

## **SPECTRAL ANNOUNCES SECOND QUARTER 2008 RESULTS**

**TORONTO, Canada – August 13, 2008 – Spectral Diagnostics Inc. (TSX: SDI)** today announced its financial results for the second quarter ended June 30, 2008.

“The clinical and commercial adoption of our Endotoxin Activity Assay (EAA™) remains our primary focus. During the quarter we continued to establish the value of our EAA™ diagnostic, both as a stand-alone product and also in combination with therapeutics, through the expansion of our collaboration agreement with Toray, the inclusion of EAA™ in a Phase III study with a major international pharmaceutical company, and our prominence at several important scientific conferences,” said Dr. Paul Walker, President and CEO of Spectral Diagnostics. “We believe this strategy will increase awareness and uptake globally of our unique EAA™ product for the diagnosis, treatment and monitoring of patients with endotoxemia.”

### **Highlights**

- Selected by a major international pharmaceutical company to use EAA™ to measure endotoxin levels during the enrolment of patients in a Phase III sub study, part of a multinational clinical trial evaluating the safety and effectiveness of a treatment for severe sepsis
- Expanded collaboration agreement with Toray, gaining access to Toray’s distributors in new geographic territories including China, India, Russia and Canada for the sales and promotion of EAA™ in combination with its Toraymyxin blood purification device and as a stand-alone product
- Data demonstrating the clinical utility of the EAA™ in combination with Toraymyxin was presented at the Practical Aspects of Extracorporeal Blood Purification in Intensive Care Medicine 6th Annual Conference held in Moscow, Russia in May
- Findings showing the clinical effectiveness of EAA™ to identify patients with elevated endotoxin levels and to guide endotoxin reducing strategies presented at a symposium entitled “Blood Purification in the Treatment of Sepsis,” at the International Shock Congress in Cologne, Germany in June
- On June 30, the Company entered into a exclusive distribution agreement in Russia with BB Medical to market and sell EAA™ throughout the Russian Federation

### **Financial Review**

Although EAA™ product sales increased more than 20% from the first quarter and were 90% higher than for the first half of last year, this improvement was not enough to offset a decline of \$319,000 in royalty revenues from licenses of the Company’s Troponin I technology. For the six months ended June 30, 2008, Spectral reported sales of \$1,449,000, compared to sales of \$1,579,000 for the corresponding period in 2007, due entirely to the lower royalties. Certain pre-established royalty plateaus were reached in 2007, resulting in an estimated reduction of

\$600,000 in related revenues for 2008. In future years, this temporary decrease will be offset as revenues from a new license agreement, which was signed in late 2007, are realized.

For the six months ended June 30, 2008, the Company reported a loss of \$867,000 or (\$0.04) per share, compared with a loss of \$586,000 or (\$0.02) per share for the corresponding period in 2007. The higher loss is attributable solely to the reduction in royalties.

Cash and short term investments at June 30, 2008 totalled \$4,398,000. Management expects that the Company will maintain a cash and short term investment balance in excess of \$4 million for the rest of the year.

### **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. 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, 2008 and December 31, 2007

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(in thousands of dollars)

	2008 \$	2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	8	638
Short-term investments	4,390	4,289
Accounts receivable	809	677
Inventories	214	249
Prepaid expenses	118	55
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	5,539	5,908
<b>Property, plant and equipment</b>	436	379
<b>Commercial instruments</b>	149	164
<b>Purchased technology and trademarks</b>	1,294	1,529
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	7,418	7,980
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	195	-
Accounts payable and accrued liabilities	372	379
<b>Deferred revenue</b>	142	150
<b>Convertible note payable</b>	2,090	2,008
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	2,799	2,537
<b>Shareholders' Equity</b>		
<b>Common shares</b>	2,524	2,524
<b>Other equity</b>	5,649	5,606
<b>Deficit</b>	(3,554)	(2,687)
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	4,619	5,443
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	7,418	7,980
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# Spectral Diagnostics Inc.

## Statements of Operations, Comprehensive Loss and Deficit - unaudited For the six months ended June 30, 2008 and 2007

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

	3 Months Ended June 30		6 Months Ended June 30	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Sales</b>	785	738	1,449	1,579
<b>Cost of sales</b>	189	157	389	379
<b>Gross margin</b>	596	581	1,060	1,200
<b>Operating expenses</b>				
Selling, general and administrative	774	763	1,566	1,576
Amortization	164	147	318	286
Foreign exchange loss	7	63	2	54
Stock-based compensation	22	2	43	31
Research and product development, net of tax credits	11	-	25	(125)
	978	975	1,954	1,822
<b>Loss before the following</b>	(382)	(394)	(894)	(622)
<b>Interest expense on convertible notes payable</b>	(41)	(41)	(82)	(83)
<b>Net interest income</b>	4	56	109	119
<b>Loss and comprehensive loss for the period</b>	(419)	(379)	(867)	(586)
<b>Deficit - Beginning of period</b>	(3,135)	(1,228)	(2,687)	(1,021)
<b>Deficit - End of period</b>	(3,554)	(1,607)	(3,554)	(1,607)
<b>Basic and diluted loss per common share</b>	(0.02)	(0.01)	(0.04)	(0.02)
<b>Weighted average number of common shares outstanding</b>	24,118,424	24,118,424	24,118,424	24,116,225

# Spectral Diagnostics Inc.

Statements of Cash Flows – unaudited

For the six months ended June 30, 2008 and 2007

(in thousands of dollars)

	3 Months Ended June 30		6 Months Ended June 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Loss and comprehensive loss for the period	(419)	(379)	(867)	(586)
Items not affecting cash				
Amortization	164	147	318	286
Amortization of commercial instruments included in cost of sales	7	(1)	12	29
Stock-based compensation expense	22	2	43	31
Interest on convertible notes payable	41	41	82	83
Changes in non-cash working capital	-	(76)	(167)	(497)
	<u>(185)</u>	<u>(266)</u>	<u>(579)</u>	<u>(654)</u>
<b>Financing activities</b>				
Bank indebtedness	195	35	195	35
Issuance of common shares	-	-	-	4
	<u>195</u>	<u>35</u>	<u>195</u>	<u>39</u>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(101)	(23)	(115)	(48)
Purchase of commercial instruments	-	(108)	(22)	(119)
Purchase of technology and trademarks	-	-	-	(44)
Decrease (increase) in short-term investments	2	(39)	(101)	(102)
Decrease in deferred revenue	(5)	-	(8)	-
	<u>(104)</u>	<u>(170)</u>	<u>(246)</u>	<u>(313)</u>
<b>Decrease in cash and cash equivalents during the period</b>	<u>(94)</u>	<u>(401)</u>	<u>(630)</u>	<u>(928)</u>
<b>Cash and cash equivalents - Beginning of period</b>	<u>102</u>	<u>418</u>	<u>638</u>	<u>945</u>
<b>Cash and cash equivalents - End of period</b>	<u>8</u>	<u>17</u>	<u>8</u>	<u>17</u>