REPLICEL LIFE SCIENCES INC.

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017, 2016 and 2015

(<u>Stated in Canadian Dollars</u>)

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BDO Canada LLP
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Independent Auditor's Report

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. (the "Company") and subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the consolidated statements of comprehensive loss, changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and 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 Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2a to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2a. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not qualified in respect of this matter.

Basis for Opinion

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility for the Financial Statements

Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. Further, we are required to be independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and to fulfill our other ethical responsibilities in accordance with these requirements.

We conducted our audits in accordance with the standards of the PCAOB and Canadian generally accepted auditing standards. 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 Company 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 Company's internal control over financial reporting. Accordingly, we express no such opinion.

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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 estimates 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2a, which indicates that the Company incurred a consolidated net loss of $6,014,330 during the year ended December 31, 2017 and, as of that date, the Company's consolidated current liabilities exceeded its total assets by $319,997. As stated in Note 2a, these events or conditions, along with other matters as set forth in Note 2a, indicate that a material uncertainty exists that casts substantial doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

/s/ "BDO CANADA LLP"

We have served as the Company's auditor since 2010.

Vancouver, British Columbia

April 27, 2018

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

As at	Notes	December 31, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		**$ 497,093**	$ 60,752
Guaranteed investment certificate		**-**	1,450,000
Sales taxes recoverable		**48,542**	66,060
Prepaid expenses and deposits		**289,226**	236,055
		834,861	1,812,867
Non-current assets			
Equipment	7	**11,165**	15,320
Total assets		**$ 846,026**	$ 1,828,187
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9, 11	**$ 1,166,023**	$ 621,737
Shareholders' (deficiency) equity			
Common shares	8	**26,182,073**	21,910,238
Contributed surplus	8	**4,287,947**	4,071,899
Accumulated deficit		**(30,790,017)**	(24,775,687)
Total shareholders' (deficiency) equity		**(319,997)**	1,206,450
Total liabilities and shareholders' (deficiency) equity		**$ 846,026**	$ 1,828,187

Events after the reporting date	16
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, 2017		December 31, 2016		December 31, 2015
		$		$		$
Expenses						
Research and development (Note 9)		**2,541,722**		1,115,063		2,319,830
General and administrative (Note 6, 7 and 9)		**3,450,193**		3,172,565		2,727,098
Loss before other items		**(5,991,915)**		(4,287,628)		(5,046,928)
Other items:						
Change in fair value of warrants denominated in a foreign currency (Note 8g)		**-**		-		3,633
Foreign exchange (loss) gain		**(29,190)**		16,334		(15,452)
Interest income		**6,775**		-		14,733
Net and comprehensive loss	$	**(6,014,330)**	$	(4,271,294)	$	(5,044,014)
Basic and diluted loss per share	$	**(0.32)**	$	(0.54)	$	(0.89)
Weighted average shares outstanding		**18,680,021**		7,952,312		5,687,544

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, 2017
(Stated in Canadian Dollars)

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		December 31, 2017		December 31, 2016		December 31, 2015
Operating activities						
Net loss	**$**	**(6,014,330)**	$	(4,271,294)	$	(5,044,014)
Add items not involving cash:						
Depreciation		**4,155**		5,780		6,975
Stock-based compensation		**115,800**		826,307		131,714
Change in fair value of warrants (Note 8g)		**-**		-		(3,633)
Changes in non-cash working capital balances:						
Sales taxes recoverable		**17,518**		(40,244)		3,293
Prepaid expenses and deposits		**(53,171)**		(42,842)		(142,031)
Accounts payable and accrued liabilities		**544,286**		(21,893)		686,266
Net cash used in operating activities		**(5,385,742)**		(3,544,186)		(4,361,430)
Investing activities						
Redemption (Purchase) of Guaranteed investment certificate		**1,450,000**		(1,450,000)		1,500,000
Purchase of equipment		**-**		-		(2,192)
Net cash provided by (used for) investing activities		**1,450,000**		(1,450,000)		1,497,808
Financing activities						
Gross proceeds on issuance of common shares		**4,320,497**		4,848,524		2,645,259
Proceeds on issuance of shares on exercise of warrants		**371,551**		244,997		-
Finder's fee		**(319,965)**		(214,374)		(140,960)
Net cash provided by financing activities		**4,372,083**		4,879,147		2,504,299
Increase (decrease) in cash and cash equivalents during the year		**436,341**		(115,039)		(359,323)
Cash and cash equivalents, beginning of the year		**60,752**		175,791		535,114
Cash and cash equivalents, end of the year	**$**	**497,093**	$	60,752	$	175,791

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, 2017
(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 8 (h)	437,118	371,551	-	-	**371,551**
Share issued – Note 8 b) i	5,347,981	4,320,497	-	-	**4,320,497**
Finders fees – Note 8 (b) i	-	(420,213)	100,248	-	**(319,965)**
Stock-based compensation – Note 8 (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)**

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, 2017
(Stated in Canadian Dollars)

	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 – Note 8(b)	111,362	244,997	-	-	**244,997**
Shares issued – Note 8 (b)	326,763	584,525	-	-	**584,525**
Stock-based compensation – Note 8 (e)	-	-	826,307	-	**826,307**
Shares issued – Note 8 (b)	8,199,999	4,263,999	-	-	**4,263,999**
Finders fees – Note 8 (b)	-	(390,857)	176,483	-	**(214,374)**
Shares issued as finder fees – Note 8 (b)	12,000	(6,240)	6,240	-	**-**
Shares issued for debt settlement – Note 8 (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**

	Common Stock				
	Shares	Amount	Contributed Surplus	Accumulated Deficit	**Total**
Balance, January 1, 2015	5,494,728	$ 14,047,244	$ 3,219,355	$ (15,460,379)	**$ 1,806,220**
Shares issued for cash – Note 8 (b)	853,310	2,645,259	-	-	**2,645,259**
Finders fees – Note 8(b)	-	(193,760)	52,800	-	**(140,960)**
Stock based compensation – Note 8 (e)	-		131,714	-	**131,714**
Net loss for the year	-	-	-	(5,044,014)	**(5,044,014)**
Balance, December 31, 2015	6,348,038	$ 16,498,743	$ 3,403,869	$ (20,504,393)	**$ (601,781)**

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 2020 – 401 West Georgia Street, Vancouver, BC, V6B 5A1.

2. Basis of Presentation

These consolidated financial statements for the year-ended December 31, 2017 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, 2018.

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, 2017, the Company is in the research stage, has accumulated losses of $30,790,017 since its inception and expects to incur further losses in the development of its business. The Company incurred a consolidated net loss of $6,014,330 during the year ended December 31, 2017 and, as of that date, the Company's consolidated current liabilities exceeded its total assets by $319,997. The Company will require additional funding to continue its research and development activities which may not be available, or available on acceptable terms. This 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 judgments 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 and Derivatives Liabilities related to Equities

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 8(d).

Similar judgement and estimates to the share-based payments are used to determine the fair value of derivative liabilities related to warrants denominated in U.S. dollars. The assumptions and models used for estimating the fair value for derivative liabilities are disclosed in Note 8(g).

3. Critical Accounting Estimates and Judgements - *continued*

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 certificate

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

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.

4. Summary of Significant Accounting Policies - *continued*

c) Equipment - *continued*

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.

e) Revenue

Revenue consists of an upfront fee received under a Collaboration and Technology Transfer Agreement. Since its inception, the Company has earned $4,120,000 in revenue and is not currently earning any revenue. The Company recognizes revenue when (i) the entity has transferred to the buyer the significant risks and rewards of ownership of the intellectual property, (ii) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the intellectual property, (iii) the amount of revenue can be measured reliably, (iv) it is probable that the economic benefits associated with the transaction will flow to the entity, and (vi) the costs incurred or to be incurred in respect of the transaction can be measured reliably. Licensing revenue, in the form of non-refundable upfront payments, is recognized at the date the Company no longer maintains substantive contractual obligations.

4. Summary of Significant Accounting Policies - *continued*

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, 2017 that were not included in the computation of loss per share totaled 14,148,898 (2016: 12,310,910 ; 2015: 2,349,785) consisting of 1,400,000 (2016:1,417,000; 2015: 484,000) outstanding stock options; nil (2016: nil; 2015: 170,000) contingently issuable common shares held in escrow to be released upon the occurrence of certain milestones (Note 8(f)); 12,748,898 (2016: 10,848,439; 2015: 1,650,314) warrants; and nil (2016: 45,471; 2015: 45,471) agents' options (Note 8(i)).

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.

4. Summary of Significant Accounting Policies - *continued*

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.

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 adopted a stock option plan during the year ended December 31, 2010 (Note 8(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).

4. Summary of Significant Accounting Policies - *continued*

j) Share-based Payments - *continued*

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 8(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.

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.

4. Summary of Significant Accounting Policies – *continued*

k) Leased assets – *continued*

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

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

4. Summary of Significant Accounting Policies – *continued*

m) Financial Instruments

Financial assets are derecognized when the rights to receive cash flows from the underlying instruments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company measures financial instruments such as derivative at fair value each balance sheet date.

The Company classifies its financial instruments as follows:

Cash and cash equivalents	loans and receivables
Guaranteed investment certificates	loans and receivables
Accounts payable and accrued liabilities	other financial liabilities
Warrants denominated in a foreign currency	fair value through profit and loss

Fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset carried at amortized cost is impaired. If such evidence exists, the impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

4. Summary of Significant Accounting Policies - *continued*

n) 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 ordinary shares are classified as equity instruments.

5. Accounting Standards, Amendments and Interpretations

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not mandatory for accounting periods beginning on or after January 1, 2017. They have not been early adopted in these consolidated financial statements, and are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below:

- Amendment to IFRS 7, Financial Instruments: Disclosure

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact this standard is expected to have on its consolidated financial statements.

- 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 versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company believes that there is no significant impact on the Company's consolidated financial statements.

- IFRS 15 Revenue from Contracts with Customers

The 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 judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on January 1, 2018. Currently, no impact on the Company's consolidated financial statements is expected.

5. Accounting Standards, Amendments and Interpretations - *continued*

- 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 does not expect this new standard to have significant financial reporting implications, as currently, no lease agreements within the scope of IFRS 16 have been entered into.

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, 2017, nil (2016 – 170,000) common shares held in escrow were released and 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, 2017 (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, 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**

	Furniture and Equipment	Computer Equipment	Total
Cost:			
At December 31, 2015	$ 14,249	$ 41,751	**$ 56,000**
Additions	-	-	**-**
Disposals	-	-	**-**
At December 31, 2016	14,249	41,751	**56,000**
Depreciation:			
At December 31, 2015	8,749	26,151	**34,900**
Depreciation	1,100	4,680	**5,780**
At December 31, 2016	9,849	30,831	**40,680**
Net book value at December 31, 2016	$ 4,400	$ 10,920	**$ 15,320**

8. Share Capital

a) Authorized:

Unlimited common shares without par value
Unlimited Class A non-voting, convertible, redeemable, non-cumulative 6% preferred shares without par value

8. 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.

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.

8. 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.

During the year-ended December 31, 2015:

i) The Company completed a private placement consisting of a total of 657,510 units at a price of $3.10 per unit for total gross proceeds of $2,038,279. Each unit consisted of one common share of the Company and one common share purchase warrant, which entitles the holder to purchase one additional common share for a period of three years from the closing of the private placement at a price of $5.10 per share. Finder's fees of $94,881 were paid in cash and 30,607 agent's options where each agent's option entitles the agent the option to purchase one unit ("Agent's Unit") of the Company at a price of $3.10 per Agent's Unit expiring two years from the closing of the private placement. Each Agent's Unit consists of one common share of the Company and one common share purchase warrant, which entitles the agent to purchase one additional common share expiring June 25, 2017 at a price of $5.10 per share. The fair value of the agent's options have been estimated using the Binomial option pricing model. The assumptions used to determine the fair value were as follows: (1) dividend yield – 0%; (2) expected volatility – 80%; (3) a risk-free interest rate of 0.62%; (4) an expected life of 24 months. The value assigned to the agent's warrants was $36,422.

8. Share Capital - *continued*

b) Issued and Outstanding - *continued*

During the year-ended December 31, 2015: - *continued*

ii) The Company completed a private placement consisting of a total of 195,800 units at a price of $3.10 per unit for total gross proceeds of $606,980. Each unit consisted of one common share of the Company and one common share purchase warrant, which entitles the holder to purchase one additional common share for a period of two years from the closing of the private placement at a price of $4.00 per share. Finder's fees of $46,079 were paid in cash and 14,864 agent's options where each agent's option entitles the agent the option to purchase one unit ("Agent's Unit") of the Company at a price of $3.10 per Agent's Unit expiring two years from the closing of the private placement. Each Agent's Unit consists of one common share of the Company and one purchase warrant, which entitles the agent to purchase one additional common share expiring two years from the closing of the private placement at a price of $4.00 per share. The fair value of the agent's options have been estimated using the Binomial option pricing model. The assumptions used to determine the fair value were as follows: (1) dividend yield – 0%; (2) expected volatility – 80%; (3) a risk-free interest rate of 0.50% - 0.61%; (4) an expected life of 24 months. The value assigned to the agent's warrants was $16,378.

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)

8. Share Capital - *continued*

d) Fair value of Company Options Issued from January 1, 2015 to December 31, 2017

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:

	2017	2016	2015
Risk fee rate	**1.11%**	0.99%	0.77%
Expected life (years)	**5**	5	5
Volatility	**154%**	68%	80%
Expected Dividend	**$-**	$-	$-
Expected forfeiture rate	**0%**	0%	0%
Exercise price	**$1.64**	$0.60	$0.36
Grant date fair value	**$1.54**	$0.70	$0.23

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)

8. Share Capital - *continued*

e) Stock-based Compensation

The Company recognized a fair value of $115,800, as stock based compensation expense for stock options granted under the Company Stock Option Plan; for the year-ended December 31, 2017 (December 31, 2016: $826,307; December 31, 2015: $131,714).

A summary of the status of the stock options outstanding under the Company Stock Option Plan for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Number of Options		Weighted Average Exercise Price
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**
Outstanding, January 1, 2015	489,000		$ 6.70
Granted	15,000		$ 3.60
Cancelled	(20,000)		$ 9.70
Outstanding, December 31, 2015	**484,000**		**$ 7.10**
Exercisable, December 31, 2015	**455,500**		**$ 7.10**

As at December 31, 2017, the range of exercise prices for options outstanding under the Company Stock Option Plan is $0.36 - $1.64 (2016 $0.60 – $1.35; and 2015: $0.41 - $1.39) and the weighted average remaining contractual life for stock options under the Company Stock Option Plan is 3.48 years (2016: 3.14 years; 2015: 3.85 years).

(Stated in Canadian Dollars)

8. Share Capital - *continued*

f) Escrow Shares

Pursuant to the acquisition described in Note 6.

i) Nil (December 31, 2016: Nil; December 31, 2015: 170,000) 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, 2017, Nil shares were released from escrow (year ended December 31, 2016: 170,000; year ended December 31, 2015: nil) and nil shares were cancelled during the years ended December 31, 2017, 2016 and 2015. The Company recognized a fair value of $nil, (December 31, 2016: $341,000; December 31, 2015: $nil) as stock based compensation expense in the statement of operations for the period.

g) Warrants denominated in a foreign currency

The continuity of the number of warrants denominated in another currency, each exercisable into one common share, is as follows:

	Warrants Outstanding		Weighted Average Exercise Price
Outstanding, January 1, 2015	25,000	$	US 20.00
Exercised	-		-
Expired	-		-
Outstanding, December 31, 2015	25,000	$	US 20.00
Exercised	-		-
Expired	(25,000)		US 20.00
Outstanding, December 31, 2016 and 2017	-	$	-

As the warrants are denominated in a currency other than the Company's functional currency, they meet the definition of a financial liability and accordingly are presented as such on the Company's consolidated statement of financial position and are fair valued at each reporting period.

The warrants entitled holders to purchase an aggregate of 25,000 common shares. The assumptions used to determine the fair value in the year-ended December 31, 2016 were as follows: (1) risk-free rate of 0.54%; (2) dividend yield of nil; (3) an expected volatility of 80%; (4) an expected life of 1.5 months; (5) share price of US$1.50; and (6) an exercise price of US$20.00.

(Stated in Canadian Dollars)

8. Share Capital – *continued*

g) Warrants denominated in a foreign currency – *continued*

The change in the fair value of the warrants for the year-ended December 31, 2017 was $nil (December 31, 2016: $nil; December 31, 2015 – gain of $3,633) and was recorded in the consolidated statement of comprehensive loss.

	December 31, 2017	December 31, 2016	December 31, 2015
Warrants denominated in a foreign currency, opening balance	**$ -**	$ -	$ 3,633
Change in fair value of warrants	**-**	-	(3,633)
Warrants denominated in a foreign currency, closing balance	**$ -**	$ -	$ -

h) Warrants

The number of warrants outstanding at December 31, 2017, each exercisable into one common share, is as follows:

	Warrants Outstanding	**Weighted Average Exercise Price**	**Expiry**	
May 9, 2014	309,983	$ 5.00	May 9, 2018	**
May 21, 2014	60,200	$ 5.00	May 21, 2018	*
June 16, 2014	66,600	$ 5.00	June 16, 2018	**
June 25, 2015	657,509	$ 5.10	June 25, 2018	
February 25, 2016	111,362	$ 4.00	February 25, 2018	
October 28, 2016	7,786,181	$ 0.85	October 28,2018	
October 28, 2016	316,091	$ 0.85	October 28,2018	
December 28, 2016	719,368	$ 1.10	December 28, 2018	
February 24, 2017	2,721,604	$ 2.00	February 24, 2020	
Outstanding, December 31, 2017	**12,748,898**	**$ 1.50**		

(Stated in Canadian Dollars)

8. Share Capital – *continued*

h) Warrants – *continued*

	Warrants Outstanding		Weighted Average Exercise Price
Outstanding, January 1, 2016	1,650,315	$	6.50
Issued	9,370,120		0.87
Exercised	(111,362)		(2.20)
Expired	(60,634)		(6.55)
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**

*The Company announced that it has received TSXV for approval to amend the exercise price of 60,200 warrants (the "2014 Warrants") issued pursuant to the private placement announced on May 20, 2014 from $10.00 to $5.00 for the first year and from $12.50 to $5.00 for the second year, and to extend the expiry date from May 20, 2016 to May 20, 2018. The exercise period for the 2014 Warrants will also be amended by reducing the exercise period to 30 days if, for any consecutive trading days during the unexpired term of the 2014 Warrants, the closing price of the Company's listed shares exceeds $6.25.

**On April 29, 2016, the Company received approval from the TSXV to extend the term of 376,583 share purchase warrants (the "Warrants"). The original term of 309,983 of the Warrants was two years and expired on May 9, 2016 and the original term of 66,600 of the Warrants was two years and expired on June 16, 2016. The Company proposed to extend the expiry date for a further two-year period to May 9, 2018 for 309,983 of the Warrants and to June 16, 2018 for 66,600 of the Warrants.

The Company also received approval by the TSXV to amend the exercise price of 309,983 warrants (the "Repriced Warrants") from $10.00 to $5.00 for the first year and from $12.50 to $5.00 for the second year. The exercise period for the Repriced Warrants will also be amended by reducing the exercise period to 30 days if, for any consecutive trading days during the unexpired term of the Repriced Warrants, the closing price of the Company's listed shares exceeds $6.25.

During the year-ended December 31 2016, the Company offered a warrant incentive program (the "Program") which allowed holders of warrants to exercise warrants at an exercise price of $2.20 for a 14-day period up until February 24, 2016. 111,362 warrants were exercised in connection with the Program. If not exercised on or before February 24, 2016, the warrants would be exercisable under their current warrant exercise terms until expiry.

(Stated in Canadian Dollars)

8. Share Capital – *continued*

i) Agent's Options

As at December 31, 2017, there were no outstanding agent's options outstanding.

The number of agent's options outstanding at December 31, 2016, each exercisable into one unit of the Company, is as follows:

Date of issuance	Agent's Options Outstanding		Weighted Average Exercise Price	Expiry
June 25, 2015	30,607	$	3.10	June 25,2017
November 20, 2015	13,912	$	3.10	November 20,2017
December 23, 2015	952	$	3.10	December 23,2017
Outstanding, December 31, 2016	45,471	$	3.10	

(Stated in Canadian Dollars)

9. Related Party Transactions

Related party balances

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

	December 31, 2017	December 31, 2016	December 31, 2015
Companies controlled by directors of the Company	**$ 15,250**	$ 15,250	$ 72,916
Directors or officers of the Company	**294,447**	232,491	142,887
	$ 309,697	$ 247,741	$ 215,803

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 exchange amount agreed to by the parties.

	December 31, 2017	December 31, 2016	December 31, 2015
Research and development	**$ 180,000**	$ 1,535	$ 233,910
General and administration	**33,000**	-	-
	$ 213,000	$ 1,535	$ 233,910

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, 2017	December 31, 2016	December 31, 2015
General and administrative – salaries	**$ 240,000**	$ 285,000	$ 578,887
Directors' fees	**55,000**	55,000	42,137
Stock-based compensation	**115,800**	826,307	42,216
	$ 410,800	$ 1,166,307	$ 663,240

(Stated in Canadian Dollars)

10. Income Taxes

a) Income tax recognized in profit or loss:

	2017	2016	2015
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:

	2017	2016	2015
Net income (loss) for the year before taxes	$ **(6,014,330)**	$ (4,271,294)	$ (5,044,012)
Combined federal and provincial income tax rate	**26.00%**	26.00%	26.00%
Expected income tax expense (recovery)	**(1,564,000)**	(1,111,000)	(1,311,000)
Increase (decrease) resulting from			
SR&ED credit claims	**(3,000)**	78,000	(210,000)
Stock-based compensation	**31,000**	189,000	34,000
Non-deductible (Non-Taxable) items	**(79,000)**	(55,000)	24,000
Tax adjustment from rate change and other	**(262,000)**	-	-
Change in unrecognized deferred tax assets	**1,877,000**	899,000	1,501,000
Income tax expense	$ **-**	$ -	$ -

(Stated in Canadian Dollars)

10. Income Taxes - *continued*

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

	2017	2016	2015
Deferred tax assets			
Non-capital losses	**$ 6,401,000**	$ 4,703,000	$ 3,741,000
Equipment and other	**223,000**	78,000	76,000
Temporary differences relating to intellectual property costs	**-**	136,000	136,000
Foreign tax credit	**412,000**	412,000	412,000
Un-deducted SR&ED expenditure pool	**412,000**	320,000	320,000
Investment tax credit	**196,000**	161,000	239,000
Share issuance costs	**156,000**	113,000	100,000
Unrecognized deferred tax assets	**(7,800,000)**	(5,923,000)	(5,024,000)
	$ -	$ -	$ -

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, 2017, the Company has Canadian non capital losses totalling approximately $23,714,000 that expire beginning in 2026:

Year of Expiry	**Amount**
2026	$ 6,000
2027	16,000
2028	533,000
2029	863,000
2031	2,080,000
2032	2,290,000
2033	39,000
2034	3,908,000
2035	4,356,000
2036	3,583,000
2037	6,040,000
	$ 23,714,000

11. Financial Instruments and Risk Management

As at December 31, 2017, the Company's financial instruments are comprised of cash, 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 European Euros and US Dollars as certain expenditures and commitments are denominated in European 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, 2017 the Company held US dollar cash balances of $122,127 (US$97,225) (December 31, 2016: $565 or US$420). A 1% increase/decrease in the US dollars foreign exchange rate would have an impact of ±$1,221 (US$972) on the cash balance held December 31, 2017.

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. The Company limits exposure to credit risk by maintaining its cash 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, 2017:

Year of expiry	Accounts payable and accrued liabilities	Total
Within 1 year	$ 1,166,023	$ 1,166,023

11. 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 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.

12. 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.

13. 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.

14. 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, 2017, and 2015.

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.

15. Segmental Reporting

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

16. Events after the Reporting Date

i) During January of 2018, the Company announced that it has signed a Binding Term Sheet ("Term Sheet") with YOFOTO (China) Health Industry Co. Ltd. ("YOFOTO") to form a strategic partnership in Greater China (Mainland China, Hong Kong, Macau, and Taiwan) (the "Territory").

16. Events after the Reporting Date - *continued*

YOFOTO paid a deposit of USD $650,000 on January 12, 2018 pursuant to the Term Sheet. As part of the Transaction, YOFOTO will receive an exclusive license for RepliCel's tendon regeneration cell therapy (RCT-01) in development, skin rejuvenation cell therapy (RCS-01) in development, and its injection technology in development for dermal applications (RCI-02) (excluding hair-related treatments) for the Territory.

The investment is by way of the purchase of common shares at CDN$0.54 per Share, which is a premium over the 20-day average market price to reflect the accompanying license to YOFOTO in the Term Sheet. The Company has also agreed to issue share purchase warrants equal to 10% of the number of Shares issued, which warrants will be exercisable at CDN$0.54 per Share for a period of two years.

The Company is currently working towards completion of a definitive agreement. The latest amendment of the Term Sheet was signed on January 31st 2018 extending the timeline of the signing of the Definitive Agreements to February 28, 2018. Both parties are now currently working together towards signing of the extension of the Term Sheet and the Definitive Agreement. Should the Definitive Agreement not be signed by the Company and YOFOTO, Replicel will have to return the USD $650,000 deposit currently held in escrow and the deal will become unenforceable.

ii) Subsequent to its year-ended December 31, 2017, the Company also announced its intention to settle debt in the amount of $37,010. (US$30,000) owed by the Company to one creditor by the issuance of 78,745 common shares of the Company at a price of $0.47 per Share.

The proposed debt settlement is subject to the approval of the TSX Venture Exchange and entry into a debt settlement agreement with the creditor.