Spectral Medical Inc.

Condensed Interim Consolidated Financial Statements

March 31, 2018
(Unaudited)

These unaudited condensed interim consolidated financial statements have been prepared by management of the Spectral Medical Inc. and have not been reviewed by the Company's auditor.

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Spectral Medical Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	Notes	March 31 2018 $	December 31 2017 Restated (Note 7) $	January 01 2017 Restated (Note 7) $
Assets				
Current assets				
Cash		982	1,449	5,080
Trade and other receivables		857	881	642
Inventories		298	191	244
Prepayments and other assets		249	73	166
Contract asset	7	126	-	-
		2,512	2,594	6,132
Non-current assets				
Property and equipment		526	570	634
Intangible asset		303	309	334
Total assets		3,341	3,473	7,100
Liabilities				
Current liabilities				
Trade and other payables		514	612	1,112
Contract liability	7	3	3	6
Total liabilities		517	615	1,118
Equity				
Share capital	10	63,345	63,225	63,084
Contributed surplus		7,981	7,849	7,849
Share-based compensation		5,474	4,914	4,103
Warrants		-	132	132
Deficit	7	(73,976)	(73,262)	(69,186)
Total equity		2,824	2,858	5,982
Total liabilities and equity		3,341	3,473	7,100

Going concern	(Note 1)
Contingencies and commitments	(Note 9)
Subsequent event	(Note 15)

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
For the three months ended March 31, 2018 and 2017
(Unaudited)

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

	Notes	2018	2017 Restated (Note 7)
		$	$
Revenue	7	1,163	910
Expenses			
Changes in inventories of finished goods and work- in-process		24	15
Raw materials and consumables used		68	52
Employee benefits	10,13	1,165	1,080
Consulting and professional fees		210	320
Product development		-	50
Regulatory and investor relations		198	96
Travel and entertainment		28	86
Depreciation and amortization		62	54
Foreign exchange (gain) loss		(30)	3
Other expenses		152	147
		1,877	1,903
Loss and comprehensive loss for the period		(714)	(993)
Basic and diluted loss per common share	11	(0.003)	(0.005)
Weighted average number of common shares outstanding	11	207,584,717	207,165,587

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

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Changes in Equity
For the three months ended March 31, 2018 and 2017
(Unaudited)

(in thousands of Canadian dollars)

	Notes	Issued capital Number	$	Contributed surplus $	Share-based compensation $	Warrants $	Deficit $	Total equity $
Balance, January 1, 2017		207,165,587	63,084	7,849	4,103	132	(69,346)	5,822
Change in accounting policies	7	-	-	-	-	-	160	160
Restated equity, January 1, 2017		207,165,587	63,084	7,849	4,103	132	(69,186)	5,982
Loss and comprehensive loss for the period, restated		-	-	-	-	-	(993)	(993)
Share-based compensation	10	-	-	-	310	-	-	310
Balance, March 31, 2017		207,165,587	63,084	7,849	4,413	132	(70,179)	5,299
Share options exercised		293,435	141	-	(57)	-	-	84
Loss and comprehensive loss for the period, restated		-	-	-	-	-	(3,083)	(3,083)
Share-based compensation		-	-		558		-	558
Balance, December 31, 2017		207,459,022	63,225	7,849	4,914	132	(73,262)	2,858
Balance, January 1, 2018		207,459,022	63,225	7,849	4,914	132	(73,285)	2,835
Change in accounting policies	7	-	-	-	-	-	23	23
Restated equity, January 1, 2018		207,459,022	63,225	7,849	4,914	132	(73,262)	2,858
Share options exercised		337,500	120	-	(49)	-	-	71
Warrant expiry		-	-	132	-	(132)	-	-
Loss and comprehensive loss for the period		-	-	-	-	-	(714)	(714)
Share-based compensation	10	-	-	-	609	-	-	609
Balance, March 31, 2018		207,796,522	63,345	7,981	5,474	-	(73,976)	2,824

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

Spectral Medical Inc.

Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2018 and 2017
(Unaudited)

(in thousands of Canadian dollars)

	Notes	2018 $	2017 Restated (Note 7) $
Cash flow provided by (used in)			
Operating activities			
Loss and comprehensive loss for the period	7	(714)	(993)
Adjustments for:			
Depreciation on property and equipment		56	48
Amortization of intangible asset		6	6
Share-based compensation	10	609	310
Changes in items of working capital :			
Trade and other receivables		24	(150)
Inventories		(107)	(15)
Prepayments and other assets		(176)	(133)
Contract asset	7	(126)	-
Trade and other payables		(98)	(354)
Contract liability	7	-	(4)
Net cash used in operating activities		(526)	(1,285)
Investing activities			
Property and equipment expenditures		(12)	(81)
Net cash used in investing activities		(12)	(81)
Financing activities			
Share options exercised	10	71	-
Net cash provided by financing activities		71	-
Decrease in cash		(467)	(1,366)
Cash, beginning of period		1,449	5,080
Cash, end of period		982	3,714

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

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

1. Nature of operations and going concern

Spectral Medical Inc. (Spectral or the Company) was incorporated on July 29, 1991 in Ontario, Canada as Spectral Diagnostics Inc. 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 ("PMX"). The Company also manufactures and sells certain proprietary reagents.

These condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities during the normal course of operations for the foreseeable future.

The ability of the Company, to realize its assets and meet its obligations as they come due is dependent on obtaining regulatory approval from the United States Food and Drug Administration ("FDA") of the Company's primary product (PMX), successful commercialization of the Company's products (including the PMX product) 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, lend 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 (Note 15), 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. 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.

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

2. Basis of preparation

The condensed interim consolidated financial statements of Spectral for the three months ended March 31, 2018, 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, 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, 2017, which have been prepared in accordance with IFRS. These condensed interim consolidated financial statements were approved by the Board of Directors for issue on May 10, 2018.

3. Significant accounting policies

The significant accounting polices 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, except for the adoption of new and amended standards as set out in Note 5.

4. Critical accounting estimates and judgments

The preparation of condensed interim 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 the same except for those estimates required for the revised accounting policies as a result of adoption of IFRS 15 and 9 as described in Note 5.

5. Accounting standards adopted in the current period

A number of new standards and amendments to standards and interpretations have been applied in preparing these condensed interim consolidated financial statements as described below. The Company has elected to use the full retrospective method upon adoption of these standards which requires retrospective adjustments to the condensed interim consolidated financial statements for the earliest year presented. The impact on adoption of the new standards are described within Note 7.

a. IFRS 15, *Revenue from Contracts with Customers*

The Company implemented the new standard, IFRS 15, *Revenue from Contracts with Customers* as of January 1, 2018. The new standard amends revenue recognition requirements and establishes principles for recording information about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard replaces IAS 18, *Revenue* and IAS 11, *Construction contracts* and related interpretations.

The new standard also introduces expanded disclosure requirements.

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

The following revenue recognition policies have been adopted:

i. Royalty revenue

The Company grants licenses to use certain proprietary biochemical and patented process applications or intellectual property ("IP"). Where the license is offered on a standalone basis or it is determined that the license is distinct from other goods and services offered in the contract, the Company assesses whether the license is a right to use or right to access the IP. The Company has determined that all licenses meet the definition of a right to use IP as they grant the licensee the right to use the IP as it exists at a point in time. Therefore, revenue is recognized at a point in time when control transfers to the licensee and the license period begins. Where the Company has recognized revenue ahead of invoicing the customer, the amount is recognized as a contract asset.

The Company may offer its licenses of IP in combination with contracts for the sale of certain proprietary biochemicals. Where it is determined that the license is not distinct from the sale of the product and the product is the predominant component in the bundle, the performance obligation is satisfied with delivery of the product (product sales revenue is described below). The Company allocates the cost of the license to the product revenue based on its estimated expected sales for the period to which the license fee relates based on historical trends with that customer.

Revenue also includes royalty income which is earned on certain proprietary biochemical and patented process application. When the license of intellectual property is the predominant item to which the royalty relates, royalty revenue is recognized at the later of when the subsequent sale or usage occurs and the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied). When the license of intellectual property is not the predominant item to which the royalty relates, royalty revenue is recognized in accordance with variable consideration guidance and the amount of consideration to which the entity will be entitled to in exchange for transferring the promised goods or services is estimated based on the expected value.

Where licensing agreements contain minimum royalty guarantees, minimum royalties for right to use licenses are recognized as fixed consideration when the Company transfers control of the license. Royalties earned above the minimum guarantee are recognized in accordance with the paragraph above.

Licensing arrangements may contain payment terms that include upfront payments and minimum guaranteed royalties as noted above. Where there is a difference in timing of receiving the consideration from the customer and the timing of the Company's performance (beyond one year), these payments are accounted for as a financing component and interest is imputed and recognized separately from revenue. The Company did not have any of these arrangements as of March 31, 2018.

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

ii. Product revenue

The Company recognizes revenue when a contractual promise to a customer has been fulfilled by transferring control over the promised goods to the customer at the point in time of shipment. The amount of revenue to be recognized is based on the consideration that the Company expects to receive in exchange for the product. If the contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation. Where consideration is received ahead of the Company fulfilling its performance obligations as per the contract, the amount is recorded as a contract liability.

The Company may offer discounts on purchases above certain purchase quantity threshold. Such arrangements represent an option that the customer receives in connection with a current revenue transaction. Where this option is considered a material right, a portion of revenue is deferred and recognized in conjunction with discounted sales in the future.

b. IFRS 9, *Financial Instruments*

This standard 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 standards are effective for accounting periods beginning on or after January 1, 2018.

In addition, IFRS 7, *Financial Instruments: Disclosures* was amended to include additional disclosure requirements on transition to IFRS 9. As a result of the adoption of IFRS 9, management has not changed its accounting policy for financial assets except for the adoption of the simplified approach to determining expected credit losses for trade

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

receivables which had no impact on the carrying value of any financial assets or financial liabilities as of the date of adoption of this standard.

The Company's updated accounting policy under IFRS 9 is as follows:

i. Trade and other receivables

Trade and other receivables are initially recognized at their invoiced amounts, including any related sales taxes less adjustments for estimated revenue deductions such as rebates, chargebacks and cash discounts. For trade and other receivables, the Company applies the simplified approach to providing for expected credit losses at inception as prescribed by IFRS 9, which requires the use of the lifetime expected loss provision matrix for all trade and other receivables based on the Company's historical default rates over the expected life of the trade and other receivables and is adjusted for forward looking estimates.

Significant financial difficulties of a customer, such as probability of bankruptcy, financial reorganization, default or delinquency in payments are considered indicators that recovery of the trade receivable is doubtful. These provisions represent the difference between the trade receivable's carrying amount in the interim consolidated statement of financial position and the estimated net collectible amount. Charges for doubtful trade receivables are recorded as bad debt expense recognized in the condensed interim consolidated income statement within "Other expenses".

6. Accounting standards issued but not yet applied

a. 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 impact of the adoption of the standard is expected to result in the recognition of all leases with the corresponding assets and liabilities recorded in the consolidated financial statements. Management is currently evaluating the impact of the new standard.

7. Impacts of adoption of new IFRS standards

Note 5 explains the changes and new accounting policies introduced on January 1, 2018, resulting from the adoption of the new accounting standards IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments*.

a. IFRS 15, *Revenue from Contracts with Customers*

The most significant impact from the adoption of IFRS 15, *Revenue from Contracts with Customers* relates to the timing of the recognition of income from upfront payments and from

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

contracts with customers that give them the right to use the Company's IP as it exists at a point in time. Where the Company has met its performance obligation with respect to these right to use license agreements, revenue is recognized at a point in time. Under IAS 18, these payments were deferred and amortized over the term of the agreements. Therefore, upon adoption of IFRS 15, the deferred revenue in relation to these payments have been derecognized and the impact accordingly recognized to deficit in the amount of $166 as of January 1, 2017, and $26 as of December 31, 2017.

Where the Company has recognized revenue ahead of invoicing the customer, the amount is recognized as a contract asset. As a result, the Company has recorded revenue of $251 in the three-months ended March 31, 2018, with corresponding contract asset of $126 as at March 31, 2018. In addition, revenue for the three months ended March 31, 2017 has been decreased by $35.

The adoption of IFRS 15 did not significantly change the timing or amount of revenue recognized with respect to the change in accounting policy for product revenue. The only change relates to a contract, which entitles the customer to receive one EAA™ diagnostic for each unit of instrumentation sold. Under IFRS 15, this is considered to be a contract with multiple performance obligations where the consideration is allocated based on the standalone selling price of each performance obligation. Under IAS 18, these payments were recognized on one performance obligation, the sale of instrumentation, and the purchase price was not allocated to the EAA™ diagnostic. To reflect this change in policy, the Company reclassified $6 from deficit to contract liability as of January 1, 2017, and $3 as of December 31, 2017. Revenue for the three months ended March 31, 2017 has been increased by $4.

b. **IFRS 9, *Financial Instruments***

The adoption of IFRS 9, *Financial Instruments* from January 1, 2018 did not result in any adjustments to the amounts recognized in the condensed interim consolidated financial statements.

The following tables show the IFRS 15 adjustments recognized for each individual financial statement line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

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

Statement of Financial Position (extract)	January 1 2017 As reported	Adjustment IFRS 15	January 1 2017 Restated	December 31 2017 As reported	Adjustment IFRS 15	December 31 2017 Restated
	$	$	$	$	$	$
Liabilities						
Current liabilities						
Contract liability	166	(160)	6	26	(23)	3
Total liabilities	1,278	(160)	1,118	638	(23)	615
Equity						
Deficit	(69,346)	160	(69,186)	(73,285)	23	(73,262)
Total equity	5,822	160	5,982	2,835	23	2,858
Total liabilities and equity	7,100	-	7,100	3,473	-	3,473

Statement of Loss and Comprehensive Loss (extract)	March 31 2017	Adjustment IFRS 15	March 31 2017
Three-months ended	**As reported**		**Restated**
	$	$	$
Revenue	941	(31)	910
Loss and comprehensive loss for the period	(962)	(31)	(993)

8. 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.

The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the annual financial statements as at December 31, 2017. There have been no changes in the risk management or in any risk management policies since year end.

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

ii. ***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 revenues resulting from commercialization activities and/or new strategic partnerships.

There can be no assurance that the Company will be able to obtain sufficient capital to meet any or all of the Company's needs. The availability of equity or debt financing will be affected by, among other things, the ability to obtain regulatory approvals, the market acceptance of its products, the state of the capital market generally, strategic alliance agreements and other relevant commercial considerations. In addition, if the Company raised additional funds by issuing equity securities, its existing security holders will likely experience dilution, and any incurrence of additional debt would result in debt service obligations and could require the Company to agree to operating and financial covenants that would restrict its operations. Any failure on the Company's part to raise additional funds on terms favourable to it, or at all, may require it to significantly change or curtail its current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in the Company not taking advantage of business opportunities, the curtailment of its product development programs, the sale or assignment of rights to its technologies and/or products and the inability to file market approval applications at all or in time to competitively market its products.

All of the Company's financial liabilities are classified as current liabilities. Trade and other payables were $514 as at March 31, 2018 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.

9. Contingencies and commitments

i. The FDA has determined that the Company is required to continue its clinical and regulatory program to collect more evidence in order to make a final determination to approve the

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

PMX cartridge. Once the Company has determined its regulatory path forward with the FDA, it will be able to determine its financial commitments.

ii. 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 March 31, 2018 with respect to these agreements.

iii. The Company has further commitments related to its exclusive license agreement for PMX with Toray. As part of this agreement, on obtaining market approval from the FDA for PMX, the Company would be required to pay an additional US$1,000 in cash and issue 500,000 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.

10. Share capital and other equity reserves

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

ii. 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 three-month period ended March 31, 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)

	2018			2017	
Date	Number of share options	Exercise price	Date	Number of share options	Exercise price
February 13, 2018	2,333,500	$0.395	February 28, 2017	1,637,505	$0.30
March 28, 2018	100,000	$0.395	-	-	-

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 option.

Share options issued to the Company's directors vest 100% at the time of the grant, except for 253,500 share options that will vest equally on each of April 1st, July 1st, and October 1st, 2018 respectively.

Share options issued to the Company's officers and employees, generally vest at 25% of the grant amount at the time of the grant, except for 765,000 share options issued to the Company's officers that will vest 75% upon receipt of FDA approval for Toraymyxin™ and 25% upon a value derived from a business development transaction. 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 to the Company's consultants vest 100% at the time of the grant.

The contractual life of each share option is five years, except for 265,000 share options granted on February 13, 2018, which is two years.

There is no cash settlement of the share options.

Share options issued on February 28, 2017 vested 25% at the time of the grant and will be fully vested by February 28, 2020.

For purposes of the share option expense calculation, the Company had estimated that FDA approval could possibly occur on March 18, 2018, the date the 180-day review period ended.

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 and two years respectively.

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

						2018
Grant date	Risk-free interest rate	Expected life	Annualized volatility	Dividend rate	Grant date share price	Share option fair value
February 13, 2018	1.97%-2.04%	4-5 years	109.65%-121.95%	0%	$0.395	$0.290-$0.330
March 28, 2018	1.99%	5 years	116.42%	0%	$0.300	$0.237

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

						2017
Grant date	**Risk-free interest rate**	**Expected life**	**Annualized volatility**	**Dividend rate**	**Grant date share price**	**Share option fair value**
February 28, 2017	1.09%	5 years	123.09%	0%	$0.290	$0.242

Share compensation expense is allocated as follows:

	March 31, 2018	**March 31, 2017**
Key management and employees	473	283
Consultants and others	136	27
	609	**310**

	March 31, 2018			**March 31, 2017**		
	Weighted average exercise price per share $	**Share options**		**Weighted average exercise price per share $**	**Share options**	
		All participants	**Key management**		**All participants**	**Key management**
January 1	0.46	7,664,997	5,795,060	0.48	5,591,872	4,163,500
Granted	0.40	2,433,500	1,893,500	0.30	1,637,505	1,637,505
Change in key management	0.44	-	(975,870)	-	-	-
Exercised	0.21	(337,500)	(187,500)	-	-	-
Expired	0.40	(530,000)	(350,000)	0.29	(585,000)	(585,000)
Forfeited/cancelled	0.73	(6,875)	-	-	-	-
Balance, March 31	**0.46**	**9,224,122**	**6,175,190**	**0.45**	**6,644,377**	**5,216,005**

Of the 9,224,122 outstanding share options (2017: 6,644,377), 6,322,831 share options (2017: 5,273,405) were exercisable.

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

11. Loss per common share

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

	March 31, 2018	March 31, 2017 Restated
	$	$
Numerator for basic and diluted loss per common share available to common shareholders	(714)	(993)
Denominator for basic and diluted loss per common share	207,584,717	207,165,587
Basic and diluted loss per common share	(0.003)	(0.005)

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

	March 31, 2018		March 31, 2017	
	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	207,459,022	207,459,022	207,165,587	207,165,587
Share options exercised	125,695	337,500	-	-
Balance, March 31	**207,584,717**	**207,796,522**	**207,165,587**	**207,165,587**

12. The EUPHRATES trial and regulatory program

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:

	March 31, 2018 $	March 31, 2017 $
Program management	11	164
Program oversight	61	46
Clinical site costs	-	13
Diagnostic supply and training	5	16
Employee benefits	78	101
Total EUPHRATES	**155**	**340**

The clinical trial costs have been included within operating loss in the statement of loss and comprehensive loss. Total trial costs since inception in 2010 are $41,613.

13. Employee benefits

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

	March 31, 2018 $		March 31, 2017 $	
	All employees	Key management	All employees	Key management
Salaries	567	288	633	334
Bonuses	-	-	5	-
Consulting fees	23	23	-	-
Short term employee benefits	82	30	95	39
Directors' fees	42	42	62	62
Share-based compensation	473	440	283	274
Other	1	-	2	-
	1,188	**823**	**1,080**	**709**

Executive employment agreements allow for additional payments of approximately $1,405 if the individuals are terminated without cause and approximately $1,473 in the event of a change in control.

14. Related party transactions

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

Toray holds 45,630,105 Shares of the Company as at March 31, 2018, representing approximately 22.0% (2017 – 22.0%) of Spectral's issued and outstanding capital, calculated on a non-diluted basis.

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

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.

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

	March 31 2018 $	March 31 2017 Restated $
Revenue		
Toray Medical Co., Ltd.	71	79
Toray International Italy S.r.l.	-	-
Purchases		
Toray Industries, Inc.	-	-
Toray International America Inc.	134	-
Due from (to)		
Toray Medical Co., Ltd.	71	83
Toray Industries, Inc.	-	-
Toray International America Inc.	134	-

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

Birch Hill, through a number of its funds and an investee company, holds 33,517,718 Shares of the Company as at March 31, 2018 representing approximately a 16.1% (2017– 16.2%) ownership interest, 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 13.

There are no other related party transactions.

15. Subsequent event

On April 20, 2018, the Company closed a private placement financing ("the Financing") resulting in the issuance of 17,694,661 units ("Units") for gross proceeds of $5,308. Each Unit is comprised of one Share priced at $0.30 per Share and one-half of a share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to acquire one additional Share at an exercise price of $0.45 per Share for a three-year period expiring April 20, 2021.

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

In total, the Company issued 17,694,661 Shares and 8,847,331 Warrants for aggregate gross proceeds of $5,308. The Company received net proceeds of $5,222 which will be used for further clinical study of the PMX cartridge and the accompanying regulatory pursuit for FDA approval and for working capital and general corporate purposes.

Birch Hill participated in the private placement financing and purchased 2,500,000 Shares. Birch Hill now holds 36,017,718 Shares of the Company, representing approximately a 16.0% (2016 – 16.2%) ownership interest, calculated on a non-diluted basis.