

REPLICEL LIFE SCIENCES INC.
(formerly NEWCASTLE RESOURCES LTD.)

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year-ended December 31, 2011

(Stated in Canadian Dollars)



Tel: 604 688 5421
Fax: 604 688 5132
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

INDEPENDENT AUDITOR'S REPORT

To the shareholders of RepliCel Life Sciences Inc. (formerly Newcastle Resources Ltd.)

We have audited the accompanying consolidated financial statements of RepliCel Life Sciences Inc., which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, cash flows, and changes in equity for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of 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 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 and 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 presentation of the financial statements.

We believe that the audit evidence we have obtained 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the IASB.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2c in the accompanying financial statements which indicates the Company has incurred recurring 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.

"BDO Canada LLP"

Chartered Accountants
Vancouver, British Columbia

April 20, 2012

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)
Consolidated Statement of Financial Position
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

	Notes	December 31, 2011	December 31, 2010 (Note 16)	January 1, 2010 (Note 16)
Assets				
Current assets				
Cash		\$ 565,143	\$ 1,211,525	\$ 603,907
Sales taxes recoverable		27,045	40,877	-
Prepaid expenses		20,644	23,592	21,320
		612,832	1,275,994	625,227
Non-current assets				
Equipment	6	18,587	32,748	19,239
Total assets		\$ 631,419	\$ 1,308,742	\$ 644,466
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		153,694	548,280	87,423
Advances payable	7	76,275	75,015	-
Total liabilities		229,969	623,295	87,423
Shareholders' equity				
Common shares	8	6,266,739	3,344,320	1,154,800
Preferred shares		-	204	-
Share subscriptions		-	-	17,500
Contributed surplus		1,004,932	235,705	-
Deficit		(6,870,221)	(3,219,782)	(615,257)
Attributable to owners' of the parent		401,450	360,447	557,043
Attributable to the non-controlling interest		-	325,000	-
Total shareholders' equity		401,450	685,447	557,043
Total liabilities and shareholders' equity		\$ 631,419	\$ 1,308,742	\$ 644,466

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

Approved on behalf of the Board:

/s/

Director

/s/

Director

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)**Consolidated Statement of Comprehensive Loss****For the year-ended December 31, 2011****(Stated in Canadian Dollars)**

	2011	2010
Clinical development expenses		
Clinical trials costs (Note 8)	\$ 637,649	\$ 367,763
Research and development expenses		
Consulting fees (Note 9)	292,207	132,100
Intellectual property costs	89,552	50,386
General and administrative expenses		
Accounting and audit fees	120,357	81,456
Depreciation (Note 6)	7,591	6,940
Computer and IT expenses	17,707	21,638
Consulting fees (Note 9)	185,959	198,196
Insurance	48,007	30,472
Legal fees (Note 9)	118,950	116,954
Listing expense (Note 5)	-	85,000
Marketing consulting fees	334,709	57,353
Office and telephone	98,911	29,556
Rent (Note 9)	81,330	26,916
Salaries (Note 9)	623,027	109,830
Stock-based compensation (Notes 5 and 8)	947,272	1,176,900
Travel and promotion	130,098	51,065
Foreign exchange loss (gain)	(39,386)	-
Other expenses		
Loss on disposal of equipment	19,499	-
Total comprehensive loss	\$ 3,713,439	\$ 2,542,525
Total comprehensive loss attributable to non-controlling Interest	\$ 219,479	\$ -
Total comprehensive loss attributable to owners' of the Parent	3,493,960	2,542,525
Basic and diluted loss per share	\$ (0.10)	\$ (0.12)
Weighted average shares outstanding	34,942,240	21,567,675

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

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)
Consolidated Statement of Cash Flows
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

	December 31, 2011	December 31, 2010
Operating activities		
Net loss and comprehensive loss	\$ (3,713,439)	\$ (2,542,525)
Add items not involving cash:		
Depreciation	7,591	6,940
Loss on disposal of equipment	19,499	-
Stock-based compensation	947,272	1,176,900
Listing expense	-	85,000
Changes in non-cash working capital balances:		
Sales taxes recoverable	13,832	(21,558)
Prepaid expenses	2,948	11,120
Accounts payable and accrued liabilities	(394,586)	389,822
Advances payable	1,260	-
Net cash used in operating activities	(3,115,623)	(894,301)
Investing activities		
Purchase of Equipment	(12,929)	(20,449)
Cash acquired on acquisition of Newcastle	-	1,109,664
Net cash (used in) provided by investing activities	(12,929)	1,089,215
Financing activities		
Acquisition costs	-	-
Issuance of preferred shares	-	204
Issuance of common shares	2,482,170	412,500
Net cash provided by financing activities	2,482,170	412,704
Decrease in cash during the period	(646,382)	607,618
Cash , beginning of the period	1,211,525	603,907
Cash , end of the period	\$ 565,143	\$ 1,211,525

Non-cash transactions (Note 14)

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

REPLICEL LIFE SCIENCES INC. (Formerly NEWCASTLE RESOURCES LTD.)
Consolidated Statement of Changes in Equity (Deficiency)
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

	Attributable to the Owners' of the Parent										Attributable To Non-Controlling Interest	
	Common Stock			Series B Preferred Shares		Series C Preferred Shares		Contributed Surplus	Accumulated Deficit	Total	Total	Total
	Shares	Amount	Share Subscriptions	Shares	Amount	Shares	Amount					
Balance, January 1, 2010	9,154,800	\$ 1,154,800	\$ 17,500	-	\$ -	-	\$ -	\$ -	\$ (615,257)	\$ 557,043	\$ -	\$ 557,043
Net loss for the year	-	-	-	-	-	-	-	-	(2,542,525)	(2,542,525)	-	(2,542,525)
Shares issued for cash at \$1.00	430,000	430,000	(30,000)	-	-	-	-	-	-	400,000	-	400,000
Cash received for shares issued in 2009 at \$1.00	-	-	12,500	-	-	-	-	-	-	12,500	-	12,500
<i>Recapitalization transactions</i>												
Pursuant to the acquisition of TrichoScience – Note 5	(9,584,800)	-	-	-	-	-	-	-	-	-	-	-
Exchange of shares – Note 5	22,653,960	818,325	-	5,577,580	-	5,577,580	-	-	(62,000)	756,325	325,000	1,081,325
Acquisition of 583885 – Note 5	4,400,000	941,195	-	-	-	-	-	-	-	941,195	-	941,195
Preferred shares issued for cash at US\$0.0001 – Note 5	-	-	-	-	-	2,000,000	204	-	-	204	-	204
Stock based compensation	-	-	-	-	-	-	-	235,705	-	235,705	-	235,705
Balance, December 31, 2010	27,053,960	\$ 3,344,320	\$ -	5,577,580	\$ -	7,577,580	\$ 204	\$ 235,705	\$ (3,219,782)	\$ 360,447	\$ 325,000	\$ 685,447

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

REPLICEL LIFE SCIENCES INC. (Formerly NEWCASTLE RESOURCES LTD.)
Consolidated Statement of Changes in Equity (Deficiency)
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

	Attributable to the Owners' of the Parent										Attributable To Non- Controlling Interest	Total
	Common Stock			Series B Preferred Shares		Series C Preferred Shares		Contributed Surplus	Accumulated Deficit	Total		
	Shares	Amount	Share Subscriptions	Shares	Amount	Shares	Amount					
Balance, January 1, 2011	27,053,960	\$ 3,344,320	\$ -	5,577,580	\$ -	7,577,580	\$ 204	\$ 235,705	\$ (3,219,782)	\$ 360,447	\$ 325,000	\$ 685,447
Net loss for the period	-	-	-	-	-	-	-	-	(3,493,960)	(3,493,960)	(219,479)	(3,713,439)
Private placement – Note 8b	2,651,200	2,482,170	-	-	-	-	-	-	-	2,482,170	-	2,482,170
Increase in non-controlling interest attributable to issuance of shares for cash to parent – Note 5	-	-	-	-	-	-	-	-	(505,345)	(505,345)	505,345	-
Exchange of shares – Note 5	10,844,846	262,000	-	5,422,420	-	5,422,420	-	-	348,866	610,866	(610,866)	-
Cancellation of shares – Note 5	2,600,002	204	-	(11,000,000)	-	(13,000,000)	(204)	-	-	-	-	-
Stock based compensation – Note 8 / Escrow release – Note 5	-	178,045	-	-	-	-	-	769,227	-	947,272	-	947,272
Balance, December 31, 2011	43,150,008	\$ 6,266,739	\$ -	-	\$ -	-	\$ -	\$ 1,004,932	\$ (6,870,221)	\$ 401,450	\$ -	\$ 401,450

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

1. Corporate Information

Newcastle Resources Ltd. was incorporated under the Ontario Business Corporations Act on April 24, 1967. On June 22, 2011, Newcastle Resources changed its name to RepliCel Life Sciences Inc. (“the Company” or “RepliCel”) and its reporting jurisdiction to British Columbia. Its common shares are listed for trading in the United States on the OTCBB, trading under the symbol REPCF.

The address of the Company’s corporate office and principal place of business is Suite 1225 – 888 Dunsmuir Street, Vancouver, BC, V6C 3K4.

2. Basis of Presentation

a) Statement of Compliance and Conversion to International Financial Reporting Standards

The financial statements of the Company for the year-ended December 31, 2011 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles (“pre-changeover Canadian GAAP”). These are the Company’s first consolidated financial statements prepared in accordance with IFRSs and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of the impact of the transition to IFRS, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements is included in Note 16.

The financial statements were authorized for issue on April, 23 2012 by the directors of the Company.

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis. These consolidated financial statements are presented in Canadian dollars (“CDN”), which is also the functional currency of the Company and its subsidiaries.

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.

c) 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, 2011, the Company is in the research stage, and has accumulated losses of \$6,870,221 since its inception and expects to incur further losses in the development of its business, 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

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 balance sheet classifications used.

d) Principles of Consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2011, and the results of all subsidiaries for the year then ended.

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Reverse take-overs that do not meet the definition of a business are accounted for as asset acquisitions using the requirements of IFRS 2 – share-based payments.

Non-controlling interests

In preparing consolidated financial statements the Group has the choice, on a transaction by transaction basis, to initially recognise any non-controlling interest in the acquiree which is a present ownership interest and entitles its holders to a proportionate share of the entity's net assets in the event of liquidation at either acquisition date fair value or, at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other components of non-controlling interest such as outstanding share options are generally measured at fair value. The group has not elected to take the option to use fair value in acquisitions completed to date.

From January 1, 2010, the total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

Details of controlled entities are as follows:

	Country of Incorporation	Percentage Owned	
		December 31, 2011	December 31, 2010
TrichoScience Innovations Inc.	Canada	100%	55.4%
583885 BC Ltd. (Note 2 d) ⁱ	Canada	- %	100%

ⁱ 583885 BC Ltd. was dissolved on July 29, 2011.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a) Critical Accounting Estimates, assumptions and judgements

The preparation of consolidated financial statements requires the use of estimates, assumptions and judgment that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated financial statements and accompanying notes. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period.

Actual results could also differ from those estimates under different assumptions and conditions. 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 8 d).

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 recognizes 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.

Fair Value of RTO Transaction

Significant judgment is required in determining the fair value of the consideration granted during a Reverse Takeover transaction. Estimating the fair value of the shares granted and the fair value released by participating shareholders requires determining the most appropriate valuation model. The assumptions used are disclosed in Note 5.

3. Summary of Significant Accounting Policies - Continued

b) Cash

Cash includes cash on hand and in interest bearing bank accounts.

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.

Major Maintenance and Repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

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:

Office 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. Depreciation is taken at half the annual rate in the year of acquisition.

d) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. 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.

3. Significant Accounting Policies - Continued

d) Impairment of Non-Financial Assets - Continued

Where it is 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 performed.

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

e) 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 loss per share reflects the potential dilution of common shares that could occur if potentially dilutive securities are exercised or converted to common shares. Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period. The amount of the dilution is the average market price of ordinary shares during the period minus the issue price. Dilutive amounts are not presented when the effect of the computations is anti-dilutive due to the losses incurred. Accordingly, there would be no difference in the amounts presented for basic and diluted loss per share.

The number of shares potentially issuable at December 31, 2011 that were not included in the computation of net loss per share totaled 5,035,000 (2010: 2,550,000) consisting of 2,835,000 (2010: 1,485,000) outstanding stock options and 2,200,000 (2010: 2,550,000) contingently issuable common shares held in escrow to be released upon the occurrence of certain milestones (Note 8(f)).

f) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax 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 Group 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.

3. Significant Accounting Policies - Continued

f) Income Taxes – Continued

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 Group 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 realise 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.

g) 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 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.

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 Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group 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 FDA approval is obtained.

h) Foreign Currency Translation

Foreign currency accounts are presented in Canadian dollars, which is also the functional currency.

3. Significant Accounting Policies - Continued

h) Foreign Currency Translation – Continued

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.

i) 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).

Equity-settled transactions

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves 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(c)).

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.

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

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

3. Significant Accounting Policies - Continued

i) Share-based Payments – Continued

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.

j) Leased assets

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

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (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 recognised as a reduction of the rental expense over the lease term on a straight-line basis.

k) Events After the Balance Sheet Date

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

l) Financial Instruments

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

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

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

3. Significant Accounting Policies - Continued

l) Financial Instruments – Continued

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.

Financial assets are derecognized when the rights to receive cash flows from the investments 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.

The Company does not have any derivative financial assets and liabilities.

IFRS 7 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 (see note 3). 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 costs 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.

3. Significant Accounting Policies - Continued

m) Share Capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Group's ordinary shares are classified as equity instruments. During the year ended December 31, 2011 the Company also had Class B preferred shares and Class C convertible preferred shares outstanding which are also classified as equity instruments.

4. Accounting Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2011 or later periods. The following new standards, amendments and interpretations, which have not been early adopted in these consolidated financial statements, will or may have an effect on the Company's future results and financial position:

- IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the new standard.

- IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

- IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

The following new standards, amendments and interpretations, which have not been early adopted in these consolidated financial statements, will not have an effect on the Company's future results and financial position:

- IFRS 1: Severe Hyperinflation (Effective for periods beginning on or after July 1, 2011)

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year-ended December 31, 2011****(Stated in Canadian Dollars)**

- IAS 12: Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12 (Effective for periods beginning on or after January 1, 2012)
- Amendments to IFRS 9: Financial Instruments (Effective for periods beginning on or after January 1, 2013)

5. Reverse Takeover Transaction

On December 22, 2010, RepliCel closed a Share Exchange Agreement with TrichoScience Innovations Inc. ("TrichoScience") and with certain accepting shareholders of TrichoScience, whereby RepliCel (formerly Newcastle Resources Ltd.) acquired 50.7% (4,860,000) of the issued and outstanding shares of TrichoScience in exchange for 11,155,165 common shares (at an exchange ratio of 2.2958), 5,577,580 Class B preferred shares and 5,577,580 Class C convertible preferred shares of RepliCel (the "Acquisition"). Also at closing, RepliCel acquired an additional 1,000,000 common shares of TrichoScience for \$1,000,000 ("Investment One"), thereby increasing RepliCel's ownership in TrichoScience to 55.4% at December 31, 2010, resulting in 63% of the voting rights in RepliCel being held by former Trichoscience shareholders.

TrichoScience was incorporated under the Canada Business Corporations Act on September 7, 2006 and is currently in the research and development stage and therefore has not yet realized any revenues from its planned operations.

As the former shareholders of TrichoScience controlled 63% of the issued voting shares of RepliCel after the closing of the transaction, the transaction was accounted for as TrichoScience being the continuing entity and the resulting consolidated financial statements are presented as a continuation of TrichoScience. At the date the share exchange was completed the common stock of RepliCel became 22,653,960 common shares, comprising of 11,155,165 common shares issued to participating shareholders of TrichoScience and 11,498,795 common shares held by existing RepliCel shareholders (total common shares 22,653,960). During the year ended December 31, 2011 the remaining TrichoScience shareholders tendered 4,724,800 TrichoScience shares in exchange for 10,844,846 common shares of RepliCel.

As TrichoScience is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated balance sheets for the continuing entity at their historical carrying values. The Company's assets and liabilities at the date of the transaction are also included in the consolidated balance sheets at their historical carrying values.

RepliCel is not considered a business as defined by IFRS. As a result, at the date of the acquisition, the transaction was accounted for as a share based payment transaction under IFRS 2 Share Based Payments whereby TrichoScience is deemed to have issued shares in exchange for the net assets of RepliCel together with the listing status of RepliCel.

The net identifiable assets of RepliCel at the date of the acquisition were as follows:

Cash	\$ 1,109,664
Sales taxes recoverable	19,319
Prepaid expenses	13,392
Accounts payable and accrued liabilities	(71,035)
Advances payable	(75,015)
<hr/>	
Net assets acquired	\$ 996,325

The Company recognized \$85,000 as listing expense during the year ended December 31, 2010, being the difference between the fair value of the share based payment of \$1,081,325 and the net identifiable assets received. The fair value of the share based payment was determined with reference to the fair market value of Newcastle, (now RepliCel) shares that would have been received by the shareholders of TrichoScience had 100% of the shares been exchanged. The fair value of each Newcastle, (now RepliCel) share was determined with reference to the price at which the shares had been sold in arms' length transaction prior to the acquisition.

5. Reverse Takeover Transaction - *Continued*

At closing, the TrichoScience shareholders who received shares of RepliCel in connection with the closing deposited the common shares with a trustee pursuant to the terms of a pooling agreement between RepliCel and the trustee. The common shares are subject to a timed release schedule under which 15% of the shares will be released on the first day of each of the fiscal quarters occurring after the first anniversary of the closing.

Non-Controlling Interest

At closing, certain shareholders of TrichoScience did not exchange their shares for shares of RepliCel (the "Non-Accepting Shareholders") and, as such, are treated as a non-controlling interest in the consolidated financial statements. In a reverse acquisition, the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-combination carrying amounts of the legal acquiree's net assets. The non-controlling interest at December 22, 2010 was 44.6% and the Company recorded a non-controlling interest of \$325,000, representing the non-controlling interest of the net book value of the net assets of TrichoScience, with a \$62,000 increase in accumulated deficit reflecting the Company's proportionate increase in ownership in TrichoScience.

During the year ended December 31, 2011, RepliCel purchased 2,050,000 newly issued common shares of TrichoScience for \$2,050,000 ("Investment Two"). As a result, the non-controlling interest increased by \$505,345 representing the non-controlling interests' proportionate share in Investment Two.

The remaining 4,724,800 shares of TrichoScience were tendered for exchange by the Non-Accepting Shareholders in exchange for 10,844,848 common shares with an ascribed fair value of \$262,000, 5,422,420 Series B Preferred Shares and 5,422,420 Series C Preferred Shares of the Company. As a result the non-controlling interest was eliminated and the Company recorded an adjustment of \$348,866 into deficit attributable to the Owners' of the Parent, representing a decrease in the non-controlling interest of the net book value of the net assets of TrichoScience.

At December 31, 2011, 100% percent of the non-accepting shareholders have tendered their shares in exchange for RepliCel shares. As a result of achieving Investment One and Investment Two, TrichoScience is now 100% owned subsidiary of RepliCel. As a result, the Class B preferred shares were extinguished for no consideration. There is no non-controlling interest at December 31, 2011 (December 31, 2010: \$325,000).

Class B and C Preferred Shares

No amount of the value assigned to share capital issued with the Share Exchange Agreement was allocated to the Class B preferred shares or the Class C convertible preferred shares due to these shares having assessed nominal value of \$204 at the time of closing. The Class B preferred shares have been extinguished, as the Company has achieved the following milestones during the year ended December 31, 2011:

- RepliCel purchased common shares of TrichoScience in aggregate amount of not less than \$3,000,000 and RepliCel raised the proceeds to make these investments by selling its shares at not less than \$1 per share (completed); and
- RepliCel acquired at least 90% of the issued and outstanding common shares of TrichoScience (completed).

Each Class C convertible preferred share is voting and convertible into ½ of one common share of RepliCel upon approval by the United States Food and Drug Administration of the commercial sale of TrichoScience's hair cell replication technology in the United States. Other than transfers of Class C Shares amongst original shareholders of TrichoScience Innovations Inc., the Class C convertible preferred shares cannot be sold, transferred or otherwise disposed of without the consent of the Company's directors.

5. Reverse Takeover Transaction - *Continued*

Class B and C Preferred Shares – Continued

During the year-ended December 31, 2011, 13,000,000 of the Company's Class C preferred shares (each, a "Class C Share"), being all the issued and outstanding Class C Shares, were converted, on a 5:1 ratio, into 2,600,002 common shares of the Company (each, a "Common Share") by the holders thereof. All of the Common Shares issued on conversion of the Class C Shares have been deposited with a trustee pursuant to the terms of pooling agreements between RepliCel, the trustee and the respective shareholders. The Common Shares are subject to a timed release schedule under which 15% of the shares will be released on the first day of each of the fiscal quarters beginning January 1, 2013. Following the conversion, a total of 43,150,008 Common Shares are issued and outstanding.

583885 B.C. Ltd.

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 4,400,000 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"). 3,400,000 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 will be 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.

During the year ended December 31, 2011, the performance conditions with respect to 350,000 shares (Year ended December 31, 2010: 850,000) had been achieved, being the completion of Investment Two (December 31, 2010: Investment One and Investment Two) described above, and \$178,045 (December 31, 2010: \$432,295) (representing the fair value of the shares released from escrow on the date of release) was recorded as stock-based compensation. Compensation expense relating to the transaction date fair value of the remaining 2,200,000 common shares will be recognized in the period the respective performance condition is probable and amortized over the period until the performance condition is met.

At December 31, 2011, there were 2,200,000 common shares held in escrow (December 31, 2010: 2,550,000 common shares).

The other 1,000,000 common shares issued were not subject to escrow provisions and thus were fully vested, non-forfeitable at the date of issuance. Stock based compensation of \$Nil (representing the fair value of the shares issued) was recognized for these shares during the year ended December 31, 2011 (December 31, 2010: \$508,800).

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 For the year-ended December 31, 2011
 (Stated in Canadian Dollars)

6. Equipment

	Furniture and Equipment	Computer Equipment	Total
Cost:			
At December 31, 2010	\$ 25,880	\$ 16,258	\$ 42,138
Additions	-	12,929	12,929
Disposals	(18,885)	(9,483)	(28,368)
At December 31, 2011	6,995	19,704	26,699
Depreciation:			
At December 31, 2010	5,311	4,079	9,390
Charge for the period	1,882	5,710	7,592
Elimination on disposal	(5,325)	(3,545)	(8,870)
At December 31, 2011	1,868	6,244	8,112
Net book value at December 31, 2011	\$ 5,127	\$ 13,460	\$ 18,587

	Furniture and Equipment	Computer Equipment	Total
Cost:			
At January 1, 2010	\$ 15,126	\$ 6,563	\$ 21,689
Additions	10,754	9,695	20,449
Disposals	-	-	-
At December 31, 2010	25,880	16,258	42,138
Depreciation:			
At January 1, 2010	1,513	937	2,450
Charge for the period	3,798	3,142	6,940
Elimination on disposal	-	-	-
At December 31, 2010	5,311	4,079	9,390
Net book value at December 31, 2010	\$ 20,569	\$ 12,179	\$ 32,748

7. Advances Payable

Advances payable of \$76,275 (US\$75,000) is from an unrelated third party. Advances payable are unsecured, non-interest bearing and have no specific terms of repayment.

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

b) Issued and Outstanding:

During the year ended December 31, 2011:

- (i) The Company completed a private placement of 2,550,000 common shares at US\$1.00 per share for proceeds of \$2,482,170 (US\$2,550,000). A finder's fee of 101,200 common shares was issued in connection with the private placement with a fair value of \$98,164 (US\$101,200).
- (ii) The Company acquired 4,724,800 common shares of TrichoScience pursuant to the Non-Accepting Shareholders tendering their shares in exchange for 10,844,848 common shares, 5,422,420 Class B preferred shares and 5,422,420 Class C preferred shares in RepliCel. (Note 5).

During the year ended December 31, 2010:

- (i) The Company issued 430,000 common shares at a price of \$1.00 per share, of which \$30,000 had been received during the year ended December 31, 2009.
- (ii) The Company completed the RTO transaction as described in Note 5.

c) Stock Option Plans:

- (i) 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 with 1/3 vesting one year from the date of grant and the remaining 2/3 vesting on a monthly basis over between 24-month and 36-month periods 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.
- (ii) On December 22, 2010, the Company approved a Company Stock Option Plan whereby the Company may grant directors, officers, employees and consultants' stock options. 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 7 years from the grant date and with various vesting terms.

d) Fair value of Options Issued from January 1, 2010 to December 31, 2011

On March 11, 2011, under the Company Stock Option Plan, 1,350,000 options were granted to the directors, officers and consultants of the Company. The options are exercisable at US\$1.00 per share and expire on March 11, 2018. The options vest over a three year period.

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

8. Share Capital – Continued

d) Fair value of Options Issued from January 1, 2010 to December 31, 2011 – Continued

During the year ended December 31, 2010, under the Company Stock Option Plan 1,485,000 options were granted to the directors, officers and consultants of the Company. The options are exercisable at US\$0.50 per share and expire July 13, 2017. The options fully vested during the year ended December 31, 2011.

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

		<u>December 22, 2010</u>	<u>March 11, 2011</u>
	<u>Founders Stock Options</u>	<u>Company Stock Options</u>	<u>Company Stock Options</u>
Risk-free interest rate	2.81%	2.66%	2.88%
Weighted-average expected life	6.55 years	7.00 years	7.00 years
Expected volatility	81%	81%	81%
Expected dividends	Nil	Nil	Nil
Expected forfeiture rate	0%	0%	0%
Fair value	0.17	0.17	0.72

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.

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 \$947,272 as stock based compensation expense in the statement of comprehensive loss for the year ended December 31, 2011; \$769,227 (December 31, 2010 - \$235,705 (Note 8(e))) for stock options granted under the Company Stock Option Plan and the Founders Stock Option Agreements, and \$178,045 for the release of escrow shares (December 31, 2010 - \$432,395 (Note 8(f))). During the year ended December 31, 2011 the Company modified founders' options previously granted to various individuals and no additional compensation was recognized.

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

8. Share Capital – Continued

d) Stock-based Compensation – Continued

A summary of the status of the stock options outstanding under the Company Stock Option Plan for the year ended December 31, 2011 is as follows:

	Number of Options		Weighted Average Exercise Price
Outstanding, January 1, 2010	-	\$	-
Granted	1,485,000		US 0.50
Exercised	-		-
Forfeited	-		-
Outstanding, December 31, 2010	1,485,000		US 0.50
Exercisable, December 31, 2010	-		-
Outstanding, December 31, 2010	1,485,000	\$	US 0.50
Granted	1,350,000		US 1.00
Exercised	-		-
Forfeited	-		-
Outstanding, December 31, 2011	2,835,000	\$	US 0.74
Exercisable, December 31, 2011	1,822,500	\$	US 0.59

The range of exercise prices for options outstanding under the Company Stock Option Plan as at December 31, 2011 is \$0.50 - \$1.00 US. The weighted average remaining contractual life for stock options under the Company Stock Option Plan as at December 31, 2011 is 5.85 years.

f) Escrow Shares

Pursuant to the Acquisition described in Note 5, at December 31, 2011:

- i) 2,200,000 (December 31, 2010: 2,550,000) 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, 2011, 350,000 of shares were released from escrow pursuant to the \$2,050,000 investment by RepliCel in TrichoScience. The Company recognized a fair value of \$178,045 as stock based compensation expense in the statement of operations for the year ended December 31, 2011 (December 31, 2010 - \$432,395) in respect of those shares released from escrow. 850,000 shares were released from escrow for the year ending December 31, 2010.
- ii) 22,000,011 (December 31, 2010: 11,155,165) common shares are held in escrow under a pooling agreement and are subject to a timed release schedule under which:
 - a) 15% will be 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% will be released on the first day of each of the Company's next five fiscal quarters after the First Quarter;
 - c) the remaining 10% will be released on the first day of the ninth fiscal quarter after the First Quarter.

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year-ended December 31, 2011****(Stated in Canadian Dollars)**

As the release of these shares is certain, they have been included in the calculation of loss per share. At December 31, 2011, no shares have been released from escrow.

9. Related Party Transactions**Related party balances**

The following amounts due to related parties are included in trade payables and accrued liabilities:

	December 31, 2011	December 31, 2010
Companies controlled by directors of the Company	\$ 10,000	\$ 33,856
Directors or officers of the Company	9,596	43,080
	\$ 19,596	\$ 76,936

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

As a result of a licence and assignment agreement for clinical trial results relating to the Company's non-surgical hair cell replication technology the Company is committed to pay a company controlled by a director of the Company \$101,250 (75,000€). The Company has been assigned the rights to the clinical trial results.

Related party transactions

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, 2011	December 31, 2010
Research and development consulting fees	\$ 135,044	\$ 144,100
Clinical trial costs	103,563	-
Administrative consulting fees	45,750	116,475
Rent	9,000	15,000
Legal fees	6,621	39,326
	\$ 299,977	\$ 314,901

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, 2011	December 31, 2010
Short-term employee benefits – salaries and wages	\$ 425,209	\$ 30,000
Stock-based compensation	313,665	432,395
	\$ 738,874	\$ 462,395

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

10. Income Taxes

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

	2011	2010
Net loss for the year before taxes	\$ (3,713,439)	\$ (2,542,525)
Combined federal and provincial income tax rate	26.50%	31.00%
Expected income tax expense (recovery)	(984,000)	(788,000)
Increase (decrease) resulting from		
Income taxed at reduced rate	-	280,000
Non-deductible items	253,000	335,000
Tax adjustment from rate change and other	23,000	(158,000)
Change in unrecognized deferred tax assets	708,000	331,000
	\$ -	\$ -

Effective January 1, 2011, the Canadian Federal corporate tax rate decreased from 18% to 16.5%. Due to the change in reporting jurisdiction in 2011, the British Columbia provincial tax rate of 10% was used. In 2010, the Ontario rate of 13% was used.

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

	2011	2010
Deferred tax assets		
Non-capital losses	\$ 1,112,000	\$ 446,000
Equipment and other	63,000	18,000
Temporary differences relating to intellectual property costs	17,000	20,000
Unrecognized deferred tax assets	(1,192,000)	(484,000)
	\$ -	\$ -

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, 2011, the Company has non capital losses totalling approximately \$4,397,600 that will expire beginning in 2026:

Year of Expiry	Amount
2026	\$ 5,500
2027	16,200
2028	533,200
2029	1,169,400
2031	2,673,300
	\$ 4,397,600

11. Commitments

The Company has entered into contractual commitments set to expire as follows:

Within 1 year	\$	279,306	\$	442,055
Within 2 years	\$	-	\$	226,977
Totals	\$	279,306	\$	669,032

12. Financial Instruments and Risk Management

As at December 31, 2011, the Company's financial instruments are comprised of cash, accounts payable and accrued liabilities and advances payable.

The fair values of cash, accounts payable and accrued liabilities and advances payable 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
- 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 a significant 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, 2011 the Company held cash balances of \$302,611 US (December 31, 2010: Nil). A 1% increase/decrease in the USD foreign exchange rate would have an impact of ±\$3,026 on the cash balance held at December 31, 2011.

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.

12. Financial Instruments and Risk Management – Continued

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, 2011:

Year of expiry	Accounts payable and accrued liabilities	Advances payable	Total
Within 1 year	\$ 153,694	\$ 76,275	\$ 229,969

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. Advances payable are non-interest bearing and therefore are not subject to interest rate risk.

Classification of financial instruments

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

Classification	December 31, 2011	December 31, 2010
Cash	\$ 565,143	\$ 1,211,525
Loans and receivables	\$ 565,143	\$ 1,211,525

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

Classification	December 31, 2011	December 31, 2010
Non-derivative financial liabilities:		
Accounts payable and accrued liabilities	\$ 153,694	\$ 548,280
Advance payable	76,275	75,015
	\$ 229,969	\$ 623,295

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 pay for general administrative costs, the Company will use its existing working capital and raise additional amounts as needed. The Company will continue to advance its technology.

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. 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, 2011.

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. During the year ended December 31, 2011, the Company acquired 4,724,800 common shares of TrichoScience in exchange for 10,844,848 common shares, 5,422,420 Series B Preferred Shares and 5,422,420 Series C Preferred Shares of the Company, which was excluded from the consolidated statement of cash flows for \$262,000. (December 31 2010: \$Nil). During the year-ended December 31, 2011, 13,000,000 of the Company's Class C preferred shares (each, a "Class C Share"), were converted, on a 5:1 ratio, into 2,600,000 common shares of the Company (each, a "Common Share") by the holders thereof.

15. Segmental Reporting

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

16. First Time Adoption of International Financial Reporting Standards

The Company's financial statements for the year-ended December 31, 2011 are the first annual financial statements that have been prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"), requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. Therefore, the financial statements for the year-ended December 31, 2011, the comparative information presented in these financial statements for the year-ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP. An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and notes:

Optional Exemptions

Business Combinations

The Company elected to not retrospectively apply IFRS 3 Business Combinations to any business combinations that may have occurred prior to its Transition Date and such business combinations have been restated.

Share-based Payment Transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date to IFRS.

Mandatory Exceptions

De-recognition of Financial Assets and Liabilities

The Company has applied the de-recognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

Reconciliations of Pre-changeover Canadian GAAP Equity and Comprehensive Income to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive income as shown below have resulted in reclassifications of various amounts on the statements of cash flows, resulting in an increase of \$53,429 to the cash flows provided from financing activities with a corresponding decrease to operating cash flows. There have been no adjustments to the decrease in cash for the period. As such no reconciliation of the statement of cash flows has been

prepared.

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year-ended December 31, 2011
(Stated in Canadian Dollars)

Reconciliation of Statement of Financial Position

Notes	As at December 31, 2010		As at January 1, 2010	
	GAAP	Canadian Effect of	GAAP	Canadian Effect of
Transition	IFRS	Canadian	Transition	IFRS
IFRS	GAAP	Effect of	IFRS	GAAP
Transition	IFRS	Effect of	Transition	IFRS
Assets				
Current assets				
Cash	\$	1,211,525	\$	-
	\$	603,907	\$	-
Sales tax recoverable		40,877		-
	-		-	
Prepaid expenses		23,592		-
	21,320			-
		1,275,994		-
		625,227		-
				23,592
				21,320
				1,275,994
				625,227
Non-current assets				
Equipment		32,748		-
	19,239			-
				32,748
				19,239
Total assets	\$	1,308,742	\$	-
	\$	644,466	\$	-
				644,466
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	\$	548,280	\$	-
	\$	87,423	\$	-
Advances payable		75,015		-
	-			-
				75,015
				-
Total liabilities		623,295		-
	87,423			87,423
Non-controlling interest	16(a)	327,640		(327,640)
				-
				-
Shareholders' equity				
Common shares	16(a)(b)	2,312,152		1,032,168
	3,344,320	34	1,154,800	-
	1,154,800			
Preferred shares		204		-
				204
Share subscriptions		-		-
			17,500	-

REPLICEL LIFE SCIENCES INC. (formerly NEWCASTLE RESOURCES LTD.)

Notes to the Consolidated Financial Statements

For the year-ended December 31, 2011

(Stated in Canadian Dollars)

Reconciliation of the Statement of Comprehensive Loss for the Year Ended December 31, 2010

	Notes	Canadian GAAP	Effect of Transition	IFRS
Clinical Development				
Clinical trials		\$ 367,763	\$ -	\$ 367,763
Research and Development				
Consulting fees		132,100	-	132,100
Intellectual property costs		50,386	-	50,386
Sales and Marketing				
Professional fees		57,353	-	57,353
General and Administrative				
Amortization		6,940	-	6,940
Accounting and audit fees	16(b)	53,792	27,664	81,456
Computer and IT expenses		21,638	-	21,638
Legal fees	16(b)	91,190	25,764	116,954
Listing expense	16(b)	-	85,000	85,000
Consulting fees		198,196	-	198,196
Insurance		30,472	-	30,472
Office and telephone		29,556	-	29,556
Rent		26,916	-	26,916
Salaries		109,830	-	109,830
Stock-based compensation		1,176,900	-	1,176,900
Travel and promotion		51,065	-	51,065
Foreign exchange loss		-	-	-
Net Comprehensive loss		\$ (2,404,097)	\$ (138,428)	\$ (2,542,525)
Basic and diluted loss per share		\$ (0.11)	\$ (0.01)	\$ (0.12)

Reconciliation of equity

	Notes	December 31, 2010	January 1, 2010
Equity previously reported under Canadian GAAP		\$ 357,807	\$ 557,043
Adjustment upon adoption of IFRS:			
Difference due to the reversal of the recognition of the non-controlling interest.	16(a)	327,640	-
Total Equity reported under IFRS		\$ 685,447	\$ 557,043

16. First Time Adoption of International Financial Reporting Standards - Continued

Notes to reconciliations

- a) Under Canadian GAAP, non-controlling interest was presented between liabilities and equity on the statement of financial position, distinct from shareholders' equity. Under IFRS, non-controlling interest is included as a component of shareholders equity. As a result the non-controlling interest was reduced by \$327,640 with an increase to common shares of \$1,156,740, contributed surplus \$106,070, and an increase to deficit of \$935,170. An adjustment of \$2,640 of share issue costs was attributed to the non-controlling interest's share of the net deficit of Trichoscience on transition to IFRS (note 16(b) and note 5).

None of these items affected the transition date balance sheet.

- b) Canadian GAAP included specific guidance on reverse take-over transactions, and required that the fair value of the net assets acquired to be credited to common stock (\$1,073,226), net liabilities acquired to be attributed to retained earnings (\$3,925), and share issue costs to be treated as a reduction to common stock (\$130,329).

Under IFRS, TrichoScience is deemed to have issued shares in exchange for the net assets of RepliCel together with the listing status of RepliCel. The Company recognized a listing expense in association with the reverse take-over transaction. The transaction has been accounted for as an asset acquisition in TrichoScience for share consideration under IFRS 2. Under IFRS the fair value of Trichoscience acquired by RepliCel was calculated to be \$818,325.

IFRS 2 requires the reverse takeover to be treated as a share based payment transaction with the recognition of the listing expense as an unidentifiable good/service. IFRS 2.13A requires the Company to measure this unidentifiable good/service as the difference between the fair value of the share based payment made and the fair value of the net identifiable assets received. The full fair value of the net assets received was determined to be \$996,400 and the consideration given by TrichoScience had 100% of the shares been acquired was calculated as \$1,080,970, giving rise to a listing expense of \$85,000 which is recognized in net loss for the year ended December 31, 2010.

The Company also recognized a charge to deficit of \$62,000, being the adjustment to reflect the difference in the fair value of the consideration granted in the reverse take-over arising from Investment One (\$1,000,000) by the Company for newly issued common shares of TrichoScience as required by IAS 27.30-31. The non-controlling interest was adjusted to reflect the 44.6% of the net assets of Trichoscience, held by investors other than the Company immediately after investment one, to be \$325,000 (note 5).

Under Canadian GAAP, deferred acquisition costs of \$130,328 associated with the reverse take-over transaction were debited to common shares. Of this total, \$76,900 was incurred by RepliCel pre-reverse takeover and therefore is not reflected in the consolidated statement of loss and comprehensive loss. Under IFRS, the Company is required to expense \$27,664 to accounting and audit fees and \$25,764 to legal fees in the period in which they were incurred, with a \$53,428 increase to the net loss for the year. The reverse take-over transaction is fully described in note 5.

The impact on the financial statements for the year ended December 31, 2010 was to reduce common shares by \$124,572, increase accumulated deficit by \$200,428 and recognize a non-controlling interest within shareholders' equity equal to \$325,000.

As a result of the listing expense (\$85,000) and the requirement to expense the legal fees (\$25,764) and accounting and audit fees (\$25,764) in the period they were incurred, the Company's net loss for the year ended December 31, 2010 increased by \$138,428 to \$2,542,525.

None of these items affected the transition date balance sheet.

17. Events After the Reporting Date

The Company granted 100,000 options to a consultant of the Company. The options are exercisable at US\$2.35 per share until January 3, 2019. The options vest according to specific milestones.

The Company granted 790,000 options to employees and consultants to the Company. The options vest over a period of three years and are exercisable at US\$1.50 per share until April 18, 2019.

The Company completed a private placement (the "Financing") of 1,875,046 units at US\$1.50 per unit for proceeds of \$2,796,740 (US\$2,812,570). Each unit issued consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase an additional common share at US\$2.50 per share for a period of 24 months from the closing of the Financing. A finder's fee of \$36,000 was issued in connection with the Financing. As a result of the Financing, pursuant to Note 5), the performance condition with respect to 500,000 shares held in escrow had been achieved; as a result these shares have been released from escrow.