

SPECTRAL ANNOUNCES SECOND QUARTER 2010 RESULTS

TORONTO, Canada – August 12, 2010 – Spectral Diagnostics Inc., (TSX: SDI), a company focused on bringing to market a diagnostic and a therapeutic targeting severe sepsis, today announced its financial results for the second quarter ended June 30, 2010.

“During the second quarter we continued to implement our US pivotal trial for Toraymyxin™, a therapeutic hemoperfusion device that removes endotoxin from the bloodstream and is guided by our FDA cleared endotoxin activity assay, the EAA™. Activities during the quarter were focused on clinical site evaluation and qualification, with the objective of having all 15 sites enrolling patients in the second half of this year,” said Dr. Paul Walker, President and CEO of Spectral. “We also continued to forge academic partnerships that leverage our knowledge and leadership in this field. As a result, additional clinical papers about significant findings in the area of endotoxin and its role in sepsis were published this quarter. This new data lends greater support to the Toraymyxin™ product and strengthens our confidence in the US pivotal trial.”

Highlights:

- Publication of an important new reference book on the subject of endotoxin entitled, “Endotoxemia and Endotoxin Shock: Disease, Diagnosis and Therapy.” The publication contains a section that focuses entirely on extracorporeal therapies, such as Toraymyxin™, as well as chapters that demonstrate the utility of the EAA™ to identify patients who are endotoxemic and to monitor the effects of this therapy.
- Received the McMaster University Industry Partner of the Year Award, earned for Spectral’s contribution to the discovery and development of aptamer technology for the diagnosis and treatment of sepsis.
- Completed evaluation and training of a number of centres participating in the Toraymyxin™ pivotal trial.

Financial Review

For the second quarter ended June 30, 2010, Spectral reported revenues of \$678,000, compared to \$776,000 for the corresponding period in 2009. For the six months ended June 30, 2010, revenues were \$1,426,000 compared to \$1,618,000 for the same 2009 period. EAA™ diagnostic sales and royalty revenues from the Company’s proprietary Troponin I products were relatively consistent year over year. The lower sales in 2010, compared to 2009, were due primarily to the foreign exchange impact of a strengthening Canadian dollar versus the US and Euro currencies.

For the second quarter ended June 30, 2010, the Company reported a loss of \$1,270,000 or (\$0.02) per share, compared to a loss of \$701,000 or (\$0.03) per share for the corresponding period in 2009. For the six months ended June 30, 2010, the Company reported a loss of \$3,213,000 or (\$0.06) per share, compared to a loss of \$1,105,000 or (\$0.05) per share for the corresponding period in 2009. The year to date increase in the loss of \$2,108 is attributable primarily to the increase in clinical trial costs related to IDE approval and to trial start-up (\$704),



service fees (\$500) paid to Medwell Capital ("Medwell") (formerly BioMS Medical ("BioMS")), pursuant to a three year, \$3 million service contract that became effective January 1, 2010, and the stock based compensation expense (\$792) that arose on the issuance of 1,800,000 stock options in the first quarter of 2010. Operating expenses related to the existing business remained consistent with prior year levels.

Cash and cash equivalents as at June 30, 2010 totaled \$17,336,000, compared to \$2,944,000 as at December 31, 2009. The increase is due entirely to the net proceeds of the financing completed in the first quarter.

Total shares outstanding at June 30, 2010 amounted to 75,826,549 (June 30, 2009 – 24,118,424).

About Spectral Diagnostics

Spectral is a leader in the battle against sepsis. Spectral's lead product is its Endotoxin Activity Assay (EAA™), the only FDA cleared assay for the measurement of endotoxin. With the growing awareness for the role of endotoxemia in sepsis and the increasing number of therapies being developed for this indication, Spectral is well-positioned to drive the adoption of the EAA™, which can be used to identify patients, enable therapeutics and monitor treatment. In March 2009, Spectral obtained the exclusive development and commercial rights in the U.S. for Toraymyxin™, a therapeutic for the treatment of sepsis that removes endotoxin from the bloodstream. Spectral will seek FDA approval for Toraymyxin™ and intends to commercialize the product together with EAA™. Spectral is listed on TSX under the symbol SDI.

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Forward-looking statement

Information in this news release that is not current or historical factual information may constitute forward-looking information within the meaning of securities laws. Implicit in this information, particularly in respect of the future outlook of Spectral and anticipated events or results, are assumptions based on beliefs of Spectral's senior management as well as information currently available to it. While these assumptions were considered reasonable by Spectral at the time of preparation, they may prove to be incorrect. Readers are cautioned that actual results are subject to a number of risks and uncertainties, including the availability of funds and resources to pursue R&D projects, the successful and timely completion of clinical studies, the ability of Spectral to take advantage of business opportunities in the biomedical industry, the granting of necessary approvals by regulatory authorities as well as general economic, market and business conditions, and could differ materially from what is currently expected.

The TSX has not reviewed and does not accept responsibility for the adequacy or accuracy of this statement.

Spectral Diagnostics Inc.

Balance Sheets - unaudited

As at June 30, 2010 and December 31, 2009

(in thousands of dollars)

	2010 \$	2009 \$
Assets		
Current assets		
Cash and cash equivalents	17,336	2,944
Accounts receivable	687	781
Inventories	340	123
Prepaid expenses	110	45
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	18,473	3,893
Property, plant and equipment	437	457
Commercial instruments	73	94
Purchased technology and trademarks	854	588
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	19,837	5,032
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Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	669	1,077
Current portion of convertible notes payable	1,295	2,336
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	1,964	3,413
Deferred revenue	189	254
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	2,153	3,667
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Shareholders' Equity		
Common shares	21,264	2,524
Other equity	6,586	5,794
Deficit	(10,166)	(6,953)
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	17,684	1,365
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	19,837	5,032
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Spectral Diagnostics Inc.

Statements of Operations, Comprehensive Loss and Deficit - unaudited For the six months ended June 30, 2010 and 2009

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

	3 Months Ended June 30		6 Months Ended June 30	
	2010 \$	2009 \$	2010 \$	2009 \$
Sales	678	776	1,426	1,618
Cost of sales	155	166	319	350
Gross margin	523	610	1,107	1,268
Operating expenses				
Selling, general and administrative	763	763	1,661	1,554
Clinical trial	624	164	968	264
Service fees	250	-	500	-
Amortization	156	159	311	323
Foreign exchange loss(gain)	(26)	84	13	52
Stock-based compensation	-	-	792	-
Research and product development, net of tax credits	8	16	24	36
	1,775	1,186	4,269	2,229
Loss before the following	(1,252)	(576)	(3,162)	(961)
Interest on convertible notes payable	(24)	(41)	(59)	(82)
Other net investment income (loss)	6	(84)	8	(62)
Loss and comprehensive loss for the period	(1,270)	(701)	(3,213)	(1,105)
Deficit - Beginning of period	(8,896)	(4,593)	(6,953)	(4,189)
Deficit - End of period	(10,166)	(5,294)	(10,166)	(5,294)
Basic and diluted loss per common share	(0.02)	(0.03)	(0.06)	(0.05)
Weighted average number of common shares outstanding	75,822,318	24,118,424	58,404,514	24,118,424

Spectral Diagnostics Inc.

Statements of Cash Flows- unaudited

For the six months ended June 30, 2010 and 2009

(in thousands of dollars)

	3 Months Ended June 30		6 Months Ended June 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Loss and comprehensive loss for the period	(1,270)	(701)	(3,213)	(1,105)
Items not affecting cash				
Amortization	156	159	311	323
Amortization of commercial instruments included in cost of sales	16	22	48	43
Stock-based compensation expense	-	-	792	-
Interest on convertible notes payable	24	41	59	82
Unrealized loss on short-term investments	-	91	-	91
Changes in non-cash working capital	(224)	344	(1,696)	(39)
	<u>(1,298)</u>	<u>(44)</u>	<u>(3,699)</u>	<u>(605)</u>
Financing activities				
Bank indebtedness	-	(385)	-	-
Proceeds on issue of private placement	-	-	17,608	-
Proceeds on exercise of stock options	9	-	32	-
Settlement of convertible notes payable	-	-	1,100	-
	<u>9</u>	<u>(385)</u>	<u>18,740</u>	<u>-</u>
Investing activities				
Purchase of property, plant and equipment	(32)	(51)	(55)	(54)
Purchase of commercial instruments	(13)	(3)	(27)	(25)
Purchase of technology and trademarks	(502)	-	(502)	-
Decrease in short-term investments	-	1,001	-	964
Decrease in deferred revenue	(32)	(43)	(65)	(86)
	<u>(579)</u>	<u>904</u>	<u>(649)</u>	<u>799</u>
Increase (decrease) in cash and cash equivalents during the period	<u>(1,868)</u>	<u>475</u>	<u>14,392</u>	<u>194</u>
Cash and cash equivalents - Beginning of period	<u>19,204</u>	<u>16</u>	<u>2,944</u>	<u>297</u>
Cash and cash equivalents - End of period	<u>17,336</u>	<u>491</u>	<u>17,336</u>	<u>491</u>
Non cash working capital and financing activities				
Decrease in current portion of convertible notes payable	-	-	(1,100)	-
Settlement of convertible notes payable	-	-	1,100	-