

# **Spectral Medical Inc.**

Condensed Interim Consolidated Financial Statements

**March 31, 2019**

(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.

**Spectral Medical Inc.**  
**Condensed Interim Consolidated Financial Statements**  
March 31, 2019

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# Spectral Medical Inc.

Condensed Interim Consolidated Statements of Financial Position  
(Unaudited)

(in thousands of Canadian dollars)

	Notes	March 31 2019 \$	December 31 2018 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash		4,613	4,368
Trade and other receivables		266	1,433
Inventories		193	197
Prepayments and other assets		486	192
Contract asset		-	126
		5,558	6,316
<b>Non-current assets</b>			
Right-of-use-asset	8	790	-
Property and equipment		349	377
Intangible asset		278	284
<b>Total assets</b>		<b>6,975</b>	<b>6,977</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		524	500
Contract liability		254	107
Current portion of lease liability	8	71	-
		849	607
<b>Non-current liability</b>			
Lease liability	8	725	-
<b>Total liabilities</b>		<b>1,574</b>	<b>607</b>
<b>Equity</b>			
Share capital	11	66,646	66,646
Contributed surplus		7,981	7,981
Share-based compensation		5,588	5,564
Warrants		1,930	1,930
Deficit		(76,744)	(75,751)
<b>Total equity</b>		<b>5,401</b>	<b>6,370</b>
<b>Total liabilities and equity</b>		<b>6,975</b>	<b>6,977</b>

Going concern (Note 1)  
Contingencies and commitments (Note 10)

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, 2019 and 2018  
(Unaudited)

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

	Notes	2019 \$	2018 \$
<b>Revenue</b>		547	1,163
<b>Expenses</b>			
Changes in inventories of finished goods and work-in-process		75	24
Raw materials and consumables used		60	68
Salaries and benefits	14	709	1,165
Consulting and professional fees		260	210
Regulatory and investor relations		86	198
Travel and entertainment		88	28
Depreciation and amortization		71	62
Foreign exchange loss (gain)		42	(30)
Interest expense on lease liability		9	-
Other expenses		140	152
		1,540	1,877
<b>Loss and comprehensive loss for the period</b>		(993)	(714)
<b>Basic and diluted loss per common share</b>	12	(0.004)	(0.003)
<b>Weighted average number of common shares outstanding</b>	12	225,591,183	207,584,717

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, 2019 and 2018  
(Unaudited)

(in thousands of Canadian dollars)

	Notes	Issued capital Number	\$	Contributed surplus \$	Share-based compensation \$	Warrants \$	Deficit \$	Total equity \$
<b>Balance, January 1, 2018</b>		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	11	-	-	-	609	-	-	609
<b>Balance, March 31, 2018</b>		207,796,522	63,345	7,981	5,474	-	(73,976)	2,824
Private placement		17,694,661	3,267	-	-	1,930	-	5,197
Share options exercised		100,000	34	-	(14)	-	-	20
Loss and comprehensive loss for the period		-	-	-	-	-	(1,775)	(1,775)
Share-based compensation		-	-	-	104	-	-	104
<b>Balance, December 31, 2018</b>		225,591,183	66,646	7,981	5,564	1,930	(75,751)	6,370
<b>Balance, January 1, 2019</b>		225,591,183	66,646	7,981	5,564	1,930	(75,751)	6,370
Loss and comprehensive loss for the period		-	-	-	-	-	(993)	(993)
Share-based compensation	11	-	-	-	24	-	-	24
<b>Balance, March 31, 2019</b>		225,591,183	66,646	7,981	5,588	1,930	(76,744)	5,401

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# Spectral Medical Inc.

Condensed Interim Consolidated Statements of Cash Flows  
For the three months ended March 31, 2019 and 2018  
(Unaudited)

(in thousands of Canadian dollars)

	Notes	2019 \$	2018 \$
<b>Cash flows provided by (used in)</b>			
<b>Operating activities</b>			
Loss and comprehensive loss for the period		(993)	(714)
Adjustments for:			
Depreciation on right-of-use asset	8	23	-
Depreciation on property and equipment		42	56
Amortization of intangible asset		6	6
Interest expense on lease liability	8	9	-
Share-based compensation	11	24	609
Loss on disposal of property and equipment		7	-
Changes in items of working capital :			
Trade and other receivables		1,167	24
Inventories		4	(107)
Prepayments and other assets		(294)	(176)
Contract asset		126	(126)
Trade and other payables		24	(98)
Contract liability		147	-
<b>Net cash provided by (used in) operating activities</b>		<b>292</b>	<b>(526)</b>
<b>Investing activities</b>			
Property and equipment expenditures		(21)	(12)
<b>Net cash used in investing activities</b>		<b>(21)</b>	<b>(12)</b>
<b>Financing activities</b>			
Lease liability payments		(26)	-
Share options exercised	11	-	71
<b>Net cash (used in) provided by financing activities</b>		<b>(26)</b>	<b>71</b>
Increase (decrease) in cash		245	(467)
Cash, beginning of period		4,368	1,449
<b>Cash, end of period</b>		<b>4,613</b>	<b>982</b>

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

# Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three months ended March 31, 2019 and 2018  
(Unaudited)

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(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's primary strategic focus is to develop and commercialize a treatment for septic shock utilizing its Endotoxin Activity Assay ("EAA™") diagnostic and the Toraymyxin™ therapeutic ("PMX"). If approved, this will be the first targeted therapy guided by a specific diagnostic in the area of sepsis. In addition, the Company is taking steps to co-develop a complimentary platform targeting the renal replacement therapy ("RRT") segment of the market with the addition of continuous renal replacement therapy ("CRRT") machine ("SAMI"), previously known as "SAM" and its home hemodialysis machine ("DIMI"). The Company is also continuing its legacy business of manufacturing and selling certain proprietary reagents.

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

The ability of the Company to realize its assets and meet its obligations as they come due is dependent on obtaining regulatory approval from the United States Food and Drug Administration ("FDA") of PMX, and the successful commercialization of PMX, SAMI, and DIMI, and achieving future profitable operations, the outcome of which cannot be predicted at this time. Furthermore, the Company will require additional funding from commercial transactions or investors to continue the development and commercialization of products. These circumstances, 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, 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.

# Spectral Medical Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
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(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, 2019, have been prepared in accordance with 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, 2018, 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 8, 2019.

## 3. Significant accounting policies

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year and corresponding interim reporting period, 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 as a result of adoption of IFRS 16, 'Leases' as described in Note 6.

## 5. Accounting standards adopted in the current period

A number of new standards and amendments to standards and interpretations were effective for annual periods beginning on or after January 1, 2019 and have been applied in preparing these condensed interim consolidated financial statements as described below. The impact on adoption of IFRS 16, Leases is described within Note 6.

- a. International Financial Reporting Interpretations Committee (IFRIC), *Uncertainty over Income Tax Treatments (IFRIC 23)*

In June 2017, the International Accounting Standards Board ("IASB") issued IFRIC 23, *Uncertainty over Income Tax Treatments*, with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the Company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The Company adopted IFRIC 23 effective January 1, 2019 and

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determined that there was no impact on the condensed interim consolidated financial statements on adoption.

b. IFRS 16, *Leases*

The Company implemented the new standard, IFRS 16, *Leases*, as of January 1, 2019 which replaces the previous lease standard, IAS 17, *Leases*.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases but can elect to exclude those with a term of less than twelve months and for which the underlying asset is of low value.

The details of the Company's leasing activities and the new significant accounting policy for leases are set out below.

The Company leases its premises, warehouses and office equipment.

Effective January 1, 2019, the Company assesses, at the inception of a contract, whether a contract is, or contains, a lease. A lease is a contract in which the right to control the use of an identified asset is granted for an agreed upon period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

i. *Lease liabilities:*

Lease liabilities are initially recorded as the present value of the non-cancellable lease payments over the lease term and discounted at the Company's incremental borrowing rate. Lease payments include fixed payments and such variable payments that depend on an index or a rate; less any lease incentives receivable.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of exercising a purchase, extension or termination option. When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any difference recorded in the condensed interim consolidated statement of loss and comprehensive loss.

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ii. *Right-of-use assets:*

The right-of-use assets are measured at cost, which comprises the initial lease liability, lease payments made at or before the lease commencement date, initial direct costs and restoration obligations less lease incentives. The right-of-use assets are subsequently measured at amortized cost. The assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

Right-of-use assets are assessed for impairment in accordance with the requirements of IAS 36, *Impairment of assets*.

The Company, on a lease by lease basis, also exercises the option available for contracts comprising lease components as well as non-lease components, not to separate these components. Extension and termination options exist for the Company's property lease of the premises. The Company re-measures the lease liability, when there is a change in the assessment of the inclusion of the extension option in the lease term, resulting from a change in facts and circumstances.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the condensed interim consolidated statement of loss and comprehensive loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise office equipment.

## 6. Change in accounting policy and impact of adoption of the new IFRS standard

On January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated. The change in accounting policy and the impact of its implementation of this standard on the Company's condensed interim consolidated financial statements are described below.

a. *Practical expedients*

The Company has elected to make use of the following practical expedients:

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the accounting for operating leases with underlying value of assets being less than \$5,000 USD as low dollar value leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- election, by class of underlying asset, not to separate non-lease components from lease components.

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The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

b. *Impact on adoption of IFRS 16*

The following table summarizes the impact of adopting IFRS 16 on the Company's condensed interim consolidated statement of financial position as at January 1, 2019:

	<b>January 1, 2019 prior to the adoption of IFRS 16</b>	<b>Impact of adopting IFRS 16</b>	<b>January 1, 2019 after the adoption of IFRS 16</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Right-of-use asset	-	813	813
Lease liability (current)	-	69	69
Lease liability (non-current)	-	744	744

Previously, under IAS 17, leases were classified as financing or operating leases depending on the terms and conditions of the contracts. Rents payable under operating leases were expensed on a straight-line basis over the term of the relevant lease.

On adoption of IFRS 16, the Company recognized a lease liability and a right-of-use asset in relation to a property lease which had previously been classified as an 'operating lease' under the principles of IAS 17. The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate of 4.625% as of January 1, 2019. The right-of-use asset was measured at the amount equal to the lease liability. There was no prepaid rent or accrued lease payments relating to this lease that would have required an adjustment to the right-of-use asset at the date of initial application.

The following reconciliation to the opening balance for the lease liability as at January 1, 2019 is based upon the operating lease obligations as at December 31, 2018:

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	<b>January 1, 2019</b>
	<b>\$</b>
Operating lease commitment disclosed as at December 31, 2018	622
Less: Property tax, maintenance and insurance costs included in the operating lease commitment	(216)
Adjusted operating lease commitment disclosed as at December 31, 2018	406
Discounted using the incremental borrowing rate at January 1, 2019	115
Extension option reasonably certain to be exercised	292
<b>Lease liability recognized at January 1, 2019</b>	<b>813</b>
Of which are:	
Current	69
Non-current	744
<b>Total lease liability as at January 1, 2019</b>	<b>813</b>

The weighted-average lessee's incremental borrowing rate applied to the lease liability on January 1, 2019 was 4.625%.

c. Use of Significant Estimates and Judgments

- The Company enters into various types of contracts and uses significant judgment when determining whether a contract contains an identified asset, and whether the Company has the right to control the use of the identified asset.
- In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Company as a lessee.

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## 7. Accounting standards issued but not yet applied

A number of new 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. IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)*

In October 2012, the IASB issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after January 1, 2020. The Company is currently evaluating whether adoption of the amendment will have a significant impact on the Company's consolidated financial statements on adoption on January 1, 2020.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

- b. *Conceptual Framework for Financial Reporting*

Together with the revised 'Conceptual Framework' published in March 2018, the IASB also issued 'Amendments to References to the Conceptual Framework in IFRS Standards'. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company is currently evaluating the new guidance and does not expect it to have a material impact on its consolidated financial statements.

## 8. Leases

- a. Right-of-use asset

	<b>March 31, 2019</b>
	<b>\$</b>
	<b>Property</b>
Balance, January 1, 2019	813
Depreciation charge for the period	(23)
<b>Balance, March 31, 2019</b>	<b>790</b>

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

## b. Lease liability

The contractual undiscounted cash flows of the Company's lease liabilities are as follows:

	<b>March 31, 2019</b>
	<b>\$</b>
Not later than one year	106
Later than one year and not later than five years	274
<b>Total undiscounted lease liability at March 31, 2019</b>	<b>380</b>
<hr/>	
Carrying value of Lease liability at March 31, 2019	796
Current	71
Non-current	725

## c. Amounts recognized in the statement of loss and comprehensive loss

	<b>March 31, 2019</b>
	<b>\$</b>
Interest expense on lease liability	9
Variable lease payments not included in the measurement of lease liabilities	10
Expenses relating to short-term leases	8
Expenses relating to leases of low-value assets	1

## 9. Risk management

### a. Financial risk management

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are: credit risk, liquidity risk and market risk. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Company's financial performance.

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 consolidated financial statements as at

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

December 31, 2018. There have been no changes in the risk management or in any risk management policies since year end.

b. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities as they become due. The Company is exposed to liquidity risk, as it continues to have net cash outflows to support its operations. The Company's objective for liquidity risk management is to maintain sufficient liquid financial resources to meet commitments and obligations in the most cost effective manner possible.

The Company achieves this by maintaining sufficient cash and managing working capital. The Company monitors its financial resources on a weekly basis and updates its expected use of cash resources on the latest available data.

The Company will need additional capital to fund its clinical and regulatory programs and commercialization of its products. 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 except for its lease liability (Note 8). Trade and other payables were \$524 (2018: \$500) as at March 31, 2019 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.

## 10. Contingencies and commitments

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

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PMX cartridge. As at March 31, 2019, the Company has made commitments to certain organizations for approximately \$1,300 (2018: \$1,400) in anticipation of its completion of the regulatory path forward.

- b. Directors and officers are indemnified by the Company for various items including, but not limited to, costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the costs of any potential future lawsuits or actions. The term of the indemnification covers the period during which the indemnified party served as a director or officer of the Company.

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts and 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, 2019 with respect to these agreements.

- c. 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.

The Company also has guaranteed minimum annual purchase commitments related to its exclusive licence agreement for PMX with Toray.

## 11. Share capital and other equity reserves

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

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During the three-month period ended March 31, 2019 the Company did not grant any share options.

During the three-month period ended March 31, 2018 granted the following share options at the discretion of the Board of Directors:

						<b>2018</b>
<b>Grant Date</b>	<b>Granted to</b>	<b>Number of share options</b>	<b>Exercise price</b>	<b>Vesting Schedule</b>	<b>Expiry Date</b>	
<b>February 13, 2018</b>		<b>2,333,500</b>	<b>\$0.395</b>			
	Key management	600,000		i.	5 years	
		765,000		ii.	5 years	
		200,000		iii.	5 years	
		253,500		iv.	5 years	
	Consultants	175,000		iii.	5 years	
		265,000		iii.	2 years	
	Employees	75,000		i.	5 years	
<b>March 28, 2018</b>	Consultants	<b>100,000</b>	<b>\$0.395</b>	iii.	5 years	

The exercise prices of the share options are not less than the closing market price of the Company's Shares on the TSX on the immediately preceding day of the grant of the share option.

Vesting schedules are defined as follows:

- i. 25% of their grant amount vest on the grant date, and the balance vesting equally as to one-twelfth (1/12) on each successive quarter, and will be fully vested by the end of the 3<sup>rd</sup> year following the grant date.
- ii. 75% vesting upon receipt of any approval by the FDA on the Pre-Market Approval ("PMA") for Toraymyxin™; 25% vesting upon a value creating business development transaction for the assets or Shares of the Company, or similar transaction.
- iii. 100% of the grant amount vest on the grant date.
- iv. 33 1/3% of the grant amount vesting on each of April 1<sup>st</sup>, July 1<sup>st</sup>, and October 1<sup>st</sup>.

There is no cash settlement of the share options.

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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.

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	1.77%	2 years	171.45%	0%	\$0.395	\$0.305
February 13, 2018	2.04%	5 years	121.95%	0%	\$0.395	\$0.330
March 28, 2018	1.99%	5 years	116.42%	0%	\$0.300	\$0.237

Share compensation expense is allocated as follows:

	March 31, 2019	March 31, 2018
	\$	\$
Key management	22	440
Employees	2	33
Consultants and others	-	136
	<b>24</b>	<b>609</b>

	March 31, 2019			March 31, 2018		
	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	7,820,752	6,075,190	0.46	7,664,997	5,795,060
Granted	-	-	-	0.40	2,433,500	1,893,500
Exercised	-	-	-	0.21	(337,500)	(187,500)
Expired	0.60	(716,000)	(716,000)	0.40	(530,000)	(350,000)
Forfeited/cancelled	-	-	-	0.73	(6,875)	-
<b>Balance, March 31</b>	<b>0.44</b>	<b>7,104,752</b>	<b>5,359,190</b>	<b>0.46</b>	<b>9,224,122</b>	<b>7,151,060</b>

Of the 7,104,752 outstanding share options (2018: 9,224,122), 5,224,071 share options (2018: 6,322,831) were exercisable.

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## 12. Loss per common share

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

	March 31, 2019	March 31, 2018
	\$	\$
Numerator for basic and diluted loss per common share available to common shareholders	(993)	(714)
Denominator for basic and diluted loss per common share	225,591,183	207,584,717
<b>Basic and diluted loss per common share</b>	<b>(0.004)</b>	<b>(0.003)</b>

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, 2019		March 31, 2018	
	Weighted average common shares-basic and diluted	Number of Common Shares	Weighted average common shares-basic and diluted	Number of Common Shares
<b>Balance, January 1</b>	225,591,183	225,591,183	207,459,022	207,459,022
Share options exercised	-	-	125,695	337,500
<b>Balance, March 31</b>	<b>225,591,183</b>	<b>225,591,183</b>	<b>207,584,717</b>	<b>207,796,522</b>

## 13. Clinical development 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.

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

	March 31, 2019	March 31, 2018
	\$	\$
Program management	132	11
Program oversight	12	61
Clinical site costs	-	-
Diagnostic supply and training	2	5
Employee benefits	68	78
	<b>214</b>	<b>155</b>

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 \$42,632.

## 14. Salaries and benefits

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

	March 31, 2019		March 31, 2018	
	\$		\$	
	All employees	Key management	All employees	Key management
Salaries	533	226	567	288
Short term employee benefits	87	26	82	30
Directors' fees	64	64	42	42
Share-based compensation	24	22	473	440
Other	1	-	1	-
	<b>709</b>	<b>338</b>	<b>1,165</b>	<b>800</b>

Executive employment agreements allow for additional payments of approximately \$1,469 if the individuals are terminated without cause and approximately \$1,485 in the event of a change in control.

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## 15. Related party transactions

### a. Toray Industries, Inc. ("Toray")

Toray holds 45,630,105 Shares (2018: 45,630,105) of the Company as at March 31, 2019, representing approximately 20.2% (2018: 22.0%) of Spectral's 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.

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

	<b>March 31</b>	<b>March 31</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>		
Toray Medical Co., Ltd.	-	71
<b>Purchases</b>		
Toray International America Inc.	-	134
<b>Due from (to)</b>		
Toray Medical Co., Ltd.	-	71
Toray International America Inc.	-	134

### b. Birch Hill Equity Partners Management Inc. ("Birch Hill")

Birch Hill, through a number of its funds and an investee company, holds 36,017,718 (2018: 33,517,718) Shares of the Company as at March 31, 2019 representing approximately a 16.0% (2018: 16.1%) 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.

### c. Key management consists of the Company's four executive officers and its' Board of Directors. Compensation of key management is disclosed in Note 14.

There are no other related party transactions.