13 September 2021

Spectral MD Holdings, Ltd
("Spectral MD" or the "Company")

Half-Year Report

Spectral MD has achieved all the project milestones it set to be achieved by this time in 2021 and has achieved other important milestones ahead of schedule, including early receipt of increased U.S. Government grant funding of c. US$20 million post-IPO and progress on new burn and DFU patient studies

Revolutionary technology to transform the future of wound care

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 results for the six-month period ended 30 June 2021, and provides an update on further development of the DeepView® Wound Imaging Solution.

Wensheng Fan, Chief Executive Officer of Spectral MD, said*: "I am delighted by Spectral MD's progress in the first half of 2021. We have exceeded the commercial milestones we set for the Company in our admission document, which we believe will position the Company for success in the important and growing wound care market. The Company has begun the next phase of our U.S. Government contract with BARDA and received the recently announced accelerated approval of BARDA's Option 1B funding. This brings our total funding committed from BARDA since 2013 to over US$92.8 million, including US$39.4 million of commitment in 2021 year to date. We have successfully initiated a 250 patient multi-center burn clinical study to further develop and enhance the DeepView® Wound Imaging Solution and look forward to providing further updates as enrollment progresses. Spectral MD is on target for its second half 2021 milestones, including current enrollment of 143 patients in our DFU study, and we are on track to complete the study of 150 patients by the end of 2021. Critically, the Company is positioned to achieve milestones that are foundational for our planned regulatory approvals and commercialization plans in 2022 and 2023. I am particularly proud of the Spectral MD team which we continue to build so we can further position the Company for future success. "We are thankful for the support you have shown in our AIM IPO, and we will endeavor to continue to meet or exceed the objectives we have set for the Company."*

Half Year Operational highlights:

- Accuracy of DeepView®'s artificial intelligence (AI) algorithms in development is currently 91 percent for burn indication and 83 percent for diabetic foot ulcers (DFU) indication, with expected further improvements
- Completed an Expanded Proof-of-Concept (ePOC) for DeepView® burn application on 124 subjects at Wake Forest Baptist Medical Center Winston-Salem, NC; University Medical Center New Orleans, LA; and Medstar Washington Hospital Center Washington D.C.
- Entered into a US$20.6 million U.S. Government contract (Option 1A) with Biomedical Advanced Research and Development Authority (BARDA) as a result of the successful ePOC outcome
- Enrolled 117 (increased to 143 since 30 June 2021) of the targeted 150 subjects into the AI training study for 'Day One' DFU healing assessment and on schedule to complete the study by the end of 2021
- Increased burn and DFU data to 8.1 terabytes and 66.7 billion pixels for the deep learning algorithms training and to build a proprietary, market-leading wound image database
- Awarded a US$1.1 million contract with U.S. Department of Defense's Defense Health Agency (DHA) to miniaturize DeepView® for U.S. military use
- Secured a total of six U.S. patents and four foreign and international patents for the DeepView® imaging technology
- Hired 17 new employees in support of the Company's growth and development plans, as anticipated in the IPO

Half Year Financial highlights (unaudited):

- Raised £11.3 million (approximately US$16.0 million) in an oversubscribed placing and entire share capital admitted to trading on AIM on 22 June 2021
- Gross revenue of US$7.0 million
- Net loss before tax of US$0.9 million
- Cash on hand of US$18.5 million as of 30 June 2021

Post-period highlights:

- On 29 July, the Company began a multi-center clinical study to further develop its DeepView® Wound Imaging Solution for the burn application, which is anticipated to include 10 sites and 250 patients
- On 6 September, the Company announced early entry into the next phase of U.S. Government contract (Option 1B) with BARDA. This Option 1B funding totals US$18.8 million, bringing the total U.S. Government funding since inception to US$93 million, including US$40.5 million in 2021
- The DFU clinical study has enrolled an additional 21 subjects (making a total of 143 subjects) across six clinical study sites in the U.S.
- The hiring of our first General Counsel who will lead the legal, compliance, ethics, corporate secretary, and human resources functions, and will support intellectual property workstreams; a lead data scientist; and additional hires anticipated to facilitate future growth

For further information please contact:

Spectral MD Holdings, Ltd.	investors.spectralmd.com
Wensheng Fan, Chief Executive Officer	via Walbrook PR
Wan Lung Eng, Chief Financial Officer	
SP Angel Corporate Finance LLP (Nominated Advisor & Broker)	Tel: +44 (0)20 3470 0470
Stuart Gledhill/Caroline Rowe (Corporate Finance)	
Vadim Alexandre/Rob Rees (Sales & Broking)	
Walbrook PR Ltd (Media & Investor Relations)	Tel: +44 (0)20 7933 8780 or spectralMD@walbrookpr.com
Paul McManus/Sam Allen	Mob: +44 (0)7980 541 893 / +44 (0)7502 558 258
Alice Woodings	+44 (0)7407 804 654

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

Using its DeepView® Wound Imaging Solution, an internally developed AI technology and multispectral imaging solution that 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 with other applications being explored.

Spectral MD has to date received substantial support from the U.S. government with contracts from institutions such as Biomedical Advanced Research and Development Authority, National Science Foundation, National Institute of Health and Defense Health Agency in support of the burn application for its DeepView® solution, with total grant funding received to date from all of these organizations of over $93 million, including $40.5 million received in 2021. This grant funding is non-dilutive to our shareholders and the Company believes it validates the important nature of our mission and technology. The Company leverages this funding to support R&D efforts that are applicable to burn, DFU and potentially other indications where DeepView can play an important role in Day 1 wound healing assessment.

The Company has two principal trading subsidiaries, Spectral MD, Inc. and Spectral MD UK Limited.

DeepView®

DeepView® is a predictive analytics platform that integrates proprietary AI algorithms and advanced optical technology for wound healing predictions. It is non-invasive, non-radiation, non-laser and does not require the use of injectable dye. This integration can be characterised into four distinct components: DeepView® imaging, data extraction, AI model building and AI wound healing prediction.

- The DeepView® imaging technology consists of patented, proprietary, multi-spectral optics and sensors that can classify wound tissue physiology and capture the viability of various biomarkers within the skin. The imaging technology extracts appropriate clinical data, processes the image, and displays a comparison of the original image next to an image with a colour overlay of the non-healing portions of the wound. The image acquisition takes 0.2 seconds, and the output takes approximately 20 to 25 seconds.
- The DeepView® data extraction consists of proprietary optics that are able to collect millions of data points from each raw image. This information is then used to build and continually improve the AI model, which is trained and tested against a proprietary database of more than 66.7 billion pixels with an ever-growing input of clinically validated data points.
- The AI algorithm then produces a predictive wound healing assessment in the form of an objective, accurate, and immediate binary wound healing prediction. This prediction is graphically represented to the clinician through a coloured overlay of the original image that annotates the non-healing portion of the wound.

DeepView® is designed to allow clinicians to make a more accurate, timely and informed decision regarding the treatment of the patient's wound. In the case of DFUs, a non-healing assessment would provide the clinician with the appropriate justification to use an advanced wound care therapy on 'Day One' as opposed to waiting 30 days and potentially losing the patient to lack of patient follow-up or risking patient noncompliance with standard wound therapy. For burn wounds, the clinician can make an immediate and objective determination to identify appropriate candidates for surgery as well as determining what specific areas of the burn wound will require skin grafting. DeepView®'s current accuracy for determining the healing potential of burn wounds is 91 percent, compared with current physician accuracy of 50 to 70 percent. The current clinical accuracy of DeepView® is 83 percent for DFUs. Both of these accuracy percentages are expected to increase with additional R&D efforts, including clinical studies.

CEO statement

It is a privilege to present the first half year report for Spectral MD. For the first six months of 2021, the Company has made substantial progress towards the goal of commercializing the DeepView® Wound Imaging Solution to provide 'Day One' healing assessments for burn wounds and diabetic foot ulcers (DFU).

Background
Spectral MD Inc. was established through the technology transfer department of the University of Texas Southwestern Medical Center, and incorporated in the State of Delaware, in 2009. The Company's initial focus was to provide clinicians with the ability to evaluate and predict pressure ulcers for bed-ridden patients. After seeing the greater market need, the Company shifted focus towards burns, DFU and other peripheral vascular disease indications. From 2013 to 2021, the Company engaged in contracts with the US Department of Health and Human Services' Biomedical Advanced Research and Development Authority (BARDA) to investigate the use of its technology as an assessment and triage tool for burn victims in mass casualty events. In 2018, the FDA designated the DeepView® technology with Breakthrough Device status for its burn indication.

Burn application
Since first entering into a contract with BARDA in 2013 and receiving the initial BARDA funding of US$26 million, the Company has used this funding to develop DeepView® for its burn indication and leveraged development to explore additional indications. Under the terms of the BARDA contracts, Spectral MD is reimbursed for qualifying spending as it enrolls subjects and progresses its clinical objectives. The Company entered into a new contract with BARDA in July 2019 that anticipated funding of up to US$92 million across various phases and provided initial funding of US$27.3 million for an Expanded Proof-of-Concept (ePOC) study. In February 2021 the Company completed the ePOC for the DeepView® burn application at three clinical sites with 124 adult and pediatric participants. Despite COVID-19, this complex ePOC study was executed successfully and on schedule across leading clinical sites – Wake Forest Baptist Medical Center in Winston-Salem, NC; University Medical Center in New Orleans, LA; and Medstar Washington Hospital Center in Washington, D.C. The results from this study, as well as the 2019 Expanded Proof-of-Concept study, have enabled the continued improvement and training of the AI algorithm as an aid in assessing the healing potential of burn wounds.

On May 1, 2021, the Company entered into the next phase of the BARDA contract (Option 1A) providing funding of US$20.6 million to begin a clinical training study of the DeepView® Wound Imaging Solution for burn wound healing assessment with approximately 100 subjects at five clinical sites. With our recently announced Option 1B funding of US$18.8 million, the Company now intends to enroll a total of approximately 250 subjects before the end of 2022 across ten clinical sites. The Company has officially started enrolling patients into the study and is on track to meet its enrollment objectives. The Research & Development revenue recognized from the BARDA contract is dependent on the timing of, among other things, invoicing from participating institutions with a small amount of expected 2021 R&D revenue now expected to be recognized in 2022.

DFU application
In December 2020, the Company began a Wound Assessment using Spectral Imaging to Predict Healing (WASP) clinical study for DeepView®'s DFU application across six clinical sites with a goal of enrolling 150 participants. The study's purpose is to collect DFU wound images to build a database for the development of a Machine Learning (ML) algorithm for DFU healing assessment, and to explore other DFU characteristics and physiology using images and clinical data obtained with the DeepView® technology. During the first six months of the study, the Company enrolled 117 subjects at six sites with 57 patients having completed the study. The Company has enrolled 143 subjects year to date. As each patient completes the study, the Company organizes, assesses, and integrates the data to refine the algorithm, which progressively increases DeepView®'s prediction accuracy. The Company has made substantial progress in the DFU study in 2021, allowing the study to stay on schedule, and anticipates completion of this DFU study later this year.

Defense Health Agency (DHA)
On 23 June 2021, the Company was awarded a two-year, US$1.1 million, Sequential Phase II Small Business Technology

Transfer (STTR) contract by the Defense Health Agency within the U.S. Department of Defense. This funding allows the Company to research and develop a fully portable, handheld version of the DeepView® solution. The Company has previously been awarded STTR Phase I and Phase II contracts from the DHA. On 23 July 2021, the Company held a kick-off meeting with DHA to review the two-year project timeline. It is anticipated that Stage One of the study will focus on system development, Stage Two will develop a fully handheld prototype and Stage Three will be a clinical study with the Burn Center at University Medical Center New Orleans to validate the system prototype. The Sequential Phase II contract will fund all three referenced stages. The Company is on track to meet the milestones for the study.

Proprietary and Clinically Validated Wound Image Database for AI Development
As of 30 June 2021, approximately 8.1 terabytes and 66.7 billion pixels worth of proprietary DFU and burn data have been acquired and utilized for the deep learning algorithms training.

Intellectual Property (IP) Development
The Company places a significant emphasis on obtaining and protecting its intellectual property. As of 30 June 2021, the Company has successfully secured a total of six U.S. patents and four foreign and international patents and has seven pending U.S. applications and 21 pending foreign and international applications. The Company has the following eight active patent application families

- Burn/Wound classification on Multi-spectral Imaging (MSI) and Photoplethysmography (PPG)
- Tissue classification on MSI and PPG
- Amputation site analysis on MSI, machine learning and healthcare matrix
- DFU healing potential prediction and wound assessment on MSI, machine learning and healthcare matrix
- High-precision, multi-aperture, MSI snapshot imaging
- Wound assessment on MSI, optical biomarkers, and machine learning
- Burn/Histology assessment on MSI and machine learning
- High-precision single-aperture snapshot imaging with multiplexed illumination

People and Organization
The Company added 17 employees during the first half of 2021 and currently has 48 full-time employees in the US and UK and has and will continue to make additional hires over the course of 2021 and beyond. The new hires will be made in all areas, including senior personnel such as our recently hired General Counsel, which will permit the Company to execute and realize its corporate objectives and position the Company to meet its technology, IP, clinical, regulatory, and commercial goals in 2022 and 2023.

Following the successful IPO in June, our CFO Wan Lung Eng will leave the company in due course to pursue other career interests. The Company has retained the recruitment firm Heidrick & Struggles and initiated a search process for a new CFO, and it is expected that the transition from Mr. Eng to the new CFO will be complete by the end of December 2021.

Financial review

IPO
On 22 June 2021, the Company's shares were admitted to trading on the AIM market of the London Stock Exchange. The IPO was successful and oversubscribed. The Company received gross proceeds of £11.3 million (approximately US$16.0 million) from the placing of new common stock. The admission to AIM is an important step in the Company's growth. The proceeds are being used to develop the DFU application, build a European presence, and provide working capital for the Company.

Results
The results presented cover the period from 1 January 2021 to 30 June 2021. The Company's revenue for the first half of 2021 was US$7.0 million (H1 2020: US$7.1 million). In the first half of 2021, the direct expenses were US$3.8 million

(H1 2020: US$3.3 million), which relate to the development of burn and DFU applications for DeepView®. The Company's operating expenses for the first half of 2021 were US$4.2 million, (H1 2020: US$2.0 million). Major items in operating expenses include US$2.0 million in salaries and stock-based compensation resulting from an increase in headcount to develop the burn and DFU applications, and US$1.1 million in professional services expenses. As of 30 June 2021, the Company held US$18.5 million in cash (December 31, 2020: US$5.1 million), including the US$14.6 million net proceeds raised from the IPO placing. The strong cash position is anticipated to provide the Company with sufficient resources to fund the ongoing development of DeepView®'s applications.

Business Outlook

The Company continues to believe that Spectral MD has developed a unique diagnostic imaging solution that has no direct competition in the assessment of wound healing potential. Given the large addressable market of DFUs and the potential of the BARDA contract, the Company is optimistic that DeepView® has the potential to disrupt current treatment pathways and improve the standard of care for many patients across multiple geographical markets, and in multiple applications.

Burn
The Company has initiated the key clinical studies under its Option 1A BARDA contract and is optimistic about achieving all future milestones and enrollments to complete Options 1A and 1B of the BARDA contract. Spectral MD continues to believe that successful completion of the BARDA contract has the potential to lead to a sizeable procurement contract from the U.S. Government for the widespread distribution of DeepView®'s burn application into emergency rooms throughout the U.S..

DFU
Spectral MD's goal is to complete the currently anticipated 150 patient DFU study in 2021 and commence the validation study in Q1 2022. The Company is on track to achieve the necessary milestones to commercialize DeepView®'s DFU application in the U.S. towards the end of 2022. Upon completion of the DFU validation study and FDA clearance, the Company will explore sales and/or distribution models focused initially on selling DeepView® to the US Veterans Administration Health System and podiatry clinics across the U.S.. The Company is optimistic about the potential to accelerate the development of the DFU application and expand into the UK and EU.

DHA
The Company believes the recently awarded DHA contract has potential for U.S. Government procurement by the U.S. military and first responders. A fully hand-held version of DeepView® expands the market to the U.S. military and has the potential to enable in-home use for DFU and other consumer applications, beyond anticipated DHA applications.

Commercialization
The IPO proceeds enable the Company to advance its commercialization efforts of the DeepView® Wound Imaging Solution. The Company's primary focus for the second half of 2021 is on the continued training of the AI algorithm for the burn application, and on completing the enrollment of subjects for DFU clinical trials. The Company expects that each milestone will create significant value for the Company.

Financial
In the first half of 2021, the Company demonstrated the financial value and stability it can generate even during a pandemic environment. The Company will continue to build on the Option 1A and 1B funding under the BARDA contract for the rest of 2021 and into 2022 to drive the clinical training study of the DeepView® Wound Imaging Solution for burn wound healing assessment. The Company has a strong current cash position which is expected to enable the Company to pursue its objectives and to enhance the prospects of its future success. As noted at the time of the Company's IPO, revenue for 2021 is expected to be weighted toward the second half of 2021 given the increasing clinical activity in particular.

Closing Comments

We believe a critical metric in this phase of our Company history is ongoing government grant support, primarily from BARDA, but also from other sources. This non-dilutive grant funding, US$93 million of which has been received since the Company's inception and US$40.5 million of which has been obtained in 2021, enables Spectral MD to conduct important R&D efforts and to develop and improve the Company's AI and optical technology and technology performance. We will then seek to leverage this technology across other indications, including DFU. We believe that these efforts also materially enhance the likely success of our future regulatory and commercial prospects.

Our primary focus is on achieving the core business objectives we set out for the Company in the IPO communications. We continue to opportunistically evaluate additional indications, market opportunities and other initiatives that may enhance our potential for commercial success and shareholder value.

Wensheng Fan
Chief Executive Officer

13 September 2021

Business Risks

The Company continues to assess, monitor, and mitigate the risks in the business. The principal risks, as reported in the corporate governance section of the AIM admission document, *remain unchanged*. The principal risks, 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 1A commencing May 2021
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
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	Effective - entered Option 1A commencing May 2021
Commercial	The DeepView® system has yet to be launched into the U.S., 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
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 – hired 17 new employees with world leading capabilities in the first half of 2021
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 maintain strong relationship 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 the first half of 2021
Reimbursement	Pending Medicare approval of the Medicare coverage of innovative technologies (MCIT) reimbursement pathway for FDA breakthrough designated devices	Unchanged	Continue to monitor Medicare's assessment process which we expect approval on December 15, 2021	Effective – provides a guaranteed pathway for coding, coverage and payment for DeepView®'s burn application

Spectral MD Holdings, Ltd.
Unaudited Consolidated Balance Sheets

	June 30, 2021 US$	*December 31, 2020 US$*
Assets		
Current assets:		
Cash and cash equivalents	18,483,914	5,124,639
Accounts receivable, net	1,271,074	2,690,911
Prepaid expenses and other current assets	206,869	92,868
Total current assets	**19,961,857**	**7,908,418**
Non-current assets:		
Other noncurrent assets	33,695	31,046
Total Assets	**19,995,552**	**7,939,464**
Liabilities, stockholders' equity and temporary equity		
Current liabilities:		
Accounts payable	1,457,018	3,799,208
Accrued expenses	1,198,329	1,122,129
Notes payable	768,575	-
Warrant liability	443,182	-
Total current liabilities	**3,867,104**	**4,921,337**
Non-current liabilities:		
Notes payable	-	768,575
Total non-current liabilities	-	768,575
Total Liabilities	**3,867,104**	**5,689,912**
Series A preferred stock (US$0.001 par value); 10,000,000 shares authorized; 0 and 4,324,330 shares issued and outstanding as of June 30, 2021, and December 31, 2020, respectively	**-**	1,113,987

	June 30, 2021 US$	*December 31, 2020 US$*
Stockholders' Equity		
Common stock (US$0.001 par value); 400,000,000 shares authorized; 134,639,566 shares and 61,347,000 shares issued and outstanding as of June 30, 2021, and December 31, 2020, respectively	134,640	61,347
Additional paid-in capital	21,913,715	6,096,178
Accumulated deficit	(5,919,907)	(5,021,960)
Total stockholders' equity	**16,128,448**	**1,135,565**
Total Liabilities, Stockholders' Equity and Temporary Equity	**19,995,552**	**7,939,464**

See accompanying notes to the consolidated financial statements

Spectral MD Holdings, Ltd.
Unaudited Consolidated Statements of Operations
for the six months ended June 30, 2021, and 2020

	Six Months Ended June 30, 2021 US$	*Six Months Ended June 30, 2020 US$*
Research and development revenue	7,023,319	7,066,182
Cost of revenue	(3,770,047)	(3,292,242)
Gross profit	3,253,272	3,773,940
Operating costs and expenses:		
General and administrative	4,167,823	2,022,874
Total operating costs and expenses	4,167,823	2,022,874
Operating income (loss)	(914,551)	1,751,066
Other income (expenses):		
Interest expense	(3,842)	(26,758)
Change in fair value of warrant liability	40,321	-
Other income	-	425
Total other income (expense)	36,479	(26,333)
Income (loss) before income taxes	**(878,072)**	**1,724,733**
Provision for income taxes	(7,547)	(87,313)
Net income (loss)	**($885,619)**	**$1,637,420**
Dividend on Series A preferred stock	(1,258,959)	-
Net Income (Loss) Applicable to Common Stockholders	(2,144,578)	1,637,420
Net income (loss) per common share		
Basic	(0.02)	0.03
Diluted	(0.02)	0.03
Weighted average common shares outstanding		
Basic	130,409,618	54,454,301
Diluted	130,409,618	54,454,301

See accompanying notes to the consolidated financial statements

Spectral MD Holdings, Ltd.
Unaudited Consolidated Statements of Changes in Stockholders' Equity
for the six months ended June 30, 2021, and 2020

	Preferred Stock		*Common Stock*		*Additional Paid-in Capital*	*Accumulated Deficit*	*Total Stockholders' Equity*
	Shares	*Amount*	*Shares*	*Amount*			
		US$		*US$*	*US$*	*US$*	*US$*
Balance at December 31, 2020	**4,324,330**	**$1,113,987**	**61,347,000**	**$61,347**	**$6,096,178**	**($5,021,960)**	**$1,135,565**
Issuance of common stock for cash	-	-	19,067,797	19,068	15,594,808	-	15,613,876
Issuance cost, net of US$0.5 million warrant liability	-	-	-	-	(1,505,901)	-	(1,505,901)
Cumulative dividend on Series A preferred stock	-	1,258,959	-	-	(1,258,959)	-	(1,258,959)
Conversion of preferred stock to common stock	(4,324,330)	(2,372,946)	53,889,765	53,890	2,319,056	-	2,372,946
Stock option exercised for cash	-	-	22,500	22	2,303	-	2,325
Stock compensation	-	-	312,504	313	666,230	-	666,543
Other adjustments	-	-	-	-	-	(12,328)	(12,328)
Net loss	-	-	-	-	-	(885,619)	(885,619)
Balance at June 30, 2021	**-**	**-**	**134,639,566**	**$134,640**	**$21,913,715**	**($5,919,907)**	**$16,128,448**

	Preferred Stock		*Common Stock*		*Additional Paid-in Capital*	*Accumulated Deficit*	*Total Stockholders' Deficit*
	Shares	*Amount*	*Shares*	*Amount*			
		US$		*US$*	*US$*	*US$*	*US$*
Balance at December 31, 2019	**4,324,330**	**$1,113,987**	**53,809,092**	**$53,809**	**$3,481,825**	**($6,256,691)**	**($2,721,057)**
Stock option exercised for cash	-	-	1,500,000	1,500	33,500	-	35,000
Stock compensation	-	-	3,428,118	3,428	525,450	-	528,878
Net income	-	-	-	-	-	1,637,420	1,637,420
Balance at June 30, 2020	**4,324,330**	**$1,113,987**	**58,737,210**	**$58,737**	**$4,040,775**	**($4,619,271)**	**($519,759)**

See accompanying notes to the consolidated financial statement

Spectral MD Holdings, Ltd.
Unaudited Consolidated Statements of Cash Flows
for the six months ended June 30, 2021, and 2020

	Six Months Ended June 30, 2021	*Six Months Ended June 30, 2020*
	US$	*US$*
Cash flows from operating activities:		
Net income (loss)	(885,619)	1,637,420
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Stock based compensation	666,543	528,878
Change in fair value of warrant liability	(40,321)	-
Changes in operating assets and liabilities:		
Accounts receivable	1,419,837	(1,513,259)
Prepaid expenses and other current assets	(114,001)	101,448
Other assets	(2,649)	(11,884)
Accounts payable	(2,342,190)	458,609
Accrued expenses	63,872	(755,676)
Net cash (used in) provided by operating activities	($1,234,528)	$445,536
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance cost	14,591,478	-
Proceeds from PPP loan	-	768,575
Proceeds from stock option exercise	2,325	35,000
Net cash provided by financing activities	14,593,803	803,575
Net increase in cash and cash equivalents	13,359,275	1,249,111
Cash and cash equivalents, beginning of period	5,124,639	770,292
Cash and cash equivalents, end of period	18,483,914	2,019,403

	Six Months Ended June 30, 2021 US$	*Six Months Ended June 30, 2020 US$*
Supplemental cash flow information:		
Cash paid for interest	-	-
Cash paid for income taxes	-	-
Noncash financing activities disclosure:		
Cumulative dividend on Series A preferred stock	1,258,959	-
Conversion of preferred stock to common stock	2,372,946	-

See accompanying notes to the consolidated financial statements

Spectral MD Holdings, Ltd.
Notes to Consolidated 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 subsidiary had no activity through December 31, 2020.

On June 21, 2021, Spectral MD Merger Sub, Inc. ("Merger Sub"), a Delaware corporation and wholly owned subsidiary of Spectral MD Holdings, Ltd. (the "Company"), 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 exchanged for 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.

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.

The Company is a research organization specializing in wound care using multispectral imaging and artificial intelligence. The Company's DeepView® Wound Imaging System is a non-invasive advanced medical device that delivers day one wound healing predictions for key indications.

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, 2021, and December 31, 2020, the Company had US$18.5 million and US$5.1 million, respectively in cash, and an accumulated deficit of US$5.9 million and US$5.0 million, respectively. The Company has historically funded its operations through the issuance of notes and the sale of preferred stock and common stock. The Company received net proceeds of approximately US$14.6 million from its initial public offering on the AIM on June 22, 2021 (see Note 4). Additionally, the Company finalized its execution of Option 1A of the contract with BARDA, which will provide the Company with an additional US$20.6 million to execute the clinical training study of DeepView® Wound Imaging System for burn wound healing assessment. This contract option funding of US$20.6 million follows the US$27.3 million contract received from BARDA in July 2019 in the original award. In total, the contract has a potential funding of up to US$92 million if all future options are executed.

The Company evaluated whether there are any conditions and events, considered in the aggregate, that raise substantial doubt about its ability to continue as a going concern within one year beyond the release date of the consolidated financial statements. Based on such evaluation and the Company's current plans as described above, management believes that the Company's existing working capital as of June 30, 2021, will be sufficient to satisfy its operating cash needs within one year beyond the release date of the consolidated financial statements.

During the early months of 2020, COVID-19 emerged and has subsequently spread world-wide. The World Health Organization has declared COVID-19 a pandemic resulting in federal, state, and local governments and private entities mandating various restrictions, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories, and quarantining people who may have been exposed to the virus. Management has determined that there has been no significant impact to the Company's operations, however management continues to monitor the situation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's 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").

Basis of Consolidation

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

Use of Estimates

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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 sheet 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, 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. All 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 US$1.3 million and US$2.7 million as of June 30, 2021, and December 31, 2020, 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 at June 30, 2021, and December 31, 2020.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist principally of cash and cash equivalents and accounts receivable. All 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, 2021, and December 31, 2020, receivables were concentrated from one customer representing 100% and 98% of total net receivables, respectively. No allowance for doubtful accounts were recorded at June 30, 2021, and December 31, 2020.

One customer accounted for 100% and 98% of the recognized research and development revenue for the six months ended June 30, 2021, and 2020, 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.

Derivative Liabilities

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. 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 and adjusts the instruments to fair value at the end of each reporting period. The liabilities are subject to re-measurement at each consolidated balance sheet date until exercised, and any change in fair value is recognized in the Company's consolidated statements of operations.

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 multi-year 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.

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 expenses stock-based compensation to employees over the requisite service period based on the estimated grant-date fair value of the awards. The Company accounts for forfeitures of equity awards as such forfeitures occur. Compensation previously recorded for unvested equity awards that are forfeited is reversed upon forfeiture.

The Company estimates the fair value of stock option and restricted stock grants using the Black-Scholes option pricing model or 409A valuations, as applicable. The Black-Scholes model requires the use of assumptions which determine the fair value of stock-based awards, including the option's expected term and the price volatility of the underlying stock. The assumptions used in calculating the fair value of stock-based awards represents management's best estimates and involve inherent uncertainties and the application of management's judgement.

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 consolidated financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the 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 has no uncertain tax positions as of June 30, 2021, and December 31, 2020, that qualify for either recognition or disclosure in the consolidated financial statements under this guidance.

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 statements of operations. There were no amounts accrued for interest or penalties for the six months ended June 30, 2021, and 2020.

Net Income (Loss) per Share of Common Stock

Basic net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period.

Diluted earnings (loss) per share adjusts basic earnings per share for the potentially dilutive impact of stock options and warrants. 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.

Recently Adopted Accounting Standards

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company adoption of this standard did not have an effect on its consolidated financial statements as it did not change the way collaborative development services and the related costs of these services are reflected in the Company's consolidated financial statements.

Recently Issued 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. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating ASU 2016-02 and its impact on the Company's consolidated financial statements.

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 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 consolidated financial statements and related disclosures.

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, 2021, by level within the fair value hierarchy:

		Fair value measured at June 30, 2021		
	Fair value at June 30, 2021	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant liability	$443,182	-	-	$443,182

There were no transfers between Level 1, 2 or 3 during the six-month period ended June 30, 2021. There was no warrant liability in 2020.

The following table presents changes in Level 3 liabilities measured at fair value for the six-month period ended June 30, 2021. 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.

Balance - January 1, 2021	-
Additional warrant liability	483,503
Change in fair value	(40,321)
Balance - June 30, 2021	$443,182

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

	June 30, 2021	*June 16, 2021*
Strike price	£0.59	£0.59
Contractual term (years)	5.96	6.00
Volatility (annual)	85%	85%
Risk-free rate	0.9%	0.9%

Dividend yield (per share)	0.0%	0.0%

4. Initial Public Offering

The Company completed its initial public offering on AIM on June 22, 2021. The Company issued 19,067,797 shares of common stock for net proceeds of approximately US$14.6 million after deducting offering expenses of approximately US$1.0 million incurred by the Company (the "Offering"). The Company also issued 762,712 warrants to SP Angel, who acts as nominated adviser and broker to the Company for the purposes of the AIM Rules. The initial fair value of warrants was approximately US$0.4 million (see Note 3). The proceeds of the Offering will be primarily used for Diabetic Foot Ulcer ("DFU") clinical trials in the United States (U.S.) and Europe, and FDA clearance in the U.S. and CE Mark application and approval in Europe to use DeepView for DFU application.

5. Research and Development Revenue

For the six months ended June 30, 2021 and 2020, the Company's revenues disaggregated by the major sources was as follows:

	Six Months Ended June 30, 2021 US$	*Six Months Ended June 30, 2020 US$*
Revenue by Customer Type		
BARDA	7,023,319	6,920,015
Other U.S governmental authorities	-	146,167
Total revenue	**7,023,319**	**7,066,182**

6. Accrued Liabilities

Accrued expenses consist of the following at June 30, 2021 and December 31, 2020:

	June 30, 2021 US$	*December 31, 2020 US$*
Salary and wages	608,218	619,510
Benefits	302,788	302,540
Income tax	111,184	161,637
Deferred rent	28,489	32,867
Accrued interest	9,417	5,575
Provision operating expenses	138,233	-
Total accrued expenses	**1,198,329**	**1,122,129**

7. Debt to Related Parties

2019 Notes Payble to Related Parties

On August 7, 2019, the Company entered into a promissory note (the "Note") with Granicus IP, LLC, an entity owned by the Company's then Chairman of the Board, for the amount of US$100,000. The Note bears interest at 10% per annum and is due on demand.

On August 7, 2019, the Company entered into a promissory note (the "Note") with John H and Marcia Kirk Stevens Family Trust, an entity owned by the Company's then board member, for the amount of US$100,000. The Note bears interest at 10% per annum and is due on demand.

In July 2020, the Company repaid principal and accrued interest of US$218,500 on the 2019 Notes payable to related parties.

2013 Notes Payble to Related Parties

On September 11, 2013, the Company entered into a demand note (the "Note") with Mr. Erich Spangenberg, a shareholder of the Company, for the amount of US$136,220. The Note bears interest at 7% per annum and is due on demand.

On October 1, 2013, the Company entered into a demand note (the "Note") with LSC Holding, LLC, an entity affiliated with a shareholder of the Company, for the amount of US$150,000. The Note bears interest at 8% per annum and is due on demand.

On October 31, 2020, the Company issued 292,465 shares of its common stock to related parties to extinguish outstanding principal and accrued interest of US$359,732 on the 2013 Notes payable to related parties. Between November and December 2020, the Company repaid US$80,000 on the 2013 Notes payable to related parties.

The following table summarizes total interest expenses that the Company recognized during the six months ended June 30, 2021 and 2020, respectively:

	Six Months Ended June 30, 2021 US$	*Six Months Ended June 30, 2020 US$*
2019 Notes payable to related parties	-	11,830
2013 Notes payable to related parties	-	10,000
PPP loan	3,842	1,733
Interest charge on credit card	-	3,195
Total interest expense	**3,842**	**26,758**

8. PPP Loan

On April 13, 2020, the Company received proceeds from a loan in the amount of US$768,575 (the "PPP Loan") from 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"). The PPP Loan is evidenced by a promissory note (the "Note"), which

contains customary events of default relating to, among other things, payment defaults and breaches of representations, warranties or terms of the PPP Loan documents. The PPP Loan matures on April 13, 2022 and bears interest at an annual rate of approximately 1%. The payment deferral period was extended from six-month deferral until August 8, 2021 pursuant to the U.S. Small Business Administration ("SBA") guidance. After the deferral period, the Company is required to make 18 equal monthly payments of principal and interest. The PPP Loan may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The proceeds from the PPP Loan may only be used for payroll costs (including benefits), rent and utility obligations, and interest on certain of the Company's other debt obligations.

All or a portion of the PPP Loan may be forgiven by the SBA upon application by the Company beginning 60 days but not later than 120 days after loan approval and upon documentation of expenditures in accordance with the SBA requirements. Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the eight-week period beginning on the date of loan approval. For purposes of the CARES Act, payroll costs exclude compensation of an individual employee in excess of US$100,000, prorated annually. Not more than 25% of the forgiven amount may be for non-payroll costs. Forgiveness is reduced if the Company's full-time headcount declines, or if salaries and wages for employees with salaries of US$100,000 or less annually are reduced by more than 25%. In the event the PPP Loan, or any portion thereof, is forgiven pursuant to the PPP, the amount forgiven is applied to outstanding principal. No assurance can be given that the Company will obtain forgiveness of the PPP Loan in whole or in part. In order to apply for the PPP Loan, the Company certified that, among other things, the current economic uncertainty made the PPP Loan request necessary to support its ongoing operations. If it is determined that the Company was not eligible to receive the PPP Loan, the Company may be subject to penalties and could be required to repay the PPP Loan in its entirety.

9. Commitments

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.

Leases

In August 2017, the Company assumed a lease for its principal office in Dallas, Texas, which expires on March 1, 2023. Base rent in connection with the lease is US$46,901 per month, as of June 30, 2021. Future minimum payments under the Company's. lease agreement, as of June 30, 2021, and December 31, 2020, are as follows:

	June 30, 2021	*December 31, 2020*
	US$	*US$*
2021 (remaining periods between July and December)	285,872	570,255
2022	579,189	579,189
2023	96,780	96,780
Total	**961,841**	**1,246,224**

10. Preferred Stock

Effective June 21, 2021, the Company increased its authorized shares for preferred stock to 10,000,000 shares.

Immediately prior to the Offering, all outstanding shares of Series A preferred stock and unpaid cumulative dividend were exchanged for 53,889,765 shares of common stock.

As of June 30, 2021, there were no outstanding preferred stock.

11. Stockholders' Equity

Effective June 21, 2021, the Company increased its authorized shares for common stock to 400,000,000 shares.

The Company had 134,639,566 shares and 61,347,000 shares of common stock issued and outstanding at June 30, 2021 and December 31, 2020, respectively.

During the six months ended June 30, 2021, the Company issued 19,067,797 shares of common stock for net proceeds of approximately US$14.6 million after deducting offering expenses of approximately US$1.0 million incurred by the Company.

During the six months ended June 30, 2021, the Company issued 22,500 shares of common stock for aggregate proceeds of US$2,325 from stock option exercise.

During the six months ended June 30, 2020, the Company issued 1,500,000 shares of common stock for aggregate proceeds of US$35,000 from stock option exercise.

12. Stock-based Compensation

2012 Long Term Incentive Plan

On August 30, 2012, the Company's Board adopted the 2012 Long Term Incentive Plan (the "2012 Plan"), which has a ten-year life for granting awards and initially reserved 9,000,000 shares of common stock for awards.

Awards granted under the 2012 Plan may be 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. Pursuant to the 2012 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.

2018 Long Term Incentive Plan

On July 24, 2018, the Company's Board adopted the 2018 Long Term Incentive Plan (the "2018 Plan"), which has a ten-year life for granting awards and initially reserved 38,354,118 shares of common stock for awards.

Awards granted under the 2018 Plan may be 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. 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.

Restricted Stock

As part of the restructuring (see Note 1), each share of the Spectral MD, Inc.'s vested restricted stock was exchanged for one share of the Company's common stock. A summary of restricted stock activities for the six months ended June 30, 2021 is presented below.

	Number of Shares	*Weighted Average Grant Date Fair Value per Share*
Nonvested at January 1, 2021	1,750,002	US$0.10
Vested	(375,000)	US$0.10
Nonvested at June 30, 2021	1,375,002	US$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. Until its IPO in June 2021, the Company was a private company 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, 2021 and 2020, respectively:

	2021	*2020*
Exercise price	US$0.21	US$0.21
Expected term (years)	5.0	5.0
Volatility (annual)	85%	85%
Risk-free rate	0%	0%
Dividend yield (per share)	0%	0%

A summary of stock options activity for the six months ended June 30, 2021 is presented below:

	Stock Options	*Weighted Average Exercise Price*	*Weighted Average Remaining Contractual Life (in years)*	*Aggregate Intrinsic Value*
Outstanding at January 1, 2021	27,604,500	US$0.15	8.8	US$1,604,758
Options granted	6,738,000	US$0.21	10.0	
Options exercised	(22,500)	US$0.10		
Options forfeited/expired	(810,000)	US$0.20		
Outstanding at June 30, 2021	33,510,000	US$0.16	8.6	US$22,314,257
Options vested and exercisable at June 30, 2021	15,343,000	US$0.14	8.2	US$10,550,844

During the six months ended June 30, 2021, the Company issued 6,738,000 stock options (the "2021 Options") to various employees under the 2018 Plan. The 2021 Options were issued at an exercise price of US$0.21 per share which is exercisable in three annual installments.

The Company recognized stock-based compensation of approximately US$0.6 million for the for the six months ended June 30, 2021, which was all recognized in general and administrative expenses.

As of June 30, 2021, 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, 2021, there was approximately US$0.1 million of unrecognized stock-based compensation related to restricted stock option grants that will be amortized over a weighted average period of 1.2 years.

13. Related Party Transactions

There are no related party transactions or balances, other than as disclosed in Note 7, above.

14. Income (Loss) Per Share

Basic income (loss) per share was calculated by dividing net income (loss) by the weighted-average shares of common stock outstanding during the period. Diluted income (loss) per share was calculated by dividing net income (loss) by the weighted-average fully diluted shares of common stock outstanding during the period using the treasury stock method or the two-class method, whichever is more dilutive.

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

	Six Months Ended June 30, 2021	*Six Months Ended June 30, 2020*
Convertible preferred stock	-	49,945,297
Common stock options	33,510,000	28,959,000
Common stock warrants	762,712	-
Restricted stock	9,763,123	11,138,125
Potentially dilutive securities	44,035,835	90,042,422

15. Subsequent Events

The Company evaluated subsequent events and transactions that occurred after the unaudited consolidated balance sheet date up to the date unaudited consolidated financial statements were issued. On September 6, 2021, the Company announced it has been awarded Option 1B of the contract with BARDA, which will provide the Company with an additional US$18.8 million to accelerate initiation of the second stage of the clinical training study to train the DeepView® AI algorithm.