2,177	2,404
Diagnostic supply and training	346	278
Employee benefits	461	475
Consultants	54	149
Total EUPHRATES	**6,967**	**7,073**

The trial costs have been included within operating loss in the statement of loss and comprehensive loss as required. Total trial costs since inception in 2010 are $32,857.

18. Employee benefits

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

	December 31 2015 $		December 31 2014 $	
	All employees	**Key management**	**All employees**	**Key management**
Salaries	2,326	1,188	2,280	1,166
Bonuses	423	398	256	256
Short term employee benefits	309	104	304	78
Directors' fees	218	218	230	230
Share-based compensation	305	204	348	253
Other	19	8	42	32
	3,600	**2,120**	**3,460**	**2,015**

Executive employment agreements allow for additional payments of approximately $1,752 if the individuals are terminated without cause and approximately $2,215 in the event of a change in control.

19. Private placements

i. On June 10, 2014, the Company entered into agreements for a non-brokered private placement of up to $18,200 (the "Offering"), comprised of a Tranche "A" component and a Tranche "B" component.

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

The Tranche "A" component of the private placement, in the amount of $13,200, was completed on July 25, 2014. The Company received net proceeds of $12,816 which is being used to fund its EUPHRATES trial and for working capital and general corporate purposes.

The Tranche "A" component was comprised of 45,051,186 Shares of the Company at a subscription price of $0.293 per Share, for aggregate gross proceeds of $13,200, of which (a) 17,064,846 Shares, for aggregate proceeds of $5,000, were sold to Toray; (b) 15,358,360 Shares, for aggregate gross proceeds of $4,500 were sold to Birch Hill Equity Partners Management Inc.(" Birch Hill"); (c) 9,726,958 Shares for aggregate proceeds of $2,850, were sold to other investors; (d) 2,901,022 Shares, for aggregate proceeds of $850 were sold to other related parties at the date of the transaction.

The Tranche "B" component of the Offering was comprised of additional Shares to be sold to Toray by the Company of up to $5,000, if, as and when the Company exercises the right (the "Call Right"), granted by Toray to the Company. The Company provided written notice to Toray to exercise the Call Right granted by Toray to the Company on March 14, 2015.

The Tranche "B" component of the private placement was completed on April 1, 2015. Toray purchased 9,041,592 Shares at a subscription price of $0.553 per common share (representing the 20 day volume weighted average trading price of the Shares on the TSX for the 20 day period ended March 13, 2015) for aggregate gross proceeds of $5,000.

ii. In connection with the Toray offering, Birch Hill exercised their anti-dilution rights and acquired 2,007,872 Shares at the subscription price of $0.553 per common share, for aggregate gross proceeds of $1,110.

In total, the Company issued 11,049,464 Shares for aggregate gross proceeds of $6,110. The Company received net proceeds of $6,021 which will be used to fund its EUPHRATES trial and for working capital and general corporate purposes.

20. Related party transactions

i. Toray Industries, Inc. ("Toray")

Toray held 42,773,105 Shares of the Company as at December 31, 2015, representing approximately 22.4% (2014 – 18.8%) of Spectral's issued and outstanding capital, calculated on a non-diluted basis.

Toray participated in the Offering as described in Note 22, and purchased 2,857,000 Shares. Following the closing of the offering on February 18, 2016, Toray holds 45,630,105 Shares representing approximately 22.1% of the issued and outstanding capital, calculated on a non-diluted basis.

Toray is entitled to nominate one director (the "Toray Representative") 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.

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

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

	December 31 2015 $	December 31 2014 $
Revenue		
Toray Medical Co., Ltd.	165	189
Toray International Italy S.r.l.	64	-
Purchases		
Toray Industries, Inc.	36	36
Toray International America Inc.	56	-
Reimbursement of expenses		
Toray Industries, Inc.	101	127
Due to		
Toray Industries, Inc.	(36)	-
Advance		
Toray Industries, Inc.	-	(83)

ii. Birch Hill Equity Partners Management Inc. (“Birch Hill”)

Birch Hill, through a number of its funds and an investee company, held 32,984,718 Shares of the Company as at December 31, 2015 representing approximately a 17.3% (2014 – 18.2%) ownership interest, calculated on a non-diluted basis.

Birch Hill participated in the Offering as described in Note 22, and purchased 533,000 Shares. Following the closing of the Offering on February 18, 2016, Birch Hill holds 33,517,718 Shares representing approximately 16.3% of the issued and outstanding capital, calculated on a non-diluted basis.

Birch Hill is 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.

iii. Key management consists of the Company’s four executive officers and its Board of Directors. Compensation of key management is disclosed in Note 18 and compensation payable to key management as at December 31, 2015 is disclosed in Note 11.

There are no other related party transactions.

21. Financial instruments and fair values

As explained in Note 3(v), financial assets and financial liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized within operating loss in the consolidated statement of loss and comprehensive loss.

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

The Company has designated the following classifications for its financial assets and financial liabilities:

Cash and trade and other receivables are classified as loans and receivables with a total carrying value of $6,999 at December 31, 2015 (2014 - $10,637).

Trade and other payables (excluding advance from a related party) are classified as other financial liabilities, which are measured at amortized cost using the effective interest rate method, with a total carrying value of $2,850 at December 31, 2015 (2014 - $2,810).

Cash, trade and other receivables, and trade and other payables are reflected in the consolidated financial statements at carrying values that approximate fair values because of the short-term maturities of these financial instruments.

22. Subsequent event

On February 18, 2016 the Company closed a bought deal prospectus offering ("the Offering") resulting in the issuance of 14,300,000 Shares for gross proceeds of $10,010.

On February 24, 2016, an additional 806,804 Shares were issued by the Company resulting in gross proceeds of $565 in connection with the underwriters' exercise of their over-allotment option.

In total, the Company issued 15,106,804 Shares for aggregate gross proceeds of $10,575. The Company received net proceeds of approximately $9,491 which will be used to fund its EUPHRATES trial and for working capital and general corporate purposes.

The Company also issued 906,408 broker warrants to the underwriters representing 6% of the total number of shares sold pursuant to the bought deal financing. Each broker warrant entitles the holder thereof to acquire one Share at a price of $0.70 per Share for a period of 24 months from the closing date.