# REPLICEL LIFE SCIENCES INC.

**INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2018, 2017 and 2016**

**(Stated in Canadian Dollars)**

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# Report of Independent Registered Public Accounting Firm

**To the shareholders of RepliCel Life Sciences Inc.**

## Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of RepliCel Life Sciences Inc. and subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the consolidated statements of comprehensive loss, changes in shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2018, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

## Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 2(a) to the statements, the Group has incurred a loss of $2.8 million during the year ended December 31, 2018. As stated in Note 2(a), these events or conditions, along with other matters as set forth in Note 2(a), indicate that a material uncertainty exists that may cast substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## Basis for Opinion

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standard of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimated made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/BDO CANADA LLP

Chartered Professional Accountants

We have served as the Group's auditor since 2006.

Vancouver, British Columbia
April 30, 2019

**(Stated in Canadian Dollars)**

| As at | Notes | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$ 2,418,521** | $ 497,093 |
| Sales taxes recoverable | | **49,504** | 48,542 |
| Prepaid expenses and deposits | | **510,741** | 289,226 |
| Contract asset | 8 | **25,261** | - |
| | | **3,004,027** | 834,861 |
| **Non-current assets** | | | |
| Contract Asset | 8 | **215,237** | - |
| Equipment | 7 | **8,167** | 11,165 |
| **Total assets** | | **$ 3,227,431** | $ 846,026 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 10, 12 | **$ 1,277,642** | $ 1,166,023 |
| Contract liability | 8 | **252,609** | - |
| | | **1,530,251** | 1,166,023 |
| **Non-current liabilities** | | | |
| **Contract liability** | 8 | **2,152,363** | - |
| **Total liabilities** | | **3,682,614** | 1,166,023 |
| **Shareholders' (deficiency) equity** | | | |
| Common shares | 9 | **28,745,992** | 26,182,073 |
| Contributed surplus | 9 | **4,357,922** | 4,287,947 |
| Accumulated deficit | | **(33,559,097)** | (30,790,017) |
| **Total shareholders' (deficiency) equity** | | **(455,183)** | (319,997) |
| **Total liabilities and shareholders' (deficiency) equity** | | **$ 3,227,431** | $ 846,026 |

**Events after the reporting date** 17
**Commitments and Contingencies** 13
**Continuance of Operations** 2(a)

Approved on behalf of the Board:

*/s/ "David Hall"*
Director

*/s/ "Lee Buckler"*
Director

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

**REPLICEL LIFE SCIENCES INC.**
**Consolidated Statements of Comprehensive Loss**
**(Stated in Canadian Dollars)**

| For the year ended | December 31, 2018 | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| | $ | $ | $ |
| **Revenue** | | | |
| Licensing fees (Note 8) | **121,114** | - | - |
| **Expenses** | | | |
| Research and development (Note 9) | **709,260** | 2,541,722 | 1,115,063 |
| General and administrative (Note 6, 7 and 9) | **2,151,154** | 3,450,193 | 3,172,565 |
| **Loss before other items** | **(2,739,300)** | (5,991,915) | (4,287,628) |
| Other items: | | | |
| Foreign exchange (loss) gain | **(29,817)** | (29,190) | 16,334 |
| Interest income | **37** | 6,775 | - |
| **Net and comprehensive loss** | $ **(2,769,080)** | $ (6,014,330) | $ (4,271,294) |
| **Basic and diluted loss per share** | $ **(0.12)** | $ (0.32) | $ (0.54) |
| **Weighted average shares outstanding** | **22,661,001** | 18,680,021 | 7,952,312 |

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

**REPLICEL LIFE SCIENCES INC.**
**Consolidated Statements of Cash Flows**
**For the year-ended December 31, 2018**
**(Stated in Canadian Dollars)**

| | **December 31, 2018** | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss | $ **(2,769,080)** | $ (6,014,330) | $ (4,271,294) |
| Add items not involving cash: | | | |
| Amortization of contract asset | **12,111** | - | - |
| Depreciation | **2,998** | 4,155 | 5,780 |
| Stock-based compensation | **326,367** | 115,800 | 826,307 |
| Changes in non-cash working capital balances: | | | |
| Sales taxes recoverable | **(962)** | 17,518 | (40,244) |
| Prepaid expenses and deposits | **(221,515)** | (53,171) | (42,842) |
| Contract asset (Note 8) | **(252,609)** | - | - |
| Accounts payable and accrued liabilities | **111,619** | 544,286 | (21,893) |
| Contract liability (Note 8) | **2,404,972** | - | - |
| **Net cash used in operating activities** | **(386,099)** | (5,385,742) | (3,544,186) |
| **Investing activities** | | | |
| Redemption (purchase) of guaranteed investment certificate | **-** | 1,450,000 | (1,450,000) |
| **Net cash provided by (used for) investing activities** | **-** | 1,450,000 | (1,450,000) |
| **Financing activities** | | | |
| Gross proceeds on issuance of common shares (Note 8 & 9) | **2,563,919** | 4,320,497 | 4,848,524 |
| Proceeds on issuance of shares on exercise of warrants | **-** | 371,551 | 244,997 |
| Finder’s fee (Note 8) | **(256,392)** | (319,965) | (214,374) |
| **Net cash provided by financing activities** | **2,307,527** | 4,372,083 | 4,879,147 |
| **Increase (decrease) in cash and cash equivalents during the year** | **1,921,428** | 436,341 | (115,039) |
| **Cash and cash equivalents, beginning of the year** | **497,093** | 60,752 | 175,791 |
| **Cash and cash equivalents, end of the year** | $ **2,418,521** | $ 497,093 | $ 60,752 |

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

**REPLICEL LIFE SCIENCES INC.**
**Consolidated Statements of Changes in Equity (Deficiency)**
**For the year-ended December 31, 2018**
**(Stated in Canadian Dollars)**

| | Common Stock Shares | | Amount | | Contributed Surplus | | Accumulated Deficit | | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2018 | 21,442,629 | $ | 26,182,073 | $ | 4,287,947 | $ | (30,790,017) | **$** | **(319,997)** |
| Net loss for the year | - | | - | | - | | (2,769,080) | | **(2,769,080)** |
| Common shares issued – Note 9 (b) i | 5,357,900 | | 2,563,919 | | - | | - | | **2,563,919** |
| Share issuance costs – Note 9 (b) i | | | | | (256,392) | | - | | **(256,392)** |
| Stock-based compensation – Note 9 (e) | - | | - | | 326,367 | | - | | **326,367** |
| Balance, December 31, 2018 | 26,800,529 | $ | 28,745,992 | $ | 4,357,922 | $ | (33,559,097) | **$** | **(455,183)** |

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

**REPLICEL LIFE SCIENCES INC.**
**Consolidated Statements of Changes in Equity (Deficiency)**
**For the year-ended December 31, 2018**
**(Stated in Canadian Dollars)**

| | Common Stock Shares | Amount | Contributed Surplus | Accumulated Deficit | **Total** |
|---|---|---|---|---|---|
| Balance, January 1, 2017 | 15,657,530 | $21,910,238 | $4,071,899 | ($24,775,687) | **$1,206,450** |
| Shares issued upon exercise of warrants for cash at $0.85 – Note 9 (g) | 437,118 | 371,551 | - | - | **371,551** |
| Share issued – Note 9 (b) i | 5,347,981 | 4,320,497 | - | - | **4,320,497** |
| Finders fees – Note 9 (b) i | - | (420,213) | 100,248 | - | **(319,965)** |
| Stock-based compensation – Note 9 (e) | - | - | 115,800 | - | **115,800** |
| Net loss for the year | - | - | - | (6,014,330) | **(6,014,330)** |
| Balance, December 31, 2017 | 21,442,629 | $26,182,073 | $4,287,947 | ($30,790,017) | **($319,997)** |

| | Common Stock Shares | Amount | Contributed Surplus | Accumulated Deficit | **Total** |
|---|---|---|---|---|---|
| Balance, January 1, 2016 | 6,348,038 | $16,498,743 | $3,403,869 | ($20,504,393) | **($601,781)** |
| Shares released from escrow– Note 6 | (60,000) | 341,000 | (341,000) | - | **-** |
| Shares issued upon exercise of warrants for cash at $2.20 | 111,362 | 244,997 | - | - | **244,997** |
| Shares issued – Note 9 (b) | 326,763 | 584,525 | - | - | **584,525** |
| Stock-based compensation – Note 9 (e) | - | - | 826,307 | - | **826,307** |
| Shares issued – Note 9 (b) | 8,199,999 | 4,263,999 | - | - | **4,263,999** |
| Finders fees – Note 9 (b) | - | (390,857) | 176,483 | - | **(214,374)** |
| Shares issued as finder fees – Note 9 (b) | 12,000 | (6,240) | 6,240 | - | **-** |
| Shares issued for debt settlement – Note 9 (b) | 719,368 | 374,071 | - | - | **374,071** |
| Net loss for the year | - | - | - | (4,271,294) | **(4,271,294)** |
| Balance, December 31, 2016 | 15,657,530 | $21,910,238 | $4,071,899 | ($24,775,687) | **$1,206,450** |

The accompanying notes form an integral part of these consolidated 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. The Company is a reporting issuer in British Columbia, Alberta and Ontario. 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 consolidated financial statements for the year-ended December 31, 2018 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 consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise indicated.

The consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2019.

The preparation of consolidated 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.

### a) Continuance of Operations

These consolidated 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 December 31, 2018, the Company is in the research stage, has accumulated losses of $33,559,097 since its inception and expects to incur further losses in the development of its business. The Company incurred a consolidated net loss of $2,769,080 during the year ended December 31, 2018. 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.

## 2. Basis of Presentation - *continued*

### a) Continuance of Operations - *continued*

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 judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to 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 9(d).

**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 judgement 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.

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

**Revenue Recognition** - *continued*

To determine the price of Licensing and Collaboration Agreement (See Note 8 – Licensing and Collaboration Agreement – YOFOTO (China) Health Industry Co. Ltd.), the Company has to make a judgement and estimates in assessing the value assigned to the put options and of the warrants as attached to the placement (see Note 8 and 9 (b)i).

***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.

## 4. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

### a) Cash and cash equivalents

Cash and cash equivalents include cash on hand with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

### b) Guaranteed investment certificates

Cash deposits with original maturities greater than three months, and are not redeemable before maturity, are recorded in guaranteed investment certificates.

**4. Summary of Significant Accounting Policies** - *continued*

**c) Equipment**

***Recognition and Measurement***

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

***Gains and Losses***

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

***Depreciation***

Depreciation and amortization rates applicable to each category of equipment on a declining basis are as follows:

| | |
|---|---|
| Furniture and equipment | 20% |
| Computer equipment | 30% |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**d) Impairment of Non-Financial Assets**

Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amounts, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is assessed.

An impairment loss is charged to the profit or loss, except to the extent it reverses gains previously recognized in other comprehensive loss/income.

**4. Summary of Significant Accounting Policies** - *continued*

**e) Revenue**

IFRS 15 Revenue with customers replaces IAS 18 Revenue and IAS 11 Construction contracts, and contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. In accordance with IFRS 15, the Company recognizes revenue when the Company's customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expect to receives in exchange for those goods or services.

The Company only 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. 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. 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.

In 2018, the Company entered into a license and collaboration agreement that falls within the scope of IFRS 15. Promised deliverables within this agreement may include grants of licenses, or options to obtain licenses, to our intellectual property, and participation on joint research and/or development committees. The terms of these agreements typically include one or more of the following types of payments to the Company:

*Licenses of intellectual property including platform technology access:* If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from non-refundable, upfront fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are not distinct from other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, upfront fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the related revenue recognition accordingly.

*Milestone payments:* At the inception of each arrangement that includes research, development or regulatory milestone payments, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of such

**4. Summary of Significant Accounting Policies** - *continued*

**e) Revenue** - *continued*

development milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect license, collaboration and other revenues and earnings in the period of adjustment. The process of successfully achieving the criteria for the milestone payments is highly uncertain. Consequently, there is a significant risk that the Company may not earn all of the milestone payments from each of its strategic partners.

Research and development milestones in the Company's collaboration agreements may include some, but not necessarily all, of the following types of events:

- initiation of Phase 2 clinical trials; and
- achievement of certain other technical, scientific or development criteria.

Regulatory milestone payments may include the following types of events:

- filing of regulatory applications for marketing approval in the Licensed Territories; and
- marketing approval in major markets in the Licensed Territories.

*Royalties and commercial milestones:* For arrangements that include sales-based royalties, including commercial milestone payments based on pre-specified level of sales, the Company recognizes revenue at the later of: i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). Achievement of these royalties and commercial milestones may solely depend upon performance of the licensee. Since inception to date, the Company has not recognized any royalty revenue or commercial milestone from any of its out-licensing arrangements.

If the expectation at contract inception is such that the period between payment by the licensee and the completion of related performance obligations will be one year or less, the Company assumes that the contract does not have a significant financing component.

**f) Basic and Diluted Loss per Share**

Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

The number of shares potentially issuable at December 31, 2018 that were not included in the computation of loss per share totaled 5,873,183 (2017: 14,148,898 ; 2016: 12,310,910 ) consisting of 2,080,000 (2017: 1,400,000 ; 2016: 1,417,000) outstanding stock options; 3,793,183 (2017: 12,748,898 ; 2016: 10,848,439) warrants; and nil (2017: nil ; 2016: 45,471) agents' options (Note 9(i)).

**4. Summary of Significant Accounting Policies** - *continued*

**g) Income Taxes**

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

**h) Scientific research and development credit**

Scientific research and development credits are received on expenditure and are generally deducted in arriving at the carrying amount of the asset purchased. Grants relating to expenditure are recorded in other income when received.

**4. Summary of Significant Accounting Policies** - *continued*

**i) Foreign Currency Translation**

The financial statements are presented in Canadian dollars, which is also the functional currency.

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a re-valued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

**j) Share-based Payments**

The Company has adopted a stock option plan as described in (Note 9(c)). In addition, certain of the Company's founders have entered into option agreements with consultants and employees of the Company.

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions).

***Equity-settled transactions***

The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized as stock based compensation expense (Note 9(e)).

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally. No expense is recognized for awards that do not ultimately vest.

**4. Summary of Significant Accounting Policies** - *continued*

**j) Share-based Payments** - *continued*

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

***Cash-settled transactions***

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized as employee benefits expense.

**k) Leased assets**

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

**l) Financial Instruments**

On January 1, 2018, the Company, adopted on a modified retrospective basis, for the first time, IFRS 9 - Financial Instruments. The nature and effect of these changes are disclosed below.

IFRS 9 - Financial Instruments replaces IAS 39 - Financial Instruments Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities.

**4. Summary of Significant Accounting Policies** – *continued*

**l) Financial Instruments** – *continued*

[i] Financial Assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets the Company has classified and measured its financial assets as described below:

• Cash and cash equivalents are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as Loans and Receivables.

• Short-term investments are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as Loans and Receivables.

• Trade and other receivables are classified as financial assets at amortized cost. Previously under IAS 39, Trade and other receivables were classified as Loans and Receivables measured at amortized cost.

The adoption of IFRS 9 did not result in a material change in the carrying values of any of the Company's financial assets on the transition date.

[ii] Financial Liabilities

Financial liabilities are recognized initially at fair value and in the case of financial liabilities not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Therefore, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities. Trade and other payables are classified as financial liabilities to be subsequently measured at amortized cost. Put options (see Note 8) are classified as financial liabilities that are measured at their fair value through profit or loss.

**m) Share Capital**

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share options and warrants not denominated in a foreign currency are classified as equity instruments. Incremental costs directly attributable to the issue of new shares, warrants, or options are shown in equity as a deduction, net of tax, from the proceeds.

The Company's common shares are classified as equity instruments.

## 5. Accounting Standards, Amendments and Interpretations

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

IFRS 9 – Financial Instruments

IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous version of IFRS 9. IFRS is effective for annual periods beginning on or after January 1, 2018. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. This standard simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost and fair value.

The adoption of IFRS 9 has not had an effect on the Company's accounting policies related to financial liabilities on the transition date. In accordance with IFRS 9, all financial liabilities are categorized as amortized cost and all financial liabilities of the Company were previously recorded at amortized cost under IAS 39. Put options (see Note 8) are classified as financial liabilities that are measured at their fair value through profit or loss.

IFRS 15 – Revenue from Contractors with Customers

This standard replaces IAS 18 Revenue and IAS 11 Construction contracts, and contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The adoption of IFRS 15 has not had an effect on the Company's accounting policies related to revenue recognition on the transition date since the Company has not previously earned revenue from customers.

**Standards, Amendments and Interpretations Not Yet Effective**

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not mandatory until accounting periods beginning on or after January 1, 2019. 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:

IFRS 16 Leases

The new standard will replace IAS 17 Leases and eliminates the classification of leases as either operating or finance leases by the lessee. The treatment of leases by the lessee will require capitalization of all leases resulting accounting treatment similar to finance leases under IAS 17 Leases. Exemptions for leases of very low value or short-term leases will be applicable. The new standard will result in an increase in lease assets and liabilities for the lessee. Under the new standard the treatment of all lease expense is aligned in the statement of earnings with depreciation, and an interest component recognized for each lease, in line with finance lease accounting under IAS 17 Leases. IFRS 16 will be applied prospectively for annual periods beginning on January 1, 2019. The Company is currently evaluating the impact this standard is expected to have on its consolidated financial statements.

## 5. Accounting Standards, Amendments and Interpretations – *continued*

**Standards, Amendments and Interpretations Not Yet Effective – continued**

IFRIC 23 Uncertainly Over Income Tax Treatments

The new standard, to be effective for annual report periods beginning on or after January 1, 2019, clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments, addressing four specific issues:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity should make about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit or loss, taxes bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Company is currently evaluating the impact this standard is expected to have on its 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.

## 6. Reverse Takeover Transaction and 583885 B.C. Ltd.

On December 22, 2010, RepliCel closed a Share Exchange Agreement with TrichoScience Innovations Inc. ("TrichoScience") whereby RepliCel acquired the issued and outstanding shares of TrichoScience. Concurrent with the reverse acquisition, RepliCel also acquired all of the issued and outstanding common shares of 583885 B.C. Ltd. ("583885") in exchange for 440,000 common shares of RepliCel. 583885 did not have any assets or liabilities at the date of acquisition and was a private company controlled by RepliCel's incoming Chief Executive Officer ("CEO"). 340,000 shares of RepliCel controlled by the Company's CEO were deposited with an escrow agent pursuant to the terms of an escrow agreement between RepliCel and the escrow agent. These shares are released upon satisfaction of certain performance conditions as set out in the escrow agreement and each release of shares from escrow will be considered a compensatory award. The compensatory award is recorded as an expense at the fair value of the consideration given based on the price of RepliCel's common shares on the acquisition date. This amount was determined to be US$5.00 per share, based on the price of the shares being offered in the private placement that closed concurrent with the share exchange to arm's length parties at a price of US$5.00.

During the year ended December 31, 2018, nil (2017 – nil; 2016 – 170,000) common shares held in escrow were released and nil (2017 – nil; 2016 - 60,000) common shares were cancelled and returned to the Company in connection with the resignation of the Company's previous CEO. Stock based compensation of $nil (representing the fair value of the shares that were released when the escrow agreement was modified) was recognized for these shares during the year-ended December 31, 2018 (year-ended December 31, 2017: $nil; year-ended December 31, 2016: $341,000). The fair value of the shares on modification was $3.10. The other 100,000 common shares issued were not subject to escrow provisions and thus were fully vested, non-forfeitable at the date of issuance.

**(Stated in Canadian Dollars)**

## 7. Equipment

| | Furniture and Equipment | Computer Equipment | Total |
|---|---|---|---|
| **Cost:** | | | |
| At December 31, 2017 | $ 14,249 | $ 41,751 | **$ 56,000** |
| Additions | - | - | **-** |
| Disposals | - | - | **-** |
| At December 31, 2018 | 14,249 | 41,751 | **56,000** |
| **Depreciation:** | | | |
| At December 31, 2017 | 10,729 | 34,106 | **44,835** |
| Depreciation | 704 | 2,294 | **2,998** |
| At December 31, 2018 | 11,433 | 36,400 | **47,833** |
| **Net book value at December 31, 2018** | $ 2,816 | $ 5,351 | **$ 8,167** |

| | Furniture and Equipment | Computer Equipment | Total |
|---|---|---|---|
| **Cost:** | | | |
| At December 31, 2016 | $ 14,249 | $ 41,751 | **$ 56,000** |
| Additions | - | - | **-** |
| Disposals | - | - | **-** |
| At December 31, 2017 | 14,249 | 41,751 | **56,000** |
| **Depreciation:** | | | |
| At December 31, 2016 | 9,849 | 30,831 | **40,680** |
| Depreciation | 880 | 3,275 | **4,155** |
| At December 31, 2017 | 10,729 | 34,106 | **44,835** |
| **Net book value at December 31, 2017** | $ 3,520 | $ 7,645 | **$ 11,165** |

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

On July 10, 2018, the Company signed the 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 the certain Canadian and Chinese approvals of the transaction (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 deal, YOFOTO agreed to invest CDN $5,090,005 in a private placement of RepliCel common shares at CDN $0.95 per share to include 20% warrant coverage with each warrant exercisable at CDN $0.95 per share for a period of two years. The warrants are restricted from being exercised without shareholder approval if the exercise of the warrants would increase YOFOTO's ownership of RepliCel's issued and outstanding shares over 19.9%.

The deal structure also includes 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 next five years in Greater China pursuant to a License and Collaboration Agreement. The License and Collaboration Agreement contains a provision permitting YOFOTO to put up to 1/3 of the shares issued in YOFOTO’s initial investment back to the Company under certain conditions for a period of 8.5 years from July 10, 2018.

As part of the Transaction, the Company agreed to grant 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.

On October 9, 2018, the Transaction was approved by the TSX Venture Exchange and applicable regulatory authorities including but not limited to the reviews and approvals by the State Administration of Foreign Exchange of China and other Chinese foreign investment regulatory authorities. On October 9, 2018, the private placement in the sum of $5,090,005 was closed completing the Transaction with YOFOTO's purchase of 5,357,900 RepliCel common shares which represents 19.9% of RepliCel's issued shares. In association with the YOFOTO deal, the Company has paid a success fee of ten percent (10%) of any upfront fees received by the Company. A fee of $509,001 has been 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.

The proceeds of $5,090,005 from the placement was allocated to common shares and warrants issued based on their fair value at the date of issuance which is at $2,563,919. The remaining $2,526,086 was will be allocated License Fees revenue to be recognized over a period of 10 years from the commencement date of the Agreement. No value was allocated to the put option.

Contract Liability

The Company amortizes and recognizes the revenue earned under the Agreement over a period of 10 years which according to the Agreement represents the time the License will have to complete the technology transfer and to obtain regulatory approval from local authorities.

Contract Asset

The finders/success fees 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 has been accounted for as a contract asset and as a share issuance cost.

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

Contract Asset - continued

The $509,001 fee has been allocated between contract costs, share issuance costs and as an offset to the fair value of the related warrants. The finders/success fee was allocated based on the relative fair values of these three items. The contract asset will be amortized over the same period of time that the Company recognizes the upfront license revenue.

**9. Share Capital**

**a) Authorized:**

Unlimited common shares without par value

Unlimited preferred shares without par value

**b) Issued and Outstanding:**

During the year-ended December 31, 2018:

i) On July 10, 2018, the Company signed the definitive agreement with YOFOTO to commercialize three of RepliCel's programs in Greater China subject to the certain Canadian and Chinese approvals of the transaction (the "Transaction").

The transaction between these parties represents an investment in RepliCel by YOFOTO along with milestone payments, minimum program funding commitments, and sales royalties in exchange for an exclusive 15-year post-commercialization license to three of RepliCel products for Greater China (Mainland China, Hong Kong, Macau and Taiwan) (the "Territory"). As per Agreement, YOFOTO has up to 10 years to advance to pre-commercialization for 2 of the 3 products and for the third one, within 12 months of regulatory and commercial approvals.

As part of the deal, YOFOTO agreed to invest CDN $5,090,005 (see note 8 – allocation of investment) in a private placement of RepliCel common shares at CDN $0.95 per share to include 20% warrant coverage with each warrant exercisable at CDN $0.95 per share for a period of two years. The warrants are restricted from being exercised without shareholder approval if the exercise of the warrants would increase YOFOTO's ownership of RepliCel's issued and outstanding *shares over 19.9*%. In association with the private placement, the Company has paid a finder's fees of $252,392.

The deal structure also includes 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 next five years in Greater China pursuant to a License and Collaboration Agreement. The License and Collaboration Agreement contains a provision permitting YOFOTO to put up to 1/3 of the shares issued in YOFOTO's initial investment back to the Company under certain conditions for a period of 8.5 years from July 10, 2018.

As part of the Transaction, the Company agreed to grant 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.

See Note 8 for the details of the Licensing and Collaboration Agreement between RepliCel and YOFOTO.

**9. Share Capital** - *continued*

**b) Issued and Outstanding:**

During the year-ended December 31, 2017:

i) On February 24, 2017, the Company completed a private placement of 2,532,100 units for gross proceeds of $3,165,264. Each unit consists of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one additional share for a period of three years from the closing of the financing at a price of $2.00 per share.

Echelon Wealth Partners Inc. ("Echelon"), Haywood Securities Inc. and Clarus Securities Inc. (collectively, the "Agents") acted as agents with respect to the Brokered Financing. Echelon received a commission of $218,130 and the Agents received agents' warrants to purchase an aggregate of 174,504 Shares of the Company at a price of $2.00 per share for a period of three years from closing of the Financings. Echelon also received a corporate finance fee of $44,800 and 15,000 agent's warrants in connection with the Non-Brokered Financing.

The fair value of the agent's warrants was $100,248. The fair value of the agent's warrants has been estimated using the Black Scholes option pricing model. The assumptions used to determine the fair value were as follows: (1) dividend yield – 0% (2) expected volatility – 96.81% (3) risk free rate – 1.11% (4) expected life – 36 months. The agents were paid a finders fees in the sum of $28,669.

ii) On October 19, 2017, the Company completed a non-brokered private placement of 2,815,881 shares of $0.41 per share for gross proceeds of $1,154,511. It has paid additional finder's fees of $28,366. There were no warrants attached to the financing.

During the year-ended December 31, 2016:

i) On October 14, 2016, the Company entered into a debt settlement agreement "Debt Settlement" whereby the aggregate amount of $374,071 owed by the Company to certain creditors was settled by the issuance of 719,368 units (each, a "Unit"). Each Unit consisted of one common share of the Company (each, a "Share") and one common share purchase warrant (each, a "Warrant"), with each Warrant entitling the holder to purchase one additional Share for a period of two years at a price of $1.10 per Share.

The Warrants are subject to an acceleration provision such that in the event that the Shares have a closing price on the TSX Venture Exchange (the "TSXV") of greater than $2.00 per Share for a period of 10 consecutive trading days at any time after four months and one day from the closing of the Debt Settlement, the Company 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 received the approval of the Debt Settlement from the TSXV and issued the Shares and the Warrants on December 28, 2016.

ii) The Company closed a non-brokered private placement on October 28, 2016 of 8,199,999 units (each, a "Unit") at a price of $0.52 per Unit for proceeds of $4,263,999 (the "Offering"). Each Unit consists of one common share of the Company (each, a "Share") and one share purchase warrant (each, a "Warrant"), with each Warrant entitling the holder to purchase one additional Share for a period of two years from the closing of the Offering at a price of $0.52 per Share. In connection with the Offering, the Company paid $176,483 in finders' fees, issued 339,391 finder's warrants and 12,000 common shares.

**9. Share Capital** - *continued*

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

During the year-ended December 31, 2016: - *continued*

The Warrants are subject to an acceleration provision such that in the event that the Shares have a closing price on the TSX Venture Exchange of greater than $2.00 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, the Company 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 fair value of the agent's warrants have been estimated using the Black Scholes option pricing model. The assumptions used to determine the fair value were as follows: (1) dividend yield – 0%; (2) expected volatility – 102%; (3) a risk-free interest rate of 0.70%; (4) an expected life of 24 months. The value assigned to the agent's warrants was $176,483.

iii) On July 22, 2016, the Company's board of directors authorized a plan to proceed with a consolidation of its outstanding common shares on the basis of ten (10) pre-consolidation Shares for one (1) post-consolidation Share. This plan was approved on August 10, 2016. The financial statements have been adjusted retrospectively to reflect this share consolidation.

iv) On April 4, 2016, the Company closed a non-brokered private placement of 188,763 shares at a price of $2.00 per share for gross proceeds of $377,525. There were no warrants attached to the financing.

v) On June 1, 2016, the Company closed a non-brokered private placement of 138,000 common shares at a price of $1.50 per share for gross proceeds of $207,000. There were no warrants attached to the financing.

**c) Stock Option Plans:**

(i) 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.

(ii) Under various Founders' Stock Option Agreements, certain founders of TrichoScience granted stock options to acquire TrichoScience shares to employees and consultants of TrichoScience. These founders' options are exercisable at $1 per share expiring after six to seven years. Pursuant to the Share Exchange Agreement, the Founders Stock Option Agreements were converted into rights to receive the number of Founders' RepliCel shares acquired by conversion of the founders TrichoScience shares under the Share Exchange Agreement. All other terms remained the same. This modification of stock options resulted in no incremental value and therefore no additional stock based compensation expense was recognized for the modification.

**(Stated in Canadian Dollars)**

**9. Share Capital** - *continued*

**d) Fair value of Company Options Issued from January 1, 2015 to December 31, 2018**

On July 31 and August 1, 2018, the Company granted 1,060,000 and 50,000 stock options to certain directors, officers, consultants and employees of the Company respectively for the purchase of up to an aggregate of 1,110,000 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 exercisable price of $0.43 per Share. 910,000 shall vest immediately and 200,000 options shall vest in equal amounts each calendar quarter over the next 24 months.

During the year ended December 31, 2017, the Company granted an aggregate of 75,000 (2016: 1,025,000; 2015: 15,000) stock options to certain directors pursuant to the Stock Option Plan. Each option is exercisable for a period of 5 years at a price of $1.64 per common share. During the year ended December 31, 2017, nil options (2016: nil; 2015: 20,000) were cancelled. The range of exercise price is $0.36 to $1.64, expected life of five to seven years, and vesting over one year to five years from the date of grant.

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Risk fee rate | **2.19%** | 1.11% | 0.99% |
| Expected life (years) | **5** | 5 | 5 |
| Volatility | **104%** | 154% | 68% |
| Expected Dividend | **$-** | $- | $- |
| Expected forfeiture rate | **0%** | 0% | 0% |
| Exercise price | **$0.43** | $1.64 | $0.60 |
| Grant date fair value | **$0.33** | $1.54 | $0.70 |

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)**

**9. Share Capital** - *continued*

**e) Stock-based Compensation**

The Company recognized a fair value of $326,367 (2017: $115,800; 2016: $826,307), as stock based compensation expense for stock options granted under the Company Stock Option Plan and the Founders Stock Option Agreements for the year ended December 31, 2018 and 2017.

A summary of the status of the stock options outstanding under the Company Stock Option Plan for the years ended December 31, 2018, 2017 and 2016 are as follows:

| | Number of Options | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding, January 1, 2018 | 1,400,000 | $ | 2.04 |
| Granted | 1,110,000 | | 0.43 |
| Cancelled | (430,000) | | 0.69 |
| **Outstanding, December 31, 2018** | **2,080,000** | $ | **0.79** |
| **Exercisable, December 31, 2018** | **1,905,000** | $ | **0.82** |
| | | | |
| Outstanding, January 1, 2017 | 1,417,000 | $ | 2.89 |
| Granted | 75,000 | | 1.64 |
| Expired | (77,000) | | 0.65 |
| Cancelled | (15,000) | | 0.99 |
| **Outstanding, December 31 2017** | **1,400,000** | $ | **2.04** |
| **Exercisable, December 31, 2017** | **1,400,000** | $ | **2.04** |
| | | | |
| Outstanding, January 1, 2016 | 484,000 | $ | 7.10 |
| Granted | 1,025,000 | | 0.60 |
| Cancelled | (92,000) | | 5.51 |
| **Outstanding, December 31, 2016** | **1,417,000** | $ | **2.89** |
| **Exercisable, December 31, 2016** | **1,412,000** | $ | **1.43** |

As at December 31, 2018, the range of exercise prices for options outstanding under the Company Stock Option Plan is $0.36 - $1.64 (2017 $0.36 – $1.64; and 2016: $0.60 - $1.35) and the weighted average remaining contractual life for stock options under the Company Stock Option Plan is 4.56 years (2017: 3.48 years; 2016: 3.14 years).

**(Stated in Canadian Dollars)**

**9. Share Capital** - *continued*

**f) Escrow Shares**

Pursuant to the acquisition described in Note 6.

i) Nil (December 31, 2017: Nil; December 31, 2016: Nil) common shares are held in escrow and are to be released upon the occurrence of certain milestones relating to the Company's hair cell replication technology. These shares have been excluded from the calculation of loss per share. During the year-ended December 31, 2018, Nil shares were released from escrow (year ended December 31, 2017: Nil; year ended December 31, 2016: Nil) and nil shares were cancelled during the years ended December 31, 2018, 2017 and 2016. The Company recognized a fair value of $nil, (December 31, 2017: $ nil; December 31, 2016: $341,000) as stock based compensation expense in the statement of operations for the period.

**g) Warrants**

The number of warrants outstanding at December 31, 2018, each exercisable into one common share, is as follows:

| | Warrants Outstanding | Weighted Average Exercise Price | Expiry |
|---|---|---|---|
| February 24, 2017 | 2,721,604 | $ 2.00 | February 24, 2020 |
| October 9, 2020 | 1,071,580 | $0.95 | October 9, 2020 |
| **Outstanding, December 31, 2018** | **3,793,184** | **$ 1.70** | |

| | Warrants Outstanding | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding, December 31, 2016 | 10,848,439 | $ | 1.65 |
| Issued | 2,721,604 | | 2.00 |
| Exercised | (437,118) | | 0.85 |
| Expired | (384,027) | | 0.45 |
| Outstanding, December 31, 2017 | 12,748,898 | $ | 1.50 |
| Issued | 1,071,580 | | 0.95 |
| Expired | (10,027,294) | | 0.83 |
| **Outstanding, December 31, 2018** | **3,793,184** | $ | **1.70** |

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

| | **2018** | 2017 |
|---|---|---|
| Risk fee rate | **2.31%** | 1.11% |
| Expected life (years) | **2** | 3 |
| Volatility | **104%** | 97% |
| Expected Dividend | **$-** | $- |
| Expected forfeiture rate | **0%** | 0% |
| Exercise price | **$0.95** | $2.00 |
| Grant date fair value | **$0.45** | $1.10 |

**(Stated in Canadian Dollars)**

## 10. Related Party Transactions

### Related party balances

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

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Companies controlled by directors of the Company | **$ 214,361** | $ 15,250 |
| Directors or officers of the Company | **512,140** | 294,447 |
| | **$ 726,501** | $ 309,697 |

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.

| | **December 31, 2018** | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Research and development | **$ 125,000** | $ 180,000 | $ 1,535 |
| General and administration | **247,000** | 33,000 | - |
| | **$ 372,000** | $ 213,000 | $ 1,535 |

### 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.

| | **December 31, 2018** | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| General and administrative – salaries and contracts | **$ 380,435** | $ 240,000 | $ 285,000 |
| Directors' fees | **54,750** | 55,000 | 55,000 |
| Stock-based compensation | **293,367** | 115,800 | 826,307 |
| | **$ 728,552** | $ 410,800 | $ 1,166,307 |

**(Stated in Canadian Dollars)**

## 11. Income Taxes

a) Income tax recognized in profit or loss:

| | | **2018** | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Canadian current tax expense | $ | **-** | $ | - | $ | - |
| Foreign current tax expense | | **-** | | - | | - |
| Deferred tax expense | | **-** | | - | | - |
| Total | | **-** | | - | | - |

b) Reconciliation of accounting and taxable income, for the years ended December 31 are as follows:

| | | **2018** | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Net income (loss) for the year before taxes | $ | **(2,769,080)** | $ | (6,014,330) | $ | (4,271,294) |
| Combined federal and provincial income tax rate | | 27.00% | | 26.00% | | 26.00% |
| Expected income tax expense (recovery) | | **(748,000)** | | (1,564,000) | | (1,111,000) |
| Increase (decrease) resulting from | | | | | | |
| SR&ED credit claims | | **-** | | (3,000) | | 78,000 |
| Stock-based compensation | | **88,000** | | 31,000 | | 189,000 |
| Non-deductible (Non-Taxable) items | | **(26,000)** | | (79,000) | | (55,000) |
| Tax adjustment from rate change and other | | **(32,000)** | | (262,000) | | - |
| Change in unrecognized deferred tax assets | | **718,000** | | 1,877,000 | | 899,000 |
| Income tax expense | $ | **-** | $ | - | $ | - |

Effective January 1, 2018, the British Columbia tax rate increased from 11.00% to 12.00%.

**(Stated in Canadian Dollars)**

**11. Income Taxes** - *continued*

c) The components of the deferred tax asset (liability) balances for the years ended December 31, are as follows:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Deferred tax assets | | | |
| Non-capital losses | **$** 7,048,000 | $ 6,401,000 | $ 4,703,000 |
| Equipment and other | 224,000 | 223,000 | 78,000 |
| Temporary differences relating to intellectual property costs | - | - | 136,000 |
| Foreign tax credit | 412,000 | 412,000 | 412,000 |
| Un-deducted SR&ED expenditure pool | 412,000 | 412,000 | 320,000 |
| Investment tax credit | 196,000 | 196,000 | 161,000 |
| Share issuance costs | 226,000 | 156,000 | 113,000 |
| Unrecognized deferred tax assets | (8,518,000) | (7,800,000) | (5,923,000) |
| | **$** - | $ - | $ - |

Deferred tax assets in respect of losses and other temporary differences are recognized when it is more likely than not, that they will be recovered against profits in future periods. No deferred tax asset has been recognized as this criteria has not been met.

At December 31, 2018, the Company has Canadian non capital losses totalling approximately $26,110,000 that expire beginning in 2026:

| **Year of Expiry** | **Amount** |
|---|---|
| 2026 | $ 6,000 |
| 2027 | 16,000 |
| 2028 | 533,000 |
| 2029 | 863,000 |
| 2031 | 1,664,000 |
| 2032 | 2,290,000 |
| 2033 | 39,000 |
| 2034 | 3,908,000 |
| 2035 | 4,356,000 |
| 2036 | 3,583,000 |
| 2037 | 6,062,000 |
| 2038 | 2,790,000 |
| | $ 26,110,000 |

## 12. Financial Instruments and Risk Management

As at December 31, 2018, the Company's financial instruments are comprised of cash and cash equivalent, accounts payable and accrued liabilities. The fair values of cash and cash equivalents, accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity.

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.

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 December 31, 2018 the Company held US dollar cash balances of $15,101 (US$11,069) (December 31, 2017: $122,127 or US$97,225). A 1% increase/decrease in the US dollars foreign exchange rate would have an impact of ±$151 (US$111) on the cash balance held December 31, 2018.

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 December 31, 2018:

| Year of expiry | Accounts payable and accrued liabilities | Total |
|---|---|---|
| Within 1 year | $ 1,277,642 | $ 1,277,642 |

**12. Financial Instruments and Risk Management -** *continued*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash and cash equivalent is currently held in an interest bearing bank account, management considers the interest rate risk to be limited.

The Company has no financial instruments carried at fair value subject to level 2 or 3 fair value measurements.

**13. 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.

**14. 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 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 year-ended December 31, 2017.

## 15. 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 years ended December 31, 2018, and 2017.

During 2016, the Company entered into a debt settlement agreement whereby the aggregate amount of $374,072 owed by the Company to certain creditors was settled by the issuance of 719,368 units. Each unit consists of one common share of the Company and one share purchase warrant, with each Warrant entitling the holder to purchase one additional share for a period of two years at a price of $1.10 per share.

## 16. Segmental Reporting

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

## 17. Events after the Reporting Date

i) The Company announced on January 17, 2019 a debt settlement in the amount of $366,024 owed by the Company to certain creditors by the issuance of 770,577 common shares (each, a “Share”) of the Company at a price of $0.475 per Share. The Settlement Agreements were signed on November 20, 2018; however, the debt was not settled until January 15, 2019 when the transaction was approved by the TSX Venture Exchange. The securities are subject to a statutory hold period of four months and one day.

Subsequently, it has come to the Company’s attention that the dollar amount to be settled with one of the Creditors was incorrect and should have been $5,000 instead of $21,469 and the Creditor was issued 45,199 Shares instead of 10,526 Shares. The Board wishes to rectify the error by cancelling 45,199 shares and issuing 10,526 Shares in settlement of $5,000 at a deemed price of $0.475 per Reissued Share. Therefore, an amendment was filed with the Exchange for return to treasury 45,199 shares and re-issuance of 10,526 shares resulting the total adjusted debt in the amount of $349,555 to be settled by the issuance of 735,904 shares of the Company at a price of $0.475 per Share.