

**REPLICEL LIFE SCIENCES INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS (“MD&A”)**

**FORM 51-102F1**

**For the three and nine months ended September 30, 2012**

**Dated as of November 28, 2012**

The following management discussion and analysis of the financial position, results of operations and cash flows of RepliCel Life Sciences Inc. (“the Company”, “RepliCel” or “we”), for the three and nine months ended September 30, 2012 includes information up to and including November 28, 2012 and should be read in conjunction with the annual audited consolidated financial statements for the years ended December 31, 2011 and 2010.

The financial statements of the Company for the three and nine months ended September 30, 2012 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

All amounts included in the financial statements and MD&A are expressed in Canadian dollars unless otherwise indicated. The reader is encouraged to review the Company’s statutory filings on the SEDAR website at [www.sedar.com](http://www.sedar.com).

***Cautionary Statement Regarding Forward-Looking Statements***

Statements included in this MD&A that do not relate to present or historical conditions are “forward-looking statements”. Forward-looking statements are projections in respect of future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “should”, “intend”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, or “continue”, or the negative of these terms or other comparable terminology. Forward-looking statements in this MD&A include statements with respect to: the potential of RepliCel’s technology to become the world’s first autologous cellular treatment for hair loss; the anticipated long term results of RepliCel’s technology; the advantages RepliCel’s technology may offer over current hair loss solutions; the timing for completion of RepliCel’s studies; the expected pain and recovery period related to use of RepliCel’s technology. These statements are only predictions and involve known and unknown uncertainties, risks, including the risks in the section entitled “Risk Factors”, and other factors, which may cause RepliCel’s, or its industry’s, actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements. These risks and uncertainties include:

- negative results from RepliCel’s clinical trials, including that its hair cell replication technology may not work as planned or may not be effective at causing the re-growth of hair follicles or the rejuvenation of damaged, miniaturized follicles;
- the effects of government regulation on RepliCel’s business;
- the viability and marketability of RepliCel’s hair cell replication technology;
- RepliCel’s failure to successfully implement its business plan;
- the development of superior technology by RepliCel’s competitors;
- the failure of consumers and the medical community to accept RepliCel’s technology as safe and effective;
- risks associated with RepliCel’s ability to obtain and protect rights to its intellectual property;
- risks and uncertainties associated with RepliCel’s ability to raise additional capital; and
- other factors beyond RepliCel’s control.

Although RepliCel believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity or performance. Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, RepliCel undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of such factors on RepliCel's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

## **OVERVIEW**

### ***Nature and History of Operations***

The Company was incorporated under the Ontario Business Corporations Act on April 24, 1967. We are a reporting issuer under the securities laws of the Provinces of British Columbia and Ontario. We are a foreign private issuer in the United States. On June 22, 2011, the Company changed its name from Newcastle Resources Ltd. to RepliCel Life Sciences Inc. ("the Company" or "RepliCel") and its reporting jurisdiction to British Columbia. Its common shares (the "Common Shares") are listed for trading in the United States on the OTC Bulletin Board, trading under the symbol REPCF and on the Canadian National Stock Exchange ("CNSX"), trading under the symbol RP.

### ***Overall Performance***

RepliCel Life Sciences Inc. is a British Columbia, Canada, company that is in the business of developing and patenting a new hair follicle cell replication technology that has the potential to become the world's first autologous cellular treatment for hair loss in men and women. Our cellular replication and implantation technology is designed to rejuvenate damaged, miniaturized hair follicles in balding scalp skin.

Our technology has been developed over ten years of research, experimentation and trials. The mechanics of our technology involve the extraction of as few as 20 hair follicles from the back of a patient's scalp where healthy cycling hair follicles reside. Specific cells are isolated from the hair follicles and are then replicated in a current Good Manufacturing Practice ("cGMP") compliant facility through our proprietary cellular replication process and then reintroduced back into balding areas on a patient's scalp. The implanted cells are expected to rejuvenate damaged hair follicles leading to the growth of new healthy hair fibers. Our anticipated long term result is the restoration of a full head of hair that has been seeded by the patient's own natural hair cells.

The product development path of our technology effectively began in 2000/03 when Drs. McElwee and Hoffmann began focusing on specific groups of cells in the hair follicle described as dermal sheath cup ("DSC") cells. Together they hypothesized that these DSC cells were a reservoir of cells that were responsible for the continued health of the hair follicle and the normal cycling of the hair fiber. Multiple experiments on mice demonstrated that hair follicle DSC cells could induce new follicular growth as well as cause resident hair follicles to grow thicker and longer. The scientists' landmark study was published in the peer-reviewed Journal of Investigative Dermatology in ©2003. Together, the scientists filed patent applications. To date, patents have been issued in Europe and Australia, and are now pending in the US, Canada and Japan.

These results have led us to believe in the effectiveness of the procedure and its potential to become a solution to hair loss for the hair restoration market. From 2004 to 2007, the developers of our technology planned for human clinical trials and cell culture laboratories, and sourced initial funding. In 2007, the developers of the technology assigned the technology, including the intellectual property, to TrichoScience Innovations Inc. ("**TrichoScience**"), all of the shares of which we acquired, in stages, between December 2010 and April 2011.

We believe our technology will offer several advantages over current hair loss solutions. Traditional hair transplantation surgery requires the surgical removal of a prominent band of hair-bearing scalp from the back of the head, dissection of individual hair follicles and then implantation of these follicles into the balding region of the scalp. Often, a number of similar surgical procedures are required to achieve the desired result. In effect, surgical hair transplantation removes and redistributes a patient's own hair follicles to cover sections of bald scalp, leaving a longitudinal scar across the back of a patient's scalp where the strip of skin tissue carrying the hair follicles was removed. In follicular unit extraction ("FUE") transplants, the back of the scalp is left with multiple small round wound marks where the micro extractions have occurred. The wounds from either procedure may or may not be visible depending on the skill of the surgeon.

In contrast, our technology is designed to replicate a patient's hair cells to rejuvenate miniaturized hair follicles, to grow from the balding scalp with only a minor single suture closure from the tissue extraction site. We believe there will be minimal pain involved and a short recovery period. Our technology is designed to provide the ability to grow a patient's own hair back, rather than to redistribute hair follicles from the back of the scalp to the front.

In addition, hair transplantation surgery requires a team of six or more people, including up to four technicians trained in micro-dissection. The surgical procedure takes up to eight hours to complete. Our technology is designed to be fully performed by a single clinician who requires minimal additional training. We expect the time involved in the clinic to be less than thirty minutes for tissue collection and less than one hour for cell injection.

### **Regulatory Environment and Clinical Studies**

The process of obtaining marketing authorization for the RepliCel™ procedure requires the collection of a thorough body of information that satisfies requirements set forth by regulators that oversee the safety and efficacy of products sold to the public. Each jurisdiction has specific regulatory requirements, many of which differ from region to region.

We are developing a clinical and regulatory strategy that will ensure adherence to regulations that will advance the marketing approval of our technology worldwide. As part of this strategy, plans for the following projects are in development:

1. Completion of a Phase I/IIa human clinical trial in Europe; the TS001-2009 trial commenced in December, 2010;
2. Ongoing research and pre-clinical development to enhance knowledge base of our technology; and
3. Initiation of Phase II human dosing clinical trials in Europe.

#### Phase I/IIa: TS001-2009

The protocol for the TS001-2009, Phase I/IIa study was developed with advice from European Union regulatory authorities responsible for advanced therapy medicinal products (ATMPs) of which our product is one. The clinical trial is designed to test the safety and efficacy of our technology in men and women with AGA through the assessment of the following endpoints:

1. Primary Endpoint: local safety profile of our technology at the 6-month time point as defined by the incidence, relationship, severity and seriousness of adverse events at the injection sites and local tolerance (as judged by the investigator and patient);
2. Secondary safety endpoints:
  - a. the local safety profile (as defined above) of our technology at the 12 and 24 month time points,
  - b. systemic adverse events over the 24-month study,
  - c. analysis of macroscopic images of injection sites, and

- d. analysis of histopathological biopsies taken at the 6, 12 and 24 month time points; and
3. Secondary efficacy endpoint:
    - a. difference in hair thickness and hair density between 6 months (Visit 7) and baseline will be calculated using the TrichoScan<sup>®</sup> procedure.

The protocol, designed in compliance with International Conference on Harmonization guidelines for Good Clinical Practice, underwent thorough scientific and ethical review by the Georgian National Council of Bioethics and approval to conduct the study was granted on October 27, 2010.

Subjects with mild to moderate AGA categorized on the Ludwig Scale (female) or the Norwood scale (male) were enrolled in the study over a 5-month period starting in December 2010. These subjects provided blood samples to confirm their health status and scalp biopsies which were sent to a cGMP-compliant facility with the specific license to manufacture the Issuer's product in Austria.

Once the manufacturing process was completed, the 19 subjects returned to the clinic to receive blinded injections of their own (autologous) replicated cells in a carrier medium on one part of the scalp, and another injection of carrier medium without replicated cells (placebo) on the other side of the scalp to allow for better assessment of the safety and efficacy of the Issuer's technology. The final study participant received injections of hair follicle cells in late August 2011, thus marking the end of the treatment phase of TS001-2009.

In the next stage of the TS001-2009 trial, the post-injection follow-up period, subjects returned to the clinic for ten follow-up visits over a 24-month period to have their health closely monitored to ensure that there have been no adverse effects associated with receiving the injections and to determine the efficacy of hair follicle cell injections at stimulating hair growth. Furthermore, at 6, 12 and 24 months post-injection, four subjects at each time point will provide biopsies of the injection sites for histopathological analysis. The post-injection follow-up period will be completed for all subjects by the end of August 2013. The total duration of subject participation in the study is approximately 27 months.

#### Phase I/IIa: Six Month Interim Analysis

An interim analysis of data took place in the first quarter of 2012 as all subjects had completed their 6-month follow-up visit. The results of this analysis were released on May 2, 2012. This data has allowed for analysis of the primary endpoints of the study; assessment of the local (at treatment sites) safety profile of the Company's product compared to placebo as defined by adverse events with respect to their causality, incidence, severity and seriousness. Secondary outcome measures of systemic (overall) safety (through review of adverse events in a similar fashion as described above) and efficacy (hair growth at treatment sites) were also performed at this time. The 6-month interim analysis showed that significantly more subjects (63%) had an increase in hair density of greater than 5% (vs. control) while some subjects had not yet shown an increase at this time point. These responders averaged an 11.4% change from baseline, including 70% of subjects above 10% (average 14.8%). The total range of responders was from 6.2% to 19.6%. The overall average of all treated subjects including responders and non-responders was 6.2% density increase. Final analysis of safety data from the entire 24-month post-injection follow-up period should be available in late 2013. To date, no serious adverse events have been reported post-injection.

The primary protocol objective of the study was to assess the local (at treatment sites) safety profile of injections of autologous DSC cells at six months post-injection compared to placebo. Secondary protocol objectives were to assess systemic (overall) safety and efficacy (hair growth at treatment sites) at 6 months post-injection and local safety at 24 months post-injection. The six-month interim analysis was designed to provide the Company with safety information to support the regulatory filing for a Phase II clinical trial. The six-month interim analysis results support the continued development of DSC cells for the treatment of androgenetic alopecia.

All 19 subjects (10 male and 9 female) completed six-month post injection follow-up visits and the data collected from these visits was used for the interim analysis of the primary and secondary safety and efficacy endpoints for the TS001-2009 study.

#### Phase II: Proposed Clinical Trial

RepliCel's next (Phase II) trial is designed to be a dose-finding study which will assess the number of characterized cells and the appropriate treatment pattern necessary to promote optimal hair growth. Subject to regulatory approval, the Company is planning a 12-24 month clinical trial that will include multiple subject cohorts studying different doses of DSC cells. Each subject will be given several different injections, while some cohorts will receive additional injections at subsequent time points. The Company will also review its standard operating procedures (SOPs) of cell biopsy, cell isolation, cell culture media, cell carrier, and injection media to fine-tune those processes in advance of a regulatory submission for a Phase II dosing trial.

The current draft of the RC002-2013 trial is designed as follows:

- 108 male subjects
  - 3 injection sites, 1 shaved site per patient as reference
- Treatment Group (84 subjects)
  - 42 treated with single injection (3 different doses)
  - 42 treated with repeat injections (3 different doses) at day 1 and day 91
- Placebo Group (24 subjects)
  - 12 treated with single injection (cell carrier medium at 3 locations)
  - 12 treated with single injection (cell carrier medium at 3 locations) at day 1 and day 91
- 252 treated data sites
- 72 placebo data sites

#### ***Marketing Strategy Overview***

We have launched a branded corporate website which can be viewed at [www.replicel.com](http://www.replicel.com) to provide corporate information and information about our technology and the progress of our clinical trials. In the future, this site will act as our principal marketing and communications tool and, in time, we will add sections appropriate to our targeted key audiences – medical professionals, hair restoration clinics and appropriate professional associations. All marketing and communications efforts will feature a constant internet based strategy which we anticipate will allow us to leverage our technology advantages and brand to generate license sales.

We expect that, eventually, a highly targeted marketing effort will supplement the broad communications tactics and website with a focused direct sales campaign to primary licensee markets. We have identified the primary licensee market as more than 800 hair restoration physicians.

#### ***Business Model***

The RepliCel™ procedure will be marketed directly to those medical professionals currently engaged in hair transplant procedures, as well as established hair loss and dermatology clinics. Access to, and application of the procedure will be offered to these establishments under a licensing arrangement. Clinicians will be charged a license fee by the company on an annual basis. We will then train and educate the clinicians in the RepliCel™ procedure. Clinicians will extract the patient's tissues through a punch biopsy which will then be shipped to our cGMP facilities where cells will be isolated and proprietary cellular replication will take place. We will be able to maintain full control over the cellular replication process through the use of our own contracted facilities and our own trained technicians. We will charge the clinic a per-patient replication fee, while the clinic will be free

to set the price it charges the patient, based on what the market will bear. Therefore, we will have two revenue streams: patient fees and annual license fees.

### ***Intellectual Property***

The success of RepliCel will be highly dependent on the protection of our intellectual property. We are developing a diverse portfolio of intellectual property for the use of stem cells in the treatment of hair loss, as well as other medical conditions. For example, RepliCel inventors filed an early patent application on the use of hair follicle derived stem cells (see EP 1 509 597 B1) entitled "Method for isolating hair follicle mesenchymal stem cells". This family of patents describes methods for isolating stem cells from hair follicles, and the growth and use of these stem cells for the treatment of a variety of medical conditions (including hair loss). Within this portfolio, there are granted patents in Australia (AU 2003246521) and Europe (EP1 509 597 B1), which were issued unopposed. Related patent applications are also pending in the United States, Canada and Japan.

### ***Plan of Operations***

The sections above contain a broad overview of our plan of operations on a go-forward basis. We intend to specifically focus on continuing our human trials in Europe and preparing for human trials in Canada. During this time, we will attempt to seek regulatory approval in those areas for our technology. We also intend to continue to focus on obtaining patents for our technology in various international jurisdictions. At the same time, we will be taking steps to implement our branding and marketing strategies discussed above under the heading, "Marketing Strategy".

The Company currently has four full time employees, as well as five contractors. These employees have expertise in biotechnology management, clinical trials, financial management and communications.

### ***Marketing***

On April 12, 2012, the Company entered into an arrangement with a private US company to perform professional services related to the dissemination of corporate marketing materials. In return for these services, the Company has paid US \$338,000. There is no formal agreement with respect to this arrangement.

On May 17, 2012 the Company terminated its agreement with NBT Communications Inc ("NBT"). There are no amounts owing in respect of the NBT contract.

On June 21, 2012, the Company entered into a professional services agreement with a private German company to perform professional services related to shareholder acquisition and marketing consulting. In consideration for the Services, the Corporation has agreed to pay €60,000 and grant stock options to purchase up to 300,000 common shares of the Corporation at an exercise price of USD\$1.10 per share.

### ***Reverse Takeover Transaction***

On December 22, 2010, RepliCel closed a Share Exchange Agreement with TrichoScience and with certain accepting shareholders of TrichoScience, whereby RepliCel 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 (each, a "Class B Share") and 5,577,580 Class C convertible preferred shares (each, a "Class C Share") of RepliCel, resulting in such former shareholders of TrichoScience holding 63% of the voting shares of RepliCel. At closing, RepliCel also acquired an additional 1,000,000 common shares of TrichoScience for consideration of \$1,000,000 thereby increasing RepliCel's ownership in TrichoScience to 55.4% at December 31, 2010.

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 a reverse acquisition; with TrichoScience being the continuing entity and subsequent consolidated financial statements of the Company have been presented as a continuation of TrichoScience.

During the year ended December 31, 2011, RepliCel purchased 2,050,000 newly issued common shares of TrichoScience for \$2,050,000.

The remaining 4,724,800 shares of TrichoScience were tendered for exchange by the remaining TrichoScience shareholders during 2011 in exchange for an aggregate of 10,844,848 Common Shares, 5,422,420 Class B Shares and 5,422,420 Class C Shares, and TrichoScience became a wholly-owned subsidiary of RepliCel. As a result of this and the completion of the purchase of common shares of TrichoScience for an aggregate amount of not less than \$3,000,000 by RepliCel, all Class B Shares were extinguished for no consideration in accordance with their rights and restrictions.

All Common Shares issued to former TrichoScience shareholders have been deposited with a trustee pursuant to the terms of a pooling agreement between RepliCel, the trustee and the individual 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 occurring after the first anniversary of the closing. As of the date of this MD&A 3,900,933 shares have been released from pooling.

#### ***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 the issuance of 4,400,000 Common Shares. 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 Common Shares controlled by the Company's CEO were deposited with an escrow agent pursuant to the terms of an escrow agreement between RepliCel, the CEO and the escrow agent, to 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 nine months ended September 30, 2012, another performance milestone under the escrow agreement, being the completion of an aggregate of \$4,000,000 in financing since December 22, 2010, has been completed. As a result, an additional 500,000 shares have been released from escrow, (nine months ended September 30, 2011: 350,000) and \$254,350 (December 31, 2010: \$178,045) (representing the fair value of the shares released from escrow on transaction date) was recorded as stock-based compensation.

#### ***Extinguishment of Class B Shares and Class C Shares***

In 2011, all Class B Shares were cancelled, for no consideration, in accordance with their rights and restrictions, as the Company achieved the following milestones during the year ended December 31, 2011:

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

During the year-ended December 31, 2011, 13,000,000 Class C Shares, being all the issued and outstanding Class C Shares, were converted, on a 5:1 ratio, into 2,600,002 Common Shares 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.

The Company amended its Articles and Notice of Articles in 2011 to reflect the extinguishment of the Class B Shares and the Class C Shares.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following financial data summarizes selected financial data for our company prepared in accordance with IFRS as issued by the IASB for the two fiscal years ended December 31, 2011 and 2010. The year ended December 31, 2009 was prepared in accordance with Canadian GAAP. 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 to the Company's financial statements for the year ended December 31, 2011.

	Year ended Dec. 31, 2011 (IFRS) (audited)	Year ended Dec. 31, 2010 (restated for IFRS) (audited)	Year ended Dec. 31, 2009 (Canadian GAAP) (audited)
Net sales or total revenues	\$Nil	\$Nil	\$Nil
Net loss	\$(3,713,439)	\$(2,542,525)	\$(557,860)
Basic and diluted loss per share	\$(0.10)	\$(0.12)	\$(0.03)
Loss attributable to owners of the Parent	\$(3,493,960)	\$(2,542,525)	\$(557,860)
Total assets	\$631,419	\$1,308,742	\$644,466
Long-term liabilities	\$Nil	\$Nil	\$Nil
Dividends declared	\$Nil	\$Nil	\$Nil

## RESULTS OF OPERATIONS

### *Three months ended September 30, 2012 compared to three months ended September 30, 2011*

	Three months ended September 30,		Change 2011 to 2012	
	2012	2011	Increase/ (Decrease)	Percent Change
Clinical development	72,834	270,711	(197,877)	(73)%
Research and development	109,239	170,804	(61,565)	(36)%
General and administrative	644,534	525,595	118,939	23%
Other items	(790,214)	(76,337)	(713,877)	(935)%
Total operating expenses	36,393	890,773	(854,380)	(96)%

The Company had no revenue from operations during the three months ended September 30, 2012 or 2011.

Clinical development expenses decreased by 73% or \$197,877 during the three month period ended September 30, 2012 in comparison to the same period ended September 30, 2011. Expenses during the quarter consisted of laboratory costs associated with the continuation of the Phase I/IIa clinical trial. The decrease in expenses is due to large expenditures that took place in 2011 associated with the Phase I/IIa clinical trial.

Research and development expenses decreased 36% or \$61,565 during the three month period ended September 30, 2012 in comparison to the same period ended September 30, 2011. Expenses during the quarter related to the on-going development of the Company's intellectual property portfolio and consultants engaged in research and development of the Company's technology. The decrease in expenses during the quarter is due



to the absence of payments in association with a collaborative research agreement that was signed during the quarter ended September 30, 2011.

General and administrative expenses increased 23% or \$118,939 during the three month period ended September 30, 2012 in comparison to the same period ended September 30, 2011. The increase in general and administrative expenses during the quarter was due to an increase of \$200,919 in stock based compensation due to the grant of stock options to employees and consultants of the company and the release of shares from escrow, an increase of \$14,224 in transfer agent and filing fees as the Company listed on the Canadian National Stock Exchange during the quarter, trading under the symbol RP, and an increase in travel and promotion of \$14,291 as management met to discuss the Phase II clinical trial. These increases were offset by a \$101,983 decrease in marketing and investor relations as the Company terminated certain consulting contracts for marketing initiatives. The remaining decrease of \$8,512 is due to other immaterial offsetting variances.

Other items decreased 935% or \$713,877 during the three month period ended September 30, 2012 in comparison to the same period ended September 30, 2011. During the quarter, there was a \$830,371 decrease (gain) recorded on the fair value of warrants denominated in a foreign currency and an increase of \$116,494 in foreign exchange loss due to US dollar balances of cash and cash equivalents and accounts payable affected by the fluctuations in the value of the US dollar as compared to the Canadian dollar.

***Nine months ended September 30, 2012 compared to nine months ended September 30, 2011***

	Nine months ended September 30,		Change 2011 to 2012	
	2012	2011	Increase/ (Decrease)	Percent Change
Clinical development	446,441	599,864	(153,423)	(26)%
Research and development	305,626	259,096	46,530	18%
General and administrative	2,791,555	2,103,516	688,039	33%
Other items	(888,068)	(37,548)	(850,520)	(2,265)%
Total operating expenses	2,655,554	2,924,928	(269,374)	(9)%

The Company had no revenue from operations during the nine months ended September 30, 2012 or 2011.

Clinical development expenses decreased by 26% or \$153,423 during the nine month period ended September 30, 2012 in comparison to the same period ended September 30, 2011. The decrease is due to large expenditures that occurred in 2011 associated with the Phase I/IIa clinical trial.

Research and development expenses increased 18% or \$46,530 during the nine month period ended September 30, 2012 in comparison to the same period ended September 30, 2011. The increase relates to an increase in the number of consultants engaged to develop the Company's intellectual property portfolio and those engaged in research and development of the Company's technology.

General and administrative expenses increased 33% or \$688,039 during the nine month period ended September 30, 2012 in comparison to the same period ended September 30, 2011, the increase is a result of an increase in stock based compensation of \$423,229 due to the grant of stock options to employees and consultants of the company and the release of shares from escrow during the period, an increase of \$279,709 in marketing and investor relations as the Company engaged consultants to disseminate the six month results of the Phase I/IIa clinical trial, an increase of \$35,360 in transfer agent and filing fees as the Company listed on the Canadian National Stock Exchange trading under the symbol RP, and an increase of \$50,284 in Salaries as the Company hired employees in the field of finance and administration. These increases were offset by a \$37,441 decrease in accounting and audit fees as the Company completed its reverse takeover transaction in

2011 and a \$54,009 decrease in consulting fees as certain consultants are no longer engaged by the Company. The remaining increase of \$9,093 is due to other immaterial offsetting variances.

Other items decreased 2,265% or \$850,520 during the nine month period ended September 30, 2012 in comparison to the same period ended September 30, 2011. The decrease is due to a \$896,798 decrease (gain) recorded on the fair value of warrants denominated in a foreign currency. There was also an increase of \$65,777 in foreign exchange loss due to US dollar balances of cash and cash equivalents and accounts payable affected by the fluctuations in the value of the US dollar as compared to the Canadian dollar.

### SUMMARY OF QUARTERLY RESULTS

The following is a summary of our financial results for the eight most recently completed quarters. The figures for the quarter ended December 31, 2011 are calculated from the Company's annual consolidated financial statements prepared under IFRS. Dec 31, 2010 amounts are from TrichoScience's unaudited quarterly financial statements prepared by management, restated for IFRS. The adoption of IFRS did not have a material effect on the quarterly results presented up to and including December 31, 2010.

	Sept. 30 2012 \$	Jun. 30 2012 \$	Mar. 31 2012 \$	Dec. 31 2011 \$	Sept. 30 2011 \$	Jun. 30 2011 \$	Mar. 31 2011 \$	Dec. 31 2010 \$ (restated for IFRS)
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net loss	(36,393)	(1,641,143)	(751,464)	(787,883)	(890,773)	(1,137,485)	(897,298)	(1,570,831)
Basic and diluted loss per share	(0.00)	(0.04)	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)	(0.07)

### LIQUIDITY AND CAPITAL RESOURCES

Our 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 September 30, 2012, the Company had not yet earned revenue from its business, had accumulated losses of \$9,525,775 since incorporation 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. Our financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event that the Company cannot 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. The Company has financed its operations to date through the issuance of equity. The continued volatility in the financial equity markets may make it difficult to raise funds by private placements of shares. There is no assurance that the Company will be successful with its financing ventures.

#### **Operating Activities**

During the nine months ended September 30, 2012, the Company used net cash in operating activities of \$2,360,950 compared to \$2,470,414 for the nine months ended September 30, 2011. While operational activities have increased in 2012, the net cash used in operating activities for the nine months ending

September 30, 2011 was the result of the payment of accounts payable existing at December 31, 2010 which resulted in an increased use of cash in operational activities in 2011.

**Investing Activities**

During the nine months ended September 30, 2012, the net cash used in investing activities was \$6,112 compared to net cash used of \$12,929 for the nine months ended September 30, 2011. Investing activities are primarily related to the purchase of laboratory and computer equipment.

**Financing Activities**

During the nine months ended September 30, 2012, cash provided by financing activities was \$2,761,093 (US\$2,776,569) compared to cash provided of \$2,482,170 (US\$2,550,000) for the nine months ended September 30, 2011. Financing activities during the nine months ended September 30, 2012 are the result of a private placement of 1,875,046 Common Shares issued at US\$1.50 per unit for gross proceeds of \$2,796,740 (US\$2,812,569). A finder's fee of \$35,647 (US\$36,000) was paid in connection with the private placement. 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. As the share purchase warrants are denominated in a currency other than the Company's functional currency, the fair value of the share purchase warrants is recognized as a derivative liability. The fair value on issuance was determined to be \$963,100, through use of the Black-Scholes Option Pricing Model.

During the nine months ended September 30, 2011, a private placement of 2,550,000 Common Shares issued at US\$1.00 per share took place.

**OUTSTANDING SHARE DATA**

<i>Issued and Outstanding – Common Shares</i>	Number of Shares
Balance, December 31, 2010	27,053,960
Shares issued for cash:	
- Private placements at US\$1.00	2,651,200
Issued on tender of TrichoScience shares	10,844,846
Conversion of Class C Preferred shares	2,600,002
Shares issued for cash:	
- Private placements at US\$1.50	1,875,046
<b>Balance, November 28, 2012</b>	<b>45,025,054</b>

**Stock Option Plans**

Under various stock option agreements, certain founders of TrichoScience granted stock options to acquire TrichoScience shares to employees and consultants of TrichoScience during the year ended December 31, 2011. Each founders' options was to be exercisable into one common share of TrichoScience at a price of \$1 per share, with 1/3 of such options 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 terms of the TrichoScience share exchange agreement, the right to receive TrichoScience shares under these agreements was converted into a right to receive Common Shares of RepliCel from the Founders. All other terms remained the same.

On December 22, 2010, the Company approved a 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 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. On July 9, 2012 the Company and certain optionee's amended certain provisions of their stock option agreements dated December 22, 2010, to reflect a reduction in the number of stock options granted by the Company to the Optionee. As a result, 300,000 company stock options exercisable at US\$0.50 were cancelled.

On March 11, 2011, the Company granted 1,350,000 stock options to directors, officers, employees and consultants. The options vest over a period of three years and each is exercisable into one Common Share at US\$1.00 per share until March 11, 2018.

On January 3, 2012, the Company granted 100,000 options to a consultant of the Company. Each option is exercisable into one Common Share at US\$2.35 per share until January 3, 2019. The options vest according to specific milestones.

On April 18, 2012, the Company granted 790,000 options to employees and consultants to the Company. The options vest over a period of three years and each is exercisable into one Common Share at US\$1.50 per share until April 18, 2019. During the three and nine months ended September 30, 2012, 75,000 of these options were forfeited.

On June 21, 2012 under the Company Stock Option Plan, 300,000 options were granted to a consultant of the Company. The options vest over a period of three years and are exercisable at US\$1.10 per share until June 21, 2017.

As at November 28, 2012 there are 2,113,750 stock options available for exercise.

<b><i>Stock Options Outstanding</i></b>	<b>Number</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2010	1,485,000	US\$0.50
Granted March 11, 2011	1,350,000	US\$1.00
Granted January 3, 2012	100,000	US\$2.35
Granted April 18, 2012	790,000	US\$1.50
Granted June 21, 2012	300,000	US\$1.10
Cancelled/forfeited	(375,000)	US\$0.70
<b>Balance, November 28, 2012</b>	<b>3,650,000</b>	<b>US\$0.98</b>

#### ***Share Purchase Warrants***

Share Purchase Warrants ("Warrants") granted in February, March and April 2012 entitle the holder to purchase an additional Common Share at US\$2.50 per share for a period of 24 months from the date of grant. Warrants issued May 17, 2012 entitle the holder to purchase an additional Common Share at US\$2.00 per share for a period of 48 months from the date of grant.

<b><i>Share Purchase Warrants Outstanding</i></b>	Number	Weighted Average Exercise Price
Balance, December 31, 2010	-	-
Granted February 29, 2012	66,304	US\$2.50
Granted March 29, 2012	876,042	US\$2.50
Granted April 18, 2012	502,667	US\$2.50
Granted April 20, 2012	430,033	US\$2.50
Granted May 17, 2012	250,000	US\$2.00
Balance, November 28, 2012	2,125,046	US\$2.44

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

#### **RELATED PARTY TRANSACTIONS**

As at September 30, 2012, included in the accounts payable and accrued liabilities, were \$14,464 (December 31, 2011: \$19,596) due to directors and/or officers of the Company and/or companies they control or of which they were significant shareholders for accrued consulting fees, research and development consulting fees, rent, legal fees and acquisition transaction costs. The amounts owing are unsecured, non-interest bearing and due on demand.

During the three months ended September 30, 2012 and 2011, the Company had the following related party transactions:

- Research and development consulting fees totalling \$38,198 (September 30, 2011 - \$33,000) were paid to a director and companies owned by directors and officers of the Company;
- Clinical trial costs of \$904 (September 30, 2011 - \$103,042) were paid to a company owned by a director of the Company;
- The Company considers key management to be the Chief Executive Officer, Chief Financial Officer and executive directors. Salaries and wages totalling \$103,000 (September 30, 2011 - \$90,000) and stock-based compensation totalling \$33,176 (September 30, 2011 - \$20,827) were paid to key management.

During the nine months ended September 30, 2012 and 2011, the Company had the following related party transactions:

- Research and development consulting fees totalling \$114,853 (September 30, 2011 - \$104,000) were paid to a director and companies owned by directors and officers of the Company;
- Clinical trial costs of \$100,951 (September 30, 2011 - \$103,042) were paid to a company owned by a director of the Company;
- Administrative consulting fees totalling \$nil (September 30, 2011 - \$45,750) were paid to directors and officers and companies owned by directors and officers of the Company;
- Rent totalling \$nil (September 30, 2011 - \$9,000) were paid to directors and officers and companies owned by directors and officers of the Company;
- Legal fees totalling \$nil (September 30, 2011 - \$6,621) were paid to directors and officers and companies owned by directors and officers of the Company;
- The Company considers key management to be the Chief Executive Officer, Chief Financial Officer and executive directors. Salaries and wages totalling \$296,750 (September 30, 2011 - \$288,000) and stock-based compensation totalling \$122,489 (September 30, 2011 - \$133,292) were paid to key management.

These transactions were in the normal course of operations having been measured at the exchange amount, being the amount established and agreed to by the parties.

#### **OFF BALANCE SHEET ARRANGEMENTS**

None.

#### **PROPOSED TRANSACTIONS**

None.

#### **CRITICAL ACCOUNTING ESTIMATES**

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 6 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.

### **CHANGES IN ACCOUNTING POLICIES**

The Company's significant accounting policies can be found in Note 3 to its annual audited consolidated financial statements for the year ended December 31, 2011.

### ***International Financial Reporting Standards ("IFRS")***

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-ending 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").

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 the notes to the Company's December 31, 2011 financial statements.

### ***Recent Accounting Pronouncements***

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.

- Amendment to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 revise the presentation of other comprehensive income (OCI). Separate subtotals are required for items which may subsequently be recycled through profit or loss and items that will not be recycled through profit or loss. The standard is effective for annual periods beginning on or after July 1, 2012. The Company has determined that there is no material impact as a result of these amendments on the presentation of the income statement.

There are no other IFRS or IFRC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

As at September 30, 2012, the Company's financial instruments are comprised of cash, accounts payable and accrued liabilities and warrants denominated in a foreign currency. The fair values of cash, 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
- 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



September 30, 2012 the Company held cash balances of \$943,996 (\$959,638 US) (December 31, 2011: \$307,756 or \$302,611 US). A 1% increase/decrease in the USD foreign exchange rate would have an impact of ±\$9,439 (\$9,596 US) on the cash balance held at September 30, 2012.

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

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

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.

## **RISKS AND UNCERTAINTIES**

### ***Risks Relating to our Business***

In addition to the other risks and uncertainties set out earlier in this MD&A, the Company is also exposed to the following risks and uncertainties:

*Our company currently does not generate revenue from its planned operations, and as a result, it faces a high risk of business failure.*

We have not generated any revenues from our planned operations to date. As of September 30, 2012, we had accumulated \$9,525,775 in losses since inception. Our business is focused on the development of a new hair cell replication technology. In order to generate revenues, we will incur substantial expenses in the development of our business. We therefore expect to incur significant losses in the foreseeable future. Our company recognizes that if we are unable to generate significant revenues from our activities, our entire business may fail. There is no history upon which to base any assumption as to the likelihood that we will be successful in our plan of operation, and we can provide no assurance to investors that we will generate operating revenues or achieve profitable operations in the future.

*Our auditors' opinion on our December 31, 2011 financial statements includes an explanatory paragraph in respect of there being substantial doubt about our ability to continue as a going concern.*

We have incurred a net loss of \$9,525,775 for the cumulative period from September 7, 2006 (inception) to September 30, 2012. We anticipate generating losses for at least the next 12 months. Therefore, there is substantial doubt about our ability to continue operations in the future as a going concern, as described by our auditors with respect to the financial statements for the year ended December 31, 2011. Our financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts of and classification of liabilities that might be necessary in the event that we cannot continue in existence. Our business operations may fail if our actual cash requirements exceed our estimates and we are not able to obtain further financing. If we cannot continue as a viable entity, our shareholders may lose some or all of their investment in our company.

*Our business is at an early stage of development and difficulties obtaining regulatory approval, technical deficiencies and other challenges may hinder the development and marketing of our hair cell replication technology.*

Our hair cell replication technology is at an early stage of development and we may not develop hair cell replication technology that can be commercialized. We are still in the early stages of identifying and conducting research on our technology. Our technology will require significant research and development and preclinical and clinical testing prior to regulatory approval, if required, being obtained in the United States or other countries. We may not be able to obtain regulatory approvals, if required, to complete necessary clinical trials for our hair cell replication technology, or to commercialize it. Our technology may prove to have undesirable and unintended side effects, or other characteristics adversely affecting its safety, efficacy or cost-effectiveness could prevent or limit its use. Our technology may fail to provide its intended benefit, or achieve benefits equal to or better than our competitor's products at the time of testing or production and, if so, our business may fail.

*Our clinical trials may fail to produce successful results or could be suspended due to unacceptable safety risks, which could cause our business to fail.*

Clinical trials are subject to extensive regulatory requirements, and are very expensive, time-consuming and difficult to design and implement, in part because they may be subject to rigorous regulatory requirements. Our products may fail to achieve necessary safety and efficacy endpoints during clinical trials. We believe that our clinical trials will take a substantial period of time to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be delayed by several factors, including: unforeseen safety issues; lack of effectiveness during clinical trials; slower than expected rates of patient recruitment; and inability to monitor patients adequately during or after treatment. In addition, we or regulatory officials may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks. If our clinical trials fail to produce successful results, or are suspended due to unacceptable safety risks, our business may fail.

*Our success depends on the acceptance of our hair cell replication technology by the medical community and consumers as a safe and effective solution.*

The success of our hair cell replication technology will depend on its acceptance by potential consumers and the medical community. Because our technology is new in the treatment of pattern baldness, the long term effects of using our new hair cell replication technology are unknown. The results of short-term clinical trials do not necessarily predict long-term clinical benefit or reveal adverse effects. If results obtained from future commercial experience indicate that our hair cell replication technology is not as safe or effective as other hair restoration treatments, adoption of this technology by consumers and the medical community may suffer and our business will be harmed.

*If we are not able to effectively protect our existing intellectual property, our business may suffer a material negative impact and may fail.*

The success of our company will be dependent on our ability to protect and develop our technology. We currently have registered patents for our hair cell replication technology in Australia and the European Union. If we are unable to protect our intellectual property, our business may be materially adversely affected. Further, we cannot be sure that our activities do not and will not infringe on the intellectual property rights of others. If we are compelled to prosecute infringing parties, defend our intellectual property or defend ourselves from intellectual property claims made by others, we may face significant expense and liability, as well as the diversion of management's attention from our business, any of which could negatively impact our business or financial condition.

*The successful acquisition and maintenance of patent rights is critical to our business and any failure in this regard could hinder the development and marketing of our technology.*

We currently have patent applications pending in the United States and several other countries around the world. Our pending patent applications may not result in the issuance of any patents. The applications may not be sufficient to meet the statutory requirements for patentability in all cases or may be the subject of interference proceedings by patent offices. These proceedings determine the priority of inventions and, thus, the right to a patent for technology. In the past, our patent applications have experienced delays and our patent applications may be delayed in the future. If others file patent applications or obtain patents similar to those we have licensed, such patents may restrict the use of our discoveries. The risk of third parties obtaining patents and filing patent applications will continue to increase as the hair restoration market expands. We cannot predict the ultimate scope and validity of existing patents and patents that may be granted to third parties, nor can we predict the extent to which we may wish or be required to obtain licenses to use such patents, or the availability and cost of acquiring such licenses. To the extent that licenses are required, the owners of the patents could bring legal actions against us to claim damages or to stop our manufacturing and marketing of the affected technology. If we become involved in patent litigation, it could consume a substantial portion of our resources.

*Competitors in the hair restoration and related fields may currently offer, or may develop, superior hair loss solutions which could limit the market for our technology.*

The market for hair restoration products and technology is competitive. We expect that some of our most significant competitors will be more established companies. These companies may have greater capital resources or experience in research and development, manufacturing, testing, obtaining regulatory approvals or marketing capabilities. As a result, our competitors may develop more competitive or affordable products, or achieve earlier patent protection or product commercialization than we are able to achieve. We face competition from companies offering traditional more established products and technologies.

*Our company may be subject to changes and uncertainties in laws and government regulations.*

Our company is subject to regulation by domestic and foreign governmental agencies with respect to many aspects of developing hair cell replication technology. In addition, relevant new legislation or regulation could occur. Any such new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our company's business, or the application of existing laws and regulations to hair cell replication technology, could have a material adverse effect on our company's business, prospects, financial condition and results of operations.

#### ***Risks Relating to our Management***

*We are dependent on the services of certain key consultants and the loss of any of these key consultants may have a materially adverse effect on our company.*

While engaged in the business of developing a new hair cell replication technology, our company's ability to continue to develop a competitive edge in the marketplace will depend, in large part, on our ability to attract and maintain qualified key management personnel. Competition for such personnel is intense, and we may not be able to attract and retain such personnel. Our company's growth has depended, and in the future will continue to depend, on the efforts of our key management consultants. Loss of any of these people would have a material adverse effect on our company. Currently, our company does not have key-man life insurance.

*Conflicts of interest may arise as a result of our company's directors and officers being directors or officers of other life sciences companies.*

Certain of our company's directors and officers are, or may become, directors or officers of other life sciences companies. While we are engaged in the business of developing a new hair cell replication technology, such

associations may give rise to conflicts of interest from time to time. Our company's directors are required by law to act honestly and in good faith with a view to our company's best interests and to disclose any interest that they may have in any project or opportunity of our company. If a conflict of interest arises at a meeting of our company's board of directors, any director in a conflict must disclose his interest and abstain from voting on such matter. In determining whether or not our company will participate in any project or opportunity, our company's directors will primarily consider the degree of risk to which our company may be exposed and our financial position at the time.

*Our company's by-laws contain provisions indemnifying our officers and directors against all costs, charges and expenses incurred by them.*

Our company's by-laws contain provisions limiting the liability of our officers and directors for all acts, receipts, neglects or defaults of themselves and all of our other officers or directors or for any loss, damage or expense incurred by our company which may happen in the execution of the duties of such officers or directors. Such limitations on liability may reduce the likelihood of derivative litigation against our company's officers and directors and may discourage or deter our shareholders from suing our company's officers and directors based upon breaches of their duties to our company, though such an action, if successful, might otherwise benefit our company and our shareholders.

*As a majority of our directors and officers are residents of countries other than the United States, investors may find it difficult to enforce, within the United States, any judgments obtained against our company, directors and officers.*

We are a British Columbia, Canada company. A majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. Consequently, it may be difficult for United States investors to effect service of process in the United States upon those directors or officers who are not residents of the United States, or to realize in the United States upon judgments of United States courts predicated upon civil liabilities under United States legislation. There is substantial doubt whether an original action based solely upon such civil liabilities could be brought successfully in Canada against any of such persons or our company.

#### **OTHER INFORMATION**

The Company's website address is [www.replicel.com](http://www.replicel.com). Other information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com)

#### **BOARD APPROVAL**

The board of directors of the Company has approved this MD&A