Spectral Medical Inc.

(formerly Spectral Diagnostics Inc.)

Financial Statements

December 31, 2014 and 2013

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March 24, 2015

Independent Auditor's Report

To the Shareholders of
Spectral Medical Inc.
(formerly Spectral Diagnostics Inc.)

We have audited the accompanying financial statements of Spectral Medical Inc., which comprise the statements of financial position as at December 31, 2014 and December 31, 2013 and the 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 financial statements
Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Spectral Medical Inc. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Oakville, Ontario

Spectral Medical Inc.

(formerly Spectral Diagnostics Inc.)

Statements of Financial Position

(in thousands of Canadian dollars)

	Notes	December 31 2014 $	December 31 2013 $
Assets			
Current assets			
Cash and cash equivalents	5	10,054	7,229
Trade and other receivables	6	583	569
Inventories	7	166	315
Prepayments	8	185	289
		10,988	8,402
Non-current assets			
Property and equipment	9	490	627
Intangible asset	10	384	409
		874	1,036
Total assets		11,862	9,438
Liabilities			
Current liabilities			
Trade and other payables	11	2,893	3,636
Deferred revenue		149	106
Total liabilities		3,042	3,742
Equity			
Share capital	13, 19	46,879	33,957
Contributed surplus	13	7,849	3,864
Other equity reserves	13	3,542	7,833
Deficit		(49,450)	(39,958)
Total equity		8,820	5,696
Total liabilities and equity		11,862	9,438

Contingencies and Commitments (Note 12)

Approved by the Board of Directors

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

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

Spectral Medical Inc.

(formerly Spectral Diagnostics Inc.)

Statements of Loss and Comprehensive Loss

For the years ended December 31, 2014 and 2013

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

	Notes	2014 $	2013 $
Revenue	16	2,964	2,672
Expenses			
Changes in inventories of finished goods and work- in-process		310	274
Raw materials and consumables used		444	593
Employee benefits	13,18	3,460	3,332
Consulting and professional fees		6,584	7,399
Product development	8	273	-
Management services		-	275
Regulatory and investor relations	13,19	300	250
Travel and entertainment		989	1,191
Depreciation and amortization	9,10	205	238
Foreign exchange loss		54	14
Other expenses		506	496
		13,125	14,062
Operating loss		(10,161)	(11,390)
Finance income		60	83
Loss and comprehensive loss before tax		(10,101)	(11,307)
Deferred tax recovery	15	609	-
Loss and comprehensive loss for the year		(9,492)	(11,307)
Basic and diluted loss per common share	14	(0.06)	(0.09)
Weighted average number of common shares outstanding	14	154,540,951	128,265,141

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

Spectral Medical Inc.

(formerly Spectral Diagnostics Inc.)

Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(in thousands of Canadian dollars)

	Notes	Issued capital Number	$	Contributed surplus $	Share-based compensation $	Warrants $	Deficit $	Total Equity $
Balance, January 1, 2013		113,883,394	27,101	3,864	3,117	5,143	(28,651)	10,574
Private placement	19	18,666,667	5,480	-	-	-	-	5,480
Share options exercised	13	450,000	242	-	(106)	-	-	136
Warrants exercised	13	1,462,500	1,134	-	-	(549)	-	585
Loss and comprehensive loss for the year		-	-	-	-	-	(11,307)	(11,307)
Share-based compensation	13,18	-	-	-	228	-	-	228
Balance, December 31, 2013		134,462,561	33,957	3,864	3,239	4,594	(39,958)	5,696
Private placement	19	45,051,186	12,816	-	-	-	-	12,816
Share options exercised	13	222,500	105	-	(45)	-	-	60
Warrants exercised	13	994	1	-	-	-	-	1
Warrants expiry, net of tax	13,15	-	-	3,985	-	(4,594)	-	(609)
Loss and comprehensive loss for the year		-	-	-	-	-	(9,492)	(9,492)
Share-based compensation	13,18	-	-	-	348	-	-	348
Balance, December 31, 2014		179,737,241	46,879	7,849	3,542	-	(49,450)	8,820

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

Spectral Medical Inc.

(formerly Spectral Diagnostics Inc.)

Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(in thousands of Canadian dollars)

	Notes	2014 $	2013 $
Cash flow provided by (used in)			
Operating activities			
Loss and comprehensive loss for the year		(9,492)	(11,307)
Adjustments for:			
Depreciation on property and equipment	9	180	213
Amortization of intangible asset	10	25	25
Share-based compensation	13,18	348	228
Loss on disposal of property and equipment	9	1	-
Deferred tax recovery	15	(609)	-
Changes in items of working capital :			
Trade and other receivables	6	(14)	21
Inventories	7	149	(38)
Prepayments	8	104	(63)
Trade and other payables	11	(743)	1,723
Deferred revenue		43	7
Net cash used in operating activities		(10,008)	(9,191)
Investing activities			
Property and equipment expenditures	9	(60)	(343)
Proceeds on disposal of property and equipment	9	16	-
Redemption of short-term investment		-	15,499
Purchase of short-term investment		-	(10,362)
Net cash (used in) provided by investing activities		(44)	4,794
Financing activities			
Private placement	19	12,816	5,480
Share options exercised	13	60	136
Warrants exercised	13	1	585
Net cash provided by financing activities		12,877	6,201
Increase in cash and cash equivalents		2,825	1,804
Cash and cash equivalents, beginning of year		7,229	5,425
Cash and cash equivalents, end of year		10,054	7,229

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

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

1. Nature of operations

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

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

2. Basis of preparation

The financial statements of Spectral have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as set out in the CPA Canada Handbook. These financial statements were approved by the Board of Directors for issue on March 24, 2015.

3. Significant accounting policies

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

i. Basis of measurement

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

ii. Foreign currency

a. Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency").The 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 thousands of Canadian dollars, except for share and per share data)

in currencies other than Canadian dollars are recognized within operating loss in the statement of loss and comprehensive loss.

iii. Critical accounting estimates and judgments

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

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

a. Share options valuation and share based compensation

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

b. Clinical trial expenses

Clinical trial expenses are accrued based on the services received and efforts expended pursuant to contracts with clinical research organizations (CROs), consultants 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. However, actual costs and timing of the EUPHRATES trial is uncertain, subject to risks and may change depending upon a number of factors, including the Company's clinical development plan and trial protocol.

c. Deferred income taxes

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

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

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

b. Loans and receivables:

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. The Company's cash and cash equivalents 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 year end. Bad debts are written off in the period in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

c. Other financial liabilities at amortized cost:

Other financial liabilities are carried at amortized cost and include accounts payable and accrued liabilities. Other financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payable to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are classified as current liabilities if

payment is due within twelve months. Otherwise, they are classified as non-current liabilities.

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

d. Financial liabilities and equity instruments:

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

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

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

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

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

v. 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:

a. Financial assets carried at amortized cost:

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

Impairment losses on financial assets carried at amortized costs 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.

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

vi. Cash and cash equivalents

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

vii. 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, 2014, management determined that no provision for impairment was required.

Other receivables include accrued interest and net input tax credits receivable.

viii. Prepayments

Prepayments 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.

ix. Inventories

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

The cost of finished goods and work-in-process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Obsolete, redundant and slow moving inventory is identified and written down to net realizable value. As at December 31, 2014, management determined that no write down was required.

x. Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replacement asset is derecognized when

replenishment takes place. Repairs and maintenance costs are recognized within operating loss in the statement of loss and comprehensive loss in the year in which they are incurred.

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

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

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

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

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

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

xi. 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 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 fifteen years.

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

xii. 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

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

being the present value of the expected future cash flows of the relevant asset or CGU. An impairment loss is recognized immediately in the 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.

xiii. Trade and other payables

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

xiv. Provisions

Provisions for legal claims, where applicable, are recognized in other payables when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company has not made any provisions as at December 31, 2014.

xv. 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.

xvi. Share capital

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

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

xvii. Share options

The fair value of the share options granted for which the Company receives goods or services as consideration for share options is measured at grant date, using the Black Scholes option pricing model, and is recognized at the time goods are received or the services have been rendered. The fair value is recognized as an expense, asset or component of equity depending on the nature of the good or service acquired, with a corresponding increase in equity.

xviii. Warrants

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

xix. 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 to the Company. The Company recognizes bonuses (if any) when a legal or constructive obligation exists and the amount of the bonus can be reasonably estimated.

a. Leave pay:

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

b. Share-based compensation:

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

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

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

Share options granted to employees and service providers 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.

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 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.

xx. Current and deferred income taxes

The tax expense for the year comprises current and deferred income taxes. Tax is recognized in the 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 recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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.

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

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.

xxi. 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. Royalties are accrued in accordance with the terms of the relevant agreements and where the stream of royalty revenue can be reasonably estimated.

b. Product sales:

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

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

c. Instrumentation:

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

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

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

d. Interest income:

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

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

xxii. Loss per common share

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

xxiii. 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.

xxiv. Accounting standards adopted in the current year

The following amendments and interpretation have been adopted by the Company for the first time for the financial year beginning on January 1, 2014:

a. IAS 32 *Financial Instruments: Presentation,* clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's financial statements.

b. IAS 36 *Impairment of Assets,* removes the requirement to disclose the recoverable amount of a cash–generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives has been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendment introduces additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less cost of disposal. This new disclosure includes the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*. The application of this amendment had no material impact on the disclosures in the Company's financial statements.

c. IFRIC 21 *Levies,* addresses the issue as to when to recognize a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for. In particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The application of this Interpretation has

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

had no material impact on the disclosures or on the amounts recognized in the Company's financial statements.

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 financial statements. None of these standards are expected to have a significant effect on the financial statements of the Company, except the following set out below:

a. IFRS 15 *Revenue from Contracts with Customers,* specifies how and when to recognize revenue as well as requiring the Company to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. IFRS 15 was issued in May, 2014 and applies to an annual reporting period beginning on or after January 1, 2017. The Company has not yet assessed the potential impact of IFRS 15.

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

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

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 cash equivalents and trade and other receivables.

1 *Cash*

The Company places its cash with Canadian Schedule I banks.

2 *Cash equivalents*

The cash equivalent consists of a premium money market saving account placed with a Canadian Schedule I bank with an original maturity of 3 months or less. The premium money market saving account can be converted to cash on demand.

3 *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, 2014 and 2013, no material trade and other receivable balances were considered impaired or past due.

b. Liquidity risk

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

The Company achieves this by maintaining sufficient cash and cash equivalents and managing working capital. The Company monitors its financial resources on a weekly

basis and updates its expected use of cash resources on the latest available data. All of the Company's financial liabilities are classified as current liabilities. Current liabilities were $3,042 as at December 31, 2014 with all of them having expected settlement dates within one year. There are uncertainties related to the timing and use of the Company's cash resources.

c. *Market risk*

1 *Currency risk*

The majority of the Company's revenue is denominated in U.S. dollars and Euros. As at December 31, 2014, cash and cash equivalents included US$378. Trade and other receivables included a total of US$393 and €54. Trade and other payables included a total of US$1,739 and €1. There is no active hedging program currently in place due to the relatively short time frame for settlement of theses balances. A 10% change in the U.S. dollar/Canadian dollar or Euro/Canadian dollar exchange rates on the December 31, 2014 amounts would impact losses by $105.

2 *Interest rate risk*

The Company has no material 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 and cash equivalents for working capital and operating purposes, as well as funding commercialization of its core products. Capital consists of share capital, contributed surplus, other equity reserves, and deficit.

The Company achieves this by maintaining sufficient cash and cash equivalents 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)

5. Cash and cash equivalents

	December 31 2014 $	December 31 2013 $
Cash at bank and on hand	512	236
Premium rate bank account	9,542	6,993
Cash and cash equivalents	**10,054**	**7,229**

6. Trade and other receivables

	December 31 2014 $	December 31 2013 $
Trade receivables	76	105
Accrued royalties	456	423
Input tax credits receivable	44	39
Other receivables	7	2
Trade and other receivables	**583**	**569**

7. Inventories

	December 31 2014 $	December 31 2013 $
Raw materials and supplies	71	78
Work-in-process	32	18
Finished goods	63	219
Inventories	**166**	**315**

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

8. Prepayments

	December 31 2014 $	December 31 2013 $
Contract prepayments	-	119
Insurance premiums	67	66
Travel	63	36
Patient fee	7	25
Deposits	17	17
Other prepayments	31	26
Prepayments	**185**	**289**

i. Contract prepayment as at December 31, 2013 represents the initial design development payment (CHF100) to a third party for new equipment to be used in conjunction with the Toraymyxin product. An additional CHF100 was paid in 2014 for completion of the prototype. These amounts have been expensed in 2014 and are disclosed as product development in the statement of loss and comprehensive loss. Under the terms of the agreement, a further CHF150 will be paid in 2015 in accordance with specified milestones.

ii. Patient fee as at December 31, 2013 represents a onetime advance payment to a clinical site for US$25. During 2014, US$17 in clinical site fees for patient screening and randomization was applied. The payment will continue to be utilized toward similar expenses until exhausted. Unused balances will be returned by the clinical site to the Company.

9. Property and equipment

	Laboratory equipment $	Office equipment and furniture $	Computer equipment $	Leasehold improvements $	Total $
Balance, January 1, 2013					
Cost	1,233	341	192	84	1,850
Accumulated depreciation	(794)	(328)	(166)	(65)	(1,353)
Net carrying amount	**439**	**13**	**26**	**19**	**497**
Year ended December 31, 2013					
January 1, 2013	439	13	26	19	497
Additions	324	5	13	1	343
Depreciation	(186)	(5)	(16)	(6)	(213)
December 31, 2013	**577**	**13**	**23**	**14**	**627**

(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, 2013					
Cost	1,557	346	205	85	2,193
Accumulated depreciation	(980)	(333)	(182)	(71)	(1,566)
Net carrying amount	**577**	**13**	**23**	**14**	**627**
Year ended December 31, 2014					
January 1, 2014	577	13	23	14	627
Additions	10	21	7	22	60
Dispositions	(17)	-	-	-	(17)
Depreciation	(154)	(6)	(14)	(6)	(180)
December 31, 2014	**416**	**28**	**16**	**30**	**490**
Balance, December 31, 2014					
Cost	1,459	367	212	107	2,145
Accumulated depreciation	(1,043)	(339)	(196)	(77)	(1,655)
Net carrying amount	**416**	**28**	**16**	**30**	**490**

10. Intangible asset

	Licence fee $
Balance, January 1, 2013	
Cost	502
Accumulated amortization	(68)
Net carrying amount	**434**
Year ended December 31, 2013	
January 1, 2013	434
Amortization	(25)
December 31, 2013	**409**
Balance, December 31, 2013	
Cost	502
Accumulated amortization	(93)
Net carrying amount	**409**

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

	Licence fee $
Year ended December 31, 2014	
January 1, 2014	409
Amortization	(25)
December 31, 2014	**384**
Balance, December 31, 2014	
Cost	502
Accumulated amortization	(118)
Net carrying amount	**384**

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

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

11. Trade and other payables

	December 31 2014 $	December 31 2013 $
Accrued payables	1,424	1,522
Trade payables	992	1,539
Compensation payable to key management	327	506
Compensation payable to employees	67	69
Advance from a related party (i)	83	-
Trade and other payables	**2,893**	**3,636**

i. The Company received a US$100 advance from Toray as reimbursement for expenditures to be incurred related to the analysis of certain clinical trial data in connection with the Toraymyxin medical device.

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

12. Contingencies and commitments

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

	2015 $	2016 $	2017 $
Program management	2,970	2,970	2,927
Program oversight	154	117	176
Clinical site costs	2,078	2,125	1,980
Diagnostic supply and training	277	277	277
Employee benefits	510	490	490
Consultants	54	54	54
	6,043	**6,033**	**5,904**

Future commitments for the trial are based on enrolment of 605 evaluable patients in accordance with the approved clinical protocol at up to 60 clinical sites in the U.S. and Canada. These commitments are subject to change dependent on the final required sample size of the trial. The Company is only committed to the costs to the extent that evaluable patients are enrolled.

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

	December 31 2014 $	December 31 2013 $
Less than 1 year	149	146
Between 1 and 5 years	240	389
More than 5 years	-	-

Lease expense in 2014 was $129(2013: $127).

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 a 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 counter parties for losses as a result of breaches in representations, covenants and warranties provided by the Company or as a result litigation or other third party claims or statutory sanctions that may be suffered by the counterparties as a consequence of the

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

relevant transaction. In some instances, the terms of these indemnities are not explicitly defined.

13. Share capital

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

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

At the time of acceptance, there were 179,737,241 Shares issued and outstanding. The Company may purchase up to 22,461 Shares on the TSX during any trading day, which represents approximately 25% of the average daily trading volume on the TSX for the most recently completed six calendar months prior to the TSX's acceptance of the notice of the NCIB. All Shares purchased under the issuer bid will be cancelled.

Subsequent to the year end, the Company repurchased 90,000 Shares under this NCIB for $56.

iii. Details of share options are as follows:

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

	December 31, 2014			December 31, 2013	
Date	Number of share options	Exercise price	Date	Number of share options	Exercise price
January 3, 2014	916,000	$0.60	February 7, 2013	950,000	$0.210
October 1, 2014	100,000	$0.32	May 1, 2013	100,000	$0.200
October 15, 2014	75,000	$0.30	August 12, 2013	550,000	$0.380

The exercise prices of the share options are equal to the closing market price of the Company's shares on the TSX on the immediately preceding day of the grant of the option. Share options issued to the Company's directors vest 100% at the time of the grant. Share options issued to the Company's officers, employees, and others generally vest at 25% of the grant amount at the time of the grant. The balance of these share options vest equally in each successive quarter and will be fully vested by the end of the third year following the grant date. Share options issued on January 3, 2014 will be fully vested by January 3, 2017. The share options issued October 1, 2014 will be fully vested by April 1, 2015 and the share options issued

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

October 15, 2014 vested immediately. The contractual life of each share option is five years. There is no cash settlement of the share options.

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

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

	2014					2013
Grant date	October 15 2014	October 1 2014	January 3 2014	August 12 2013	May 1 2013	February 7 2013
Risk-free interest rate	1.37%	1.55%	1.95%	1.89%	1.15%	1.48%
Expected life	5 years	5 years	5 years	5 years	5 years	5 years
Annualized volatility	67.42%	67.69%	74.89%	83.40%	84.88%	85.99%
Dividend rate	0%	0%	0%	0%	0%	0%
Grant date share price	$0.290	$0.330	$0.580	$0.375	$0.200	$0.215
Share option fair value	$0.161	$0.190	$0.354	$0.253	$0.133	$0.146

	2014			2013		
	Weighted average exercise price per share $	**Share options**		**Weighted average exercise price per share $**	**Share options**	
		All employees	**Key management**		**All employees**	**Key management**
January 1	0.33	4,907,500	4,020,000	0.35	3,852,500	3,495,000
Granted	0.55	1,091,000	991,000	0.27	1,600,000	1,050,000
Forfeited/cancelled	0.38	(210,000)	-	0.20	(20,000)	-
Exercised	0.27	(222,500)	(222,500)	0.30	(450,000)	(450,000)
Expired	-	-	-	0.51	(75,000)	(75,000)
Balance, December 31	**0.37**	**5,566,000**	**4,788,500**	**0.33**	**4,907,500**	**4,020,000**

Of the 5,566,000 outstanding share options (2013: 4,907,500), 4,677,627 share options (2013: 3,868,139) were exercisable. Share options outstanding at the end of the year have the following expiry dates and exercise prices:

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

Price range $	Number of share options outstanding	Weighted average remaining contractual life in years	Weighted average exercise price per share $	Number of share options exercisable	Weighted average exercise price per share $
0.200 to 0.295	1,870,000	3.41	0.24	1,262,194	0.25
0.315 to 0.400	2,887,500	2.21	0.36	2,455,945	0.36
0.610	150,000	1.19	0.61	150,000	0.61
Balance, December 31, 2013	**4,907,500**	**2.63**	**0.33**	**3,868,139**	**0.34**
0.200 to 0.30	1,722,500	2.63	0.24	1,442,188	0.25
0.310 to 0.400	2,777,500	1.16	0.36	2,572,189	0.36
0.510 to 0.610	1,066,000	3.32	0.60	663,250	0.60
Balance, December 31, 2014	**5,566,000**	**2.03**	**0.37**	**4,677,627**	**0.36**

iv. Details of share purchase warrants are as follows:

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

14. Loss per share

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

	December 31 2014	December 31 2013
	$	$
Numerator for basic and diluted loss per share available to common shareholders	(9,492)	(11,307)
Denominator for basic and diluted loss per share	154,540,951	128,265,141
Basic and diluted loss per share	(0.06)	(0.09)

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 stock options and warrants.

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

Weighted average common shares outstanding

	December 31 2014		December 31 2013	
	Weighted average common shares- basic and diluted	Number of Common Shares	Weighted average common shares- basic and diluted	Number of Common Shares
Balance, January 1	134,462,561	134,462,561	113,883.394	113,883,394
Private placement	19,995,321	45,051,186	13,961,644	18,666,667
Share options exercised	82,686	222,500	143,630	450,000
Warrants exercised	383	994	276,473	1,462,500
Balance, December 31	**154,540,951**	**179,737,241**	**128,265,141**	**134,462,561**

15. Income taxes

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

	December 31, 2014		December 31, 2013	
	$	%	$	%
Loss and comprehensive loss for the year before tax	(10,101)		(11,307)	
Tax calculated at the applicable statutory tax rate	(2,677)	26.5	(2,996)	26.5
Tax effects of:				
Capital losses utilized in the year	(609)	6.0	-	-
Expenses not deductible for tax	117	(1.2)	80	(0.7)
Tax losses and other items for which no deferred income tax was recognized	2,560	(25.3)	2,916	(25.8)
Deferred tax recovery	**(609)**	**6.0**	**-**	**-**

(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 2014	December 31 2013
	$	$
Deferred income tax assets		
Operating loss carry-forwards	15,706	13,175
Capital loss carry forward	1,936	2,545
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	1,739	1,754
	27,939	**26,032**

As at December 31, 2014, the Company's income tax benefits, for which no benefit has been recognized in these financial statements, expire as follows:

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

Year of expiry	Operating loss carry-forwards $
2015	2,409
2026	11,646
2027	1,052
2028	796
2029	1,844
2030	5,300
2031	6,639
2032	8,549
2033	10,940
2034	10,093
	59,268

ii. Research and development expenditures of approximately $24,634 (2013: $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 (2013: $2,761), which may be applied against future income taxes payable, expire in varying amounts from 2018 to 2026.

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

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 2014 $	December 31 2013 $
Royalties	**1,890**	**1,602**
Product revenue		
Proprietary biochemicals	282	252
EAA™ diagnostic	721	575
Instrumentation	71	243
	1,074	**1,070**
Revenue	**2,964**	**2,672**

ii. By Country:

	December 31 2014 $	December 31 2013 $
United States	1,697	1,448
Italy	464	490
France	416	414
Japan	189	138
Russia	55	116
Other	143	66
Revenue	**2,964**	**2,672**

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 2014 $	December 31 2013 $
Customer A	1,366	1,206
Customer B	464	417
Customer C	416	414
Customer D	189	138
Customer E	143	99
Other	386	398
Revenue	**2,964**	**2,672**

iv. At December 31, 2014 the company has all its non-current assets residing in Canada.

17. The EUPHRATES trial

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

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

	December 31 2014 $	December 31 2013 $
Program management	3,454	3,716
Program oversight	313	253
Clinical site costs	2,404	2,827
Diagnostic supply and training	278	450
Employee benefits	475	442
Consultants	149	236
Total EUPHRATES	**7,073**	**7,924**

The trial costs have been included within operating loss in the statement of loss and comprehensive loss as required. Total trial costs since inception in 2010 are $25,890.

(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 2014 $		December 31 2013 $	
	All employees	**Key management**	**All employees**	**Key management**
Salaries	2,280	1,166	2,152	1,091
Bonuses	256	256	427	427
Short term employee benefits	304	78	286	68
Directors fees	230	230	219	219
Share- based compensation	348	253	228	144
Other	42	32	20	13
	3,460	**2,015**	**3,332**	**1,962**

19. Private placements

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

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

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

The Tranche "B" component of the Offering is comprised of additional Shares to be sold to Toray by the Company of up to $5,000, if, as and when the Company exercises the right (the "Call Right"), granted by Toray to the Company. The Call Right is exercisable by written notice given by the Company to Toray at any time on or after March 1, 2015 until March 15, 2015, to require Toray to purchase from the Company, at a subsequent closing to occur on April 1, 2015, up to that number of Shares as is determined by dividing the Call Right amount exercised (up to the $5,000), as applicable, by the volume weighted average trading price of the Shares on the TSX for the 20 trading days ending on the business day prior to the day the Call Right is

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

exercised. The Shares to be sold to Toray in Tranche "B" will only be sold if the Company exercises the Call Right (See Note 22).

ii. On April 2, 2013, the Company completed a private placement financing, whereby the Company issued 18,666,667 common shares in the capital of the Company ("Common Shares"), at a price of $0.30 per Common Share, to three investors for aggregate gross proceeds of $5,600 ("the Private Placement"). The Company received net proceeds of $5,480 which was used to continue to support the Company's EUPHRATES clinical trial and for general corporate purposes.

As part of the Private Placement, Toray acquired 16,666,667 Common Shares at a price of $0.30 per Common Share, for $5,000.

20. Related party transactions

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

Toray holds 33,731,513 Shares, representing approximately 18.8% (2013 – 12.4%) of Spectral's issued and outstanding capital, calculated on a non-diluted basis.

Toray is entitled to nominate one director (the "Toray Representative") to the Board of Directors as long as it owns in the aggregate not less than 10% of the common shares issued and outstanding calculated on a non-diluted basis. Mr. Koichiro Takeshita is the Toray representative.

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

	December 31 2014 $	December 31 2013 $
Revenue		
Toray Medical Co., Ltd.	189	138
Toray International Italy S.r.l.	-	74
Toray Industries, Inc.	12	-
Purchases		
Toray Industries, Inc.	36	119

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

Birch Hill, through a number of its funds and an investee company, holds 32,715,345 common shares of the Company representing approximately a 18.2% ownership interest, calculated on a non-diluted basis. Birch Hill was not a related party in 2013 since it held less than 10% of the issued and outstanding common shares.

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

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 common shares of the Company calculated on a non-diluted basis.

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, 2014 is disclosed in Note 11.

There are no other related party transactions.

21. Financial instruments and fair values

As explained in Note 3(iv), 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 statement of loss and comprehensive loss.

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

Cash and cash equivalents and trade and other receivables are classified as loans and receivables with a total carrying value of $10,637 at December 31, 2014 (2013 - $7,798).

Trade and other payables (excluding advance from a related party) are classified as other financial liabilities, which are measured at amortized cost using the effective interest rate method, with a total carrying value of $2,959 at December 31, 2014 (2013-$3,742).

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

22. Subsequent event

On March 14, 2015, as described in Note 19, the Company provided written notice to Toray to exercise the Call Right granted by Toray to the Company. Toray is required to purchase from the Company, on April 1, 2015, 9,041,592 common shares ("Shares") at a subscription price of $0.553 per Share (representing the 20 day volume weighted average trading price of the Shares on the TSX for the 20 day period ended March 13, 2015) for aggregate gross proceeds of $5,000.