REPLICEL LIFE SCIENCES INC.

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year-ended December 31, 2016

(Stated in Canadian Dollars)

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Independent Auditor's Report

To the Shareholders of RepliCel Life Sciences Inc.

We have audited the accompanying consolidated financial statements of RepliCel Life Sciences Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of comprehensive loss, cash flows, and changes in equity for the years ended December 31, 2016, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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 determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RepliCel Life Sciences Inc. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years ended December 31, 2016, 2015, and 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2(a) in the accompanying financial statements which indicates the Company has incurred operating losses since inception, which raises substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

(signed) "BDO Canada LLP"

Chartered Professional Accountants

Vancouver, British Columbia
May 1, 2017

REPLICEL LIFE SCIENCES INC.
Consolidated Statements of Comprehensive Loss
For the year-ended December 31, 2016
(Stated in Canadian Dollars)

	Notes	December 31, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		**$ 60,752**	$ 175,791
Guaranteed investment certificate		**1,450,000**	-
Sales taxes recoverable		**66,060**	25,816
Prepaid expenses and deposits		**236,055**	193,213
		1,812,867	394,820
Non-current assets			
Equipment	7	**15,320**	21,100
Total assets		**$ 1,828,187**	$ 415,920
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	**$ 621,737**	$ 1,017,701
Shareholders' equity (capital deficit)			
Common shares	8	**21,910,238**	16,498,743
Contributed surplus	8	**4,071,899**	3,403,869
Accumulated deficit		**(24,775,687)**	(20,504,393)
Total shareholders' equity (capital deficit)		**1,206,450**	(601,781)
Total liabilities and shareholders' equity (capital deficit)		**$ 1,828,187**	$ 415,920

Events after the reporting date **16**

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
For the year-ended December 31, 2016
(Stated in Canadian Dollars)

		December 31, 2016		December 31, 2015		December 31, 2014
Expenses						
Research and development (Note 9)		**1,115,063**		2,319,830		1,942,877
General and administrative (Note 6, 7 and 9)		**3,172,565**		2,727,098		3,267,739
Loss before other items		**(4,287,628)**		(5,046,928)		(5,210,616)
Other items:						
Change in fair value of warrants denominated in a foreign currency (Note 8g)		**-**		3,633		(7,695)
Foreign exchange gain (loss)		**16,334**		(15,452)		3,502
Interest income		**-**		14,733		16,398
Net and comprehensive loss	$	**(4,271,294)**	$	(5,044,014)	$	(5,198,411)
Basic and diluted loss per share	$	**(0.54)**	$	(0.92)	$	(1.02)
Weighted average shares outstanding		**7,952,312**		5,687,544		5,090,485

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, 2016
(Stated in Canadian Dollars)

	December 31, 2016	December 31, 2015	December 31, 2014
Operating activities			
Net loss	**$ (4,271,294)**	$ (5,044,014)	$ (5,198,411)
Add items not involving cash:			
Depreciation	**5,780**	6,975	7,606
Stock-based compensation	**826,307**	131,714	784,394
Change in fair value of warrants (Note 8g)	**-**	(3,633)	7,694
Changes in non-cash working capital balances:			
Sales taxes recoverable	**(40,244)**	3,293	(4,065)
Prepaid expenses and deposits	**(42,842)**	(142,031)	(4,614)
Accounts payable and accrued liabilities	**(21,893)**	686,266	(37,920)
Net cash used in operating activities	**(3,544,186)**	(4,361,430)	(4,445,854)
Investing activities			
Guaranteed Investment Certificate	**(1,450,000)**	1,500,000	(1,500,000)
Purchase of equipment	**-**	(2,192)	(10,165)
Net cash provided by (used for) investing activities	**(1,450,000)**	1,497,808	(1,510,165)
Financing activities			
Gross proceeds on issuance of common shares	**4,848,524**	2,645,259	3,990,125
Proceeds on issuance of shares on exercise of warrants	**244,997**	-	834,218
Finder's fee	**(214,374)**	(140,960)	(291,215)
Net cash provided by financing activities	**4,879,147**	2,504,299	4,533,128
Decrease in cash and cash equivalents during the year	**(115,039)**	(359,323)	(1,422,891)
Cash and cash equivalents, beginning of the year	**175,791**	535,114	1,958,005
Cash and cash equivalents, end of the year	**$ 60,752**	$ 175,791	$ 535,114

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

REPLICEL LIFE SCIENCES INC.
Consolidated Statements of Changes in Equity
For the year-ended December 31, 2016
(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)(vi)	111,362	244,997	-	-	**244,997**
Shares issued – Note 8 (b) iv, v	326,763	584,525	-	-	**584,525**
Stock-based compensation – Note 8 (e)	-	-	826,307	-	**826,307**
Shares issued – Note 8 (b) ii	8,199,999	4,263,999	-	-	**4,263,999**
Finders fees – Note 8 (b) ii	-	(390,857)	176,483	-	**(214,374)**
Shares issued as finder fees – Note 8 (b) ii	12,000	(6,240)	6,240	-	**-**
Shares issued for debt settlement – Note 8 (b) i	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.

REPLICEL LIFE SCIENCES INC.
Consolidated Statements of Changes in Equity
For the year-ended December 31, 2016
(Stated in Canadian Dollars)

	Common Stock					
	Shares	Amount	Share Subscriptions	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 at CAD $3.10 – 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	-		-	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)**

	Common Stock					
	Shares	Amount	Share Subscriptions	Contributed Surplus	Accumulated Deficit	**Total**
Balance, January 1, 2014	4,811,861	$ 9,430,914	$ -	$ 2,305,713	$ (10,261,968)	**$ 1,474,659**
Shares issued upon exercise of warrants for cash at US $5.00 – Note 8(b)	150,851	1,046,667	-	-	-	**1,046,667**
Shares issued for cash at CAD $7.50 – Note 8(b)	532,016	3,990,125	-	-	-	**3,990,125**
Finders fees – Note 8(b)	-	(420,462)	-	129,247	-	**(291,215)**
Stock based compensation – Note 8	-		-	784,395	-	**784,395**
Net loss for the year	-	-	-	-	(5,198,411)	**(5,198,411)**
Balance, December 31, 2014	5,494,728	$ 14,047,244	$ -	$ 3,219,355	$ (15,460,379)	**$ 1,806,220**

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's reporting jurisdiction is British Columbia. 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, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise indicated.

The financial statements were authorized for issue by the Board of Directors on May 1, 2017.

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

a) Going Concern 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, 2016, the Company is in the research stage, has accumulated losses of $24,775,687 since its inception and expects to incur further losses in the development of its business. The Company will require additional funding to continue its research and development activities, which casts substantial doubt about the Company's ability to continue as a going concern.

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

2. Basis of Presentation - *continued*

a) Going Concern of Operations - *continued*

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).

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.

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 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.

4. Summary of Significant Accounting Policies - *continued*

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. 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.

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, 2016 that were not included in the computation of loss per share totaled 12,310,910 (2015: 2,349,785; 2014: 1,456,006) consisting of 1,417,000 (2015: 484,000; 2014: 489,000) outstanding stock options; nil (2015: 170,000; 2014: 170,000) contingently issuable common shares held in escrow to be released upon the occurrence of certain milestones (Note 8(f)); 10,848,439 warrants (2015: 1,650,314; 2014: 797,005); and 45,471 agents' options (2015: 45,471; 2014: Nil) (Note 8(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 capital 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) Intangible Assets

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

In-process research and development programmes acquired in business combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for development costs below are not met.

4. Summary of Significant Accounting Policies – *continued*

i) Intangible Assets – *continued*

Internally generated intangible assets (development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalized development costs are amortised over the periods the Company expects to benefit from selling the products developed. Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated statement of comprehensive income as incurred.

The Company expenses research costs until such time U.S. approval from the Federal Drug Administration is obtained.

j) 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.

k) 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*

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 remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognized as employee benefits expense.

l) 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 analyzed 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*

l) Leased assets

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.

m) Events After the Financial Position Date

Events after the financial position date that provide additional information about the Company's position at the financial position date (adjusting event) are reflected in the consolidated financial statements. Events after the financial position date that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

n) 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*

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.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

As of December 31, 2016, the Company has derivative liabilities of $Nil (2015: $Nil) in warrants denominated in a foreign currency.

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*

o) 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 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

a) New Standards, Amendments and Interpretations Effective for the first time from January 1, 2016

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2016 or later periods.

There were no new standards or interpretations effective for the first time for periods beginning on after January 1, 2016 that had a material impact on these consolidated financial statements.

b) Standards, Amendments and Interpretations Not Yet Effective

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, 2016. 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 is currently evaluating the impact this standard is expected to have on its 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 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, 2016, 170,000 common shares held in escrow were released and 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 $341,000 (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, 2016 (year-ended December 31, 2015: $nil). 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, 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**

	Furniture and Equipment	Computer Equipment	Total
Cost:			
At December 31, 2014	$ 14,249	$ 39,559	**$ 53,808**
Additions	-	2,192	**2,192**
Disposals	-	-	**-**
At December 31, 2015	14,249	41,751	**56,000**
Depreciation:			
At December 31, 2014	7,496	20,429	**27,925**
Depreciation	1,253	5,722	**6,975**
At December 31, 2015	8,749	26,151	**34,900**
Net book value at December 31, 2015	$ 5,500	$ 15,600	**$ 21,100**

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, 2016:

i) On October 14, 2016, the Company has entered into a debt settlement agreement whereby the aggregate amount of $374,072 owed by the Company to certain creditors will be settled by the issuance of 719,368 units (each, a "Unit"). 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 at a price of $1.10 per Share.

The Warrants will be 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 $214,374 in finders' fees, issued 339,391 finder's warrants and 12,000 finder's Units.

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 to reflect this 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.

8. Share Capital - *continued*

b) Issued and Outstanding - *continued*

vi) The Company issued common shares upon the exercise of warrants that had been issued April 10, 2013 through June 16, 2014. The Company issued 111,362 warrants at an exercise price of $2.20 for gross proceeds totaling $244,997. 111,362 additional common share purchase warrants were granted in connection with the warrant exercise, with each warrant entitling the holder to purchase one additional common share expiring on February 25, 2018 at a price of $4.00 per share.

During the year-ended December 31, 2015:

i) The Company completed a private placement consisting of a total of 657,509 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.

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.

During the year-ended December 31, 2014:

(i) The Company issued common shares upon the exercise of warrants that had been issued February 28, 2012 through April 20, 2012. The Company issued 150,851 common shares at a price of US$5.00 per share for gross proceeds of $834,218, plus $212,449 being the fair value of the warrants on the date of exercise. A total of $1,046,667 was recognized in common stock.

(ii) The Company completed private placements consisting of a total of 532,016 units at a price of $7.50 per unit for total gross proceeds of $3,990,125. 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 $10.00 per share during the first year and $12.50 per share during the second year. Finder's fees of $291,215 were paid in cash, and 35,633 agent's warrants with a 24 month life, and an exercise price of $7.50 per agent's warrant were issued. The fair value of the agent's

(Stated in Canadian Dollars)

8. Share Capital - *continued*

b) Issued and Outstanding - *continued*

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 – 89%; (3) a risk-free interest rate of 1.06%; (4) an expected life of 24 months. The value assigned to the agent's warrants was $129,247.

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.

d) Fair value of Company Options Issued from January 1, 2014 to December 31, 2016

During the year ended December 31, 2016, the Company granted an aggregate of 1,080,000 (2015: 150,000; 2014: 1,280,000) stock options to certain directors, officers, contractors and consultants pursuant to the Stock Option Plan. Each option is exercisable for a period of 5 years at a price of $0.60 per common share. During the year ended December 31, 2016, nil options (2015: 200,000; 2014: 200,000) were forfeited. The range of exercise price is $0.36 to $0.85, 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:

	2016	2015	2014
Risk fee rate	**0.99%**	0.77%	1.69%
Expected life (years)	**5**	5	5
Volatility	**68%**	80%	89%
Expected Dividend	**$-**	$-	$-
Expected forfeiture rate	**0%**	0%	0%
Exercise price	**$0.60**	$0.36	$0.64
Grant date fair value	**$0.70**	$0.23	$0.52

The volatility assumption is based on the pattern and level of historical volatility of a sample of entities in the life sciences industry for the first seven years in which the shares of those entities were publicly traded.

(Stated in Canadian Dollars)

8. Share Capital - *continued*

d) Fair value of Company Options Issued from January 1, 2016 to December 31, 2016 - *continued*

Options Issued to Employees

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

Options Issued to Non-Employees

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

e) Stock-based Compensation

The Company recognized a fair value of $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, 2016 (December 31, 2015: $131,714; December 31, 2014: $784,395).

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

	Number of Options		Weighted Average Exercise Price
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
Forfeited	(20,000)		9.70
Outstanding, December 31, 2015	**484,000**	$	**7.10**
Exercisable, December 31, 2015	**455,500**	$	**7.20**

(Stated in Canadian Dollars)

8. Share Capital – *continued*

e) Stock-based Compensation – *continued*

Outstanding, January 1, 2014	381,000	$ 6.40
Granted	128,000	$ 6.40
Forfeited	(20,000)	$ 6.50
Outstanding, December 31, 2014	**489,000**	**$ 6.70**
Exercisable, December 31, 2014	**419,750**	**$ 6.90**

As at December 31, 2016, the range of exercise prices for options outstanding under the Company Stock Option Plan is CAD$0.60 - US$10.00 (2014 and 2015: CAD$4.10 - US$10.00) and the weighted average remaining contractual life for stock options under the Company Stock Option Plan is 3.14 years (2015: 3.85 years; 2014: 4.85 years).

f) Escrow Shares

Pursuant to the acquisition described in Note 6.

i) Nil (December 31, 2015: 170,000; December 31, 2014: 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, 2016, 170,000 shares were released from escrow (year ended December 31, 2015: nil; year ended December 31, 2014: nil) and 60,000 shares were cancelled. The Company recognized a fair value of $341,000, (December 31, 2015: $nil; December 31, 2014: $nil) as stock based compensation expense in the statement of operations for the period.

ii) December 31, 2015: Nil (December 31, 2014: Nil) common shares are being held in escrow under a pooling agreement and were subject to a timed release schedule under which:

a) 15% were released on the first day of the Company's fiscal quarter beginning after the one year anniversary of the share exchange (the "First Quarter");

b) 15% were released on the first day of each of the Company's next five fiscal quarters after the First Quarter;

c) the remaining 10% were released on the first day of the ninth fiscal quarter after the First Quarter.

During the year ended December 31, 2015, Nil (December 31, 2014: 175,489) common shares were released from escrow in accordance with the terms of a pooling agreement. As at December 31, 2015, all the common shares have been released from the pooling arrangement. The releases of the shares from escrow are non-compensatory. As the release of these shares is certain, they have been included in the calculation of loss per share. On January 13, 2014, the Company's common shares commenced trading on the TSX Venture Exchange as a Tier 1 issuer under its current trading symbol "RP". RepliCel's common shares were delisted from the Canadian Securities Exchange at the close of trading on January 10, 2014. In connection with the Company's listing on the TSX Venture Exchange, 2,350,868 common shares, which represented approximately 49% of the Company's issued and outstanding shares, were escrowed, with 25% of the escrowed shares being released upon listing and a further 25% every six months. In addition, stock options to acquire up to 140,000 shares are also subject to escrow under the same release schedule. At December 31, 2015, all of the shares and stock options held under escrow have been released. The releases of the shares from escrow are non-compensatory.

(Stated in Canadian Dollars)

8. Share Capital – *continued*

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	-	$	-

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.

During the year-ended December 31, 2016, nil (December 31, 2015: nil) warrants were exercised.

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.

During the year-ended December 31, 2014, 150,851 warrants were exercised for US$5.00 per warrant. The Company issued 150,851 common shares for cash proceeds of $834,218 (see note 8(b)). The warrants entitle holders to purchase an aggregate of 25,000 common shares. The assumptions used to determine the fair value of $3,633 at December 31, 2014 were as follows: (1) risk-free rate of 1.00%; (2) dividend yield of nil; (3) an expected volatility of 89%; (4) an expected life of 17 months; (5) share price of US$3.20; and (6) an exercise price of US$20.00.

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

		December 31, 2016		December 31, 2015
Warrants denominated in a foreign currency, opening balance	**$**	**-**	$	3,633
Fair value of warrants issued		**-**		-
Fair value of warrants exercised (note 7 (b))		**-**		-
Change in fair value of warrants		**-**		(3,633)
Warrants denominated in a foreign currency, closing balance	**$**	**-**	$	-

(Stated in Canadian Dollars)

8. Share Capital – *continued*

h) Warrants

The number of warrants outstanding at December 31, 2016, each exercisable into one common share, is as follows:

	Warrants Outstanding	Weighted Average Exercise Price		Expiry	
April 10, 2013	148,227	CAD$ 5.00		April 10, 2017	*
May 21, 2013	40,000	CAD$ 5.00		May 21, 2017	*
May 9, 2014	309,983	CAD$ 10.00	***	May 9, 2018	***
May 21, 2014	60,200	CAD$ 10.00		May 21, 2018	**
June 16, 2014	66,600	CAD$ 10.00	***	June 16, 2018	***
June 25, 2015	657,509	CAD$ 5.10		June 25, 2018	
November 20, 2015	173,900	CAD$ 4.00		November 20, 2017	
December 23, 2015	21,900	CAD$ 4.00		December 23, 2017	
February 25, 2016	111,362	CAD$ 4.00		February 25, 2018	
October 28, 2016	8,199,999	CAD $0.85		October 28,2018	
October 28, 2016	339,391	CAD $0.85		October 28,2018	
December 28, 2016	719,368	CAD $1.10		December 28, 2018	
Outstanding, December 31, 2016	10,848,439	CAD $ 1.65			

	Warrants Outstanding		Weighted Average Exercise Price
Outstanding January 1, 2014	416,860	$	5.00
Issued	567,650		9.84
Expired	(187,504)		(4.29)
Outstanding January 1, 2015	797,006		8.30
Issued	853,309		4.85
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**

*On April 13, 2016, the Company received approval from the TSX Venture Exchange (the "TSXV") to extend the term of 204,356 share purchase warrants (the "Warrants"). The original term of 164,356 of the Warrants was two years and expired on April 10, 2015 and the original term of 40,000 of the Warrants was two years and expired on May 21, 2015. The Company previously received an extension from the TSXV for an additional year for the Warrants so that 164,356 Warrants were to expire on April 10, 2016 and 40,000 Warrants were to expire on May 21, 2016. The Company proposed to extend the expiry date for a further one-year period to April 10, 2017 for 164,356 of the Warrants and to May 21, 2017 for 40,000 of the Warrants.

(Stated in Canadian Dollars)

8. Share Capital – *continued*

h) Warrants – *continued*

**The Company also announced that it has applied to the TSXV for approval to amend the exercise price of 73,700 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 TSX Venture Exchange (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 will expire 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.

i) Agent's Options

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

	Agent's Options Outstanding		Weighted Average Exercise Price	Expiry
June 25, 2015	30,607	$	3.10	June 25,2017(Note 7(b-v))
November 20, 2015	13,912	$	3.10	November 20,2017(Note 7(b-v))
December 23, 2015	952	$	3.10	December 23,2017(Note 7(b-v))
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 trade payables and accrued liabilities:

	December 31, 2016	December 31, 2015	December 31, 2014
Companies controlled by directors of the Company	**$ 15,250**	$ 72,916	$ -
Directors or officers of the Company	**232,491**	142,887	9,127
	$ 247,741	$ 215,803	$ 9,127

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 which approximates fair value, being the amount established and agreed to by the parties.

	December 31, 2016	December 31, 2015	December 31, 2014
Research and development	**$ 1,535**	$ 233,910	$ 257,558
	$ 1,535	$ 233,910	$ 257,558

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, 2016	December 31, 2015	December 31, 2014
General and administrative – salaries	**$ 285,000**	$ 578,887	$ 438,500
Stock-based compensation	**826,307**	42,216	45,986
	$ 1,111,307	$ 621,103	$ 484,486

(Stated in Canadian Dollars)

10. Income Taxes

a) Income tax recognized in profit or loss:

		2016		2015		2014
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:

		2016		2015		2014
Net income (loss) for the year before taxes	$	**(4,271,294)**	$	**(5,044,012)**	$	(5,198,411)
Combined federal and provincial income tax rate		**26.00%**		**26.00%**		26.00%
Expected income tax expense (recovery)		**(1,111,000)**		**(1,311,000)**		(1,352,000)
Increase (decrease) resulting from						
Foreign tax rate differential Income taxed at reduced rate		**-**		**-**		-
SR&ED credit claims		**78,000**		**(210,000)**		(129,000)
Stock-based compensation		**189,000**		**34,000**		257,000
Non-deductible items		**(55,000)**		**24,000**		16,000
Tax adjustment from rate change and other				**-**		-
Change in unrecognized deferred tax assets		**899,000**		**1,501,000**		1,208,000
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:

	2016	2015	2014
Deferred tax assets			
Non-capital losses	$ **4,703,000**	$ **3,741,000**	$ 2,469,000
Equipment and other	**78,000**	**76,000**	74,000
Temporary differences relating to intellectual property costs	**136,000**	**136,000**	80,000
Foreign tax credit	**412,000**	**412,000**	412,040
Un-deducted SR&ED expenditure pool	**320,000**	**320,000**	234,000
Investment tax credit	**161,000**	**239,000**	177,000
Share issuance costs	**113,000**	**100,000**	77,000
Unrecognized deferred tax assets	**(5,923,000)**	**(5,024,000)**	(3,523,040)
	$ **-**	$ **-**	$ -

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, 2016, the Company has Canadian non capital losses totalling approximately $18,089,000 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	4,653,000
2036	3,701,000
	$ 18,089,000

11. Financial Instruments and Risk Management

As at December 31, 2016, the Company's financial instruments are comprised of cash, GIC, 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 as certain expenditures and commitments are denominated in European Euros 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, 2016 the Company held US dollar cash balances of $565 (US$420) (December 31, 2015: $12,229 or US$8,821). A 1% increase/decrease in the US dollars foreign exchange rate would have an impact of ±$5 (US$4) on the cash balance held December 31, 2016.

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, 2016:

Year of expiry	Accounts payable and accrued liabilities	Total
Within 1 year	$ 621,737	$ 621,737

(Stated in Canadian Dollars)

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.

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	Classification	Level	December 31, 2016	December 31, 2015
Cash and cash equivalents	Loans and receivables	**Level 1**	**$ 60,752**	$ 175,791
Guaranteed investment certificate	Loans and receivables	**Level 1**	**1,450,000**	-
			$ 1,510,752	$ 175,391

Financial liability included in the statement of financial position are as follows:

	Classification	Level	December 31, 2016	December 31, 2015
Accounts payable and accrued liabilities	other financial liabilities	**Level 1**	**$ 621,737**	$ 1,017,701
			$ 621,737	$ 1,017,701

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 an operating lease agreement for its office premises. The term of the lease is for three years ending on October 31, 2015. The Company renewed the lease for an additional two years ending on October 31, 2017. Subsequent to period-end, the Company entered into a sublease agreement for the remaining term of the lease. The annual commitments under the lease are as follows:

2017
119,756

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, 2016.

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 year-ended December 31, 2016, 2015 or 2014.

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

On February 3, 2017, the Company has granted stock options to a certain director for the purchase of up to 75,000 common shares of the Company pursuant to its Stock Option Plan. Each option is exercisable for a period of five years at a price of $1.64 per common share.

On February 24, 2017, the Company completed a private placement of 2,532,100 units for gross proceeds of $3,165,125. 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.

On March 6, 2017, the Company announces that it has applied to the TSX Venture Exchange (the "Exchange") for an amendment to the exercise price of 148,226 non-transferable share purchase warrants (the "April Warrants") expiring April 10, 2017 from $5.00 to $1.14 and 173,900 non-transferable share purchase warrants (the "November Warrants") expiring on November 20, 2017 from $4.00 to $1.14. All other terms of the April Warrants and the November Warrants will remain the same. The amendment to the exercise price is subject to the approval of the Exchange.