

## **SPECTRAL ANNOUNCES THIRD QUARTER 2008 RESULTS**

**TORONTO, Canada – November 12, 2008 – Spectral Diagnostics Inc. (TSX: SDI)** today announced its financial results for the third quarter ended September 30, 2008.

“In September, Spectral took a major first step in the implementation of its strategy to align its diagnostic with a therapeutic for the treatment of severe sepsis. We agreed, with Toray Industries Inc., to key terms for 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 and has been used safely and effectively in over 70,000 patients in Japan and Europe since 1994,” said Dr. Paul Walker, President and CEO of Spectral. “Combined with our Endotoxin Activity Assay, EAA™, the only FDA cleared diagnostic for the detection of endotoxin, we believe that this treatment can fulfill a major unmet need for the approximately 100,000 patients with elevated endotoxin levels that develop severe sepsis or septic shock in the U.S. each year.”

Dr. Walker added: “We are in the process of completing our due diligence and we plan to meet with the U.S. FDA early in the first quarter to determine an appropriate clinical development pathway. Following the FDA’s clearance of our clinical pathway, we expect to finalize the exclusive license and material supply agreements with Toray in the first quarter of 2009.”

### **Financial Review**

For the three months ended September 30, 2008, Spectral reported sales of \$701,000 compared to \$739,000 for the corresponding period in 2007. For the nine months ended September 30, 2008, the Company reported sales of \$2,150,000, compared to sales of \$2,318,000 for the same period last year. Sales of the Company’s EAA™ diagnostic increased significantly, but the improvement was offset by lower royalty revenues. Certain pre-established royalty plateaus were reached in 2007, resulting in a reduction of \$466,000 in related revenues for the first nine months of 2008. In future years, this temporary decrease should be offset as revenues from a new license agreement, which was signed in late 2007, start to be realized.

Selling, general and administrative expenses for the three months ended September 30, 2008 were \$729,000, compared to \$799,000 for the corresponding period in 2007. These expenses for the nine months ended September 30, 2008 were \$2,295,000, compared to \$2,375,000 for the same prior year period due to the continued maintenance of a low cost operating structure.

For the three months ended September, 2008, the Company reported a loss of \$332,000 or (\$0.01) per share compared to a loss of \$382,000 or (\$0.02) per share for the corresponding period in 2007. For the nine months ended September, 2008, the loss was \$1,199,000 or (\$0.05) per share, compared with a loss of \$968,000 or (\$0.04) 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 September 30, 2008 totalled \$4,204,000 compared with \$4,927,000 at December 31, 2007. Management expects that the Company will maintain a cash and short term investment balance of approximately \$4,000,000 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 promote 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 September 30, 2008 and December 31, 2007

(in thousands of dollars)

	2008 \$	2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	173	638
Short-term investments	4,031	4,289
Accounts receivable	716	677
Inventories	193	249
Prepaid expenses	72	55
	<hr/> 5,185	<hr/> 5,908
<b>Property, plant and equipment</b>	439	379
<b>Commercial instruments</b>	130	164
<b>Purchased technology and trademarks</b>	1,176	1,529
	<hr/> 6,930	<hr/> 7,980
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	351	379
<b>Deferred revenue</b>	139	150
<b>Convertible note payable</b>	2,131	2,008
	<hr/> 2,621	<hr/> 2,537
<b>Shareholders' Equity</b>		
<b>Common shares</b>	2,524	2,524
<b>Other equity</b>	5,671	5,606
<b>Deficit</b>	(3,886)	(2,687)
	<hr/> 4,309	<hr/> 5,443
	<hr/> 6,930	<hr/> 7,980

# Spectral Diagnostics Inc.

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

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

	3 Months Ended September 30		9 Months Ended September 30	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>Sales</b>	701	739	2,150	2,318
<b>Cost of sales</b>	171	168	560	547
<b>Gross margin</b>	530	571	1,590	1,771
<b>Operating expenses</b>				
Selling, general and administrative	729	799	2,295	2,375
Amortization	160	147	478	433
Foreign exchange (gain) loss	(28)	27	(26)	81
Stock-based compensation	22	-	65	31
Research and product development, net of tax credits	4	-	29	(125)
	887	973	2,841	2,795
<b>Loss before the following</b>	(357)	(402)	(1,251)	(1,024)
<b>Interest expense on convertible notes payable</b>	(41)	(41)	(123)	(124)
<b>Net interest income</b>	66	61	175	180
<b>Loss and comprehensive loss for the period</b>	(332)	(382)	(1,199)	(968)
<b>Deficit - Beginning of period</b>	(3,554)	(1,607)	(2,687)	(1,021)
<b>Deficit - End of period</b>	(3,886)	(1,989)	(3,886)	(1,989)
<b>Basic and diluted loss per common share</b>	(0.01)	(0.02)	(0.05)	(0.04)
<b>Weighted average number of common shares outstanding</b>	24,118,424	24,118,424	24,118,424	24,116,966

# Spectral Diagnostics Inc.

Statements of Cash Flows – unaudited

For the nine months ended September 30, 2008 and 2007

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(in thousands of dollars)

	3 Months Ended September 30		9 Months Ended September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Loss and comprehensive loss for the period	(332)	(382)	(1,199)	(968)
Items not affecting cash				
Amortization	160	147	478	433
Amortization of commercial instruments included in cost of sales	6	6	18	35
Stock-based compensation expense	22	-	65	31
Interest on convertible notes payable	41	41	123	124
Changes in non-cash working capital	139	93	(28)	(404)
	<u>36</u>	<u>(95)</u>	<u>(543)</u>	<u>(749)</u>
<b>Financing activities</b>				
Bank indebtedness	(195)	314	-	349
Issuance of common shares	-	-	-	4
	<u>(195)</u>	<u>314</u>	<u>-</u>	<u>353</u>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(32)	(182)	(147)	(230)
Purchase of commercial instruments	-	-	(22)	(119)
Purchase of technology and trademarks	-	-	-	(44)
Decrease (increase) in short-term investments	359	(54)	258	(156)
Decrease in deferred revenue	(3)	-	(11)	-
	<u>324</u>	<u>(236)</u>	<u>(78)</u>	<u>(549)</u>
<b>Decrease in cash and cash equivalents during the period</b>	<u>165</u>	<u>(17)</u>	<u>(465)</u>	<u>(945)</u>
<b>Cash and cash equivalents - Beginning of period</b>	<u>8</u>	<u>17</u>	<u>638</u>	<u>945</u>
<b>Cash and cash equivalents - End of period</b>	<u>173</u>	<u>-</u>	<u>173</u>	<u>-</u>