# REPLICEL LIFE SCIENCES INC.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(unaudited)

**For the Nine months ended September 30, 2021 and 2020**

(Stated in Canadian Dollars)

## MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Replicel Life Sciences Inc.

Management is responsible for the preparation and presentation of the accompanying condensed interim consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information presented. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee has the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Company's external auditors.

We draw attention to Note 2 in the condensed interim consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

29 November 2021

"Lee Bucker"

Lee Buckler, CEO

"Simon Ma"

Simon Ma, CFO

**REPLICEL LIFE SCIENCES INC.**
**Consolidated Statements of Financial Position**
**(Stated in Canadian Dollars)**
**(Unaudited)**

| As at | Notes | September 30, 2021 | December 31, 2020 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$ 311,971** | $ 34,363 |
| Guaranteed investment certificate | | **17,250** | 17,250 |
| Sales taxes recoverable | | **21,307** | 28,243 |
| Prepaid expenses and deposits | | **71,637** | 70,460 |
| Contract asset | 6 | **35,374** | 35,374 |
| | | **475,539** | 185,690 |
| **Non-current assets** | | | |
| Contract Asset | 6 | **204,318** | 230,847 |
| Equipment | 5 | **3,564** | 4,425 |
| **Total assets** | | **$ 665,421** | $ 420,962 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 12, 13 | **$ 810,417** | 1,320,220 |
| Contract liability | 6 | **353,735** | 353,735 |
| Preference shares | 8 | **591,544** | 517,773 |
| Derivative liability | 3,7 | **81,402** | - |
| Promissory note | 10 | **-** | 47,299 |
| | | **1,837,098** | 2,239,027 |
| **Non-current liabilities** | | | |
| CEBA loan payable | 9 | **32,746** | 28,727 |
| Deferred government grant income | | **8,454** | 11,273 |
| Put liability | 6 | **1,054,460** | 894,617 |
| Contract liability | 6 | **2,043,180** | 2,308,484 |
| Royalty payable | 7 | **2,021,919** | - |
| **Total liabilities** | | **6,997,857** | 5,482,128 |
| **Shareholders' deficiency** | | | |
| Common shares | 11 | **29,847,442** | 28,471,140 |
| Shares subscription | 11 | **240,995** | |
| Contributed surplus | 11 | **4,977,778** | 4,626,021 |
| Accumulated deficit | | **(41,398,651)** | (38,158,327) |
| **Total shareholders' deficiency** | | **(6,332,436)** | (5,061,166) |
| **Total liabilities and shareholders' deficiency** | | **$ 665,421** | $ 420,962 |

| | |
|---|---|
| **Continuance of Operations** | 2(a) |
| **Commitments and Contingencies** | 14 |
| **Event after the Reporting Date** | 18 |

Approved on behalf of the Board:

*/s/ "David Hall"*
Director

*/s/ "Lee Buckler"*
Director

**REPLICEL LIFE SCIENCES INC.**
**Condensed Consolidated Interim Statements of Comprehensive Loss**
**For the nine months ended**
**(Stated in Canadian Dollars)**
**(Unaudited)**

| | For the three months ended | | For the nine months ended | |
|---|---|---|---|---|
| | **Sept 30, 2021** | Sept 30, 2020 | **Sept 30, 2021** | Sept 30, 2020 |
| | **$** | $ | **$** | $ |
| **Revenue** | | | | |
| Licensing fees (Note 6) | **88,434** | 88,434 | **265,302** | 265,301 |
| **Expenses** | | | | |
| Research and development (Note 12) | **259,061** | 337,577 | **917,782** | 639,379 |
| General and administrative (Note 12) | **375,198** | 271,831 | **1,178,809** | 710,744 |
| **Loss before other items** | **(545,825)** | (520,974) | **(1,831,289)** | (1,084,822) |
| Other items: | | | | |
| Accretion on preference shares | **(27,260)** | (27,122) | **(121,508)** | (81,365) |
| Accretion on put liability | **(56,226)** | (45,159) | **(159,843)** | (128,382) |
| Accretion on royalty payable | **(232,790)** | - | **(388,850)** | - |
| Foreign exchange gain (loss) | **(81,381)** | (4,739) | **(68,121)** | (31,367) |
| Gain on debt settlement (Note 11 b) ii)) | **-** | - | **31,137** | - |
| Government grant income | **-** | - | **4,032** | - |
| Gain (Loss) on re-measurement of derivative liability (Note 7) | **107,400** | - | **(705,951)** | - |
| Interest income | **-** | - | **69** | 358 |
| **Net and comprehensive loss** | **(836,082)** | $ (597,994) | **(3,240,324)** | $ (1,325,848) |
| **Loss per Basic and diluted share** | **(0.03)** | $ (0.02) | **(0.10)** | $ (0.05) |
| **Weighted average shares outstanding** | **32,076,391** | 31,54,236 | **33,479,325** | 29,399,092 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**REPLICEL LIFE SCIENCES INC.**
**Condensed Consolidated Interim Statements of Cash Flows**
**For the nine months ended**
**(Stated in Canadian Dollars)**
**(Unaudited)**

| | | Sept 30, 2021 | | Sept 30, 2020 (Restated) |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net loss for the period | **$** | **(3,240,324)** | $ | (1,325,848) |
| Add items not involving cash: | | | | |
| Accretion of accrued dividends | | **74,210** | | 81,365 |
| Accretion on royalty payable | | **388,850** | | - |
| Amortization of contract asset | | **26,529** | | 26,530 |
| Accretion of put liability (Note 6) | | **159,843** | | - |
| Revenue from contract liability (Note 6) | | **(265,302)** | | (265,301) |
| Depreciation (Note 5) | | **861** | | 1,381 |
| Loss on re-measurement of derivative liability | | **705,951** | | - |
| Gain on debt settlement (Note 11 (b) ii)) | | **(31,137)** | | - |
| Stock-based compensation (Note 11 (e)) | | **351,757** | | 3,397 |
| Changes in non-cash working capital balances: | | | | |
| Sales taxes recoverable | | **6,936** | | (6,711) |
| Prepaid expenses and deposits | | **(1,177)** | | 104,667 |
| Accounts payable and accrued liabilities | | **(167,305)** | | 261,361 |
| **Net cash used in operating activities** | | **(1,990,308)** | | (990,777) |
| **Investing activities** | | | | |
| Redemption of guaranteed investment certificate | | **-** | | 11,500 |
| **Net cash provided by investing activities** | | **-** | | 11,500 |
| **Financing activities** | | | | |
| Increase in CEBA loan (Note 9) | | **1,201** | | 40,000 |
| Issuance of preference shares (Note 8) | | **-** | | - |
| Increase in royalty payable (Note 7) | | **1,633,069** | | - |
| Gross proceeds on issuance of shares for settlement of debt (Note 11(b) ii) | | **311,364** | | 256,769 |
| Gross proceeds on Issuance of common shares (Note 11 (b)) | | **1,017,201** | | 656,640 |
| Increase in share subscriptions Noe (11 (b) ii) | | **240,995** | | 49,837 |
| Decrease in derivative liability (Note 7) | | **(624,549)** | | - |
| **Net cash provided by financing activities** | | **2,267,916** | | 1,003,246 |
| **Increase in cash and cash equivalents during the period** | | **277,608** | | 23,969 |
| **Cash and cash equivalents, beginning of the period** | | **34,636** | | 23,929 |
| **Cash and cash equivalents, end of the period** | **$** | **311,971** | $ | 48,121 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**REPLICEL LIFE SCIENCES INC.**
**Consolidated Statements of Changes in Equity (Deficiency)**
**For the nine months ended September 30, 2021 and 2020**
**(Stated in Canadian Dollars)**
**(Unaudited)**

| | Common Stock Shares | Amount | Contributed Surplus | Share Subscriptions | Accumulated Deficit | **Total** |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2021** | **29,951,419** | **$ 28,471,140** | **$ 4,626,021** | **$ -** | **$ (38,158,327)** | **$ (5,061,166)** |
| Common shares issued – Mainpointe (Note 7) | 2,506,802 | 1,015,401 | - | - | - | **1,015,401** |
| Common shares issued – warrant exercised (Note 11 b) v)) | 5,000 | 1,800 | - | - | - | **1,800** |
| Common shares issued – shares for debt (Note 11 b) ii) | 889,612 | 311,364 | - | - | - | **311,364** |
| Common shares issued – dividends on preference shares (Note 11 b) iii)) | 126,492 | 47,737 | - | - | - | **47,737** |
| Share subscriptions (Note 11 b) i)) | - | - | - | 240,995 | - | **240,995** |
| Stock-based compensation (Note 11 e)) | - | - | 351,757 | - | - | **255,831** |
| Net loss for the period | - | - | - | - | (3,240,324) | **(2,404,242)** |
| **Balance, September 30, 2021** | **33,479,325** | **$ 29,847,442** | **$ 4,977,778** | **$ 240,995** | **$ (41,398,651)** | **$ (6,332,436)** |

| | Common Stock Shares | Amount | Common Shares - Subscribed | Contributed Surplus | Accumulated Deficit | **Total** |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2020** | **28,287,751** | **$ 27,529,531** | **$ -** | **4,622,624** | **$ (36,578,042)** | **$ (4,429,887)** |
| | | 913,609 | - | - | - | **913,609** |
| Stock-based compensation – Note 11 (e) | - | - | | 3,397 | - | **3,397** |
| Shares subscriptions | - | - | 49,837 | | | **49,837** |
| Net loss for the period | - | - | | - | (1,325,848) | **(1,325,848)** |
| **Balance, September 30, 2020** | **28,287,751** | **$ 28,443,140** | **$ 49,837** | **4,626,021** | **$ (37,903,890)** | **$ (3,228,982)** |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

## 1. Corporate Information

RepliCel Life Sciences Inc. (the "Company" or "RepliCel") was incorporated under the Ontario *Business Corporations Act* on April 24, 1967 but was continued from Ontario to British Columbia on June 22, 2011. Its common shares are listed for trading in Canada on the TSX Venture Exchange, trading under the symbol RP, and in the United States on the OTCQB, trading under the symbol REPCF.

RepliCel is a regenerative medicine company focused on developing autologous cell therapies that treat functional cellular deficits including chronic tendon injuries, androgenetic alopecia and skin aging.

The address of the Company's corporate office and principal place of business is Suite 900 – 570 Granville Street, Vancouver, BC, V6C 3P1.

## 2. Basis of Presentation

These condensed consolidated interim financial statements for the nine-month period ended September 30, 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Company's 2020 annual financial statements which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Subsidiaries are entities controlled by RepliCel. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. The accompanying consolidated financial statements include the account of RepliCel Life Sciences Inc. and its wholly-owned subsidiary, Trichoscience Innovations Inc. ("Trichoscience").

The condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2020 annual financial statements, except as disclosed in Note 4. The condensed interim financial statements are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise indicated.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 29, 2021.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

**2. Basis of Presentation** - *continued*

**a) Continuance of Operations**

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its obligations and commitments in the normal course of operations. At September 30, 2021, the Company is in the research stage, has accumulated losses of $41,398,651 since its inception and expects to incur further losses in the development of its business. The Company incurred a consolidated net loss of $3,240,324 during the nine-month period ended September 30, 2021. The Company will require additional funding to continue its research and development activities which may not be available, or available on acceptable terms. This will result in material uncertainties which casts substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has a plan in place to address this concern and intends to obtain additional funds by equity financing to the extent there is a shortfall from operations. While the Company is continuing its best efforts to achieve the above plans, there is no assurance that any such activity will generate funds for operations.

If the going concern assumptions were not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported net loss and the financial position classifications used.

**3. Critical Accounting Estimates and Judgements**

RepliCel Life Sciences Inc. makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the amounts reported in these financial statements are discussed below:

***Share Based Payments***

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating the fair value for share-based payment transactions are disclosed in Note 11(e).

**3. Critical Accounting Estimates and Judgements** - *continued*

**Revenue Recognition**

The Company applies the five-step model to contracts when it is probable that the Company will collect the consideration that it is entitled to in exchange for the goods and services transferred to the customer. For collaborative arrangements that fall within the scope of IFRS 15, the Company applies the revenue recognition model to part or all of the arrangement, when deemed appropriate. At contract inception, the Company assesses the goods or services promised within each contract that falls under the scope of IFRS 15, to identify distinct performance obligations. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when or as the performance obligation is satisfied. Significant judgment is involved in determining whether the transaction price allocated to the license fee should be recognized over the collaboration period or at the inception of the contract and the time period over which revenue is to be recognized.

To determine the price of Licensing and Collaboration Agreement (See Note 6 – Licensing and Collaboration Agreement – YOFOTO (China) Health Industry Co. Ltd.), the Company has to make a judgment and estimates in assessing the value assigned to the put options and of the warrants as attached to the placement (see Note 6)

**Preference Shares**

Replicel Life Sciences Inc. makes estimates on the issuance of preference shares which are compound instruments that consist of both an equity and a liability component. Management is required to make estimates to determine the fair value of the components of the preference share issuance at the date that it is issued. The Company also needs to make estimates on the effective interest on preference shares to calculate amounts payable on redemption and inclusive of dividends.

**Put Liability**

Replicel made estimates on the issuance of the put liability disclosed in Note 6. The put liability is a financial liability recorded initially at the present value of the potential exercise price of the put. Management is required to make an estimate to determine the effective interest rate to appropriately discount the potential exercise price over the term of the put liability to its fair value at issuance.

**Investment and U.S. Partnership – Mainpointe Pharmaceuticals, LLC**

The strategic agreements were accounted for as a compound financial instrument. The obligation to pay royalties of $16 million USD is classified as a financial liability and measured initially at fair value and subsequently at amortized cost. Management estimated the present value of future cash flows over the expected term using the effective interest rate. The timing and size of future cash flows are significant judgments that influence measurement of this financial liability subsequent to its initial recognition. The effective interest rate is reassessed at each reporting period end date based on the changes to the future estimated cash flows and their timing. The Company incurred no transaction costs to enter into these agreements.

The arrangement with MainPointe was accounted for as a hybrid instrument with two components: royalty payable, which is a financial liability accounted for initially at fair value and subsequently at amortized cost, and an obligation to issue common shares to MainPointe at an agreed price at a future date, which is a derivative liability accounted for FVTPL.

**3. Critical Accounting Estimates and Judgements** – *continued*

**Investment and U.S. Partnership – Mainpointe Pharmaceuticals, LLC** – *continued*

The fair value of the derivative liability related to the Company's obligation to issues its common shares at a future date at an agreed price is estimated as the difference between the market price of the Company's common shares on the measurement date and their market price on the inception date of the Mainpointe agreement (January 22, 2021) multiplied by the number of common shares issuable per the contractual terms. The derivative liability is remeasured until the settlement date, (when agreed proceeds for the Company's common shares have been received) with a gain or loss on remeasurement recognized on the Statement of profit or loss.

The royalty payable is recognized upon receipt of the proceeds from the issuance of commons shares and is measured as proceeds received less any derivative liability recorded based on the difference between the Company's common shares on the measurement date and the Mainpointe agreement inception date as outlined above. The royalty payable is then accreted using the effective interest rate over future reporting periods. The effective interest rate is reassessed at each reporting period end date based on changes to future cash flows and their timing.

MainPointe paid $2,200,491 out of the $2,700,000 contractually obligated as at September 30, 2021. See Note 7 for a description of the Mainpointe agreement.

**Income Taxes**

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company will recognize deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

**(Stated in Canadian Dollars)**

## 4. Accounting Standards, Amendments and Interpretations

### New Standards, Amendments and Interpretations Effective for the first time

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not mandatory until accounting periods beginning on or after September 30, 2021. They have not been early adopted in these consolidated financial statements, and are expected to affect the Company in the period of initial application. The Company intends to apply these standards from application date as indicated below:

IAS 1 – Classification of liabilities as current or non-current

IAS 1 has been revised to i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least 12 months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability; ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instrument. The amendments are effective for the reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

The Company is currently evaluating the impact this standard is expected to have on its future consolidated financial statements.

There are no other IFRS or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

## 5. Equipment

| | Furniture and Equipment | Computer Equipment | Total |
|---|---|---|---|
| **Cost:** | | | |
| At December 31, 2020 | $ 14,249 | $ 41,751 | **$ 56,000** |
| Additions | - | - | **-** |
| Disposals | - | - | **-** |
| At September 30, 2021 | 14,249 | 41,751 | **56,000** |
| **Depreciation:** | | | |
| At December 31, 2020 | 12,447 | 39,128 | **51,575** |
| Depreciation | 270 | 591 | **861** |
| At September 30, 2021 | 12,717 | 39,719 | **52,436** |
| **Net book value at September 30, 2021** | $ 1,532 | $ 2,032 | **$ 3,564** |

## 6. Licensing and Collaboration Agreement – YOFOTO (China) Health Industry Co. Ltd.

On July 10, 2018, the Company signed a definitive Licensing and Collaborative Agreement with YOFOTO (China) Health Industry Co. Ltd. ("YOFOTO") to commercialize three of RepliCel's programs in Greater China subject to certain Canadian and Chinese approvals (the "Transaction").

The Transaction represents an investment in RepliCel by YOFOTO with milestone payments, minimum program funding commitments, and sales royalties in exchange for an exclusive 15-year license to three of RepliCel products for Greater China (Mainland China, Hong Kong, Macau and Taiwan) (the "Territory").

As part of the transaction, YOFOTO invested CDN $5,090,005 in a private placement of RepliCel common shares at CDN $0.95 per share that included 20% warrant coverage with each warrant exercisable at CDN $0.95 per share for a period of two years. The warrants expired unexercised in 2020.

The transaction structure also included milestone payments (of up to CDN $4,750,000), sales royalties, and a commitment by YOFOTO to spend a minimum of CDN $7,000,000 on the RepliCel programs and associated cell processing manufacturing facility over the initial four years in Greater China pursuant to a License and Collaboration Agreement ("the Agreement"). The License and Collaboration Agreement contains a provision permitting YOFOTO to put up to 2/3 of the shares issued in YOFOTO's initial investment back to the Company under certain conditions until January, 2027.

As part of the Transaction, the Company granted YOFOTO certain financing participation rights along with a board seat nomination. Upon YOFOTO meeting certain defined conditions, relevant Chinese patents, once issued in China, will be assigned to a YOFOTO-owned Canadian subsidiary, with detailed assignment reversion rights upon failure to meet defined targets. At the date of these financial statements, no such Chinese patents have been assigned to YOFOTO.

On October 9, 2018, the $5,090,005 private placement was closed and the Company issued YOFOTO 5,357,900 RepliCel common shares which represented 19.9% of RepliCel's then-issued common shares. In association with the YOFOTO deal, the Company agreed to pay a success fee of ten percent (10%) of any upfront fees received by the Company and consequently, a fee of $509,001 was paid in this respect. In addition, the Company will be paying a success fee of five percent (5%) of any milestone fees and royalty fees received by the Company as a result of this License Agreement.

*Contract Asset*

The finders/success fee paid in connection with the YOFOTO Licensing and Collaboration Agreement of $509,001 was incurred to secure the YOFOTO License and Collaboration Agreement as well as to close the related private placement. Consequently, the $509,001 finders/success fee was accounted for as a contract asset, a share issuance cost and a cost incurred in connection with the put obligation.
The $509,001 fee was allocated between contract costs, share issuance costs, as an offset to the fair value of the related warrants and as an offset to the fair value of the put liability. The finders/success fee was allocated based on the relative fair values of these four items. The contract asset is being amortized over the same period of time that the Company recognizes the upfront license revenue.

*Contract liability*

The proceeds of $5,090,005 from the placement was allocated based on the fair values of

- the common shares that were not subject to the put - $715,280 ($794,755 less costs of $79,476);
- the 1,071,580 warrants issued - $161,684 ($179,649 less costs of $17,965); and
- the put liability - $520,426 ($578,251 less costs of $57,825).

The remaining $3,537,350 was allocated to Contract Liability to be recognized as License Fee revenue over a period of 10 years from the commencement date of the Agreement.

**6. Licensing and Collaboration Agreement – YOFOTO (China) Health Industry Co. Ltd.** - *continued*

*Put liability*

Under the Agreement, YOFOTO has the right to put back all of the common shares acquired in the event that it is unable to complete human clinical trials for the licensed technologies for reasons that are outside of YOFOTO's control on or before 8.5 years from the date of the Agreement. Although the put option can be exercised independently for each of the three licensed technologies at a rate of 1/3 per licensed technology (RCT-01, RCS-01 and RCI-02), the terms of the Agreement provide that only 2/3s of the shares can be put back to RepliCel under conditions that RepliCel does not control. As this represents an obligation to transfer cash under circumstances that are not within RepliCel's own control, the put option in connection with 2/3s of the shares issued under the Agreement is recognized as a liability.

The Company recorded a put liability based on management's estimate of its fair value. The fair value of this put liability was estimated at $520,426 and was determined by calculating the present value of $3,393,337 repayable in 8.5 years discounted at 23%. $3,393,337 is the 2/3s of the private placement proceeds that are subject to the put liability. After its initial recording at $520,426, the put liability will be recorded at amortized cost.

**7. Investment and U.S. Partnership – Mainpointe Pharmaceuticals, LLC**

On January 22, 2021, RepliCel signed three strategic agreements with MainPointe consisting of a Share Purchase Agreement, a Distribution Agreement, and a Royalty Agreement. The strategic investment of $2,700,000 under the Share Purchase Agreement from MainPointe will be spread over an 8-month period. Under the limited term distribution partnership for RepliCel's dermal injector and consumables (the "RepliCel Injector Product Line") in the United States, MainPointe has agreed to pay all costs related to securing FDA approvals to launch the RepliCel Injector Product Line in the U.S. market. The Royalty Participation Agreement provides MainPointe the right to be paid a portion of RepliCel's future royalty revenue stream earned from the sale of RCS-01, RCT-01, and RCH-01 products and any derivatives. A shareholder director of RepliCel is the Chief Technology Officer of MainPointe.

Primary Deal Terms

In consideration for an investment of $2,700,000 and the payment of all costs related to obtaining FDA approval for the Company's dermal injector and consumables, RepliCel has agreed to issue MainPointe up to an aggregate of four (4) million common shares, a right to participate in RepliCel's royalty revenue stream up to a maximum payout of 16 million US dollars, and certain distribution rights of RepliCel Injector Product Line in the United States. The investment will be made as to:

- $500,000 within five (5) days of receipt of conditional approval from the TSX Venture Exchange (received in the three months ended March 31, 2021),
- $1,200,000 by February 15, 2021 (received $482,127 in the three months ended March 31, 2021 and $717,873 on April 23, 2021),
- $700,000 by April 21, 2021 (received $500,528 on August 20, 2021, $199,172 received on November 29, 2021), and
- $300,000 by August 21, 2021 ($299,221 received on November 29, 2021).

The common shares will be priced at the greater of $0.675 or the Discounted Market Price as such term is defined in the Policies of the TSX Venture Exchange.

**(Stated in Canadian Dollars)**

**7. Investment and U.S. Partnership – Mainpointe Pharmaceuticals, LLC** - *continued*

During the nine-month period ended September 30, 2021, the Company received the aggregate consideration of $1,699,963 in three tranches. The Company issued 2,506,802 common shares based on the following fair market values on the tranche dates:

| Measurement date | # of shares Issued | | Fair Market Value | $ |
|---|---|---|---|---|
| February 8, 2021 | 729,024 | $ | 0.500 | 364,512 |
| March 23, 2021 | 725,925 | $ | 0.375 | 272,222 |
| April 23, 2021 | 1,051,853 | $ | 0.360 | 378,667 |
| | **2,506,802** | | | **1,015,401** |

Mainpointe is entitled to a royalty under the agreement equal to:

a) 5% of the amounts earned by and paid to the Company from the sale of any of its "NBDS Products" defined as its RCS-01 (NBDS Fibroblast Therapy – Treatment for Aging Skin), RCT-01 (NBDS Fibroblast Therapy – Treatment for Chronic Tendinosis) and any other product which is comprised of the non-bulbar dermal sheath cells patented by the Company, and
b) 20% of the amounts earned by and paid to the Company from the sale of any of its "DSC Products" defined as its RCH-01 (DSC Therapy for Treatment Androgenic Alopecia) and any other product which is comprised of the dermal sheath cup cells patented by the Company.

In consideration for paying all expenses required to obtain regulatory approval for the RepliCel Injector Product Line, the exclusive distribution rights shall commence upon receipt of regulatory approval to launch the RepliCel Injector Product Line in the U.S. market for a period expiring on the earlier of:

a) four (4) years, or
b) when MainPointe has earned USD $2,000,000 in gross income from the sale of the products in the RepliCel Injector Product Line.

The Company will have the right, in its discretion, to buy out this exclusivity right for an amount equal to the net-present value of profit to be earned on USD $2,000,000 in gross income, plus a further amount in gross income that is equal to the regulatory approval costs

The strategic agreements were accounted for as a compound financial instrument. The obligation to pay royalties of $16 million USD is classified as a financial liability and measured at amortized cost. Management estimated the present value of future cash flows over the expected term using the effective interest rate. The timing and amount of future cash flows are significant judgments that influence measurement of a financial liability on initial recognition. The effective interest rate should be reassessed at each reporting period end date based on the changes to the future cash flows and their timing. Management has recorded accretion expense of $388,850 in the nine-month period ended September 30, 2021 based on an effective interest rate of 57%. The Company incurred no transaction costs to enter into these agreements.

**7. Investment and U.S. Partnership – Mainpointe Pharmaceuticals, LLC** - *continued*

The arrangement with MainPointe was accounted for as a hybrid instrument with two components: royalty payable, which is a financial liability accounted for initially at fair value and subsequently at amortized cost, and an obligation to issue common shares to MainPointe at an agreed price at a future date, which is a derivative liability accounted for at FVTPL.

The fair value of the derivative liability related to the Company's obligation to issue its common shares at a future date at an agreed price is estimated as the difference between the market price of the Company's common shares on the measurement date and their market price on the inception date of the Mainpointe agreement (January 22, 2021) multiplied by the number of common shares issuable per the contractual terms. The derivative liability is re-measured until the settlement date, (when agreed proceeds for the Company's common shares have been received) with a gain or loss on re-measurement recognized on the Statement of profit or loss.

The royalty payable is recognized when proceeds are received from MainPointe and is measured as a residual after subtracting the fair value of derivative liability related to the Company's obligation to issue its common shares at a future date at an agreed price from the proceeds.

**8. Preference shares**

On September 12, 2019, the Company announced that it had completed the first tranche of a private placement pursuant to which it issued 1,089,125 Class A Preference shares at a price of $0.40 per share for aggregate gross proceeds of $435,650.

The finalized Offering terms are as follows and carry certain rights and restrictions, which include:

- a fixed dividend rate which shall accrue on a daily basis (based on a 360 day year consisting of 12 30-day months) at a rate of seven (7%) per annum;
- the right of the Class A Shareholder to convert the paid up amount of each Class A Share, from time-to-time, into shares of the Company (each, a "Share") at any time prior to the date that is five (5) years from the date of issuance of the Class A Shares at a conversion price that is equal to the greater of: (i) $0.33; and (ii) the Market Price (as defined in the policies of the TSX Venture Exchange ("TSXV")) at the date of such conversion;
- voting rights only on matters pertaining to Class A Shares until they are converted to common shares at which time all voting rights attach; and
- a first priority over all Shares or shares of any other class of the Company as to dividends and upon liquidation.

Subject to the earlier conversion by Class A shareholders and compliance with applicable laws, the Company may, in its discretion at any time, prior to the date that is five (5) years from the date of issuance of the Class A Shares (the "Required Redemption Date") redeem all of the Class A Shares at a price (the "Redemption Price") of:

(i) $0.468 per Class A Share for the period from the date of issuance (the "Issue Date") to the date that is the first anniversary of the Issue Date;
(ii) $0.536 for the period from the date that is the day after the first anniversary of the Issue Date to the date that is the second anniversary of the Issue Date;
(iii) $0.604 for the period from the date that is the day after the second anniversary of the Issue Date to the date that is the third anniversary of the Issue Date;
(iv) $0.672 for the period from the date that is the day after the third anniversary of the Issue Date to the date that is the fourth anniversary of the Issue Date; and
(v) $0.740 for the period from the date that is the day after the fourth anniversary of the Issue Date and the date that is the fifth anniversary of the Issue Date.

## 8. Preference shares

On the Required Redemption Date, the Company must redeem all remaining outstanding Class A Shares at the Redemption Price, subject to compliance with applicable laws.

The financial instrument is being measured at amortized cost. Given the Company has an obligation to redeem the preference shares in 5 years at $0.74/share, the effective interest was accreted for the redemption amount and accrued cumulative dividends that was settled after March 31, 2021. On April 19, 2021, the TSX Venture Exchange approved the settlement of $47,437 in accrued dividends via issuance of 126,492 common shares at the price of $0.375 on May 17, 2021. Of the $47,437 accrued dividends, $14,156 were owed to certain directors of the Company (see Note 18).

The Company paid $19,652 cash finder's fees to one finder.

## 9. Government grant

Due to the global outbreak of the Novel Coronavirus ("COVID-19"), the federal government of Canada introduced the Canada Emergency Business Account ("CEBA"). CEBA provides an interest-free loan ("CEBA") of $60,000 to eligible businesses. The CEBA loan has an initial term that expires on December 31, 2022 throughout which the CEBA Loan remains interest free. Repayment of $40,000 by December 31, 2022 results in a $20,000 loan forgiveness. If the balance is not paid prior to December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly effective January 1, 2023. The full balance must be repaid by no later than December 31, 2025.

Pursuant to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the benefit of a government loan at below market rate is treated as a government grant and measured in accordance with IFRS 9, Financial Instruments. The benefit of below market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of the CEBA loan at $26,663 using a discount rate of 18% which was the estimated rate for a similar loan without the interest – free component. The difference of $13,378 will be accreted to the loan liability over the term of the CEBA Loan and offset to other income on the statement of loss and comprehensive loss.

During the period ended September 30, 2021, total interest expense recognized for the CEBA loan amounted to $4,019 (September 30, 2020 - $Nil).

## 10. Promissory note

On November 12, 2020, the Company borrowed a sum of $47,299 CAD ($37,149 USD) from an individual. The loan bears interest at a rate of 8% per annum and is payable on demand. On June 2, 2021, this amount was settled by the issuance of common shares (see share capital (Note 11)– shares for debt transaction).

This individual is an employee at MainPointe Pharmaceuticals LLC.

## 11. Share Capital

### a) Authorized:

Unlimited common shares without par value

Unlimited preferred shares without par value

### b) Issued and Outstanding:

During the nine-month period ended September 30, 2021, share activities were as below:

i) On August 30, 2020, the Company has received $500,528 from Mainpointe towards the Investment and U.S. Partnership (see Note 7). The common shares to be issued is 741,522 which had a value of $240,995 on this date.

ii) Shares for debt

The Company announced on March 25, 2021 a debt settlement in the amount of $342,500 owed by the Company to certain creditors ("Creditors") by the issuance of 889,612 common shares (each, a "Share") of the Company at a price of $0.385 per Share. The Settlement Agreements were signed on September 11, 2021; however, the debt was not settled until June 2, 2021 after the transaction was approved by the TSX Venture Exchange on May 27, 2021. The securities are subject to a statutory hold period of four months and one day. The Company reported a gain on this debt settlement in the amount of $31,137.

iii) On May 17, 2021, Replicel issued 126,492 common shares in settlement of $47,737 on accrued dividends on issued preference shares (Note 8).

iv) Common shares issued for dividend on preferred shares (Note 8).

v) On February 17, 2021, 5,000 shares were issued for cash of $1,800 pursuant to exercise of warrants.

vi) On January 22, 2021, RepliCel signed three strategic agreements with MainPointe consisting of a Share Purchase Agreement, a Distribution Agreement, and a Royalty Agreement. The strategic investment of $2,700,000 under the Share Purchase Agreement from MainPointe will be spread over an 8-month period (Note 7).

During the nine-month period ended September 30 2020, there share activities were as follows:

i) *Private Placement*

On July 15, 2020, the Company closed a private placement offering (the "Offering"), pursuant to which it sold an aggregate of 3,649,110 units (each, a "Unit"), at a price of $0.18 per Unit, for gross proceeds of $656,839.80.

**11. Share Capital** – *continued*

**b) Issued and Outstanding:** - *continued*

Each Unit consists of one common share of the Company (each, a "Share") and one-half of one share purchase share purchase warrant (each whole warrant, a "Warrant"). One Warrant entitles the holder thereof to purchase one additional Share of the Company at a price of $0.36 per Share for a period of three years from closing of the Offering, subject to an acceleration provision such that in the event that the Shares have a closing price on the TSX Venture Exchange (the "Exchange") of greater than $0.45 per Share for a period of 10 consecutive trading days at any time after four months and one day from the closing of the Offering, RepliCel may accelerate the expiry date of the Warrants by giving notice to the holders thereof and, in such case, the Warrants will expire on the 30th day after the date on which such notice is given to the holder.

The Company did not pay any finder's fees in connection with the Offering.

*ii) Shares for debt*

In August 2020, the company issued 1,426,491 common shares (ach, a "Share") in settlement of $256,768.94 owing to various creditors (the "Debt Settlement") after receipt of approval from the TSX Venture Exchange (the "Exchange"). The Shares were issued on August 18, 2020. The Shares are subject to a statutory hold period of four months and one day after closing of the Debt Settlement.

Of the $256,769 debt settlement disclosed in note 18, $204,769 was owed to directors or officers of the Company and were settled during the nine-months period ended September 30, 2020.

**c) Stock Option Plans:**

On May 21, 2014, the Company approved a Stock Option Plan whereby the Company may grant stock options to directors, officers, employees and consultants. The maximum number of shares reserved for issue under the plan cannot exceed 10% of the outstanding common shares of the Company as at the date of the grant. The stock options can be exercisable for a maximum of 10 years from the grant date and with various vesting terms.

**(Stated in Canadian Dollars)**

**11. Share Capital** – *continued*

**d) Fair value of Company Options Issued from January 1, 2020 to September 30, 2021**

On June 15, 2021, the Company granted 1,715,000 stock options to certain directors, officers, consultants and employees of the Company respectively for the purchase of up to 1,715,000 common shares of the Company pursuant to the Company's Stock Option Plan. Each option granted to the Optionees is exercisable for a period of 5 years at an exercise price of $0.40 per common Share. 625,000 shall invest immediately and 1,090,000 shall vest in equal amounts each calendar quarter of the next 24 months.

The weighted-average grant date fair value of options granted was estimated using the following weighted average assumptions:

| | **2021** | 2020 |
|---|---|---|
| Risk fee rate | **2.54%** | - |
| Expected life (years) | **5** | - |
| Volatility | **113%** | - |
| Expected Dividend | **$-** | - |
| Expected forfeiture rate | **0%** | - |
| Exercise price | **$0.40** | - |
| Grant date fair value | **$0.36** | - |

There were no stock options granted during the nine-month periods ended September 30, 2020.

**d) Fair value of Company Options Issued from January 1, 2020 to September 30, 2021** – *continued*

Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the expected forfeiture rate and the risk free interest rate for the term of the option.

Options Issued to Non-Employees

Options issued to non-employees, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

**(Stated in Canadian Dollars)**

**11. Share Capital** – *continued*

**e) Stock-based Compensation**

The Company recognized a fair value of $351,157 (2020: $3,797), as stock based compensation expense for stock options granted in 2018 under the Company Stock Option Plan and the Founders Stock Option Agreements for the nine month ended September 30, 2021 and 2020.

A summary of the status of the stock options outstanding under the Company Stock Option Plan for the nine-month period ended September 30, 2021 and the year ended December 31, 2020 are as follows:

| | Number of Options | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding, December 31, 2020 | 1,730,000 | $ | 0.51 |
| Granted | 1,715,000 | $ | 0.40 |
| Expired | (5,000) | $ | 0.85 |
| **Outstanding and Exercisable, Sept 30, 2021 and December 31, 2020** | **3,440,000** | **$** | **0.45** |

| | Number of Options | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding, January 1, 2020 | 1,830,000 | $ | 0.51 |
| Cancelled | (100,000) | $ | 0.52 |
| **Outstanding and Exercisable, December 31, 2020** | **1,730,000** | **$** | **0.51** |

As at September 30, 2021, the range of exercise prices for options outstanding under the Company Stock Option Plan is $0.40 - $0.60 and the weighted average remaining contractual life for stock options under the Company Stock Option Plan is 2.97 years.

**(Stated in Canadian Dollars)**

**11. Share Capital** – *continued*

**f) Warrants**

The number of warrants outstanding at September 30, 2021, each exercisable into one common share, is as follows:

| | Warrants Outstanding | Weighted Average Exercise Price | Expiry Date |
|---|---|---|---|
| July 15, 2020 | 1,819,555 | $0.36 | July 15, 2023 |
| **Outstanding, September 30, 2021** | **1,819,555** | **$ 0.36** | |

| | Warrants Outstanding | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding, December 31, 2018 | 3,793,184 | $ | 1.70 |
| Expired | - | | - |
| **Outstanding, December 31, 2019** | **3,793,184** | $ | **1.70** |
| Expired | (3,793,184) | | 1.70 |
| Issued | 1,824,555 | | 0.36 |
| **Outstanding, December 31, 2020** | **1,824,555** | $ | **0.36** |
| Exercised | (5,000) | | |
| **Outstanding, September 30, 2021** | **1,819,555** | | **$0.36** |

The weighted-average grant date fair value of warrants issued was estimated using the following weighted average assumptions:

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Risk fee rate | - | - |
| Expected life (years) | - | - |
| Volatility | - | - |
| Expected Dividend | - | - |
| Expected forfeiture rate | - | - |
| Exercise price | - | - |
| Grant date fair value | - | - |

**(Stated in Canadian Dollars)**

## 12. Related Party Transactions

### Related party balances

The following amounts due to related parties are included in accounts payable and accrued liabilities:

| | **30-Sept-2021** | 31-Sept-2020 |
|---|---|---|
| Companies controlled by directors of the Company (a) | **$ 38,875** | $ 85,434 |
| Directors or officers of the Company | **57,333** | 97,119 |
| | **$ 96,208** | $ 182,553 |

(a) These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

The Company incurred the following transactions with companies that are controlled by directors and/or officers of the Company. The transactions were measured at the amount agreed to by the parties.

| | **Three months ended** | | **Nine months ended** | |
|---|---|---|---|---|
| | **30-Sept-21** | **30-Sept-20** | **30-Sept-21** | 30-Sept-20 |
| Research and development | $ **16,282** | $ 18,943 | $ **40,904** | $ 71,184 |
| General and administration | **-** | - | **-** | - |
| | $ **16,282** | $ 18,943 | $ **40,904** | $ 71,184 |

### Key management compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive directors, the Chief Executive Officer and the Chief Financial Officer.

| | **Three months ended** | | **Nine months ended** | |
|---|---|---|---|---|
| | **30-Sept-21** | **30-Sept-20** | **30-Sept-21** | 30-Sept-20 |
| General and administrative - salaries | **$ 84,000** | $ 84,000 | **$ 252,000** | $ 252,000 |
| Directors' fees | **21,750** | 13,750 | **57,333** | 45,000 |
| Stock-based compensation | **96,148** | - | **327,407** | 3,396 |
| | **$ 201,898** | $ 97,750 | **$ 636,740** | $ 300,396 |

### Preference shares

During the year-ended December 31, 2020, three directors of the Company purchased 325,000 preference shares for $130,000 (Note 8) in total. Accrued dividends to these three directors was $4,550 as at September 30, 2021 ($nil – September 30, 2020).

## 13. Financial Instruments and Risk Management

As at September 30, 2021, the Company's financial instruments are comprised of cash and cash equivalent, accounts payable and accrued liabilities CEBA loan payable, preference shares, promissory note, put liability, derivative liability and royalty payable. The fair values of cash and cash equivalents, accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity.

Fair values

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs in the valuation techniques as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Derivative liability

The fair value of the derivative liability at each reporting period is estimated using Level 2 inputs of the fair value hierarchy. Fair value of derivative liability was determined by multiplication of the following:

A - a number of common shares issuable to MainPointe in accordance with contractual terms using the expected issue price of $0.675 for the Company's common share, and
B – a difference in market price of common share of the Company between the inception date of strategic agreements with MainPointe and the reporting date.

The expected issue price of the Company's common share is a significant estimate. The Company estimates that a 5% change in the issue price of the Company common share, holding other assumptions constant, would have changed the fair value of derivative liability by approximately $78,000 as at September 30, 2021.

The Company is exposed through its operations to the following financial risks:

- Currency risk;
- Credit risk;
- Liquidity risk; and
- Interest rate risk.

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

**13. Financial Instruments and Risk Management** – *continued*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has an exposure to the Euros and US Dollars as certain expenditures and commitments are denominated in Euros and USD Dollars and the Company is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency. In addition, the Company holds an amount of cash in US dollars and is therefore exposed to exchange rate fluctuations on these cash balances. The Company does not hedge its foreign exchange risk. At September 30, 2021, the Company held US dollar cash balances of $770 (US$599) (September $4,815 (US$3,539).A 1% increase/decrease in the US dollars foreign exchange rate would have an impact of ±$7 (US$6) on the cash balance held September 30, 2021.

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalent. The Company limits exposure to credit risk by maintaining its cash and cash equivalent with large financial institutions. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure, more specifically, the issuance of new common shares, to ensure there is sufficient capital in order to meet short term business requirements, after taking into account the Company's holdings of cash and potential equity financing opportunities. The Company believes that these sources will be sufficient to cover the known short and long-term requirements at this time. There is no assurance that potential equity financing opportunities will be available to meet these obligations.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities as at September 30, 2021

| Years of Expiry | Financial Instruments | | Amounts |
|---|---|---|---|
| Within 1 year | Accounts payable and accrued liabilities | $ | 810,416 |
| Within 1 year | Derivative liability | $ | 81,402 |
| Within 2 to 5 years | CEBA loan payable | $ | 41,201 |
| Within 2 to 5 years | Preference shares | $ | 958,430 |
| Greater than 5 years | Put liability | $ | 3,393,337 |
| Total | | $ | 5,284,786 |

Contained within accounts payable and accrued liabilities is $156,634 of accrued liabilities at September 30, 2021 (2020: $395,704).

There were no changes to the Company's fair value measurement levels during the period ended September 30, 2021 (2020: no change). The Company does not have any level 3 fair value measurements (2020: none).

## 14. Commitments and Contingencies

The Company has entered into a Collaboration and Technology Transfer Agreement with Shiseido Company Limited who have alleged RepliCel breached obligations in the agreement, which may allegedly be terminal to future obligations pursuant to the agreement. The Company has vigorously denied the existence of such a breach and insists on the ongoing validity of the respective obligations on both parties pursuant to the agreement. No litigation or the triggering of other dispute mechanisms has been entered into by either party and the Company's management is actively seeking to continue discussions and/or negotiations. Management maintains the position that any data produced from clinical trials of the technology will, by agreement, be made available to the Company.

From time to time the Company is subject to claims and lawsuits arising from the in the ordinary course of operations. In the opinion of management, the ultimate resolution of such pending legal proceedings will not have a material adverse effect on the Company's financial position.

## 15. Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue business opportunities. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the Company's objectives. In order to continue advancing its technology and to pay for general administrative costs, the Company will use its existing working capital and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers shareholders' equity, preference shares and working capital as components of its capital base. The Company can access or increase capital through the issuance of shares, and by sustaining cash reserves by reducing its capital and operational expenditure program. Management primarily funds the Company's expenditures by issuing share capital, rather than using capital sources that require fixed repayments of principal and/or interest. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products, with the exception of pooling and escrow shares which are subject to restrictions. The Company believes it will be able to raise additional equity capital as required, but recognizes the uncertainty attached thereto.

The Company's investment policy is to hold cash in interest bearing bank accounts, which pay comparable interest rates to highly liquid short-term interest bearing investments with maturities of one year or less and which can be liquidated at any time without penalties. There has been no change in the Company's approach to capital management during the six-months period ended September 30, 2021.

## 16. Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flow. There were no non-cash transactions during the nine-months periods ended September 30, 2021 and 2020.

## 17. Segmental Reporting

The Company is organized into one business unit based on its cell replication technology and has one reportable operating segment.

## 18. Event after the Reporting Date

Shares issued – Mainpointe Pharmaceutical LLC.

On November 29, 2021, the Company received $499,172 from Mainpointe Pharmaceutical LLP. (See Note 7).