Spectral Medical Inc.

Consolidated Financial Statements

December 31, 2017 and 2016

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March 28, 2018

Independent Auditor's Report

To the Shareholders of
Spectral Medical Inc.

We have audited the accompanying consolidated financial statements of Spectral Medical Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Spectral Medical Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter
Without qualifying our opinion, 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 Spectral Medical Inc. and its subsidiaries' ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario

(in thousands of Canadian dollars)

	Notes	December 31 2017 $	December 31 2016 $
Assets			
Current assets			
Cash	5	1,449	5,080
Trade and other receivables	6	881	642
Inventories	7	191	244
Prepayments and other assets	8	73	166
		2,594	6,132
Non-current assets			
Property and equipment	9	570	634
Intangible asset	10	309	334
Total assets		3,473	7,100
Liabilities			
Current liabilities			
Trade and other payables	11	612	1,112
Deferred revenue		26	166
Total liabilities		638	1,278
Equity			
Share capital	13	63,225	63,084
Contributed surplus		7,849	7,849
Share-based compensation	13	4,914	4,103
Warrants		132	132
Deficit		(73,285)	(69,346)
Total equity		2,835	5,822
Total liabilities and equity		3,473	7,100

Going concern	(Note 1)
Contingencies and commitments	(Note 12)
Subsequent events	(Note 22)

Approved by the Board of Directors

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

Spectral Medical Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2017 and 2016

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

	Notes	2017 $	2016 $
Revenue	16	3,806	3,545
Expenses			
Changes in inventories of finished goods and work-in-process		232	233
Inventory write-down	7	25	135
Raw materials and consumables used		245	473
Employee benefits	13,18	3,534	3,660
Consulting and professional fees		1,829	6,708
Product development		238	67
Regulatory and investor relations		479	866
Travel and entertainment		280	770
Depreciation and amortization		222	224
Foreign exchange loss		67	74
Other expenses		594	552
		7,745	13,762
Operating loss		(3,939)	(10,217)
Finance income		-	68
Loss and comprehensive loss for the year		(3,939)	(10,149)
Basic and diluted loss per common share	14	(0.02)	(0.05)
Weighted average number of common shares outstanding	14	207,329,193	204,679,282

Spectral Medical Inc.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

	Notes	Issued capital Number	$	Contributed surplus $	Share-based compensation $	Warrants $	Deficit $	Total equity $
Balance, January 1, 2016		190,771,405	53,058	7,849	3,723	-	(59,197)	5,433
Bought deal prospectus offering	19	15,106,804	9,163	-	-	236	-	9,399
Share options exercised	13	887,378	479	-	(200)	-	-	279
Broker warrants exercised		400,000	384	-	-	(104)	-	280
Loss and comprehensive loss for the year		-	-	-	-	-	(10,149)	(10,149)
Share-based compensation	13	-	-	-	580	-	-	580
Balance, December 31, 2016		207,165,587	63,084	7,849	4,103	132	(69,346)	5,822
Share options exercised	13	293,435	141	-	(57)	-	-	84
Loss and comprehensive loss for the year		-	-	-	-	-	(3,939)	(3,939)
Share-based compensation	13	-	-	-	868	-	-	868
Balance, December 31, 2017		207,459,022	63,225	7,849	4,914	132	(73,285)	2,835

Spectral Medical Inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016

(in thousands of Canadian dollars)

	Notes	2017 $	2016 $
Cash flow provided by (used in)			
Operating activities			
Loss and comprehensive loss for the year		(3,939)	(10,149)
Adjustments for:			
Depreciation on property and equipment	9	197	199
Amortization of intangible asset	10	25	25
Share-based compensation		868	580
(Gain) loss on disposal of property and equipment	9	(13)	6
Changes in items of working capital :			
Trade and other receivables		(239)	(12)
Inventories		53	(1)
Prepayments and other assets		93	(25)
Trade and other payables		(500)	(1,738)
Deferred revenue		(140)	(10)
Net cash used in operating activities		(3,595)	(11,125)
Investing activities			
Property and equipment expenditures	9	(135)	(122)
Proceeds on disposal of property and equipment	9	15	-
Net cash used in investing activities		(120)	(122)
Financing activities			
Bought deal prospectus offering	19	-	9,399
Share options exercised		84	279
Broker warrants exercised	13	-	280
Net cash provided by financing activities		84	9,958
Decrease in cash		(3,631)	(1,289)
Cash, beginning of year		5,080	6,369
Cash, end of year		1,449	5,080

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

1. Nature of operations and going concern

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

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

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

The ability of the Company, to realize its assets and meet its obligations as they come due is dependent on obtaining regulatory approval from the United States Food and Drug Administration ("FDA") of the Company's primary product (PMX), successful commercialization of the Company's products (including the PMX product) and achieving future profitable operations, the outcome of which cannot be predicted at this time. Furthermore, the Company will require additional funding from commercial transactions or investors to continue the development and commercialization of products. These circumstances, lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

Management has assessed the Company's ability to continue as a going concern and concluded that it is dependent on the successful execution of management's operating and strategic plan, which includes among other things, securing additional financing, 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 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards

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

Board (IFRS). These consolidated financial statements were approved by the Board of Directors for issue on March 28, 2018.

3. Significant accounting policies

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

i. Consolidation

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

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

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

ii. Basis of measurement

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

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 trial 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 in the ongoing EUPHRATES trial. The financial terms of these agreements vary from contract to contract, are subject to negotiation and may result in uneven payment flows. Payments under the contracts depend on factors such as the achievement of certain events, the successful enrolment of patients or the completion of portions of the clinical trial or similar conditions. The Company determines the accruals by reviewing contracts, vendor agreements and purchase orders, and through 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 EUPHRATES trial 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.

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.

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

v. Financial instruments

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

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

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

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

Financial instruments in this category are initially and subsequently stated at fair value. Transaction costs are expensed in the consolidated statements of loss and comprehensive loss. 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, 2017 and 2016 there are no assets or liabilities measured at fair value through profit or loss in the consolidated statements of financial position.

b. Loans and receivables

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

Loans and receivables are initially recognized at the amount expected to be received, less any discounts to reduce the loans and receivables to fair value. Subsequently, they are carried at amortized cost using the effective interest method less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at the end of the reporting period. Bad debts are provided for in the period in which they are identified. Interest income is recognized by applying the effective interest rate.

c. Other financial liabilities at amortized cost

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

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

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

d. *Financial liabilities and equity instruments*

Debt and equity instruments are classified 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.

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

vi. Impairment of financial assets

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

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

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

vii. Cash

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

(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 and product sales in the normal course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. As at December 31, 2017, 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, 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 thirteen 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 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.

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

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, and are discounted to present value where necessary to reduce the obligation to fair value. The Company has not recorded any provisions as at December 31, 2017.

xvi. Deferred revenue

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

xvii. Share capital

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

The fair value of the share options granted 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 increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

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

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

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

- 25% on the date the share option is granted
- 6.25% in each subsequent quarter

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

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.

xx. Employee benefits

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

a. Vacation pay

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

b. Share-based compensation

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

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

encourage voluntary termination. Benefits which are due more than twelve months after the end of the reporting period are discounted to their present value.

xxi. Current and deferred income taxes

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

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

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

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

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

xxii. Revenue recognition

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

a. Royalties

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

b. Product sales

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

- The specific risks and rewards of ownership have been transferred to the purchaser;

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

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

c. *Instrumentation*

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

d. *Interest income*

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

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 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 issued but not yet applied

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

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

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

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

estimates. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018.

Management is continuing to evaluate the impact of the standard including the treatment of payments received upfront for licensing agreements, minimum royalties, and combined licensing and supply agreements and does not expect that the impact of adopting IFRS 15 will be significant. The new standard also introduces expanded disclosure requirements. The Company will adopt this accounting standard on January 1, 2018, using the full retrospective approach.

b. IFRS 9, *Financial Instruments*

This addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling to profit and loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 32.

For financial liabilities, there were no changes to classification and comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness test. It requires an economic relationship between the hedged item and the hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 32.

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

In addition, IFRS 7 *Financial Instruments: Disclosures* was amended to include additional disclosure requirements on transition to IFRS 9. The Company does not expect a significant impact upon adoption.

c. IFRS 16, *Leases*

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the consolidated balance sheets for lessees.

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

This standard is effective for annual reporting periods beginning on or after January 1, 2019. The impact of the adoption of the standard is expected to result in the recognition of all leases with the corresponding assets and liabilities recorded in the consolidated financial statements.

4. Risk management

i. Financial risk management

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

a. Credit risk

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

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, 2017 and 2016, no significant trade and other receivable balances were considered impaired or past due.

b. Liquidity risk

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

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

(in thousands of Canadian dollars, except for share and per share 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 $612 as at December 31, 2017 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, 2017, cash included US$255. Trade and other receivables included a total of US$742 and €58. Trade and other payables included a total of US$140 and €1. There is no active hedging program currently in place due to the relatively short time frame for settlement of these balances. A 10% change in the U.S. dollar/Canadian dollar or Euro/Canadian dollar exchange rates on the December 31, 2017 amounts would impact net loss by $81.

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 maintain appropriate levels of cash for working capital and operating purposes, as well as funding commercialization of its core products. Capital consists of share capital, contributed surplus, other equity reserves,

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

and deficit. In order to maintain or adjust the capital structure, the Company may issue new Shares from time to time.

5. Cash

	December 31 2017 $	December 31 2016 $
Cash	327	575
Premium rate bank account	1,122	4,505
Cash	**1,449**	**5,080**

6. Trade and other receivables

	December 31 2017 $	December 31 2016 $
Trade receivables	189	85
Accrued royalties	655	523
Input tax credits receivable	36	31
Other receivables	1	3
Trade and other receivables	**881**	**642**

7. Inventories

	December 31 2017 $	December 31 2016 $
Raw materials and supplies	51	83
Work-in-process	6	8
Finished goods	134	153
Inventories	**191**	**244**

As at December 31, 2017, management determined that a write-down of $25 (2016: $135) was required for PMX cartridges that expired or will expire in early 2018.

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

8. Prepayments and other assets

	December 31 2017 $	December 31 2016 $
Insurance premiums	11	7
Deposits	46	146
Other prepayments	16	13
Prepayments and other assets	**73**	**166**

9. Property and equipment

	Laboratory equipment $	Office equipment and furniture $	Computer equipment $	Leasehold improvements $	Total $
Balance, January 1, 2016					
Cost	1,752	367	214	186	2,519
Accumulated depreciation	(1,163)	(346)	(205)	(88)	(1,802)
Net carrying amount	**589**	**21**	**9**	**98**	**717**
Year ended December 31, 2016					
January 1, 2016	589	21	9	98	717
Additions	84	1	21	16	122
Dispositions	(6)	-	-	-	(6)
Depreciation	(159)	(7)	(8)	(25)	(199)
December 31, 2016	**508**	**15**	**22**	**89**	**634**

	$	$	$	$	$
Balance, December 31, 2016					
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**

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

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**
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**

10. Intangible asset

	December 31 2017 $	**December 31 2016 $**
License fee		
Cost	502	502
Accumulated amortization	(193)	(168)
Net carrying amount	**309**	**334**

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

As part of this license agreement, on obtaining market approval from the 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.

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

11. Trade and other payables

	December 31 2017 $	December 31 2016 $
Trade payables	359	399
Accrued liabilities	174	473
Compensation payable to key management	46	201
Compensation payable to employees	33	39
Trade and other payables	**612**	**1,112**

12. Contingencies and commitments

i. The Company has committed to expenditures for its clinical and regulatory programs as follows:

	2018 $
Program management	98
Employee benefits	62
	160

Future commitments are related primarily to the Company's regulatory process with the FDA.

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

	December 31 2017 $
Less than 1 year	159
Between 1 and 5 years	623
More than 5 years	-

The lease was renewed for an additional five years commencing in 2017. Lease expense in 2017 was $137 (2016: $132).

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

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, leasing contracts and license agreements. These indemnification arrangements may sometimes require such third parties to

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

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, 2017 with respect to these agreements.

iv. The Company has further commitments related to its exclusive license agreement for PMX with Toray as described in Note 10.

13. Share capital and other equity reserves

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

ii. On July 4, 2016, the Company announced that the Toronto Stock Exchange (the "TSX") approved its notice of intention to make a normal course issuer bid ("NCIB") for its outstanding Shares. Pursuant to the notice, the Company was able to purchase up to 4,134,664 of its Shares, representing approximately 2% of its issued and outstanding Shares, during the twelve-month period commencing July 6, 2016 and ending July 5, 2017.

The Company did not repurchase any Shares under this NCIB in 2017 or 2016.

iii. 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 to directors, officers, employees and consultants at the discretion of the Board of Directors.

December 31, 2017			December 31, 2016		
Date	**Number of share options**	**Exercise price**	**Date**	**Number of share options**	**Exercise price**
February 28, 2017	1,637,505	$0.300	February 1, 2016	1,420,000	$0.730
June 1, 2017	785,305	$0.530	March 29, 2016	180,000	$0.760
October 11, 2017	600,000	$0.405			

The exercise price of the share options is equal to the closing market price of the Company's Shares on the TSX on the immediately preceding day of the grant of the share option. Share options issued to the Company's directors vest 100% at the time of the grant. Share options issued to the Company's officers, employees, and consultants, generally vest at 25% of the grant amount at the time of the grant. The balance of these share options vest equally in each successive quarter and will be fully vested by the end of the third year following the grant date.

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

Share options issued on February 28, 2017 vested 25% at the time of the grant and will be fully vested by February 28, 2020. Share options issued on June 1, 2017 to the Company's officers vest upon receipt of FDA approval for Toraymyxin™. 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. The share options issued October 11, 2017 were fully vested on the grant date. The contractual life of each share option is five years, except for the share options granted on October 11, 2017, which is two years. There is no cash settlement of the share options.

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

						2016
Grant date	**Risk-free interest rate**	**Expected life**	**Annualized volatility**	**Dividend rate**	**Grant date share price**	**Share option fair value**
February 1, 2016	0.67%	5 years	74.04%	0%	$0.720	$0.429
March 29, 2016	0.51%	2 years	64.39%	0%	$0.760	$0.269

						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, 2017	**December 31, 2016**
Employees	638	459
Consultants and others	230	121
	868	**580**

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

	2017			2016		
	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	0.48	5,591,872	4,163,500	0.37	5,086,500	4,143,500
Granted	0.38	3,022,810	2,272,810	0.73	1,600,000	950,000
Forfeited/cancelled	0.44	(71,250)	(56,250)	0.73	(6,250)	-
Exercised	0.29	(293,435)	-	0.31	(887,378)	(730,000)
Expired	0.29	(585,000)	(585,000)	0.32	(201,000)	(200,000)
Balance, December 31	**0.46**	**7,664,997**	**5,795,060**	**0.48**	**5,591,872**	**4,163,500**

Of the 7,664,997 outstanding share options (2016: 5,591,872), 6,111,430 share options (2016: 4,605,905) 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 0.30	1,522,500	0.76	0.24	1,522,500	0.24
0.31 to 0.40	1,513,372	2.78	0.37	1,196,512	0.37
0.51 to 0.60	866,000	2.01	0.60	821,250	0.60
0.61 to 0.76	1,690,000	3.73	0.73	1,065,643	0.73
Balance, December 31, 2016	**5,591,872**	**2.40**	**0.48**	**4,605,905**	**0.45**
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**

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

iv. Details of broker warrants are as follows:

906,408 broker warrants issued in 2016 were valued at $236 using the Black-Scholes option pricing model, with the following assumptions:

						2016
Grant date	**Risk-free interest rate**	**Expected life**	**Annualized volatility**	**Dividend rate**	**Grant date share price**	**Share option fair value**
February 18, 2016	0.43%	2 years	68.06%	0%	$0.70	$0.261

In 2016, the Company received $280 cash, on the exercise of 400,000 broker warrants, at an exercise price of $0.70 per Share. The remaining 506,408 broker warrants, expired on February 18, 2018.

14. Loss per Share

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

	December 31 2017	December 31 2016
	$	$
Numerator for basic and diluted loss per Share available to shareholders	(3,939)	(10,149)
Denominator for basic and diluted loss per Share	207,329,193	204,679,282
Basic and diluted loss per Share	(0.02)	(0.05)

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, 2017		December 31, 2016	
	Weighted average Shares-basic and diluted	**Number of Shares**	**Weighted average Shares-basic and diluted**	**Number of Shares**
Balance, January 1	207,165,587	207,165,587	190,771,405	190,771,405
Bought deal prospectus offering	-	-	13,071,082	15,106,804
Share options exercised	163,606	293,435	734,063	887,378
Broker warrants exercised	-	-	102,732	400,000
Balance, December 31	**207,329,193**	**207,459,022**	**204,679,282**	**207,165,587**

15. Income taxes

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

	December 31, 2017		December 31, 2016	
	$	**%**	**$**	**%**
Loss and comprehensive loss for the year before tax	(3,939)		(10,149)	
Tax calculated at the applicable statutory tax rate	(1,044)	26.5	(2,689)	26.5
Tax effects of:				
Expenses not deductible for tax	236	(6.0)	168	(1.7)
Tax losses and other items for which no deferred income tax was recognized	808	(20.5)	2,521	(24.8)
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 2017	December 31 2016
	$	$
Deferred income tax assets		
Operating loss carry forwards	20,959	20,092
Capital loss carry forwards	1,936	1,936
Research and development expenditures	6,528	6,528
Net non-refundable investment tax credits	2,030	2,030
Income tax basis of property and equipment in excess of carrying amount and other temporary differences	1,939	1,993
	33,392	**32,579**

As at December 31, 2017, 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
	79,091

ii. Research and development expenditures of approximately $24,634 (2016: $24,634), which may be used to reduce future years' taxable income, can be carried forward indefinitely.

iii. Non-refundable investment tax credits of approximately $2,761 (2016: $2,761), which may be applied against future income taxes payable, expire in varying amounts from 2019 to 2026.

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

iv. Capital loss carry forwards of approximately $14,610 (2016: $14,610), which may be applied against future capital gains, do not expire.

16. Segment reporting

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

Details of the Company's revenue are as follows:

i. By source:

	December 31 2017	**December 31 2016**
	$	**$**
Royalties	**2,497**	**2,290**
Product revenue		
Proprietary biochemicals	403	462
EAA™ diagnostic	761	706
Instrumentation	138	87
Toraymyxin™	7	-
	1,309	**1,255**
Revenue	**3,806**	**3,545**

ii. By Country:

	December 31 2017	**December 31 2016**
	$	**$**
United States	2,204	2,118
France	639	544
Italy	410	417
Japan	332	326
United Kingdom	90	-
Other	131	140
Revenue	**3,806**	**3,545**

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

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

iii. By Customer:

	December 31 2017 $	December 31 2016 $
Customer A	1,778	1,685
Customer B	639	544
Customer C	410	417
Customer D	329	321
Customer E	144	133
Other	506	445
Revenue	**3,806**	**3,545**

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

iv. At December 31, 2017 the Company has substantially all of its non-current assets residing in Canada.

17. The EUPHRATES trial and regulatory program

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

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

	December 31 2017 $	December 31 2016 $
Program management	556	3,167
Program oversight	722	558
Clinical site costs	57	2,256
Diagnostic supply and training	52	266
Employee benefits	371	492
Consultants	55	125
Total EUPHRATES	**1,813**	**6,864**

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 $41,536.

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

18. Employee benefits

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

		December 31 2017 $		**December 31 2016 $**
	All employees	**Key management**	**All employees**	**Key management**
Salaries	2,347	1,216	2,460	1,217
Bonuses	5	-	146	141
Short term employee benefits	321	108	321	108
Directors' fees	223	223	258	258
Share-based compensation	627	603	459	363
Other	11	3	16	3
	3,534	**2,153**	**3,660**	**2,090**

Executive employment agreements allow for additional payments of approximately $1,406 if the individuals are terminated without cause and approximately $1,487 in the event of a change in control.

19. Bought deal prospectus offering

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

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

In total, the Company issued 15,106,804 Shares for aggregate gross proceeds of $10,575. The Company received net cash proceeds of $9,399 which were used to fund its EUPHRATES trial and for working capital and general corporate purposes.

The Company also issued 906,408 broker warrants to the underwriters representing 6% of the total number of shares sold pursuant to the Offering. Each broker warrant entitles the holder thereof to acquire one Share at a price of $0.70 per Share for a period of 24 months from the closing date. 400,000 broker warrants were exercised in September 2016 for total proceeds of $280.

20. Related party transactions

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

Toray holds 45,630,105 Shares of the Company as at December 31, 2017, representing approximately 22.0% (2016 – 22.0%) of Spectral's issued and outstanding capital, calculated on a non-diluted basis.

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

Toray is entitled to nominate one director 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 2017 $	December 31 2016 $
Revenue		
Toray Medical Co., Ltd.	329	321
Purchases		
Toray Industries, Inc.	-	100
Toray International America Inc.	99	131
Reimbursement of expenses		
Toray Industries, Inc.	19	-
Due from/(to)		
Toray Industries, Inc.	71	76

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

Birch Hill, through a number of its funds and an investee company, holds 33,517,718 Shares of the Company as at December 31, 2017 representing approximately a 16.2% (2016 – 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 18 and compensation payable to key management as at December 31, 2017 is disclosed in Note 11.

There are no other related party transactions.

21. Financial instruments and fair values

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

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

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

Cash and trade and other receivables are classified as loans and receivables with a total carrying value of $2,330 at December 31, 2017 (2016 - $5,722).

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 $612 at December 31, 2017 (2016 - $1,112).

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

22. Subsequent event

On February 13, 2018, the Company granted 2,333,500 share options to directors, officers, and consultants at an exercise price of $0.395 per Share. 640,000 of the share options vested immediately. 675,000 share options vest at 25% of the grant amount at the time of the grant, and the balance of these share options vest equally in each successive quarter and will be fully vested by the end of the third year following the grant date. 765,000 share options will vest upon certain events related to the approval of the Toraymyxin™ and potential subsequent business transaction. The remaining 253,500 share options vest 1/3 on each of April 1st, July 1st, and October 1st, 2018. The contractual life of each share option is five years except for 265,000 share options that have a contractual life of two years.