Spectral Medical Inc.

Condensed Interim Financial Statements

September 30, 2015
(Unaudited)

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

Spectral Medical Inc.

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September 30, 2015

Table of contents

Condensed Interim Statements of Financial Position.....3

Condensed Interim Statements of Loss and Comprehensive Loss.....4

Condensed Interim Statements of Changes in Equity.....5

Condensed Interim Statements of Cash Flows.....6

Notes to the Condensed Interim Financial Statements.....7-15

Spectral Medical Inc.

Condensed Interim Statements of Financial Position

(in thousands of Canadian dollars)

	Notes	September 30 2015 $	December 31 2014 $
		Unaudited	Audited
Assets			
Current assets			
Cash and cash equivalents		8,404	10,054
Trade and other receivables		685	583
Inventories		255	166
Prepayments		245	185
		9,589	10,988
Non-current assets			
Property and equipment		613	490
Intangible asset		366	384
		979	874
Total assets		10,568	11,862
Liabilities			
Current liabilities			
Trade and other payables		2,815	2,893
Deferred revenue		69	149
Total liabilities		2,884	3,042
Equity			
Share capital	8,11	53,011	46,879
Contributed surplus		7,849	7,849
Other equity reserves	8	3,621	3,542
Deficit		(56,797)	(49,450)
Total equity		7,684	8,820
Total liabilities and equity		10,568	11,862

Contingencies and Commitments (Note 7)

Spectral Medical Inc.

Condensed Interim Statements of Loss and Comprehensive Loss
For the nine months ended September 30, 2015 and 2014
(Unaudited)

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

	Notes	Three months ended September 30		Nine months ended September 30	
		2015 $	2014 $	2015 $	2014 $
Revenue		679	643	2,374	2,265
Expenses					
Changes in inventories of finished goods and work- in-process		28	30	108	230
Raw materials and consumables used		133	104	340	315
Employee benefits	8,10	846	840	2,665	2,709
Consulting and professional fees		1,451	1,310	4,693	5,200
Product development		16	-	16	-
Regulatory and investor relations		197	51	505	185
Travel and entertainment		329	162	721	726
Depreciation and amortization		43	49	130	172
Foreign exchange loss (gain)		8	2	(5)	49
Other expenses		141	120	393	344
		3,192	2,668	9,566	9,930
Operating loss		(2,513)	(2,025)	(7,192)	(7,665)
Finance income		20	13	68	27
Loss and comprehensive loss before tax		(2,493)	(2,012)	(7,124)	(7,638)
Deferred tax recovery		-	609	-	609
Loss and comprehensive loss for the period		(2,493)	(1,403)	(7,124)	(7,029)
Basic and diluted loss per common share	8	(0.01)	(0.01)	(0.04)	(0.05)
Weighted average number of common shares outstanding	8	190,830,571	168,846,613	187,168,709	146,049,893

Spectral Medical Inc.

Condensed Interim Statements of Changes in Equity
For the nine months ended September 30, 2015 and 2014
(Unaudited)

(in thousands of Canadian dollars)

	Notes	Issued capital Number	Issued capital $	Contributed surplus $	Share-based compensation $	Warrants $	Deficit $	Total Equity $
Balance, January 1, 2014		134,462,561	33,957	3,864	3,239	4,594	(39,958)	5,696
Private placement	11	45,051,186	12,816	-	-	-	-	12,816
Share options exercised	8	222,500	105	-	(45)	-	-	60
Warrants exercised	8	994	1	-	-	-	-	1
Warrants expiry, net of tax		-	-	3,985	-	(4,594)	-	(609)
Loss and comprehensive loss for the period		-	-	-	-	-	(7,029)	(7,029)
Share-based compensation	8,10	-	-	-	295	-	-	295
Balance, September 30, 2014		179,737,241	46,879	7,849	3,489	-	(46,987)	11,230
Balance, January 1, 2015		179,737,241	46,879	7,849	3,542	-	(49,450)	8,820
Private placement	11	11,049,464	6,021	-	-	-	-	6,021
Shares repurchased under NCIB	8	(480,000)	(132)	-	-	-	(223)	(355)
Share options exercised	8	379,700	243	-	(104)	-	-	139
Loss and comprehensive loss for the period		-	-	-	-	-	(7,124)	(7,124)
Share-based compensation	8,10	-	-	-	183	-	-	183
Balance, September 30, 2015		190,686,405	53,011	7,849	3,621	-	(56,797)	7,684

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

Spectral Medical Inc.

Condensed Interim Statements of Cash Flows
For the nine months ended September 30, 2015 and 2014
(Unaudited)

(in thousands of Canadian dollars)

	Notes	Nine months ended September 30 2015 $	2014 $
Cash flow provided by (used in)			
Operating activities			
Loss and comprehensive loss for the period		(7,124)	(7,029)
Adjustments for:			
Depreciation on property and equipment		112	154
Amortization of intangible asset		18	18
Share-based compensation	8,10	183	295
Deferred tax recovery		-	(609)
Changes in items of working capital:			
Trade and other receivables		(102)	(41)
Inventories		(89)	136
Prepayments		(60)	(100)
Trade and other payables		(78)	(1,104)
Deferred revenue		(80)	(79)
Net cash used in operating activities		(7,220)	(8,359)
Investing activities			
Property and equipment expenditures		(235)	(47)
Net cash used in investing activities		(235)	(47)
Financing activities			
Private placement	11	6,021	12,816
Share options exercised	8	139	60
Warrants exercised		-	1
Shares repurchased under the NCIB	8	(355)	-
Net cash provided by financing activities		5,805	12,877
(Decrease)increase in cash and cash equivalents		(1,650)	4,471
Cash and cash equivalents, beginning of period		10,054	7,229
Cash and cash equivalents, end of period		8,404	11,700

(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 septic shock 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 condensed interim financial statements of Spectral for the nine months ended September 30, 2015, 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 applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting". The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS. These condensed interim financial statements were approved by the Board of Directors for issue on November 12, 2015.

3. Significant accounting policies

The significant accounting polices used in the preparation of these condensed interim financial statements are consistent with those of the previous financial year.

4. Critical accounting estimates and judgments

The preparation of condensed interim financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Spectral's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financials are the same as those that were applied to the financial statements for the year ended December 31, 2014.

5. Accounting standards issued but not yet applied

There are no new IFRSs or IFRICs that are effective for the first time for this interim period that would be expected to materially affect the Company**.**

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

6. 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. The Company's overall risk management program and prudent business practices seek to minimize any potential adverse effects on the Company's financial performance.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the annual financial statements as at December 31, 2014. There have been no changes in the risk management or in any risk management policies since year end.

ii. Liquidity risk

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

The Company achieves this by maintaining sufficient cash and cash equivalents and managing working capital. The Company monitors its financial resources on a quarterly 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 $2,884 as at September 30, 2015 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.

7. Contingencies and commitments

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

	2015 $	2016 $
Program management	843	2,245
Program oversight	46	184
Clinical site costs	546	1,171
Diagnostic supply and training	121	157
Employee benefits	125	235
Consultants	13	27
	1,694	**4,019**

Future commitments for the trial are based on enrolment of 446 evaluable patients in accordance with the approved clinical protocol at up to 60 clinical sites in the U.S. and Canada. These commitments are determined based on the final required sample size of the

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

trial. The Company is only committed to the costs to the extent that evaluable patients are enrolled.

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

In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such 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 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.

8. 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.

The Company repurchased 480,000 Shares under this NCIB for $355 as of September 30, 2015.

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

iii. Details of share options are as follows:

	September 30, 2015			September 30, 2014	
Date	Number of share options	Exercise price	Date	Number of share options	Exercise price
January 22, 2015	1,250,000	$0.38	January 3, 2014	916,000	$0.60
March 24, 2015	100,000	$0.67			

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 22, 2015, will be fully vested by January 22, 2018. The share options issued March 24, 2015, will be fully vested by December 31, 2015. 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:

	2015		2014
Grant date	March 24 2015	January 22 2015	January 3 2014
Risk-free interest rate	0.72%	1.95%	1.95%
Expected life	5 years	5 years	5 years
Annualized volatility	75.12%	65.89%	74.89%
Dividend rate	0%	0%	0%
Grant date share price	$0.670	$0.365	$0.580
Share option fair value	$0.496	$0.198	$0.354

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

iv. Weighted average common shares outstanding are:

		Three months ended September 30 2015	Six months ended September 30 2015
	Number of Common Shares	Weighted average common shares- basic and diluted	Weighted average common shares- basic and diluted
Balance, January 1	179,737,241	179,737,241	179,737,241
Private placement	11,049,464	11,049,464	7,366,309
Shares repurchased under NCIB	(480,000)	(314,611)	(142,651)
Share options exercised	379,700	358,477	207,810
Balance, September 30	**190,686,405**	**190,830,571**	**187,168,709**

		Three months ended September 30 2014	Six months ended September 30 2014
	Number of Common Shares	Weighted average common shares- basic and diluted	Weighted average common shares- basic and diluted
Balance, January 1	134,462,561	134,462,561	134,462,561
Private placement	45,051,186	34,278,076	11,551,586
Share options exercised	222,500	105,544	35,568
Warrants exercised	994	432	178
Balance, September 30	**179,737,241**	**168,846,613**	**146,049,893**

9. 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.

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

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

	Three months ended September 30		Nine months ended September 30	
	2015 $	2014 $	2015 $	2014 $
Program management	1,045	725	2,699	2,622
Program oversight	188	74	409	256
Clinical site costs	380	475	1,587	1,975
Diagnostic supply and training	83	58	239	218
Employee benefits	126	127	361	352
Consultants	14	27	40	135
Total EUPHRATES	**1,836**	**1,486**	**5,335**	**5,558**

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 $31,225.

10. Employee benefits

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

	Three months ended September 30, 2015 $		Nine months ended September 30, 2015 $	
	All employees	Key management	All employees	Key management
Salaries	578	290	1,762	898
Bonuses	90	90	275	270
Short term employee benefits	71	25	222	75
Directors fees	59	59	168	168
Share- based compensation	46	28	183	154
Other	2	-	55	1
	846	**492**	**2,665**	**1,566**

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

	Three months ended September 30, 2014 $		Nine months ended September 30, 2014 $	
	All employees	**Key management**	**All employees**	**Key management**
Salaries	580	288	1,701	881
Bonuses	90	90	270	270
Short term employee benefits	68	19	222	65
Directors fees	61	61	182	182
Share- based compensation	38	32	295	264
Other	3	-	39	32
	840	**490**	**2,709**	**1,694**

11. 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 is being used to fund its EUPHRATES trial and for working capital and general corporate purposes.

The Tranche "A" component was 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 was 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 Company provided written notice to Toray to exercise the Call Right granted by Toray to the Company on March 14, 2015.

The Tranche "B" component of the private placement was completed on April 1, 2015. Toray purchased 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.

ii. In connection with the Toray offering, Birch Hill Equity Partners Management Inc. exercised their anti-dilution rights and acquired 2,007,872 Shares at the subscription price of $0.553 per Share, for aggregate gross proceeds of $1,110.

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

In total, the Company issued 11,049,464 Shares for aggregate gross proceeds of $6,110. The Company received net proceeds of $6,021 which will be used to fund its EUPHRATES trial and for working capital and general corporate purposes.

12. Related party transactions

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

Toray holds 42,773,105 Shares, subsequent to the completion of Tranche "B' component of the financing as described in Note 11, representing approximately 22.4% (2014 – 18.8%) 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:

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
		$		$
Revenue				
Toray Medical Co., Ltd.	-	45	98	135
Toray International Italy S.r.l.	-	-	64	-
Toray Industries, Inc.	-	12	-	12
Purchases				
Toray Industries, Inc.	-	-	-	36
Toray International America Inc.	-	-	56	-
Reimbursement of trial related expenses				
Toray Industries, Inc.	-	-	96	-
Due from (to)				
Toray Medical Co., Ltd.			-	-
Toray Industries, Inc.			-	(24)
Toray International America Inc.			(37)	-

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

Birch Hill, through a number of its funds and an investee company, holds 32,984,718 common shares of the Company representing approximately a 17.3% (2014 – 14.1%) ownership interest, calculated on a non-diluted basis.

(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.

iii. Key management consists of the Company's four executive officers and its Board of Directors. Compensation of key management is disclosed in Note 10.

There are no other related party transactions.