

REPLICEL LIFE SCIENCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019, 2018 and 2017

(Stated in Canadian Dollars)



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## Report of Independent Registered Public Accounting Firm

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To the shareholders of RepliCel Life Sciences Inc.

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of RepliCel Life Sciences Inc. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the consolidated statements of comprehensive loss, changes in equity (deficiency), and cash flows for each of the three years in the period ended December 31, 2019, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### Emphasis of Matter Regarding 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 2(a) to the consolidated financial statements, the Company has incurred a loss of \$2,953,746 during the year ended December 31, 2019. These events or conditions, along with other matters as set forth in Note 2(a), indicate that a material uncertainty exists that may cast substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. 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 Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Group in accordance with 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 standard of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The 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 audit, 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.

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

/s/ "BDO CANADA LLP"

Chartered Professional Accountants  
Vancouver, British Columbia  
July 31, 2020

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

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

As at	Notes	December 31, 2019	December 31, 2018
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 23,929	\$ 2,418,521
Guaranteed investment certificate		28,750	-
Sales taxes recoverable		16,524	49,504
Prepaid expenses and deposits		128,670	510,741
Contract asset	8	25,261	25,261
		223,134	3,004,027
Non-current assets			
Contract Asset	8	189,976	215,237
Equipment	7	5,999	8,167
<b>Total assets</b>		<b>\$ 419,109</b>	<b>\$ 3,227,431</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	11, 13	\$ 747,583	\$ 1,277,642
Contract liability	8	252,609	252,609
Preference shares	9	449,287	-
		1,449,479	1,530,251
Non-current liabilities			
Contract liability	8	1,899,754	2,152,363
<b>Total liabilities</b>		<b>3,349,233</b>	<b>3,682,614</b>
Shareholders' deficiency			
Common shares	10	28,960,095	28,507,565
Contributed surplus	10	4,622,624	4,596,349
Accumulated deficit		(36,512,843)	(33,559,097)
<b>Total shareholders' deficiency</b>		<b>(2,930,124)</b>	<b>(455,183)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 419,109</b>	<b>\$ 3,227,431</b>
Continuance of Operations	2(a)		
Commitments and Contingencies	14		
Events after the reporting date	18		

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, 2019	December 31, 2018	December 31, 2017
	\$	\$	\$
Revenue			
Licensing fees (Note 8)	252,609	121,114	-
Expenses			
Research and development (Note 11)	2,196,364	709,260	2,541,722
General and administrative (Note 11)	1,074,100	2,151,154	3,450,193
Loss before other items	(3,017,855)	(2,739,300)	(5,991,915)
Other items:			
Accretion on preference shares	(33,289)	-	-
Foreign exchange loss	(9,997)	(29,817)	(29,190)
Gain on debt settlement (Note 10 (b) i), ii)	107,395	-	-
Interest income	-	37	6,775
Net and comprehensive loss	\$ (2,953,746)	\$ (2,769,080)	\$ (6,014,330)
Basic and diluted loss per share	\$ (0.11)	\$ (0.12)	\$ (0.32)
Weighted average shares outstanding	27,679,504	22,661,001	18,680,021

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, 2019  
(Stated in Canadian Dollars)

	December 31, 2019	December 31, 2018	December 31, 2017
<b>Operating activities</b>			
Net loss	\$ (2,953,746)	\$ (2,769,080)	\$ (6,014,330)
Add items not involving cash:			
Accretion on preference shares	33,289	-	-
Amortization of contract asset	25,261	12,111	-
Revenue from contract liability (Note 8)	(252,609)	-	-
Depreciation (Note 7)	2,168	2,998	4,155
Gain on debt settlement (Note 10 (b) i), ii)	(107,395)	-	-
Stock-based compensation (Note 10 (e))	26,275	326,367	115,800
Changes in non-cash working capital balances:			
Sales taxes recoverable	32,980	(962)	17,518
Prepaid expenses and deposits	382,071	(221,515)	(53,171)
Contract asset (Note 8)	-	(252,609)	-
Accounts payable and accrued liabilities	29,866	111,619	544,286
Contract liability (Note 8)	-	2,404,972	-
Net cash used in operating activities	(2,781,840)	(386,099)	(5,385,742)
<b>Investing activities</b>			
Redemption (Purchase) of guaranteed investment certificate	(28,750)	-	1,450,000
Net cash provided by investing activities	(28,750)	-	1,450,000
<b>Financing activities</b>			
Gross proceeds on issuance of common shares (Note 10)	-	2,563,919	4,320,497
Issuance of preference shares net of issuance costs	415,998	-	-
Proceeds on issuance of shares on exercise of warrants	-	-	371,551
Finder's fee (Note 10)	-	(256,392)	(319,965)
Net cash provided by financing activities	415,998	2,307,527	4,372,083
(Decrease) increase in cash and cash equivalents during the year	(2,394,592)	1,921,428	436,341
Cash and cash equivalents, beginning of the year	2,418,521	497,093	60,752
Cash and cash equivalents, end of the year	\$ 23,929	\$ 2,418,521	\$ 497,093

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, 2019  
(Stated in Canadian Dollars)

	Common Stock Shares	Amount	Contributed Surplus	Accumulated Deficit	Total
Balance, January 1, 2018	26,800,529	\$ 28,507,565	\$ 4,596,349	\$ (33,559,097)	(455,183)
Net loss for the year	-	-	-	(2,953,746)	(2,953,746)
Common shares issued – Note 10 (b) i)	735,904	257,187	-	-	257,187
Common shares issued – Note 10 (b) ii)	751,318	195,343	-	-	195,343
Stock-based compensation – Note 10 (e)	-	-	26,275	-	26,275
Balance, December 31, 2019	28,287,751	\$ 28,960,095	\$ 4,622,624	\$ (36,512,843)	(2,930,124)

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, 2019**  
**(Stated in Canadian Dollars)**

	Common Stock Shares	Amount	Contributed Surplus	Accumulated Deficit	Total
Balance, January 1, 2018	21,442,629	\$ 26,182,073	\$ 4,287,947	\$ (30,790,017)	\$ (319,997)
Common shares issued – Note 10 (b) iii	5,357,900	2,563,919	-	-	2,563,919
Share issuance costs – Note 10 (b) iii	-	(238,427)	(17,965)	-	(256,392)
Stock-based compensation – Note 10 (e)	-	-	326,367	-	326,367
Net loss for the year	-	-	-	(2,769,080)	(2,769,080)
Balance, December 31, 2018	26,800,529	\$ 28,507,565	\$ 4,596,349	\$ (33,559,097)	\$ (455,183)

	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	437,118	371,551	-	-	371,551
Common shares issued – Note 10 (b) iv & v	5,347,981	4,320,497	-	-	4,320,497
Finders fees – Note 10 (b) iv & v	-	(420,213)	100,248	-	(319,965)
Stock-based compensation – Note 10 (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.

1. Corporate Information

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

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

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

2. Basis of Presentation

These consolidated financial statements for the year-ended December 31, 2019 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 July 31, 2020.

Certain comparative figures have been reclassified to conform to the current year’s presentation.

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, 2019, the Company is in the research stage, has accumulated losses of \$36,512,843 since its inception and expects to incur further losses in the development of its business. The Company incurred a consolidated net loss of \$2,953,746 during the year ended December 31, 2019. The Company will require additional funding to continue its research and development activities which may not be available, or available on acceptable terms. This will result in material uncertainties which casts substantial doubt about the Company’s ability to continue as a going concern.



2. Basis of Presentation - continued

a) Continuance of Operations - continued

The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has a plan in place to address this concern and intends to obtain additional funds by equity financing to the extent there is a shortfall from operations. While the Company is continuing its best efforts to achieve the above plans, there is no assurance that any such activity will generate funds for operations. See Note 18 – Events after the Reporting Date.

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 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

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 10(d).

Revenue Recognition

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

3. Critical Accounting Estimates and Judgements - continued

Revenue Recognition - continued

To determine the price of Licensing and Collaboration Agreement (See Note 8 – Licensing and Collaboration Agreement – YOFOTO (China) Health Industry Co. Ltd.), the Company has to make a judgment and estimates in assessing the value assigned to the put options and of the warrants as attached to the placement (see Note 8 and 10 (b)iii).

Preference Shares

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

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

Guaranteed investment certificate, bearing interest at 2.7%, matured on January 15, 2020 and was subsequently reinvested.

4. Summary of Significant Accounting Policies - continued

c) Equipment

Recognition and Measurement

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

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

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

Gains and Losses

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

Depreciation

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

Furniture and equipment	20%
Computer equipment	30%

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

d) Impairment of Non-Financial Assets

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

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

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

4. Summary of Significant Accounting Policies - continued

e) Revenue

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

At contract inception, the Company assesses the goods or services promised within each contract that falls under the scope of IFRS 15, to identify distinct performance obligations. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when or as the performance obligation is satisfied. For collaborative arrangements that fall within the scope of IFRS 15, the Company applies the revenue recognition model to part or all of the arrangement, when deemed appropriate.

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

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

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

At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of such

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

##### e) Revenue - continued

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

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

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

Regulatory milestone payments may include the following types of events:

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

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

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

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

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

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

The number of shares potentially issuable at December 31, 2019 that were not included in the computation of loss per share since their inclusion would have been anti-dilutive due to a loss in the periods presented. The loss per share totaled 5,623,184 (2018: 5,873,183; 2017: 14,148,898) consisting of 1,830,000 (2018: 2,080,000; 2017: 1,400,000) outstanding stock options; 3,793,184 (2018: 3,793,183; 2017: 12,748,898) warrants.

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

##### g) Income Taxes

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

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

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

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

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

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

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

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

##### h) Scientific research and development credit

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

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

##### i) Foreign Currency Translation

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

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

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

##### j) Share-based Payments

The Company has adopted a stock option plan as described in (Note 10(c)). In addition, certain of the Company's founders have entered into option agreements with consultants and employees of the Company.

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

##### Equity-settled transactions

The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized as stock based compensation expense (Note 10(e)).

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

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

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

4. Summary of Significant Accounting Policies - continued

j) Share-based Payments - continued

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

Cash-settled transactions

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

k) Leases

All leases are accounted for by recognizing a right-of-use asset in equipment and a lease liability except for leases of low value assets and leases with a duration of 12 months or less. There were no lease liabilities or right-of-use assets recognized as at December 31, 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. The Company determines its incremental borrowing rate as the rate of interest it would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Variable lease payments are expensed in the period to which they relate.

Further, lease terms are based on assumptions regarding extension terms that allow for operational flexibility and favorable future market conditions.

Subsequent to initial measurement, lease liabilities increase as a result of interest at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset, whichever is shorter.

l) Financial Instruments

Non-Derivative Financial Assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial Assets at FVTPL – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains or losses arising from changes in the fair value of the financial assets held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.



4. Summary of Significant Accounting Policies - continued

l) Financial Instruments - continued

Financial Assets at FVTOCI – Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains or losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial Assets as Amortized costs – Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any expected credit loss provision. They are classified as current assets or non-current assets based on their maturity date. Cash and cash equivalents and guaranteed investment certificates are classified under financial assets measured at amortized costs.

Financial assets are derecognized when they mature or are sold, and subsequently all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the income statement. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

Cash and cash equivalents and guaranteed investment certificates are classified under financial assets measured at amortized cost.

Financial Liabilities

The Company measures all its financial liabilities as subsequently measured at amortized cost. Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where applicable, a shorter period.

Accounts payable and accrued liabilities and preference shares are classified as financial liabilities measured at amortized cost.

In terms of preference shares, the Company recognized initially at face value and as at December 31, 2019, recorded the accretion based on 5 years. No amount was bifurcated to the equity conversion option on initial recognition. The financial instrument is measured at amortized cost. Given the Company has an obligation to redeem the preference shares in 5 years at \$0.74/share, the effective interest was accreted for the redemption amount and accrued cumulative dividends that will be settled in the future.

The put option pursuant to the Licensing and Collaboration Agreement with YOFOTO and embedded derivatives pursuant to the preference shares have nil value as at December 31, 2019 but are measured at FVTPL.

4. Summary of Significant Accounting Policies - continued

l) Financial Instruments - continued

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial adoption, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For other receivables, the Company applies the simplified approach to providing the expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on the financial assets carried at amortized cost are reversed in subsequent periods. If the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Given the nature and balances of the Company's receivables and the financial assets the Company has no material loss allowance as at December 31, 2019 and 2018.

m) Share Capital

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

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

5. Accounting Standards, Amendments and Interpretations

New Standards, Amendments and Interpretations Effective for the first time

IFRS 16 Leases

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. The Company adopted IFRS 16 on January 1, 2019. The adoption of this standard had no material impact on the consolidated financial statements of the Company.

5. Accounting Standards, Amendments and Interpretations - continued

IFRIC 23 Uncertainly Over Income Tax Treatments

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

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

The adoptions of this standard had no material impact on the Company's consolidated financial statements due to its taxable loss position.

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. As at December 31, 2019, nil (2018: nil) common shares were held in escrow.

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7. Equipment

	Furniture and Equipment		Computer Equipment		Total
Cost:					
At December 31, 2018	\$	14,249	\$	41,751	\$ 56,000
Additions		-		-	-
Disposals		-		-	-
At December 31, 2019		14,249		41,751	56,000
Depreciation:					
At December 31, 2018		11,433		36,400	47,833
Depreciation		563		1,605	2,168
At December 31, 2019		11,996		38,005	50,001
Net book value at December 31, 2019	\$	2,253	\$	3,746	\$ 5,999
	Furniture and Equipment		Computer Equipment		Total
Cost:					
At December 31, 2017	\$	14,249	\$	41,751	\$ 56,000
Additions		-		-	-
Disposals		-		-	-
At December 31, 2018		14,249		41,751	56,000
Depreciation:					
At December 31, 2017		10,729		34,106	44,835
Depreciation		704		2,294	2,998
At December 31, 2018		11,433		36,400	47,833
Net book value at December 31, 2018	\$	2,816	\$	5,351	\$ 8,167

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

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

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

As part of the deal, YOFOTO invested CDN \$5,090,005 in a private placement of RepliCel common shares at CDN \$0.95 per share that included 20% warrant coverage with each warrant exercisable at CDN \$0.95 per share for a period of two years. The warrants have not yet been exercised (Note 10).

The deal structure also includes milestone payments (of up to CDN \$4,750,000), sales royalties, and a commitment by YOFOTO to spend a minimum of CDN \$7,000,000 on the RepliCel programs and associated cell processing manufacturing facility over the next four years in Greater China pursuant to a License and Collaboration Agreement. The License and Collaboration Agreement contains a provision permitting YOFOTO to put up to 1/3 of the shares issued in YOFOTO’s initial investment back to the Company under certain conditions until January, 2027.

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

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

Contract Asset

The finders/success fees paid in connection with the YOFOTO Licensing and Collaboration Agreement of \$509,001 was incurred to secure the YOFOTO License and Collaboration Agreement as well as to close the related private placement. Consequently, the \$509,001 finders/success fee was accounted for as a contract asset and as a share issuance cost.

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

Contract liability

The proceeds of \$5,090,005 from the placement was allocated to common shares and warrants issued based on their fair value at the date of issuance which was \$2,563,919. The remaining \$2,526,086 was allocated to Contract Liability to be recognized as License Fee revenue over a period of 10 years from the commencement date of the Agreement. No value was allocated to the put option on initial recognition and as at December 31, 2019.

9. Preference shares

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

The finalized terms of the private placement were follows and carry certain rights and restrictions, which include:

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

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

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

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

9. Preference shares - continued

The financial instrument is being measured at amortized cost. Given the Company has an obligation to redeem the preference shares in 5 years at \$0.74/share, the effective interest was accreted for the redemption amount and accrued cumulative dividends that will be settled in the future.

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

10. Share Capital

a) Authorized:

Unlimited common shares without par value

Unlimited preferred shares without par value

b) Issued and Outstanding:

During the year-ended December 31, 2019:

- i) The Company announced on October 10, 2019 a debt settlement in the amount of \$210,369 owed by the Company to certain creditors ("Creditors") by the issuance of 751,318 common shares (each, a "Share") of the Company at a price of \$0.280 per Share. The Settlement Agreements were signed on September 11, 2019; however, the debt was not settled until October 10, 2019 when the transaction was approved by the TSX Venture Exchange. The securities are subject to a statutory hold period of four months and one day. The Company reported a gain on this debt settlement in the amount of \$15,027.
- ii) The Company announced on January 17, 2019 a debt settlement in the amount of \$349,555 owed by the Company to certain creditors ("Creditors") by the issuance of 735,904 common shares (each, a "Share") of the Company at a price of \$0.475 per Share. The Settlement Agreements were signed on November 20, 2018; however, the debt was not settled until January 15, 2019 when the transaction was approved by the TSX Venture Exchange. The securities are subject to a statutory hold period of four months and one day. The Company reported a gain on this debt settlement in the amount of \$92,368.

During the year-ended December 31, 2018:

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

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

10. Share Capital - continued

b) Issued and Outstanding:

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

The deal structure also includes milestone payments (of up to CDN \$4,750,000), sales royalties, and a commitment by YOFOTO to spend a minimum of CDN \$7,000,000 on the RepliCel programs and associated cell processing manufacturing facility over the next five years in Greater China pursuant to a License and Collaboration Agreement. The License and Collaboration Agreement contains a provision permitting YOFOTO to put up to 1/3 of the shares issued in YOFOTO's initial investment back to the Company under certain conditions until July 2027.

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

During the year-ended December 31, 2017:

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

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

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

- v) 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.



10. Share Capital - continued

c) Stock Option Plans:

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

d) Fair value of Company Options Issued from January 1, 2017 to December 31, 2019

There were no stock options granted during the year ended December 31, 2019.

On July 31 and August 1, 2018, the Company granted 1,060,000 and 50,000 stock options to certain directors, officers, consultants and employees of the Company respectively for the purchase of up to an aggregate of 1,110,000 common shares of the Company pursuant to the Company's Stock Option Plan. Each option granted to the Optionees is exercisable for a period of 5 years at an exercisable price of \$0.43 per Share. 910,000 vested immediately and 200,000 options shall vest in equal amounts each calendar quarter over the next 24 months.

During the year ended December 31, 2017, the Company granted an aggregate of 75,000 (2016: 1,025,000; 2015: 15,000) stock options to certain directors pursuant to the Stock Option Plan. Each option is exercisable for a period of 5 years at a price of \$1.64 per common share. 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:

	2019	2018	2017
Risk free rate	-	2.19%	1.11%
Expected life (years)	-	5	5
Volatility	-	104%	154%
Expected Dividend	\$-	\$-	\$-
Expected forfeiture rate	0%	0%	0%
Exercise price	\$-	\$0.43	\$1.64
Grant date fair value	\$-	\$0.33	\$1.54

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.

10. Share Capital – continued

e) Stock-based Compensation

The Company recognized a fair value of \$26,275 (2018: \$326,367; 2017: \$115,800), as stock based compensation expense for stock options granted under the Company's Stock Option Plan for the years ended December 31, 2018 and 2017.

A summary of the status of the stock options outstanding under the Company Stock Option Plan for the years ended December 31, 2019, 2018 and 2017 are as follows:

	Number of Options		Weighted Average Exercise Price
Outstanding, January 1, 2019	2,080,000	\$	0.79
Cancelled	(250,000)		0.91
Outstanding, December 31, 2019	1,830,000		0.77
Exercisable, December 31, 2019	1,755,000	\$	0.79
Outstanding, January 1, 2018	1,400,000	\$	2.04
Granted	1,110,000		0.43
Cancelled	(430,000)		0.69
Outstanding, December 31, 2018	2,080,000	\$	0.79
Exercisable, December 31, 2018	1,905,000	\$	0.82
Outstanding, January 1, 2017	1,417,000	\$	2.89
Granted	75,000		1.64
Expired	(77,000)		0.65
Cancelled	(15,000)		0.99
Outstanding, December 31 2017	1,400,000	\$	2.04
Exercisable, December 31, 2017	1,400,000	\$	2.04

As at December 31, 2019, the range of exercise prices for options outstanding under the Company Stock Option Plan is \$0.43 - \$8.50 and the weighted average remaining contractual life for stock options under the Company Stock Option Plan is 2.88 years. The Remaining unrecognized stock based compensation as of December 31, 2019 was \$3,409 (2018: \$31,285).

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10. Share Capital - continued

f) Warrants

The number of warrants outstanding at December 31, 2019 and 2018, each exercisable into one common share, is as follows:

	Warrants Outstanding	Weighted Average Exercise Price	Expiry
February 24, 2017	2,721,604	\$ 2.00	February 24, 2020
October 9, 2018	1,071,580	\$0.95	October 9, 2020
Outstanding, December 31, 2019 and 2018	3,793,184	\$ 1.70	

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, December 31, 2017	12,748,898	\$ 1.50
Issued	1,071,580	0.95
Expired	(10,027,294)	0.83
Outstanding, December 31, 2018	3,793,184	\$ 1.70
Expired	-	-
Outstanding, December 31, 2019	3,793,184	\$ 1.70

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

	December 31, 2019	December 31, 2018
Risk free rate	-	2.31%
Expected life (years)	-	2
Volatility	-	104%
Expected Dividend	-	\$-
Expected forfeiture rate	-	0%
Exercise price	-	\$0.95
Grant date fair value	-	\$0.45

11. Related Party Transactions

Related party balances

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

	December 31, 2019	December 31, 2018
Companies controlled by directors of the Company	\$ 48,375	\$ 214,361
Directors or officers of the Company	58,927	512,140
	\$ 107,302	\$ 726,501

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

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

	December 31, 2019	December 31, 2018	December 31, 2017
Research and development	\$ 166,023	\$ 125,000	\$ 180,000
General and administration	-	247,000	33,000
	\$ 166,023	\$ 372,000	\$ 213,000

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, 2019	December 31, 2018	December 31, 2017
General and administrative – salaries and contracts	\$ 336,000	\$ 380,435	\$ 240,000
Directors' fees	70,500	54,750	55,000
Stock-based compensation	26,275	293,367	115,800
	\$ 432,775	\$ 728,552	\$ 410,800

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12. Income Taxes

a) Income tax recognized in profit or loss:

	2019	2018	2017
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:

	2019	2018	2017
Net income (loss) for the year before taxes	\$ (2,953,746)	\$ (2,769,080)	\$ (6,014,330)
Combined federal and provincial income tax rate	27.00%	27.00%	26.00%
Expected income tax expense (recovery)	(797,000)	(748,000)	(1,564,000)
Increase (decrease) resulting from			
Non-deductible and others items	(48,000)	30,000	(313,000)
Change in unrecognized deferred tax assets	845,000	718,000	1,877,000
Income tax expense	\$ -	\$ -	\$ -

12. Income Taxes - continued

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

	2019	2018
Deferred tax assets		
Non-capital losses	\$ 7,970,000	\$ 7,048,000
Equipment and other	224,000	224,000
Temporary differences relating to intellectual property costs	-	-
Foreign tax credit	412,000	412,000
Un-deducted SR&ED expenditure pool	412,000	412,000
Investment tax credit	196,000	196,000
Share issuance costs	149,000	226,000
Unrecognized deferred tax assets	(9,363,000)	(8,518,000)
	\$ -	\$ -

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, 2019, the Company has Canadian non capital losses totalling approximately \$29,517,000 that expire beginning in 2027:

Year of Expiry	Amount
2026	6,000
2027	16,000
2028	533,000
2029	863,000
2031	1,664,000
2032	2,290,000
2033	39,000
2034	3,908,000
2035	4,356,000
2036	3,583,000
2037	6,062,000
2038	2,790,000
2039	3,407,000
	\$ 29,517,000

### 13. Financial Instruments and Risk Management

As at December 31, 2019, the Company's financial instruments are comprised of cash and cash equivalent, accounts payable and accrued liabilities and preference shares. The fair values of cash and cash equivalents, accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity.

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

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

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

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

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has an exposure to the Euros and US Dollars as certain expenditures and commitments are denominated in Euros and USD Dollars and the Company is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency. In addition, the Company holds an amount of cash in US dollars and is therefore exposed to exchange rate fluctuations on these cash balances. The Company does not hedge its foreign exchange risk. At December 31, 2019 the Company held US dollar cash balances of \$605 (US\$466) (December 31, 2018: \$15,101 or US\$11,069). A 1% increase/decrease in the US dollars foreign exchange rate would have an impact of  $\pm$ \$6 (US\$5) on the cash balance held December 31, 2019.

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

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

### 13. Financial Instruments and Risk Management - continued

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities as at December 31, 2019:

<u>Years of Expiry</u>	<u>Financial Instruments</u>	<u>Amounts</u>
Within 1 year	Accounts payable and accrued liabilities	\$ 741,313
Within 2 to 5 years	Preference shares	\$ 449,287
<u>Total</u>		<u>\$ 1,190,600</u>

Contained within accounts payable and accrued liabilities is \$186,220 of accrued liabilities at December 31, 2019 (2018: \$406,942). Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash and cash equivalent is currently held in an interest bearing bank account, management considers the interest rate risk to be limited.

There were no changes to the Company's fair value measurement levels during the year ended December 31, 2019 (2018: no change). The Company does not have any level 3 fair value measurements (2018: none).

### 14. Commitments and Contingencies

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

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

### 15. Capital Management

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

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



15. Capital Management - continued

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, 2019.

16. Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the consolidated statements of cash flow. There were no non-cash transactions during the years ended December 31, 2019, 2018 and 2017.

During 2019, the Company entered into debt settlement agreements whereby the aggregate amount of \$559,924 owed by the company to certain creditors were settled by the issuance of a total of 1,487,222 units.

17. Segmental Reporting

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

18. Events after the Reporting Date

Subsequent to year-ended December 31, 2019, there was a global outbreak of COVID-19, which has had a significant impact on businesses through the restrictions put in place by the Canadian and U.S. governments regarding travel, business operations and isolation/quarantine orders. At this time, the extent of the impact that the COVID-19 outbreak may have on the Company is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the virus, and the duration of the outbreak, including the duration of travel restrictions, business closures, and quarantine/isolation measures that are currently, or may be put, in place by Canada, U.S. and other countries to fight the virus. The Company continues to monitor its impact of its operations and financing activities and assess the impact COVID-19 will have on its business activities. The extent of the effect of COVID-19 pandemic on the Company is uncertain, management does not expect the effect to be significant.

While the Company has not experienced a direct impact as a result of COVID-19, the raising of capital in this environment has been challenging and caused the delay in the closing of the private placement as disclosed below.

In May 2020, the Company obtained a \$40,000 loan under the Canada Emergency Business Account (CEBA) under the following conditions:

- is an interest free loan until December 31, 2022;
- \$10,000 of the \$40,000 loan is eligible for complete forgiveness if \$30,000 is repaid before December 31, 2022;
- if the CEBA loan is not repaid by December 31, 2022, it will be extended for an additional three-year term bearing an interest rate of 5% per annum.

The CEBA loan may be repaid at any time without penalty.

18. Events after the Reporting Date - continued

Private Placement

On July 15, 2020, the Company closed a first tranche of its private placement offering (the "Offering"), pursuant to which it sold an aggregate of 3,649,110 units (each, a "Unit"), at a price of \$0.18 per Unit, for gross proceeds of \$656,840.

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

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