20 September 2022

Spectral MD Holdings, Ltd
(“Spectral MD” or the “Company”)

Interim results for the six-months ended 30 June 2022

Extensive solution validation; accelerating commercialization readiness

LONDON, U.K. AND DALLAS, TX, U.S – Spectral MD Holdings, Ltd. (AIM: SMD), a predictive analytics company that develops proprietary AI algorithms and optical technology for faster and more accurate treatment decisions in wound care, announces its unaudited interim results for the six-months ended 30 June 2022 (“H1 2022”).

Operational Highlights

- Enrollment on track in the Biomedical Advanced Research and Development Authority (“BARDA”) Burn AI Training Study: 145 of the targeted 190 adult subjects (76%) and 25 of the targeted 60 pediatric subjects (41%).
- Burn Image Assessment Study (“BIAS”) findings: burn specialists and Emergency Department (“ED”) physicians significantly less accurate in assessing wound healing vs non-healing than DeepView™.
- Diabetic foot ulcer (“DFU”) AI Model created post Clinical Training Study with 81% accuracy. This is the live AI algorithm in use in the DFU Clinical Validation Study.
- Initiated DFU Clinical Validation Study in June: up to 200 adult subjects across seven potential clinical sites. Data expected to support regulatory submission.
- Filled key positions in Regulatory, Operations, Marketing, Administration, and Engineering to accelerate commercialization readiness.
- Won Best Technology Award at the European Mediscience Awards in June. Criteria for winning technology: innovative, well-funded, capable of significant commercial success.

Post-Period Highlights

- Awarded US$ 8.2 million US Government contract expansion with BARDA to accelerate commercialization pathway for the DeepView™ technology, bringing the total government funding commitment received by Spectral MD to over $125 million since 2013.
- Strong DFU Clinical Validation study enrollment: 56/200 subjects enrolled since June initiation, remaining on track to report results in early 2023. This represents an important study to support the Company as it prepares FDA and CE mark submissions for DeepView®'s DFU indication, planned in 2023.

Financial Highlights

- R&D revenue up 76% to US$ 12.3 million (H1 2021: US$ 7.0 million): accelerating BARDA funded studies.
- Cash on hand of US$ 15.6 million on 30 June 2022 (H1 2021: US$ 18.5 million)
- Removal of ‘Regulation S’ market trading restrictions from shares following the first anniversary on AIM.
- Expanded Analyst research coverage to include Stifel and WH Ireland, in addition to SP Angel’s existing coverage.

Wensheng Fan, Chief Executive Officer of Spectral MD, said: "The Company has made solid progress in H1 2022 and is on schedule regarding the development of, and clinical studies for, Burn, DFU, and handheld applications. With the recent addition of the US$ 8.2 million BARDA contract expansion, we believe that the likelihood of potential federal procurement has increased, with an expedited timeline to award.

"Over the balance of 2022 and 2023, we will remain focused on completing enrollment in both Burn and DFU clinical studies and continuing to accelerate investment into the Company's commercial readiness. We believe DeepView™ is the market leading technology that has the potential to disrupt current treatment pathways, and to improve the standard of care for many patients across multiple geographical markets and applications. We remain confident in our strategic approach and that our transformative technology is well positioned for success in providing Day One wound healing assessments."

Market Abuse Regulation (MAR) Disclosure

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ('MAR'). Upon the publication of this announcement via Regulatory Information Service ('RIS'), this inside information is now considered to be in the public domain.

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About Spectral MD Holdings, Ltd. (www.spectralmd.com)

Using its DeepView™ Wound Imaging Solution, an internally developed AI technology and multispectral imaging system which has received FDA Breakthrough Designation for the burn indication, Spectral MD is able to distinguish between non-healing and healing human tissue invisible to the naked eye. Spectral MD currently is able to provide 'Day One' healing assessments for burn wounds and diabetic foot ulcers (DFU) with other applications being explored.

Spectral MD has to date received substantial support from the US government with contracts from institutions such as Biomedical Advanced Research and Development Authority (BARDA), National Science Foundation (NSF), National Institute of Health (NIH) and Defense Health Agency (DHA) in support of the burn application for its DeepView™ solution, with total grant received to date of over US$ 101.5 million.

Spectral MD started trading on the AIM market of the London Stock Exchange on June 22nd, 2021, after raising US $16 million through an oversubscribed initial public offering. The Company has two principal trading subsidiaries, Spectral MD, Inc. and Spectral MD UK Limited.

To The Members of Spectral MD

I am pleased to present the interim results for the six months ended 30 June 2022, for Spectral MD Holdings, Ltd. Spectral MD continues to make significant advances in the development of the DeepView™ Wound Imaging Technology for both Burn and DFU indications towards commercialization.

The development of each software / AI application involves an initial study for training the AI algorithm followed by a separate clinical validation study, subsequently followed by regulatory submission. Below is an update / outlook on each application, and on other key strategic elements.

Burn Indication (BARDA)

Update

Spectral MD has received substantial support from the US Government, with contracts from institutions such as the Biomedical Advanced Research and Development Authority ("BARDA"), National Science Foundation ("NSF"), National Institute of Health ("NIH") and Defense Health Agency ("DHA") in support of the Burn indication for its DeepView™ platform. Total grant funding awarded to date from these organizations is over US$ 125 million, including the recently awarded US$ 8.2 million contract expansion. Under the terms of the BARDA contracts, Spectral MD is reimbursed for qualifying spending as it enrolls subjects and progresses its clinical objectives.

This recent US$ 8.2 million contract expansion from BARDA will further accelerate the commercialization pathway for the Company's DeepView™ Wound Imaging System. The award expands the current clinical training study for burn wounds, provides funds necessary to further increase DeepView™'s interoperability with health systems' electronic health records ("EHR"), and provides funds to support the Company's manufacturing capacity readiness.

In H1 2022, the Company passed the 150 subject enrollment mark in the Burn AI Training Study (initiated in 2021), with 145/190 adult subjects and 25/60 pediatric subjects enrolled, totaling 170 subjects (31 December 2021: 39 subjects). The study is currently running at eight clinical sites, with four additional sites in the engagement phase. The data collected during this study will further expand Spectral MD's database of proprietary and clinically validated burn wound data points, which is used to train the deep learning AI algorithm. As of 30 June 2022, this database was composed of 3.5 terabytes and 145 billion pixels. This database presents both a significant barrier to entry to would-be competitors in wound care healing assessment, and a potential additional commercial opportunity for the Company to develop further in the future.

Conference/Publication Update

In April 2022, the Company attended two US national conferences: the American Burn Association Conference and the American Academy of Emergency Medicine Conference. The Company gave a podium presentation on its Expanded Proof of Concept (ePoc) study results at the American Burn Association annual meeting. The presentations were as follows:

- "Rise of the (Learning) Machines: Artificial Intelligence for the Assessment of Adult Thermal Burns"
- "Iterative refinement of a histologic algorithm for burn depth categorization based on 1142 consecutive burn wound biopsies"
- "Initial Experience Using Artificial Intelligence for the Assessment of Pediatric Burn Depth"

Burn Image Assessment Study (BIAS) Update

The Company conducted the BIAS study at both the American Burn Association and American Academy of Emergency Medicine Conference. The study demonstrated when looking at burn wound images, burn specialists and Emergency Department ("ED") physicians are less accurate in assessing the areas of healing vs non-healing potential compared to the DeepView™ technology. Dr. Jeff Carter, Chief Medical Consultant of Spectral MD, and Treasurer of the American Burn Association ("ABA"), reiterated this point, as he stated: "It is surprising to find that 29% of the study participants' clinical judgment suggested surgery on burn wounds that will heal, which leads to unnecessary surgery and waste of resources."

Outlook

In H2 2022, we look forward to building on the rapid enrollment progress we experienced in H1. While the recent US$ 8.2 million expansion of Option 1B of our current BARDA contract will extend the clinical study into 2023, the Company and BARDA are optimistic about its potential to accelerate the commercialization of Burn DeepView™ technology in the US.

The Company continues to be in regular communication with BARDA to further develop our human resource leadership and infrastructure readiness for any potential federal level commercial contract award. The Company is fully committed to upscaling its operations and infrastructure in the near term to support BARDA's procurement needs to distribute the DeepView® technology into hospitals including EDs across the US from 2024.

While our commercial priority for the Burn indication continues to be BARDA, the Company is also optimistic about the potential to accelerate the commercialization of its Burn DeepView™ technology in the UK and EU and looks forward to providing further updates on international expansion in due course.

Diabetic Foot Ulcer ("DFU") Indication

Update

Building upon promising results from the DFU Clinical Training Study, the Company successfully created a DFU AI Model in the first quarter of 2022, with 81% accuracy from a large and diverse population set.

In June 2022, Spectral MD initiated the Clinical Validation study to continue the development of its DFU application for the DeepView™ Wound Imaging System. The study will collect data from up to 200 adult subjects across seven potential clinical sites to further develop DeepView™'s AI algorithm. Patient enrollment for the validation study began in June and is expected to be completed by end of 2022, with final analysis compilation of the algorithm in early 2023.

The data collected from the validation study will be used to bolster the Company's existing proprietary and clinically validated database of DFU images and physiologic information, and to train and improve the DeepView™ AI algorithm. Additionally, this study will collect data from a broader population set of up to 200 subjects, increasing geographic and ethnic diversity in the enrollment cohort. The data collected will provide important clinical evidence, as the Company prepares FDA, CE and UKCA mark regulatory submissions for DeepView™'s DFU indication, planned in 2023 - one of the necessary milestones required to commercialize DeepView®'s DFU application.

Outlook

In June, the Company successfully initiated the DFU Clinical Validation study and began patient enrollment. Post period end, we successfully enrolled 56 subjects, and we look forward to the continued enrollment progress which is expected to conclude by the end of 2022.

In anticipation of the Company's plan to begin clinical studies in the EU and UK, Spectral MD has engaged in a clinical partnership with the Royal College of Surgeons Ireland, as well as other key opinion leaders to provide the Company greater knowledge in the wound sector outside of the US.

The regulatory submissions are planned to take place in early 2023 with expected clearances in the same year. Commercialization in the US is expected to start in the second half of 2023, followed by the UK and EU.

Technology Miniaturization (Handheld device)

Update

On 23 June 2021, the Company was awarded a two-year Sequential Phase II Small Business Technology 5 Transfer (STTR) contract for US$ 1.1 million by the DHA within the US Department of Defense. This funding enables the Company to research and develop a fully handheld and wireless version of the DeepView™ solution. The Company has previously been awarded STTR Phase I and Phase II contracts from the DHA.

In the 6-month period ended 30 June 2022, the Company has made considerable progress in the development of the miniaturized DeepView™ technology. The Company has developed a fully functional prototype of the DeepView™ technology, with the key optical and computing capabilities now in a fully handheld and wireless version.

Outlook

Building upon the progress made so far, the Company is working towards initiating a clinical study that will utilize and validate the DeepView™ fully handheld and wireless technology.

People and Organization

Update

With the Company's accelerating development, much focus has been given to the development, hiring, and retention of highly skilled and focused individuals. In H1 2022, the Company saw headcount growth of +31% YoY with the addition of 14 full-time employees. The Company currently has 63 full-time employees in the US and UK. The Company continues to prioritize recruitment in the areas of operations, sales, marketing, government contracts, and product development, which it believes will enable the Company to meet its technology, IP, clinical, regulatory and commercialization readiness goals in 2022 and 2023.

In H1 2022, the Company successfully strengthened the leadership team by appointing Christine Marks to VP of Marketing and Commercialization and Vince Capone to General Counsel. Other key technical positions critical to development and commercialization were also filled, including a Data Science Manager, Algorithm Development Manager, Project Managers, Data Scientists, and Software Engineering Manager.

Outlook

The Company expects to increase its customer facing personnel to include clinical research staff, clinical educators, field service technicians and product management.

Intellectual Property (IP) Development

Developing and protecting Spectral MD's intellectual property is one of the Company's key priorities. In H1 2022, the Company filed a total of three new applications, including one US divisional application (reflective mode multi-spectral time-resolved optical imaging methods for tissue classification), one international Patent Cooperation Treaty application (high-precision, single-aperture, MSI snapshot imaging with multiplexed illumination), and one new provisional application (topological characterization and assessment of tissue).

Two new patents were allowed, including US patents in the MSI amputation site analysis/tissue classification family and in the original MSI+ Photoplethysmography (PPG) tissue classification family. In addition, during the period we have completed validation of our trademark registrations across all future major commercial markets.

Financial Review

Revenue of US$ 12.3 million represents research and development revenue in H1 2022. This is realization of non-dilutive research and development contracts with BARDA and DHA (H1 2021: US$ 7.0 million). This 76% increase versus 2021 arises from the increase in research and development activities under the contracts in clinical training and validation studies.

The cost of sales in H1 2022 was US$ 7.1 million (H1 2021: US$ 3.8 million) and gross profit was US$ 5.2 million (H1 2021: US$ 3.3 million). This is entirely associated with BARDA and DHA research and development contract activities.

During H1 2022, operating expenses increased US$ 1.4 million year over year to US$ 5.6 million (H1 2021: US$ 4.2 million). This is predominantly driven by the DFU indication development, and by development of organizational infrastructure to support near term commercialization - in particular additional personnel described above.

During H1 2022, the operating loss was US$ (0.5) million (H1 2021: loss of US$ (0.9) million). During H1 2022, adjusted EBITDA was a profit of US$ 0.2 million (H1 2021: loss of US$ (0.2) million).

Cash and cash equivalents totaled US$ 15.6 million at the end of H1 2022 (H1 2021: US$ 18.5 million). H1 2021 cash balance included proceeds from the AIM listing on 22 June 2021. The H1 2022 cash figure represents a strong working capital performance, as management has made permanent improvements in the accounts receivable cycle.

Notes Payable totaled US$ 0.0 million [(H1 2021: US$ 0.8 million] at the end of H1 2022. During H1 2022, the Company repaid the remaining balance of a promissory note entered in 2020 with JPMorgan Chase Bank, N.A., as lender, pursuant to the Paycheck Protection Program ("PPP") of the US government COVID-19 small business stimulus.

In conjunction with the closing of Company's initial public offering on the AIM market in 2021, the Company issued 762,712 warrants, with a strike price of US$ 0.89 and a ten-year life, to SP Angel, who acts as nominated advisor and joint broker to the Company. As of June 30, 2022, the strike price was US$0.72. The change in the strike price is due to the change in exchange rates as the warrants will settle in shares denominated in British pounds. The fair value was calculated to be US$ 0.2 million (2021: US$ 0.5 million) at the end of 2021.

Effective 1 January 2022, the Company accounts for its leases under Accounting Standards Codification ("ASC") 842, Leases. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded in the condensed consolidated balance sheets as both a right of use asset and a lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. See additional discussion regarding lease accounting in the in the Consolidated Financial Statements and Footnotes

Following the first anniversary of the Company's admission to the AIM market, the 'Regulation S' market trading restrictions were removed from the shares of common stock, save for those held by certain controlling shareholder thus enabling wider market access to acquire and sell stock via multiple trading platforms. Additionally, the removal of the charter restriction on the Spangenberg entities' acquisition of further shares announced on 7 July 2022 provides further sources of potential market liquidity.

In H1 2022 and post period-end the Company widened its Research analyst coverage, with new research published by Stifel and WH Ireland in addition to SP Angel.

R&D Pipeline Strategy

The Company has begun to further assess other disease indications for DeepView™, following initial investigation studies already completed prior to the IPO in 2021. This exercise will result in an expanded and prioritized pipeline of future commercial opportunities, using the common DeepView™ hardware platform. Plurality of indications' potential is an important criterion in BARDA's evaluation of potential commercial contracts. The Company will continue to evaluate and investigate the data commercialization strategy: it will further expand its database of proprietary and clinically validated wound data points and continue to work towards assessing additional monetary value of this dataset.

Closing Statements

The Company has made solid progress on schedule in its development and clinical studies for Burn, DFU, and handheld applications in H1 2022. With the addition of the US$ 8.2 million BARDA contract expansion, we believe that the likelihood of a potential federal procurement has increased, with an expedited timeline to award.

Over the balance of 2022 and 2023, we will remain focused on completing enrollment in both Burn and DFU clinical studies. We believe DeepView™ is the market leading technology that has the potential to disrupt current treatment pathways, and to improve the standard of care for many patients across multiple geographical markets and applications. We remain confident in our strategic approach and that our transformative technology is well positioned for success in providing Day One wound healing assessments.

Wensheng Fan
Chief Executive Officer

Risk Management

The Company continues to assess, monitor, and mitigate the risks in the business. The principal risks, and the current assessment of the risk status and mitigation effectiveness are listed in the table below.

Risk	Description	Risk Status	Mitigation	Mitigation Effectiveness
BARDA	Burn development is heavily dependent on BARDA funding	Unchanged	Maintaining strong relationships and project focus	Effective – entered Option 1B expansion to accelerate commercialization pathway for the DeepView™ technology
DHA	Development of a handheld device is reliant on funding	Unchanged	Maintaining strong relationships and project focus	Effective – entered Phase II contract in June 2021 and project is on schedule to be completed in 2023 as planned
Loss of a major customer	No commercial sales have been made, almost all revenue from fixed fees and costs payable by BARDA	Unchanged	Maintaining a strong relationship with BARDA and expect diversification of customers in future years following commercialization	Effective – entered Option 1B expansion to accelerate commercialization pathway for the DeepView™ technology
Commercial	The DeepView® system has yet to be launched into the US, UK, EU and other markets and so adoption and market penetration can only be estimated	Unchanged	Maintaining strong relationships and project focus	Effective – expanding London office, established an EU presence in Dublin/Ireland, and engaged with Royal College of Scotland and other key opinion leaders; hired a VP of Commercialization and Marketing, continue to work with external consultants
Research and development	Complex scientific research is necessary in the life sciences and medical device development sector	Unchanged	Recruiting and retaining highly skilled employees	Effective – in H1 2022, the Company saw headcount growth of +30% YoY with the addition of 20 full-time employees. The Company currently has 62 full-time employees in the US and UK.
Product development timelines	Unpredictability of the rate of patient recruitment into clinical trials	Unchanged	Maintaining strong relationships and project focus	Effective – on schedule with trials
Regulatory approvals and compliance	Obtain various regulatory approvals (including the FDA and EMA approvals)	Unchanged	Conducting thorough clinical and product market research and maintaining strong relationships with regulatory authorities	Effective – engaged in regular discussion to update FDA and established partnerships with world leading expert teams of scientific and regulatory affairs staff
Technological change	Changing customer requirements and the introduction of products or services or enhancements embodying new technology	Unchanged	Continues to invest in technical developments and apply for patents	Effective – issued additional patents in H1 2022

Non-GAAP measures as defined by the Company

The Company uses adjusted EBITDA as a non-GAAP metric when measuring performance, including when measuring current period results against prior periods adjusted EBITDA.

Because of their non-standardized definitions, non-GAAP measures (unlike GAAP measures) may not be comparable to the calculation of similar measures of other companies. Supplemental non-GAAP measures are presented solely to permit investors to more fully understand how Spectral MD management assesses underlying performance. Supplemental non-GAAP measures are not, and should not be viewed as, a substitute for GAAP measures.

Adjusted EBITDA

The Company defines adjusted earnings before interest, tax, depreciation and amortization ("adjusted EBITDA") as net income/(loss) excluding income taxes, depreciation of property, plant and equipment (including any related impairment charges), amortization of intangible assets (including any related impairment charges), interest expense, stock compensation, any non-operating financial income and expense.

Independent Auditors' Review Report

The Board of Directors Spectral MD Holdings, Ltd.

Results of Review of Consolidated Interim Financial Information

We have reviewed the accompanying consolidated balance sheet of Spectral MD Holdings, Ltd. and its subsidiaries (the Company) as of June 30, 2022, the related consolidated statements of income and statements of changes in equity for the six-month periods ended June 30, 2022 and 2021, and the related consolidated statements of cash flows for the six-month periods ended June 30, 2022 and 2021, and the related notes (collectively referred to as the consolidated interim financial information).

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in accordance with U.S. generally accepted accounting principles.

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of consolidated interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our reviews. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Emphasis of Matter

As discussed in note 2 to the consolidated interim financial information, as of January 1, 2022, the Company adopted new accounting guidance, ASC Topic 842, *Leases*. Our review report is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Interim Financial Information

Management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with U.S. generally accepted accounting principles and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated interim financial information that is free from material misstatement, whether due to fraud or error.

KPMG LLP

Dallas, Texas
September 15, 2022

Spectral MD Holdings, Ltd.
Consolidated Balance Sheets
FOR THE PERIOD ENDED 30 JUNE 2022, and 31 DECEMBER 2021

	UNAUDITED 30 JUN 2022	*31 DEC 2021*
	US$ 000's	*US$ 000's*
Assets		
Current assets:		
Cash and cash equivalents	15,577	16,121
Accounts receivable, net	1,866	1,435
Unbilled revenue	752	-
Prepaid expenses and other current assets	531	858
Total current assets	18,726	18,414
Non-current assets:		
Property and equipment, net	26	32
Right-of-use assets	350	-
Other noncurrent assets	-	40
Total Assets	**19,102**	**18,486**
Liabilities, temporary equity and stockholders' equity		
Current liabilities:		
Accounts payable	3,001	1,740
Accrued expenses	2,032	2,391
Lease liabilities	324	-
Notes payable	-	583
Warrant liability	158	186
Total current liabilities	5,515	4,900
Total Liabilities	**5,515**	**4,900**
Stockholders' Equity		
Common stock ($0.001 par value); 400,000,000 shares authorized; 135,559,564 and 135,034,564 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	136	135
Additional paid-in capital	23,266	22,640
Accumulated deficit	(9,815)	(9,189)
Total Stockholders' equity	13,587	13,586
Total Liabilities, and Stockholders' Equity	**19,102**	**18,486**

See accompanying notes to the unaudited consolidated financial statements

Spectral MD Holdings, Ltd.
Consolidated Statements of Operations
FOR THE SIX MONTHS ENDED 30 JUNE 2022, and 2021

	UNAUDITED SIX MONTHS ENDED 30 JUN 2022 US$ 000's	*UNAUDITED SIX MONTHS ENDED 30 JUN 2021 US$ 000's*
Research and development revenue	12,305	7,023
Cost of revenue	(7,132)	(3,770)
Gross profit	**5,173**	**3,253**
Operating costs and expenses:		
General and administrative	5,633	4,167
Total operating costs and expenses	5,633	4,167
Operating income (loss)	(460)	(914)
Other income (expense):		
Interest expense	(2)	(4)
Change in fair value of warrant liability	28	40
Foreign exchange transaction loss	(204)	-
Other income	18	-
Total other income (expense)	(160)	36
(Loss) income before income taxes	(620)	(878)
Benefit (provision) for income taxes	(6)	(8)
Net (loss) income	**(626)**	**(886)**
Dividend on Series A preferred stock	-	(1,259)
Net (loss) income applicable to common stockholders	(626)	(2,145)
Net (loss) income per share of common stock		
Basic and Diluted	(0.00)	(0.02)
Weighted average common shares outstanding		
Basic and Diluted	135,323,279	130,409,618

See accompanying notes to the unaudited consolidated financial statements

Spectral MD Holdings, Ltd.
Consolidated Statements of Cash Flows
FOR THE SIX MONTHS ENDED 30 JUNE 2022, and 2021

	UNAUDITED SIX MONTHS ENDED 30 JUN 2022 US$ 000's	*UNAUDITED SIX MONTHS ENDED 30 JUN 2021 US$ 000's*
Cash flows from operating activities:		
Net (loss) income	(626)	(886)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation expense	6	-
Stock based compensation	627	667
Amortization of right-of-use assets	251	-
Change in fair value of warrant liability	(28)	(40)
Changes in operating assets and liabilities:		
Accounts receivable	(431)	1,420
Unbilled revenue	(752)	-
Prepaid expenses and other current assets	327	(114)
Other assets	40	(3)
Accounts payable	1,261	(2,342)
Accrued expenses	(336)	64
Lease liabilities	(300)	-
Net cash (used in) provided by operating activities	39	(1,234)
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrant, net of issuance costs	-	14,591
Proceeds from stock option exercise	-	2
Payments for notes payable	(583)	-
Net cash (used in) provided by financing activities	(583)	14,593
Net increase (decrease) in cash and cash equivalents	(544)	13,359
Cash and cash equivalents, beginning of period	16,121	5,125
Cash and cash equivalents, end of period	15,577	18,484
Supplemental cash flow information:		
Cash paid for interest	11	-
Cash paid for income taxes		-
Noncash financing activities disclosure:		
Cumulative dividend on Series A preferred stock		1,259
Conversion of preferred stock to common stock		2,373
Right-of-use assets exchanged for lease liabilities	624	-

See accompanying notes to the unaudited consolidated financial statements

Spectral MD Holdings, Ltd

Spectral MD Holdings, Ltd.

Unaudited Consolidated Statements of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2022, and 2021

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	*Amount*	*Shares*	*Amount*			
		US$ 000's		*US$ 000's*	*US$ 000's*	*US$ 000's*	*US$ 000's*
Balance at December 31, 2021	-	-	135,034,564	135	22,640	(9,189)	13,586
Stock options exercised – cashless	-	-	150,000	-	-	-	-
Stock compensation	-	-	375,000	1	626	-	627
Net loss	-	-	-	-	-	(626)	(626)
Balance at June 30, 2022	-	-	135,559,564	136	23,266	(9,815)	13,587

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	*Amount*	*Shares*	*Amount*			
		US$ 000's		*US$ 000's*	*US$ 000's*	*US$ 000's*	*US$ 000's*
Balance at December 31, 2020	4,324,330	1,114	61,347,000	61	6,096	(5,022)	1,135
Issuance of common stock for cash	-	-	19,067,797	19	15,595	-	15,614
Issuance cost, net of $0.5 million warrant liability	-	-	-	-	(1,506)	-	(1,506)
Cumulative dividend on Series A preferred stock	-	1,259	-	-	(1,259)	-	(1,259)
Conversion of preferred stock to common stock	(4,324,330)	(2,373)	53,889,765	54	2,319	-	2,373
Stock option exercised for cash	-	-	22,500	-	2	-	2
Stock compensation	-	-	312,504	1	666	-	667
Other adjustments	-	-	-	-	-	(12)	(12)
Net loss	-	-	-	-	-	(886)	(886)
Balance at June 30, 2021	-	-	134,639,566	135	21,913	(5,920)	16,128

See accompanying notes to the unaudited consolidated financial statements

Spectral MD Holdings, Ltd
Notes to the Unaudited Financial Statements

1. Organization, Nature of Business and Liquidity

Spectral MD, Inc., headquartered in Dallas, Texas, was incorporated in Delaware on March 9, 2009.

On December 23, 2020, Spectral MD, Inc. formed its wholly-owned subsidiary in Delaware, Spectral MD Holdings, Ltd. (the “Company”).

On June 21, 2021, Spectral MD Merger Sub, Inc. (“Merger Sub”), a Delaware corporation and wholly owned subsidiary of Spectral MD Holdings, Ltd., merged with and into Spectral MD, Inc. Following the merger, the separate corporate existence of Merger Sub ceased and Spectral MD, Inc. continued as the surviving corporation and through the merger became a wholly owned subsidiary of the Company. In connection with the merger, each share of the Spectral MD, Inc.’s common stock and the Spectral MD, Inc.’s preferred stock issued and outstanding immediately prior to the effective date were converted into one share of Common Stock. All of the stockholders of the Spectral MD, Inc. prior to the merger became stockholders of the Company immediately following the merger. All existing Common Stock of the Company held by the Spectral MD, Inc. were cancelled at the effective date of the merger.

On June 22, 2021, the Company was listed and started trading on the AIM market of the London Stock Exchange (the “AIM”).

Effective June 21, 2021, all shares of the Company’s common stock issued and outstanding were combined and reclassified on a six for one basis. The effect of this stock split has been retroactively applied to all periods presented.

On July 22, 2021, the Company formed its wholly-owned subsidiary in the UK, Spectral MD UK Ltd., (“Spectral MD UK”) in order to prepare for and initiate the regulatory approval process in the E.U. and U.K.

The Company is devoting substantially all of its efforts towards research and development of its DeepView® Wound Imaging System. The Company has not generated any product revenue to date. The Company currently generates revenue from contract development and research services by providing such services to governmental agencies, primarily to the Biomedical Advanced Research and Development Authority ("BARDA"). The Company operates in one segment.

Liquidity

As of June 30, 2022 and December 31, 2021, the Company had approximately US$15.6 million and US$16.1 million, respectively in cash, and an accumulated deficit of US$9.8 million and US$9.2 million, respectively. The Company has historically funded its operations through the issuance of notes and the sale of preferred stock and common stock. During 2021, the Company executed Options 1A and 1B of the contract with BARDA for funding of US$39.4 million, of which US$18.2 million is remaining as of June 30, 2022, to execute the clinical training study of DeepView® Wound Imaging System for burn wound healing assessment. With the Company’s closing on its initial public offering (the “Offering”) during 2021 (see Note 3) and the remaining funding under the BARDA contract, the Company believes it will have sufficient working capital to fund operations for at least one year beyond the release date of the condensed consolidated financial statements. Additionally, the contract with BARDA has a potential funding of up to US$88.7 million, in aggregate for Option 1A, 1B and 2, if all future options are executed.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

The condensed consolidated balance sheet as of June 30, 2022, the condensed consolidated statements of operations, stockholders' equity, and cash flows for the six months ended June 30, 2022 and 2021, are unaudited. The interim condensed consolidated financial statements have been prepared on the same basis as the audited annual financial statements and, in management's opinion, include all adjustments consisting of only normal recurring adjustments necessary for the fair statement of the Company's financial position as of June 30, 2022 and its results of operations and cash flows for the six months ended June 30, 2022 and 2021. The results of operations for the six months ended June 30, 2022 and 2021 are not necessarily indicative of the results to be expected for the full fiscal year or any other period.

These interim condensed consolidated financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2021.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Spectral MD, Inc. and Spectral MD UK. Significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of these condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. The amounts of assets and liabilities reported in the Company's balance sheets and the amounts of expenses reported for each of the periods presented are affected by estimates and assumptions, which are used for, but not limited to, revenue recognition, warrant liability, measurement of the operating lease liabilities, stock-based compensation expense, and income tax valuation allowances. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Most of the Company's cash and cash equivalents are held in United States financial institutions.

Accounts Receivable

Accounts receivable represent amounts due from U.S. government agencies pursuant to research and development contracts associated with the Company's DeepView® Wound Imaging System. Accounts receivable amounted to approximately US$1.9 million and US$1.4 million as of June 30, 2022 and December 31, 2021, respectively.

The Company evaluates the collectability of its receivables based on a variety of factors, including the length of time the receivables are past due, the financial health of its customers and historical experience. Based upon the review of these factors, the Company recorded no allowance for doubtful accounts as of June 30, 2022 and December 31, 2021.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents and accounts receivable. Most of the Company's cash and cash equivalents are held in United States financial institutions which, at times, exceed federally insured limits. The Company has not recognized any losses from credit risks on such accounts. The Company believes it is not exposed to significant credit risk on cash and cash equivalents.

Additional credit risk is related to the Company's concentration of receivables. As of June 30, 2022 and December 31, 2021, receivables were concentrated from one customer (which is a U.S. government agency) representing 98% and 94% of total net receivables, respectively. No allowance for doubtful accounts were recorded as of June 30, 2022 and December 31, 2021.

One customer (which is a U.S. government agency) accounted for 92% and 100% of the recognized research and development revenue for the six months ended June 30, 2022 and 2021, respectively.

Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities that are measured at fair value are reported using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets that are assessable at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Fair Value of Financial Instruments

Financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which management believes approximates fair value due to the short-term nature of these instruments.

Foreign Currency

The reporting currency for the condensed consolidated financial statements of the Company is the U.S. dollar. The functional currency of the Company is the U.S. dollar. The functional currency of the Company's subsidiaries is the local currency of the subsidiaries. The assets and liabilities of this subsidiary is translated into U.S. dollars at exchange rates in effect at the end of each reporting period. Revenues and expenses for these subsidiaries are translated at average exchange rates in effect during the applicable period. Translation adjustments are included in accumulated other comprehensive income (loss) as a component of stockholders' equity. As of June 30, 2022 and December 31, 2021, the Company's translation adjustments are not material.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated at exchange rates in effect at the balance sheet date. Resulting unrealized gains and losses are included in other income, net in the condensed consolidated statements of operations. For the six months ended June 30, 2022, the Company recorded $0.2 million of foreign exchange transaction loss, primarily related to the Company's bank account denominated in British Pounds and accounts payable denominated in British Pounds, included in foreign exchange transaction loss on the condensed consolidated statement of operations. The Company did not have any foreign exchange transaction gains or losses for the six months ended June 30, 2021.

Leases

Effective January 1, 2022, the Company accounts for its leases under Accounting Standards Codification ("ASC") 842, *Leases*. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded in the condensed consolidated balance sheets as both a right of use asset and a lease liability, calculated by discounting fixed lease payments at the rate implicit in the lease or the Company's incremental borrowing rate factoring the term of the lease. The incremental borrowing rate used by the Company is an estimate of the interest rate the Company would incur to borrow an amount equal to the lease payments on a collateralized basis over the term of the lease. Lease liabilities are increased by interest and reduced by payments each period, and the right of use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right of use asset results in straight-line rent expense over the lease term. Variable lease expenses are recorded when incurred. For the period ending June 30, 2022, the Company did not have any finance leases.

The Company elected a package of practical expedients, under which the Company does not need to reassess (a) whether any expired or existing contracts are or contain leases, (b) the lease classification for any expired or existing leases, or (c) initial direct costs for any existing leases. In calculating the right of use assets and lease liabilities, the Company elects to combine lease and non-lease components. The Company excludes short-term leases having initial terms of 12 months or less from the new guidance as an accounting policy election.

The Company accounted for leases prior to January 1, 2022 under ASC 840, Leases. For the six months ended June 30, 2021, the Company recognized rent payments in the Company's operating leases on a straight-line basis over the lease term.

Derivative Liabilities

The Company evaluates all of its financial instruments, including issued stock purchase warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives, pursuant to ASC 480 and FASB ASC Topic 815, "Derivatives and Hedging" ("ASC 815"). The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. The Company accounts for its warrants issued to SP Angel, who acts as nominated adviser and broker to the Company for the purposes of the AIM Rules, as derivative liabilities in accordance with ASC 815. Accordingly, the Company recognizes the instruments as liabilities at fair value, determined using the Black-Scholes option-pricing model, and adjusts the instruments to fair value at the end of each reporting period. The liabilities are subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in the Company's condensed consolidated statements of operations.

The Company does not generally use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. During the six months ended June 30, 2021, the Company entered into one derivative instrument, to set a foreign currency exchange rate, that settled in July 2021. The accounting for changes in fair value of derivatives depends on the intended use of the derivative and resulting designation. The Company did not designate its derivative instrument as a hedge for accounting purposes. As of June 30, 2021, the change in fair value of the derivative instrument was immaterial when the Company marked its derivative instrument to fair value. For the six months ended June 30, 2022, the Company did not have any derivative instruments, other than the stock purchase warrants, discussed above.

Research and Development Revenue

The Company recognizes revenue when the Company's customers obtain control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services by analyzing the following five steps: (1) identify the contract with a customer(s); (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the Company satisfies a performance obligation. In order to transfer control to the customer for contract development and manufacturing services, the Company must have a present right to payment, legal title must have passed to the customer, and the customer must have the significant risks and rewards of ownership. Research and development revenue contracts are generally recognized based upon the cost-to-cost measure of progress, provided that the Company meets the criteria associated with transferring control of the good or service over time.

The Company generates research and development revenue primarily from cost-plus-fee contracts associated with development of certain product candidates. Revenues from reimbursable contracts are recognized as costs are incurred, generally based on allowable costs incurred during the period, plus any recognizable earned fee. The Company uses this input method to measure progress as the customer has the benefit of access to the development research under these projects and therefore benefits from the Company's performance incrementally as research and development activities occur under each project. We consider fixed fees under cost-plus-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract. Revenue for long-term development contracts is considered variable consideration because the deliverable is dependent on the successful completion of development and is generally recognized based upon the cost-to-cost measure of progress, provided that the Company meets the criteria associated with satisfying the performance obligation over time. The Company was awarded multiyear contracts in 2019 and 2021 by BARDA for the development of the Company's DeepView® Wound Imaging Solution. BARDA may award contracts that are less than 12 months depending on the scope of work and deliverables.

The Company records unbilled revenue when revenue is recognized prior to billing customers.

Payments from customers are generally received within 30 days of when the invoice is sent.

Because the Company’s contracts have an expected duration of one year or less, the Company has elected the practical expedient in ASC 606-10-50-14(a) to not disclose information about its remaining performance obligations.

Research and Development

The Company expenses research and development costs as operating expenses as incurred. These expenses include salaries for research and development personnel, consulting fees, product development, pre-clinical studies, clinical trial costs, and other fees and costs related to the development of the technology.

Stock-Based Compensation

The Company accounts for all stock-based payments to employees and non-employees, including grants of stock options, restricted stock awards (“RSAs”) and stock options with non-market performance conditions (“PSOs”) to be recognized in the condensed consolidated financial statements, based on their respective grant date fair values. The Company estimates the fair value of stock option grants and PSOs using the Black-Scholes option pricing model. The RSAs are valued based on the fair value of the Company’s common stock on the date of grant. The assumptions used in calculating the fair value of the Company’s stock and stock-based awards represent management’s best estimates and involve inherent uncertainties and the application of management’s judgment. The Company expenses stock-based compensation related to stock options and RSAs over the requisite service period. As the PSOs have performance conditions, compensation expense is recognized for each award if and when the Company’s management deems it probable that the performance conditions will be satisfied. Forfeitures are recorded as they occur. Compensation previously recorded for unvested equity awards that are forfeited is reversed upon forfeiture. The Company expenses stock-based compensation to employees over the requisite service period, on a straight-line basis, based on the estimated grant-date fair value of the awards.

Income Taxes

Income taxes are recorded in accordance with ASC 740, *Income Taxes* (“ASC 740”), which provides for deferred taxes using an asset and liability approach. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the condensed consolidated financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the condensed consolidated financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are provided, if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit would more likely than not be realized assuming examination by the taxing authority. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances.

The Company’s policy is to classify assessments, if any, for tax related interest as interest expense and penalties as general and administrative expenses in the condensed consolidated statements of operations. There were no amounts accrued for interest or penalties for the six months ended June 30, 2022 and 2021.

Comprehensive Loss

Comprehensive loss is equal to net loss as presented in the condensed statement of operations, as the Company did not have any material comprehensive income or loss for the periods presented.

Net Loss per Share of Common Stock

Basic net loss per share of common stock is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted loss per share of common stock adjusts basic earnings per share for the potentially dilutive impact of unvested restricted stock, stock options, warrants and preferred stock. Dilutive securities having an anti-dilutive effect on diluted net earnings per share are excluded from the calculation. The dilutive effect of the unvested restricted stock and stock options are calculated using the treasury stock method. For warrants that are liability-classified, during periods when the impact is dilutive, the

Company assumes share settlement of the instruments as of the beginning of the reporting period and adjusts the numerator to remove the change in fair value of the warrant liability and adjusts the denominator to include the dilutive shares calculated using the treasury stock method. The Company applies the if-converted method to compute the potentially dilutive effect of the Series A preferred stock.

Recently Adopted Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases. ASU 2016-02 will also require new qualitative and quantitative disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The Company adopted ASU 2016-02 on January 1, 2022. The Company recorded a right-of-use asset and lease liabilities each of US$0.6 million upon the adoption of ASU 2016-02. See Note 8.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*, which was subsequently amended by ASU 2018-19 and ASU 2019-10. This standard requires the measurement of expected credit losses for financial instruments carried at amortized cost held at the reporting date based on historical experience, current conditions and reasonable forecasts. The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. With the issuance of ASU 2019-10 in November 2019, the standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2022. The Company will continue to assess the possible impact of this standard, but currently does not expect the adoption of this standard will have a significant impact on its condensed consolidated financial statements, given its limited history of bad debt expense relating to trade accounts receivable.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies accounting for convertible instruments by removing major separation models required under current GAAP. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, and it also simplifies the diluted earnings per share calculation in certain areas. The ASU is effective for the Company on January 1, 2024. Early adoption is permitted, but no earlier than January 1, 2021. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements and related disclosures.

In June 2022, the FASB issued ASU 2022-03, ASC Subtopic 820 "Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions". The FASB is issuing this Update (1) to clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example, and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company is still evaluating the impact of this pronouncement on the condensed consolidated financial statements.

3. Fair Value Measurements

The following table presents information about the Company's financial liabilities that are measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021, by level within the fair value hierarchy (in thousands):

		Fair value measured at June 30, 2022		
	Fair value at June 30, 2022 US$	Quoted prices in active markets (Level 1) US$	Significant other observable inputs (Level 2) US$	Significant unobservable inputs (Level 3) US$
Warrant liability	$ 158	$ -	$ -	$ 158

	Fair value measured at December 31, 2021			
	Fair value at December 31, 2021 US$	Quoted prices in active markets (Level 1) US$	Significant other observable inputs (Level 2) US$	Significant unobservable inputs (Level 3) US$
Warrant liability	$ 186	$ -	$ -	$ 186

There were no transfers between Level 1, 2 or 3 during the six months ended June 30, 2022 and 2021.

The following table presents changes in Level 3 liabilities measured at fair value for the six months ended June 30, 2022 (in thousands).

Balance - December 31, 2021	$ 186
Change in fair value	(28)
Balance - June 30, 2022	$ 158

Both observable and unobservable inputs were used to determine the fair value of positions that the Company has classified within the Level 3 category. Unrealized gains and losses associated with liabilities within the Level 3 category include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long- dated volatilities) inputs.

The following table provides quantitative information regarding Level 3 fair value measurements inputs at their measurement:

	June 30, 2022	*December 31, 2021*
Strike price (per share in US$)	$ 0.72	$ 0.80
Contractual term (years)	5.0	5.5
Volatility (annual)	69.9%	67.6%
Risk-free rate	3.0%	1.3%
Dividend yield (per share)	0.0%	0.0%

4. Research and Development Revenue

For the six months ended June 30, 2022 and 2021, the Company's revenues disaggregated by the major sources was as follows (in thousands):

	Six Months Ended June 30, 2022 US$	*Six Months Ended June 30, 2021 US$*
BARDA	11,282	7,023
Other U.S governmental authorities	1,023	-
Total revenue	12,305	7,023

5. Accrued Expenses

Accrued expenses consist of the following as of June 30, 2022 and December 31, 2021 (in thousands):

	June 30, 2022 US$	*December 31, 2021 US$*
Salary and wages	623	896
Provision operating expenses	610	700
Benefits	659	470
Franchise tax	140	291
Deferred rent	-	23
Accrued interest	-	11
Total accrued expenses	2,032	2,391

6. Notes Payable

Notes Payable

PPP Loan

On April 13, 2020, the Company entered into a promissory note with JPMorgan Chase Bank, N.A., as lender, pursuant to the Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) for US$0.8 million (the “PPP Loan”). The PPP Loan, which matures on April 13, 2022 and bears interest at 1% per annum, can be prepaid at any time prior to maturity with no prepayment penalties. The Company could defer interest and principal payments until September 13, 2021. Beginning on September 13, 2021, the Company was required to make equal monthly payments of principal and interest until the loan maturity on April 13, 2022. The PPP Loan is subject to customary terms for payment defaults and breaches of representations and warranties. The Company did not request the PPP Loan to be forgiven. During 2021, the Company repaid approximately US$0.4 million of principal and interest for the PPP Loan. During the six months ended June 30, 2022, the Company repaid the remaining US$0.4 million of principal and interest for the

PPP Loan. There was no outstanding balance as of June 30, 2022.

Insurance Note

On June 21, 2021, the Company entered into a financing agreement for a portion of its insurance premium for approximate US$0.5 million ("Insurance Note"). The Insurance Note bears interest at 5.7% per annum and is payable in nine equal monthly payments of principal and interest beginning on July 21, 2021 and maturing on February 1, 2022. During 2021, the Company repaid approximately US$0.3 million of principal and interest for the Insurance Note. During the six months ended June 30, 2022, the Company repaid the remaining US$0.2 million of principal and interest for the Insurance Note. There was no outstanding balance as of June 30, 2022.

7. Commitments and Contingencies

Legal Matters

The Company is not currently subject to any material legal proceedings; however, the Company may from time to time become a party to various legal proceedings arising in the ordinary course of the Company's business.

8. Operating Leases

The Company leases office space for its principal office in Dallas, Texas, which expires in February 2023. During 2022, the Company entered into a lease for office space in the United Kingdom under a lease that expires in May 2023.

The following table summarizes quantitative information about the Company's operating leases for the six months ended June 30, 2022 (US dollars in thousands):

		Six Months Ended June 30, 2022
Operating cash flows from operating leases	$	313
Right-of-use assets exchanged for operating lease liabilities	$	624
Weighted average remaining lease term – operating leases (in years)		0.7
Weighted average discount rate – operating leases		6.73%

The following table provides the components of the Company's lease cost included in general and administrative expense in the condensed consolidated statement of operations (in thousands):

		Six Months Ended June 30, 2022
Operating leases		
Operating lease cost	$	264
Variable lease cost		93
Total rent expense	$	357

Variable lease cost is primarily attributable to amounts paid to lessors for utility charges and property taxes under an office space lease.

As of June 30, 2022, future minimum payments under the non-cancelable operating leases under ASC 842 were as follows (in thousands):

Six months ending December 31, 2022	$	282
Year ending December 31, 2023		50
Year ending December 31, 2024		-
Total		332
Less: imputed interest		(8)
Operating lease liabilities	$	324

For the six months ended June 30, 2021, the Company recorded rent expense of approximately US$0.4 million included in general and administrative expenses in the condensed consolidated statement of operations in accordance with ASC 840. The future minimum lease minimum payments under the Company's lease agreement as of December 31, 2021 are as follows (in thousands):

Year ending December 31, 2022	$	579
Year ending December 31, 2023		97
Year ending December 31, 2024		-
Total		676

9. Preferred Stock

As of June 30, 2022 and December 31, 2021, there were no authorized or outstanding shares of preferred stock. Immediately prior to the Offering, all outstanding shares of Series A preferred stock and unpaid cumulative dividends were converted into 53,889,765 shares of common stock.

10. Stockholders' Equity

The Company was authorized to issue 400,000,000 shares of common stock, par value US$0.001 per share, as of June 30, 2022 and December 31, 2021, respectively. The Company had 135,559,564 and 135,034,564 shares of common stock issued and outstanding as of June 30, 2022 and December 31, 2021, respectively. The Company is in the process of completing the issuance of an additional 150,000 shares of stock through the exercise as of June 30, 2022 of certain stock options by a few of the Company's former employees.

11. Stock-based Compensation

2018 Long Term Incentive Plan

On July 24, 2018, the Company's' Board adopted the 2018 Long Term Incentive Plan (the "2018 Plan") which permits granting of incentive stock options (they must meet all statutory requirements), non-qualified stock options, stock appreciation rights, restricted stock, stock units, performance shares, performance units, incentive bonus awards, and other cash-based or stock-based awards. In June 2021, in connection with the IPO, the 2018 Plan was amended so that stock issued pursuant to the 2018 Plan would be the common stock of Spectral MD Holdings, Ltd. Pursuant to the 2018 Plan, stock options must expire within 10 years and must be granted with exercise prices of no less than the fair value of the common stock on the grant date, as determined by the Board of Directors. As of June 30, 2022, 38,354,118 shares of common stock were authorized for issuance under the 2022 Plan, of which 2,230,118 remain available for issuance under the 2018 Plan.

Restricted Stock

The RSAs generally vest over four years. A summary of RSA activities for the six months ended June 30, 2022 are presented below.

	Number of Shares	*Weighted Average Grant Date Fair Value per Share US$*
Nonvested at December 31, 2022	1,062,502	$ 0.10
Vested	(375,000)	$ 0.10
Nonvested at June 30, 2022	687,502	$ 0.10

Stock Options

The fair value of each employee and non-employee stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The Company's common stock became publicly traded on June 22, 2021 and lacks company-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of a publicly traded set of peer companies. Due to the lack of historical exercise history, the expected term of the Company's stock options for employees has been determined utilizing the "simplified" method for awards. The expected term of stock options granted to non-employees is equal to the contractual term of the option award. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is zero based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future.

In applying the Black Scholes option pricing model, the Company used the following assumptions for stock options granted during six months ended June 30, 2022 and 2021, respectively:

	2022	*2021*
Exercise price (per share in US$)	$ 0.46	$ 0.21
Expected term (years)	6.0	5.0
Volatility (annual)	68%	85%

Risk-free rate	2.0%	0%
Dividend yield (per share)	0%	0%

Stock options generally vest over three years. A summary of stock options activity for the six months ended June 30, 2022 is presented below:

	Stock Options	*Weighted Average Exercise Price US$*	*Weighted Average Remaining Contractual Life (in years)*	*Aggregate Intrinsic Value US$ (in thousands)*
Outstanding at December 31, 2021	33,969,000	$ 0.17	8.1	$ 10,963
Options granted	3,130,000	$ 0.46	9.6	
Options exercised	(150,000)	$ 0.16		
Options forfeited/expired	(825,000)	$ 0.25		
Outstanding at June 30, 2022	36,124,000	$ 0.19	7.8	$ 8,956
Options vested and exercisable at June 30, 2022	25,281,443	$ 0.14	7.3	$ 7,383

For the six months ended June 30, 2022 and 2021, the Company recorded stock-based compensation expense of approximately US$0.6 million and US$0.7 million, respectively, in general and administrative expenses in the condensed consolidated statements of operations.

As of June 30, 2022, there was approximately US$1.9 million of unrecognized stock-based compensation related to stock option grants that will be amortized over a weighted average period of 1.3 years.

As of June 30, 2022, there was approximately US$0.1 million of unrecognized stock-based compensation related to restricted stock grants that will be amortized over a weighted average period of 0.6 years.

During the year ended December 31, 2018, the Company granted of 10,039,926 stock options to investors (the “Investor Options”) that were approved by the Board of Directors outside of the 2018 Plan. The Investor Options have an exercise price of US$1.20 per share and expire in November 2023. As of June 30, 2022, there is no unrecognized stock-based compensation expense related to the Investor Options.

Warrants

On June 22, 2021, in conjunction with the closing of the Company’s IPO, the Company issued 762,712 warrants, with a strike price of US$0.89 and a ten year life, to SP Angel, who acts as nominated adviser and broker to the Company for the purposes of the AIM Rules. As of June 30, 2022, there are 762,712 warrants outstanding with a strike price of US$0.72. The change in the strike price is due to the change in exchange rates as the warrants will settle in shares denominated in British pounds.

12. Net Loss Per Common Share

Basic and diluted net loss per common share attributable to common stockholders are the same for the six months ended June 30, 2022 and 2021, since the inclusion of all potential shares of common stock outstanding would have been anti-dilutive due to the Company's net loss.

The table below summarizes potentially dilutive securities that were not considered in the computation of diluted net loss per common share because the effect would be anti-dilutive.

	Six Months Ended June 30,2022	*Six Months Ended June 30,2021*
Common stock options	36,124,000	33,510,000
Common stock warrants	762,712	762,712
Unvested restricted stock	687,502	9,763,123
Potentially dilutive securities	37,574,214	44,035,835

13. Subsequent Events

In September 2022, the Company signed an agreement with BARDA where the Company received an additional $8.2 million in funding associated with Option 1B of the contract with BARDA. The additional award covers an expansion of the burn training study to include additional pediatric sites and US Emergency Departments (“EDs”) as well as additional interoperability with health systems’ electronic health records (“EHR”), and provides funds to support the Company’s manufacturing capacity readiness.