Spectral Medical Inc.

Consolidated Financial Statements

December 31, 2018 and 2017

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Independent auditor's report

To the Shareholders of Spectral Medical Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Spectral Medical Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017 and January 1, 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017 and January 1, 2017;
- the consolidated statements of loss and comprehensive loss for the years ended December 31, 2018 and 2017;
- the consolidated statements of changes in equity for the years ended December 31, 2018 and 2017;
- the consolidated statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Lisa Simeoni.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 27, 2019

Spectral Medical Inc.

Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

	Notes	December 31 2018 $	December 31 2017 Restated (Note 4) $	January 01 2017 Restated (Note 4) $
Assets				
Current assets				
Cash	6	4,368	1,449	5,080
Trade and other receivables	7	1,433	881	642
Inventories	8	197	191	244
Prepayments and other assets	9	192	73	166
Contract asset		126	-	-
		6,316	2,594	6,132
Non-current assets				
Property and equipment	10	377	570	634
Intangible asset	11	284	309	334
Total assets		6,977	3,473	7,100
Liabilities				
Current liabilities				
Trade and other payables	12	500	612	1,112
Contract liabilities		107	3	6
Total liabilities		607	615	1,118
Equity	14			
Share capital		66,646	63,225	63,084
Contributed surplus		7,981	7,849	7,849
Share-based compensation		5,564	4,914	4,103
Warrants		1,930	132	132
Deficit		(75,751)	(73,262)	(69,186)
Total equity		6,370	2,858	5,982
Total liabilities and equity		6,977	3,473	7,100

Going concern (Note 1)
Contingencies and commitments (Note 13)
Subsequent event (Note 23)

Approved by the Board of Directors

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

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

	Notes	2018 $	2017 Restated (Note 4) $
Revenue	17	3,840	3,669
Expenses			
Changes in inventories of finished goods and work-in-process		102	232
Inventory write-down	8	229	25
Raw materials and consumables used		266	245
Salaries and benefits	14,19	3,095	3,534
Consulting and professional fees		1,198	1,829
Product development		110	238
Regulatory and investor relations		461	479
Travel and entertainment		129	280
Depreciation and amortization		230	222
Foreign exchange (gain) loss		(74)	67
Other expenses		583	594
		6,329	7,745
Loss and comprehensive loss for the year		(2,489)	(4,076)
Basic and diluted loss per common share	15	(0.01)	(0.02)
Weighted average number of common shares outstanding	15	220,172,675	207,329,193

Spectral Medical Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2018 and 2017

(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	4	-	-	-	-	-	160	160
Restated equity, January 1, 2017		207,165,587	63,084	7,849	4,103	132	(69,186)	5,982
Share options exercised	14	293,435	141	-	(57)	-	-	84
Loss and comprehensive loss for the year, restated		-	-	-	-	-	(4,076)	(4,076)
Share-based compensation	14	-	-	-	868	-	-	868
Balance, December 31, 2017		207,459,022	63,225	7,849	4,914	132	(73,262)	2,858
Private placement	20	17,694,661	3,267	-	-	1,930	-	5,197
Share options exercised	14	437,500	154	-	(63)	-	-	91
Warrant expiry		-	-	132	-	(132)	-	-
Loss and comprehensive loss for the year		-	-	-	-	-	(2,489)	(2,489)
Share-based compensation	14	-	-	-	713	-	-	713
Balance, December 31, 2018		225,591,183	66,646	7,981	5,564	1,930	(75,751)	6,370

Spectral Medical Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

(in thousands of Canadian dollars)

	Notes	2018 $	2017 Restated (Note 4) $
Cash flow provided by (used in)			
Operating activities			
Loss and comprehensive loss for the year		(2,489)	(4,076)
Adjustments for:			
Depreciation on property and equipment	10	205	197
Amortization of intangible asset	11	25	25
Share-based compensation		713	868
Write down of property and equipment	10	35	
Gain on disposal of property and equipment	10	-	(13)
Changes in items of working capital :			
Trade and other receivables		(552)	(239)
Inventories		(6)	53
Prepayments and other assets		(119)	93
Contract asset		(126)	
Trade and other payables		(112)	(500)
Contract liability		104	(3)
Net cash used in operating activities		(2,322)	(3,595)
Investing activities			
Property and equipment expenditures	10	(47)	(135)
Proceeds on disposal of property and equipment	10	-	15
Net cash used in investing activities		(47)	(120)
Financing activities			
Proceeds from private placement	20	5,308	-
Transaction costs paid	20	(111)	-
Share options exercised	14	91	84
Net cash provided by financing activities		5,288	84
Increase (decrease) in cash		2,919	(3,631)
Cash, beginning of year		1,449	5,080
Cash, end of year		4,368	1,449

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

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 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.

2. Basis of preparation

The consolidated financial statements of Spectral have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities during the normal course of operations for the foreseeable future. These consolidated financial statements were approved by the Board of Directors for issue on March 27, 2019.

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

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the accounting policy changes as described in Note 4.

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 had 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. Altercyte Inc. was dissolved on August 9, 2018.

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.

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 statements of loss and comprehensive loss.

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

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.

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

a. Share options, warrant valuation and share-based compensation

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

b. Clinical trials, development and regulatory program 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. 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 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. Actual costs of the clinical trials and the Company's regulatory program are uncertain, subject to risks and may change depending upon a number of factors, including the Company's clinical development plan and regulatory pathway.

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.

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

d. Intangible impairment

Management uses judgement when assessing whether events or circumstances indicate that the carrying value of definite lived assets may not be recoverable.

e. Technology transfer, licensing and manufacturing support

Management uses judgement in the assessment of performance obligations for contracts where technology transfer, licensing, manufacturing support and one or more other goods or services are bundled into a single contract. The Company also considers the nature of the combined good or service for which the customer has contracted in determining whether that combined good or service is satisfied over time or at a point in time, and if over time, in selecting an appropriate method for measuring progress.

v. Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provision of the instrument.

The Company classifies its financial assets in the following categories: amortized cost, fair value through other comprehensive income or fair value through profit and loss.

The Company classifies its financial liabilities in the following categories: amortized cost or fair value through profit or loss.

The classification is determined at initial recognition and depends on the nature and purpose for which the instruments were acquired. The classification of the Company's financial assets and liabilities is disclosed in Note 22.

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 statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in fair value are presented within operating loss in the consolidated statements 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 statement of financial position date, which is classified as non-current. As at December 31, 2018 and 2017 there are no assets or liabilities measured at fair value through profit or loss in the consolidated statements of financial position.

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

b. *Financial assets at fair value through other comprehensive income*

Financial assets carried at fair value through other comprehensive income are measured at fair value. Interest, dividends and impairment gains and losses are recognized in the consolidated statement of loss and comprehensive loss on the same basis as for amortized cost assets. Changes in fair value are recognized initially in other comprehensive loss. When the assets are derecognized or reclassified the cumulative changes in fair value are reclassified to the consolidated statement of loss and other comprehensive loss (except where they relate to investments in equity instruments). As at December 31, 2018, 2017 and January 1, 2017, the Company has no financial instruments measured at fair value through other comprehensive loss.

c. *Financial assets at amortized cost*

Financial assets at amortized cost 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 financial assets at amortized cost.

Financial assets at amortized cost are initially recognized at fair value, less transaction costs. Subsequently, they are carried at amortized cost using the effective interest method less impairment losses.

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of loss and comprehensive loss.

d. *Financial liabilities at amortized cost*

Financial liabilities are carried at amortized cost and include trade payables and accrued liabilities. Financial liabilities are initially recognized at the amount required to be paid, less a discount to reduce the payable to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. 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. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

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

e. *Financial liabilities and equity instruments*

Debt and equity instruments are classified either as 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 ("Shares") and broker warrants, are allocated to those two instruments based on their relative fair values. Transaction costs are also allocated to the Shares and broker 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.

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 by applying the expected credit loss' ("ECL") model. The Company measures loss allowance at an amount equal to lifetime ECLs. The Company uses the simplified approach to determine ECLs on trade and other receivables by using a provision matrix based on historical credit loss experiences. The historical results are used to calculate the run rates of default which are then applied over the expected life of the trade receivables, adjusted for forward looking estimates. Trade receivables are written off when there is no reasonable expectation of recovering the asset or a portion, thereof.

Impairment losses are recorded within operating loss in the consolidated statements of loss and comprehensive loss. Where there is a change that will cause a significant reduction in the loss, the impairment loss previously recognized is reversed through the consolidated statement of loss and comprehensive loss.

vii. Cash

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

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

viii. Trade and other receivables

Trade receivables consist of amounts due from customers for royalties, technology transfers and manufacturing support, 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 at their invoiced amounts, including any related sales tax less adjustments to revenue such as rebates, chargebacks and cash discounts. They are subsequently measured at amortized cost using the effective interest method, less provision for impairment. As at December 31, 2018, management determined that no provision for impairment was required.

Other receivables include 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, instrumentation, 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.

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. Property and equipment is derecognized on disposal, or when no future economic benefits are expected from use or disposal. 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.

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

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 twelve 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, are measured as the difference between the net disposal proceeds and the carrying 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

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

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 on employee benefits, and vacation earned but not taken.

xv. Provisions for legal claims

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. The Company has not recorded any provisions as at December 31, 2018 and 2017.

xvi. Contract liabilities

Contract liabilities consists of amounts received from 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

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

xviii. Share options

The Company grants share options to buy Shares of the Company to directors, officers, employees, and consultants. 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 not less than the closing market price on the day preceding the date the share options are granted.

The fair value of the share options granted is measured at the grant date, using the Black-Scholes option pricing model, and is recognized at the time goods are received or services have been rendered. The fair value of the share options is recognized as an expense, with a corresponding

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

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' generally vest immediately on the date the option is granted.

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

- 25% on the date the share option is granted
- 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.

xix. Warrants

Warrants are classified as equity because they will be settled in equity. Incremental costs directly attributable to the issuance of Shares are recognized as a deduction from equity. The fair value of the broker warrants issued for which the Company receives goods or services as consideration for broker warrants 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. Warrants that expire unexercised are reclassified to contributed surplus.

xx. Salaries and 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.

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

b. *Share-based compensation*

Share compensation expense for share options granted to directors, officers, and employees is measured in accordance with Note 3. xviii above.

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, 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

a. Royalty revenue

The Company grants licences to use certain proprietary biochemicals, patented process applications or intellectual property ("IP"). Where the licence is offered on a standalone basis or it is determined that the licence is distinct from other goods and services offered in the contract, the Company assesses whether the licence is a right to use or right to access the IP. The Company has determined that all licences 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 licence period begins. Where the Company has recognized revenue ahead of invoicing the customer, the amount is recognized as a contract asset.

Royalty revenue is earned from granting a licence to use certain proprietary biochemicals or patented process application or IP. When the licence 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 licence 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 Company 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 licences are recognized as fixed consideration when the Company transfers control of the licence. 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 December 31, 2018 and 2017.

b. Product revenue

The Company recognizes product revenue when a contractual promise to a customer has been fulfilled by transferring control over the promised goods to the customer at a point in time, which is upon shipment or delivery based on contractual terms. The amount of revenue to be recognized is based on the consideration that the Company expects to

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

receive in exchange for the product. If the contract contains more than one performance obligation, the consideration is allocated based on the relative 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 its licences of IP in combination with contracts for the sale of certain proprietary biochemicals. Where it is determined that the licence 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 as noted above. The Company allocates the consideration for the licence to the product revenue based on its estimated expected sales for the period to which the licence fee relates based on historical trends with that customer.

The Company may offer discounts on purchases above certain purchase quantity thresholds. 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.

c. *Technology transfer and manufacturing support*

The Company also has a contract for the transfer of proprietary technology, licensing and manufacturing support. Technology transfer and licensing constitute a single performance obligation which is separate and distinct from the performance obligation of manufacturing support in the form of technical and scientific assistance. The Company allocates the contract's transaction price based on the relative standalone selling price of each performance obligation.

Since the licence is not distinct from the technology, and the technology is the predominant component in the bundle, the performance obligation is satisfied and revenue for transfer of technology and licence is recognized with delivery of the technology.

Manufacturing support, scientific and technical assistance services are recognized as revenue over time as the services are provided. The output method is used to recognize revenue on the basis of direct measurements of the value to the customer of services transferred to date relative to the remaining services promised under the contract.

xxiii. Loss per Share

Basic loss per Share is calculated by dividing the loss for the year by the weighted average number of Shares outstanding during the reporting period. Diluted loss per Share is computed similar to basic loss per Share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of share options and broker

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

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 period

A number of new standards and amendments to standards and interpretations were effective for annual periods beginning on or after January 1, 2018 and have been applied in preparing these consolidated financial statements as described below. The impact on adoption of the new standards are described within Note 4.

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

The Company implemented IFRS 15, *Revenue from Contracts with Customers* as of January 1, 2018. The Company has elected to use the full retrospective method upon adoption of this standard which requires retrospective adjustments to the consolidated financial statements for the earliest year presented. 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.

b. IFRS 9, *Financial Instruments*

The Company implemented IFRS 9, "*Financial Instruments*" ("IFRS 9") retrospectively as of January 1, 2018. This Standard was not applied to items that had already been derecognised at the date of initial application. The new standard includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. The standard replaces IAS 39, *Financial Instruments: Recognition and Measurement,* and related interpretations. The Company also applied related amendments to IFRS 7, *Financial Instruments: Disclosures*.

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:

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

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 statements of financial position 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 operating leases with the corresponding assets and liabilities recorded in the consolidated financial statements. The Company expects to adopt IFRS 16 using the modified retrospective transition method. Further, the Company currently expects to apply the following practical expedients: (i) grandfather the assessment of which transactions are leases; (ii) recognition exemption of short-term leases; and (iii) recognition exemption leases of low value items. The Company will recognize assets and liabilities for its leased premises on the consolidated statement of financial position upon adoption.

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

In June 2017, the 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 has assessed that there will be no financial statement impact upon adoption on January 1, 2019.

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.

4. Change in accounting policies and Impact of adoption of new IFRS standards

On January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* as noted above. Accordingly, the comparative balances were restated in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The change in accounting policies and the impact of the implementation of these standards on the Company's consolidated financial statements are described below.

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

IFRS 15, *Revenue from Contracts with Customers*

a. *Practical Expedients*

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

- Completed contracts under IAS 11 and IAS 18 before the date of transition have not been reassessed.
- The Company applied the practical expedient not to disclose information about remaining performance obligations that have original expected durations of one year or less.
- For contracts that were modified before the date of initial application, the Company did not retrospectively restate the contract for those contract modifications. The Company reflected the aggregate effect of all of the modifications that occurred before the beginning of the earliest period presented when: (i) identifying the satisfied and unsatisfied performance obligations; (ii) determining the transaction price; and (iii) allocating the transaction price to the satisfied and unsatisfied performance obligations.
- The Company also applied the practical expedient not to disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Company expects to recognize that amount as revenue for the year ended December 31, 2017.

b. *Impacts on adoption of IFRS 15*

The most significant impact from the adoption of IFRS 15, *Revenue from Contracts with Customers* relates to the timing of the recognition of revenue from upfront payments and from 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 licence 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 year ended December 31, 2018, with corresponding contract asset of $126 as at December 31, 2018.

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

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

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.

c. *Impacts on adoption of IFRS 9*

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

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

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

Statement of Loss and Comprehensive Loss (extract)	December 31 2017 As reported	Adjustment IFRS 15	December 31 2017 Restated
Revenue	3,806	(137)	3,669
Loss and comprehensive loss for the period	(3,939)	(137)	(4,076)

There was no impact of these adjustments on the Loss per Share (Note 15).

5. 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.

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, 2018 and 2017, no significant trade and other receivable balances were considered impaired or past due.

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

b. *Liquidity risk*

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

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

The Company will need additional capital to fund its clinical and regulatory programs and commercialization of the Toraymyxin™ therapeutic. Potential sources of capital could include equity and/or debt financings, the collection of 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 $500 as at December 31, 2018 with all of them having expected settlement dates within one year.

c. *Market risk*

1. *Currency risk*

The majority of the Company's revenue is denominated in U.S. dollars and Euros. As at December 31, 2018, cash included US$717. Trade and other receivables included a total of US$833 and €87. Trade and other payables included a total of US$69 and ¥2,750.

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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, Euro/Canadian or Yen/Canadian dollar exchange rates on the December 31, 2018 amounts would impact net loss by $212.

2. *Interest rate risk*

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

ii. Capital risk management

The Company's primary objective when managing capital is to safeguard its ability to continue as a going concern and to provide returns for shareholders by ensuring it maintains sufficient levels of cash for working capital and operating purposes, as well as funding to pursue the commercialization efforts of its core products. Capital consists of share capital, contributed surplus, other equity reserves, and deficit. In order to maintain or adjust the capital structure, the Company may issue new Shares from time to time.

6. Cash

	December 31 2018 $	December 31 2017 $
Cash	977	327
Premium rate bank account	3,391	1,122
Cash	**4,368**	**1,449**

7. Trade and other receivables

	December 31 2018 $	December 31 2017 $
Trade receivables	1,110	189
Accrued royalties	293	655
Input tax credits receivable	29	36
Other receivables	1	1
Trade and other receivables	**1,433**	**881**

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

8. Inventories

	December 31 2018 $	December 31 2017 $
Raw materials and supplies	39	51
Work-in-process	4	6
Finished goods	154	134
Inventories	**197**	**191**

In 2018, management determined that a write-down of $229 (2017: $25) was required for PMX cartridges that expired or will expire in 2019.

9. Prepayments and other assets

	December 31 2018 $	December 31 2017 $
Deposits	154	46
Insurance premiums	12	11
Other prepayments	26	16
Prepayments and other assets	**192**	**73**

10. Property and equipment

	Laboratory equipment $	Office equipment and furniture $	Computer equipment $	Leasehold improvements $	Total $
Balance, January 1, 2017					
Cost	1,830	368	235	202	2,635
Accumulated depreciation	(1,322)	(353)	(213)	(113)	(2,001)
Net carrying amount	**508**	**15**	**22**	**89**	**634**
Year ended December 31, 2017					
January 1, 2017	508	15	22	89	634
Additions	9	16	2	108	135
Dispositions	(2)	-	-	-	(2)
Depreciation	(148)	(6)	(8)	(35)	(197)
December 31, 2017	**367**	**25**	**16**	**162**	**570**

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

	Laboratory equipment	Office equipment and furniture	Computer equipment	Leasehold improvements	Total
Balance, December 31, 2017					
Cost	1,837	384	237	310	2,768
Accumulated depreciation	(1,470)	(359)	(221)	(148)	(2,198)
Net carrying amount	**367**	**25**	**16**	**162**	**570**

	Laboratory equipment $	Office equipment and furniture $	Computer equipment $	Leasehold improvements $	Total $
Year ended December 31, 2018					
January 1, 2018	367	25	16	162	570
Additions	33	2	12	-	47
Write down to fair value	(35)	-	-	-	(35)
Depreciation	(134)	(8)	(15)	(48)	(205)
December 31, 2018	**231**	**19**	**13**	**114**	**377**
Balance, December 31, 2018					
Cost	1,835	386	249	310	2,780
Accumulated depreciation	(1,604)	(367)	(236)	(196)	(2,403)
Net carrying amount	**231**	**19**	**13**	**114**	**377**

11. Intangible asset

	December 31 2018 $	December 31 2017 $
Licence fee		
Cost	502	502
Accumulated amortization	(218)	(193)
Net carrying amount	**284**	**309**

On April 21, 2010, the Company paid $502 to Toray Industries, Inc. (Toray) pursuant to the terms of a licence 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 licence, of which there remains approximately 11 years. Amortization expense in 2018 was $25 (2017: $25).

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As part of this licence 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.

12. Trade and other payables

	December 31 2018 $	December 31 2017 $
Trade payables	199	359
Accrued liabilities	177	174
Compensation payable to key management	88	46
Compensation payable to employees	36	33
Trade and other payables	**500**	**612**

13. 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 PMX cartridge. As at December 31, 2018, the Company has made commitments to certain organizations for approximately $1,400 in anticipation of its completion of the regulatory path forward.

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

	December 31 2018 $
Less than 1 year	163
Between 1 and 5 years	459
More than 5 years	-

The lease was renewed for an additional five years commencing in 2017. Lease expense in 2018 was $141 (2017: $137).

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

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts and licence agreements. These indemnification arrangements may sometimes require such third parties to compensate counterparties for losses as a result of breaches in representations, covenants and warranties provided by the Company or as a result of litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the relevant transaction. In some instances, the terms of these indemnities are not explicitly defined. No accruals have been required to be made as at December 31, 2018 with respect to these agreements.

iv. The Company has guaranteed minimum annual purchase commitments related to its exclusive licence agreement for PMX with Toray as described in Note 11.

14. Share capital and other equity reserves

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

ii. Details of share options are as follows:

Under the Company's 2008 Amended Stock Option Plan, the total number of share options that may be granted 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 share 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 at the discretion of the Board of Directors:

					2018
Grant Date	**Granted to**	**Number of share options**	**Exercise price**	**Vesting Schedule**	**Expiry Date**
February 13, 2018		**2,333,500**	**$0.395**		
	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
March 28, 2018	Consultants	**100,000**	**$0.395**	iii.	5 years

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

					2017
Grant Date	**Granted to**	**Number of share options**	**Exercise price**	**Vesting Schedule**	**Expiry Date**
February 28, 2017		**1,637,505**	**$0.300**		
	Key management	1,537,505		i.	5 years
	Consultants	100,000		iii.	5 years
June 1, 2017		**785,305**	**$0.530**		
	Key management	735,305		v.	5 years
	Consultants	50,000		v.	5 years
October 11, 2017	Consultants	**600,000**	**$0.405**	iii.	2 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 3rd 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 1st, July 1st, and October 1st.
v. 100% vesting upon receipt of any approval by the FDA on the PMA for Toraymyxin™.

There is no cash settlement of the share options.

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

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

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

						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
June 1, 2017	1.05%	5 years	105.08%	0%	$0.495	$0.375
October 11, 2017	1.54%	2 years	167.35%	0%	$0.420	$0.324

Share compensation expense is allocated as follows:

	December 31, 2018	**December 31, 2017**
Key management	535	603
Employees	18	35
Consultants	160	230
	713	**868**

			2018			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	0.38	3,022,810	2,272,810
Forfeited/cancelled	0.54	(246,875)	-	0.44	(71,250)	(56,250)
Exercised	0.21	(437,500)	(437,500)	0.29	(293,435)	-
Expired	0.44	(1,593,370)	(1,175,870)	0.29	(585,000)	(585,000)
Balance, December 31	**0.46**	**7,820,752**	**6,075,190**	**0.46**	**7,664,997**	**5,795,060**

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

Of the 7,820,752 outstanding share options (2017: 7,664,997), 5,808,448 share options (2017: 6,111,330) 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 $
0.20 to 0.34	2,353,130	2.49	0.27	1,978,130	0.26
0.35 to 0.47	1,993,062	1.70	0.38	1,930,940	0.39
0.48 to 0.64	1,651,305	2.30	0.57	866,000	0.60
0.65 to 0.76	1,667,500	2.55	0.73	1,336,260	0.73
Balance, December 31, 2017	**7,664,997**	**2.26**	**0.46**	**6,111,330**	**0.45**
0.30 to 0.37	2,212,067	2.25	0.33	2,024,567	0.33
0.38 to 0.39	2,433,500	3.80	0.39	1,288,817	0.39
0.40 to 0.64	1,944,185	1.35	0.52	1,316,000	0.51
0.65 to 0.73	1,231,000	2.02	0.73	1,179,064	0.72
Balance, December 31, 2018	**7,820,752**	**2.47**	**0.46**	**5,808,448**	**0.47**

iii. Details of warrants are as follows:

8,847,331 share purchase warrants issued in 2018 with respect to the private placement financing transaction (Note 20) were valued at $1,930 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**
April 20, 2018	2.02%	3 years	138.33%	0%	$0.30	$0.218

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

	2018		2017	
	Weighted average exercise price per warrant $	warrants	Weighted average exercise price per warrant $	warrants
January 1	0.70	506,408	0.70	506,408
Granted	0.45	8,847,331	-	-
Expired	0.70	(506,408)	-	-
Balance, December 31	**0.45**	**8,847,331**	**0.70**	**506,408**

15. Loss per Share

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

	December 31 2018	December 31 2017 Restated (Note 4)
	$	$
Numerator for basic and diluted loss per Share available to shareholders	(2,489)	(4,076)
Denominator for basic and diluted loss per Share	220,172,675	207,329,193
Basic and diluted loss per Share	(0.01)	(0.02)

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

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

Weighted average Shares outstanding

		December 31, 2018		December 31, 2017	
	Note	Weighted average Shares-basic and diluted	Number of Shares	Weighted average Shares-basic and diluted	Number of Shares
Balance, January 1		207,459,022	207,459,022	207,165,587	207,165,587
Private placement	20	12,362,023	17,694,661	-	-
Share options exercised	14	351,630	437,500	163,606	293,435
Balance, December 31		**220,172,675**	**225,591,183**	**207,329,193**	**207,459,022**

16. 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, 2018		December 31, 2017 Restated (Note 4)	
	$	%	$	%
Loss and comprehensive loss for the year before tax	(2,489)		(4,076)	
Tax calculated at the applicable statutory tax rate	(659)	26.5	(1,080)	26.5
Tax effects of:				
Expenses not deductible for tax	197	(7.9)	236	(5.8)
Change in deferred tax assets not recognized	462	18.6	844	20.7
Income tax expense	-	-	-	-

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

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

	December 31 2018	December 31 2017
	$	$
Deferred income tax assets		
Operating loss carry forwards	21,439	20,959
Capital loss carry forwards	1,936	1,936
Research and development expenditures	6,528	6,528
Net non-refundable investment tax credits	1,607	2,030
Income tax basis of property and equipment in excess of carrying amount and other temporary differences	1,934	1,939
	33,444	**33,392**

As at December 31, 2018, the Company's income tax benefits, for which no benefit has been recognized in these consolidated financial statements, expire as follows:

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	10,092
2035	9,244
2036	9,717
2037	3,272
2038	1,810
	80,901

ii. Research and development expenditures of approximately $24,634 (2017: $24,634), which may be used to reduce future years' taxable income, can be carried forward indefinitely.

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

iii. Non-refundable investment tax credits of approximately $2,186 (2017: $2,761), which may be applied against future income taxes payable, expire in varying amounts from 2019 to 2026.

iv. Capital loss carry forwards of approximately $14,610 (2017: $14,610), which may be applied against future capital gains, do not expire.

17. Segment reporting

The Company's key management team are the 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 2018	December 31 2017 Restated (Note 4)
	$	$
Royalties	**1,295**	**2,358**
Technology transfer	**1,158**	**-**
Product revenue		
Proprietary biochemicals	571	403
EAA™ diagnostic	678	763
Instrumentation	104	138
Toraymyxin™	34	7
	1,387	**1,311**
Revenue	**3,840**	**3,669**

ii. By Country:

	December 31 2018	December 31 2017 Restated (Note 4)
	$	$
United States	2,005	2,065
France	813	639
Italy	371	410
Japan	300	334
China	109	39
Other	242	182
Revenue	**3,840**	**3,669**

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

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

iii. By Customer:

	December 31 2018 $	December 31 2017 Restated (Note 4) $
Customer A	1,461	1,778
Customer B	813	639
Customer C	371	410
Customer D	298	331
Customer E	252	13
Other	645	498
Revenue	**3,840**	**3,669**

Comparative figures have been adjusted to conform with the current year's ranking.

iv. At December 31, 2018 the Company has substantially all of its non-current assets residing in Canada.

18. Clinical development and regulatory program

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

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

	December 31 2018 $	December 31 2017 $
Program management	429	556
Program oversight	107	722
Clinical site costs	3	57
Diagnostic supply and training	16	52
Employee benefits	327	371
Consultants	-	55
	882	**1,813**

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

The clinical trial and regulatory program costs have been included within operating loss in the statement of loss and comprehensive loss as required. Total costs since inception in 2010 are $42,418.

19. Salaries and benefits

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

		December 31 2018 $		December 31 2017 $
	All employees	**Key management**	**All employees**	**Key management**
Salaries	2,048	928	2,347	1,216
Bonuses	45	40	5	-
Short term employee benefits	315	98	321	108
Directors' fees	125	125	223	223
Share-based compensation	553	535	627	603
Other	9	4	11	3
	3,095	**1,730**	**3,534**	**2,153**

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.

20. Private placement

On April 20, 2018, the Company closed a private placement financing resulting in the issuance of 17,694,661 units ("Units") for gross proceeds of $5,308. The Company received net cash proceeds of $5,197 which are used for further clinical study of the PMX cartridge, the accompanying regulatory pursuit for FDA approval, and for working capital and general corporate purposes. Each Unit is comprised of one Share priced at $0.30 per Share and one-half of a share purchase warrant ("Warrant"), resulting in the issue of 8,847,331 share purchase warrants to the subscribers (Note 14). 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.

21. Related party transactions

i. Toray Industries, Inc.

Toray holds 45,630,105 Shares of the Company as at December 31, 2018, representing approximately 20.2% (2017 – 22.0%) ownership interest, 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 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:

	December 31 2018	December 31 2017 Restated (Note 4)
	$	$
Revenue		
Toray Medical Co., Ltd.	294	323
Purchases		
Toray International America Inc.	165	99
Reimbursement of expenses		
Toray Industries, Inc.	-	19
Due from/(to)		
Toray Medical Co., Ltd.	84	71
Toray International America Inc.	(34)	-

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

Birch Hill, through a number of its funds and an investee company, holds 36,017,718 Shares of the Company as at December 31, 2018 representing approximately a 16.0% (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 19 and compensation payable to key management as at December 31, 2018 is disclosed in Note 12.

There are no other related party transactions.

22. 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, trade and other receivables, contract asset are classified as financial assets at amortized cost with a total carrying value of $5,927 at December 31, 2018 (2017 - $2,330).

Trade and other payables are classified as other financial liabilities, which are measured at amortized cost using the effective interest rate method, with a total carrying value of $500 at December 31, 2018 (2017 - $612).

Cash, trade and other receivables, contract asset 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.

23. Subsequent event

On March 15, 2019, the Company incorporated a wholly owned subsidiary, Dialco Medical Inc. pursuant to the *Business Corporations Act* (Ontario).