Hemostemix Inc.

Consolidated Financial Statements

December 31, 2018 and 2017

(Expressed in Canadian Dollars)

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December 31, 2018 and 2017

Independent Auditor's Report

To the Shareholders of Hemostemix Inc.:

Opinion

We have audited the consolidated financial statements of Hemostemix Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has a net loss of $6,187,685 during the year ended December 31, 2018 and, as of that date, the Company had an accumulated deficit of $36,603,707. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sandra Alison Solecki.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 30, 2019 — Licensed Public Accountants

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2018	December 31, 2017
	$	$
Assets		
Current Assets		
Cash and cash equivalents	**1,471,038**	3,958,703
Short term investments	**-**	1,254,659
HST / GST receivable	**102,975**	27,085
Other receivables and prepaid expenses	**88,242**	62,041
	1,662,255	5,302,488
Intangible assets, net (*note 4)*	**1**	1
Total Assets	**1,662,256**	5,302,489
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	**1,174,456**	464,792
Shareholders' Equity		
Share capital *(note 6)*	**31,034,212**	30,741,184
Warrants *(note 7)*	**3,136,394**	3,227,777
Contributed surplus *(note 8)*	**2,920,901**	1,284,758
Deficit	**(36,603,707)**	(30,416,022)
	487,800	4,837,697
Total Liabilities and Shareholders' Equity	**1,662,256**	5,302,489

Going concern *(note 1)*
Commitments & contingencies *(note 10)*
Subsequent events *(note 13)*

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

Approved by the Board:

Signed: ***"David Wood"***

Director, David Wood

Signed: ***"Angus Jenkins"***

Chairman, Angus Jenkins

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2018 and 2017
(Expressed in Canadian Dollars, except per share and number of shares amounts)

Expenses	**2018** **$**	2017 $
Research and development *(note 11)*	**2,263,944**	60,262
Consultant and management fees *(note 11)*	**1,723,813**	850,193
Stock compensation expense *(note 8)*	**1,636,143**	454,261
Lease and office maintenance	**199,339**	68,845
Professional fees	**497,033**	1,294,009
Travel (note 11)	**102,827**	82,659
Accretion expense *(note 5b,c)*	**-**	979,833
Foreign exchange gain	**(218,171)**	(74,676)
Interest expense (income), net *(note 5)*	**(23,465)**	158,987
Loss on settlement of debt *(note 6a,f)*	**-**	411,944
Change in fair value of derivative *(note 5c)*	**-**	(775,325)
Net Loss from continuing operations before income taxes	**(6,181,463)**	(3,510,992)
Recovery for income taxes *(note 9)*	**-**	(60,155)
Net loss from continuing operations	**(6,181,463)**	(3,450,837)
Loss from discontinued operations, net of income taxes *(note 3)*	**(6,222)**	(484,074)
Net loss and comprehensive loss	**(6,187,685)**	(3,934,911)

Basic and Diluted Net Loss per Share		
Continuing operations	**(0.02)**	(0.02)
Discontinued operations	**(0.00)**	(0.00)
Weighted average number of shares	**298,656,561**	139,538,260

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

Consolidated Statements of Changes in Equity
December 31, 2018 and 2017
(Expressed in Canadian Dollars, except for number of shares)

	Number of Shares	Share Capital	Warrants	Contributed Surplus	Equity Portion of Debt	Deficit	Total
	#	$	$	$	$	$	$
Balance, December 31, 2016	**67,858,119**	**22,097,981**	**-**	**848,697**	**72,207**	**(26,481,111)**	**(3,462,226)**
Conversion of demand notes payable *(note 6a)*	2,500,000	412,500	-	-	-	-	412,500
Conversion of promissory notes payable *(note 6a)*	4,025,000	716,207	-	-	(72,207)	-	644,000
Shares issued pursuant to right of first refusal *(note 6a)*	200,000	-	-	-	-	-	-
Issuance of convertible secured debt facilities *(note 6d)*	-	-	-	-	166,845	-	166,845
Shares issued pursuant to private placement *(note 6b)*	106,151,700	5,307,585	-	-	-	-	5,307,585
Shares issued pursuant to rights offering *(note 6c)*	21,275,015	1,063,751	-	-	-	-	1,063,751
Shares issued for secured credit (*note 6d)*	88,000,000	4,566,845	-	-	(166,845)	-	4,400,000
Warrants issued pursuant to private placement, rights offering and secured credit transaction *(note 6e)*	-	(3,227,777)	3,227,777	-	-	-	-
Shares issued for debt *(note 6f)*	6,664,886	866,435	-	-	-	-	866,435
Share options issued *(note 8)*	-	-	-	454,261	-	-	454,261
Exercise of share options *(note 6g)*	200,000	38,200	-	(18,200)	-	-	20,000
Share issue costs *(note 6h)*		(1,100,543)	-	-	-	-	(1,100,543)
Net loss and comprehensive loss for the year	-	-	-	-	-	(3,934,911)	(3,934,911)
Balance, December 31, 2017	**296,874,720**	**30,741,184**	**3,227,777**	**1,284,758**	**-**	**(30,416,022)**	**4,837,697**
Exercise of warrants *(note 6i)*	4,023,890	293,028	(91,383)	-	-	-	201,645
Share options issued *(note 8)*	-	-	-	1,636,143	-	-	1,636,143
Net loss and comprehensive loss for the year	-	-	-	-	-	(6,187,685)	(6,187,685)
Balance, December 31, 2018	**300,898,610**	**31,034,212**	**3,136,394**	**2,920,901**	**-**	**(36,603,707)**	**487,800**

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017 (note 3)
	$	$
Cash flow used in operating activities		
Net loss from continuing operations	**(6,181,463)**	(3,450,837)
Items not affecting cash:		
Stock compensation expense	**1,636,143**	454,261
Accretion expense *(note 5b,c)*	**-**	979,833
Interest expense *(note 5)*	**-**	172,390
Loss on settlement of debt *(note 6a,f)*	**-**	411,944
Change in fair value of derivative *(note 5c)*	**-**	(775,325)
Professional fees reimbursed in secured credit transaction	**-**	1,020,905
Deferred income tax recovery	**-**	(60,155)
Change in non-cash working capital items		
Reallocation of short term investments, with less than three months to maturity, to cash and cash equivalents	**1,254,659**	(1,254,659)
Other receivables and prepaid expenses	**(26,201)**	12,386
HST / GST receivable	**(75,890)**	58,521
Accounts payable and accrued expenses	**709,664**	(395,462)
Income taxes payable	**-**	(4,805)
Cash flow used in continuing operations	**(2,683,088)**	(2,831,003)
Cash flow used in discontinued operations *(note 3)*	**(6,222)**	(382,237)
Net cash used in operating activities	**(2,689,310)**	(3,213,240)
Cash flow from financing activities		
Proceeds from issuance of demand loan	**-**	1,250,000
Proceeds from private placements, rights offering, secured credit and shares for debt transactions, net of issuance costs	**-**	5,867,109
Exercise of share options (note 6g)	**-**	20,000
Exercise of warrants (note 6i)	**201,645**	-
Net cash from financing activities	**201,645**	7,137,109
(Decrease) increase in cash and cash equivalents	**(2,487,665)**	3,923,869
Cash and cash equivalents, beginning of year	**3,958,703**	34,834
Cash and cash equivalents, end of year	**1,471,038**	3,958,703

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

1. Nature of the Company and Going Concern

Hemostemix Inc. ("Hemostemix" or "the Company") is a biotechnology company whose principal business is to develop, manufacture and commercialize blood-derived cell therapies for medical conditions not adequately addressed by current treatments. Hemostemix Inc., an entity under the Business Corporations Act (Alberta) was formed in November 2014. The Company's head office is located at 2150, 300 – 5 Ave SW. Calgary, AB T2P 3C4.

Hemostemix Inc. has two wholly-owned subsidiaries. Kwalata Trading Limited ("Kwalata"), incorporated under the laws of Cyprus, was established to own intellectual property ("IP"). On October 1, 2018 management sold the IP from Kwalata to Hemostemix and began the planning process to wind up Kwalata [see note 3]. Hemostemix Ltd. another wholly-owned subsidiary was incorporated under the laws of Israel to conduct manufacturing and perform research and development. Effective October 1, 2017, Hemostemix Ltd. ceased operations [see note 3].

The Company incurred a net loss of $6,187,685 for the year ended December 31, 2018 (December 31, 2017 - $3,934,911) and had accumulated deficit as of December 31, 2018, of $36,603,707 (December 31, 2017 - $30,416,022). The Company's biotechnology is in an early stage of the development of its main product ACP-01. As a result, the Company has not produced revenue nor achieved operational profitability and positive cash flows.

These conditions raise significant doubt about the Company's ability to continue operating as a going concern. The consolidated financial statements do not include any adjustments to reflect any events since December 31, 2018 or the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from this uncertainty.

During 2017 and 2018, the Company completed several transactions to raise additional capital and restructure its debt (see notes 5, 6 and 7). The Company's ability to continue to operate is dependent upon continuing financial support.

These consolidated financial statements were approved by the Company's Board of Directors on April 30, 2019.

2. Summary of Significant Accounting Policies

Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of presentation

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

Consolidated financial statements

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Kwalata Trading Limited and Hemostemix Ltd. The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is determined when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Effective October 1, 2017, Hemostemix Ltd. ceased operations in Israel and moved its clinical trial activities to North America. The operating results of its activities in Israel have been presented as a discontinued operation. Furthermore, on October 1, 2018 Kwalata sold its IP to Hemostemix and management began to wind down the company.

These consolidated financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by the Company and all subsidiaries. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

2. Summary of Significant Accounting Policies - continued

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Each subsidiary determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The functional currency of the subsidiaries is Canadian dollars. Transactions denominated in foreign currency (other than the functional currency) are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or recorded in equity in hedging transactions, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

Segment reporting

The Company’s CEO is identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on the information provided by the Company’s management system. The Company has determined that it only has one operating segment located in Canada.

Use of estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from estimates made in these consolidated financial statements. Areas where estimates are significant to these consolidated financial statements are as follows;

i) The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on 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 the determination of the most appropriate inputs to the valuation model including the expected life of the share option, forfeiture rate, volatility and dividend yield and making assumptions about them which are disclosed in Note 8.

2. Summary of Significant Accounting Policies - continued

Financial Instruments

Financial instruments of the Company consist of cash and cash equivalents, short term investments, other receivables and accounts payable and accrued expenses.

Classification and measurement

Financial Assets
At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its financial assets:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on de-recognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.

Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are items in profit or loss.

2. Summary of Significant Accounting Policies - continued

Financial Instruments – continued

Classification and measurement - continued

Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or less. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

Our financial assets include cash and cash equivalents, short term investments, and other receivables. The classification and measurement of these financial assets are at amortized cost, as these assets are held within our business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the ‘solely payments of principal and interest’ (“SPPI”) criterion.

Financial liabilities
Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost. The accounting for our financial liabilities remained the same as it was under IAS 39.

Impairment
Under IFRS 9, accounting for impairment losses for financial assets uses a forward-looking expected credit loss (“ECL”) approach.

IFRS 9 requires that we record a loss allowance for ECLs on all financial assets not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset’s original effective interest rate.

There were no adjustments in impairment allowances of our financial assets as a result of the adoption of the ECL requirements of IFRS 9.

2. Summary of Significant Accounting Policies - continued

Cash and cash equivalents

Cash and cash equivalents are defined as cash plus highly liquid assets with an original term to maturity of three months or less.

Short term investments

Short term investments consist of guaranteed investment certificates with a term to maturity of greater than three months but less than one year and are held for the purpose of meeting short term cash commitments.

Research and development costs

The Company expenses amounts paid for intellectual property, development and production expenditures as they are incurred. However, such costs are deferred and recorded in intangible assets when they meet generally accepted criteria, to the extent that their recovery can reasonably be regarded as assured.

The costs must meet the following criteria to be deferred: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the intention to complete the intangible asset and use or sell it; the ability to use or sell the intangible asset; the probability of future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and the ability to reliably measure the expenditure attributable to the intangible asset during its development.

Once those criteria are met, the future costs, such as costs to obtain patent or trademark protection over the developed technologies, will be capitalized. These costs are then amortized over their expected useful lives. To date it has not been demonstrated that these expenditures will generate or be able to be used to generate probable future economic benefits.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainty of cash flow.

2. Summary of Significant Accounting Policies - continued

Share-based compensation

The Company measures equity-settled share-based payments to employees and others providing similar services at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is calculated using the Black-Scholes option valuation model and is expensed on a graded vesting basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, and credited to contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. When options are exercised, the proceeds together with the amount originally credited to contributed surplus are credited to share capital.

The use of the Black-Scholes model requires inputting a number of assumptions, including expected dividend yield, expected share price volatility, forfeiture rate, expected time until exercise and risk free interest rate. Although the assumptions used reflect management's best estimates, they involve inherent uncertainties based on conditions outside of the Company's control. If other assumptions were used, share-based compensation could be significantly impacted.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Tax on income is accrued using the tax rate that would be applicable to expected total annual earnings.

Deferred taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

2. Summary of Significant Accounting Policies - continued

Deferred taxes - continued

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

2. Summary of Significant Accounting Policies - continued

Loss per share

Loss per common share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding during the period. Common stock equivalents are excluded from the computation of diluted loss per share when their effect is anti-dilutive. For the periods presented, the potentially dilutive effect of stock options, warrants and the convertible instruments have proved to be anti-dilutive.

Changes in Accounting Policies and Disclosure

IFRS 9 – Financial Instruments was adopted effective January 1, 2018 as described under the section "**Financial Instruments**". Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. The Company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The application of IFRS 9 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of initial application of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2018 and provides new requirements for recognizing revenue. IFRS 15's core principle is for a company to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 sets out enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. As the Company is not currently earning revenue there is no impact on its financial reporting.

Standards issued and not yet adopted

IFRS 16 -Leases

IFRS 16 - Leases sets out a new model for lease accounting, replacing IAS 17. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. IFRS 16 specifies how a reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Early adoption will be permitted, provided the Company has adopted IFRS 15. The Company intends to adopt the new standard on its effective date and anticipates no impact on its financial reporting as the Company is currently not party to any financial leases.

(Expressed in Canadian dollars)

3. Discontinued Operations

On October 1, 2017, the Company ceased its operations in Israel and moved its manufacturing and research and development activities to North America. The operating results of its activities in Israel for the comparative period have been presented as a discontinued operation.

On October 1, 2018, management sold the IP from Kwalata to Hemostemix and began the planning process to wind up Kwalata. As at and for the year ended December 31, 2018 Kwalata had no assets, liabilities or net income.

The following table summarizes the Israel activities as classified as discontinued operations for the years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
	$	$
Operating expenses	**6,222**	380,986
Depreciation	**-**	28,671
Write down of equipment	**-**	73,166
Loss from discontinued operations before income tax expense	**6,222**	482,823
Income tax expense	**-**	1,251
Loss from discontinued operations, net of tax	**(6,222)**	(484,074)

The Israel operations had current assets of $1,784 as at December 31, 2018 (December 31, 2017 - $20,238) and current liabilities of $Nil as at December 31, 2018 (December 31, 2017 - $11,727).

(Expressed in Canadian dollars)

3. Discontinued Operations - continued

The following table summarizes the net cash flow attributable to the discontinued operations for the years ended December 31, 2018 and 2017:

	December 31, 2018 $	December 31, 2017 $
Net loss from discontinued operations	**(6,222)**	(484,074)
Items not affecting cash:		
Depreciation expense	**-**	28,671
Write down of equipment	**-**	73,166
Cash flows used in operating activities	**(6,222)**	(382,237)

4. Intangible Assets

Proprietary Protection **-** The Company's intellectual property is protected by several issued patents grouped together in five patent families, which currently have a carrying value of $1 (2017 - $1). Additional provisional patent applications have been filed and patents continue to be pursued in additional jurisdictions**;** however, the Company has determined that none of these costs meet their criteria for deferral (2017 - $Nil).

The five patent families are:

Family Patent	Status	Title
1	Granted in several countries including in the US Pending in Canada and Thailand	In vitro techniques for use with stem cells
2	Granted in several countries including Canada To be filed in US	Production from blood of cells of neural lineage
3	Granted in Singapore Pending in Canada, Europe and US	Regulating stem cells
4	Granted in several counties including the US and Canada Pending in Europe	Regulating stem cells
5	Granted Mexico, Singapore	Automated cell therapy

(Expressed in Canadian dollars)

5. Loans and Borrowings

(a) **Secured Credit Facility:**

During 2017, the Company secured a demand loan agreement providing funding at an annual rate of 12% and advances totaling $1,250,000 were made to the Company.

On September 15, 2017, pursuant to a secured credit transaction, the Company issued 88,000,000 common shares at a price of $0.05 for $4,400,000. As part of this transaction, the advances of $1,250,000 were considered repaid. *[see note 6d].*

(b) **Convertible promissory notes payable consists of the following:**

	December 31, 2018	December 31, 2017
Face value of convertible promissory notes upon issuance	$ -	$ 644,000
Less: discount	-	(98,237)
Book value of convertible promissory notes on initial recognition	-	545,763
Accumulated accretion expense	-	98,237
	-	644,000
Conversion of notes payable into common shares (note 6a)	-	(644,000)
Balance at end of year	**$ -**	$ -

In 2017, the Company converted a $1,000,0000 secured convertible debenture and $644,000 convertible promissory notes payable at $0.16 per share resulting in the issuance of 4,025,000 Shares. *[see note 6a]*. The Company allocated the total proceeds between the promissory notes payable and equity to account for the conversion feature. The fair value of the promissory notes was deemed to be $545,763, and the residual amount of $98,237 was allocated to equity. Accretion expense for the year ended December 31, 2017 was $65,492.

(Expressed in Canadian dollars)

5. Loans and Borrowings - continued

(c) **Convertible debenture payable consists of the following:**

	December 31, 2018	December 31, 2017
Face value of convertible debenture upon issuance	**$** -	$ 1,000,000
Less: Fair value of derivative liability	-	(729,035)
Book value of convertible debenture on initial recognition	-	270,965
Accumulated accretion expense	-	729,035
	-	1,000,000
Extinguishment of convertible debenture payable	-	(1,000,000)
Balance end of year	**$** -	$ -

In 2016, the Company received proceeds of $1,000,000 from the issuance of a non interest bearing convertible debenture. The debenture was convertible into units of the Company at a conversion price of $0.16 per unit. The conversion feature was recorded as a derivative liability, as the exercise price could be adjusted upon the issuance or deemed issuance of additional common shares at a price less than the conversion price contained in the convertible debenture. The fair value of the derivative liability upon issuance was $729,035 and the residual value of $270,965 was allocated to the convertible debenture payable.

In 2017 the Company entered into a convertible secured debt agreement to provide facilities up to $4,400,000. As a result, the $1,000,000 convertible debenture was extinguished and included in the new facility. Upon extinguishment of the convertible debenture, the Company recognized a gain on extinguishment of the derivative liability of $775,325 included in the change in fair value of derivative liability on the consolidated statements of loss and comprehensive loss. Accretion expense for the year was $687,341 representing the interest that was fully accreted up to the face value of the convertible debenture.

The $4,400,000 convertible secured debt facilities bore interest at 12% and was convertible into units of the Company at $0.05 per unit. The Company allocated the total proceeds received between the convertible loan facilities and equity to account for the conversion feature. The fair value of the promissory note was determined using a discount rate of 20%. The residual value of $166,845 was allocated to equity, net of deferred tax recovery of $60,155.

The convertible secured debt facilities were converted into units at $0.05 per unit as part of the secured credit transaction in 2017. Accretion expense for the year was $227,000 representing the interest that was fully accreted up to the face value of the convertible secured debt facilities. The residual value of $227,000 net of deferred tax recovery of $60,155 or $166,845 was transferred to share capital.

(Expressed in Canadian dollars)

6. Share Capital

The Company is authorized to issue an unlimited number of shares designated as Common Shares and an unlimited number of shares designated as Preferred Shares.

Common Shares	**Number of Shares**	**Amount**
	#	**$**
Balance, December 31, 2016	**67,858,119**	**22,097,981**
Conversion of demand notes payable (a)	2,500,000	412,500
Conversion of promissory notes payable (a)	4,025,000	716,207
Shares issued pursuant to ROFR agreement (a)	200,000	-
Shares issued pursuant to private placements (b)	106,151,700	5,307,585
Shares issued pursuant to rights offering (c)	21,275,015	1,063,751
Shares issued pursuant to secured credit transaction (d)	88,000,000	4,566,845
Value of warrants issued on private placements, rights offering and secured credit transactions (e)	-	(3,227,777)
Shares issued for debt (f)	6,664,886	866,435
Share options exercised (g)	200,000	38,200
Share issue costs (h)	-	(1,100,543)
Balance, December 31, 2017	**296,874,720**	**30,741,184**
Exercise of warrants (i)	4,023,890	293,028
Balance, December 31, 2018	**300,898,610**	**31,034,212**

(a) In 2017, the Company converted $1,184,000 in debt through the issuance of 6,725,000 shares of the Company. The debt conversions included (a) $644,000 in promissory notes converted at $0.16 per share resulting in the issuance of 4,025,000 Shares, (b) $500,000 of demand loans at $0.20 per share resulting in the issuance of 2,500,000 Shares and a gain on settlement of debt of $87,500, and (c) $40,000 owed pursuant to a Right of First Refusal Waiver Agreement resulting in a further issuance of 200,000 common shares which have been treated as share issuance costs.

On conversion of $644,000 in promissory notes, the equity component of the loan representing the residual value of $98,237 net of deferred tax recovery of $26,030, or $72,207 was transferred to share capital from equity portion of convertible debenture within equity.

6. Share Capital - continued

(b) In 2017, as part of a brokered private placement the Company converted all Subscription Receipts (initially issued on August 25, 2017) and issued 102,882,800 units at $0.05 per unit for gross proceeds of $5,144,140, and as part of a non-brokered private placement issued 3,268,900 units at $0.05 per unit for gross proceeds of $163,445, amounting to total shares issued of 106,151,700 and for total gross proceeds of $5,307,585. Each unit consisted of one common share and one-half common share purchase warrant, with each whole warrant exercisable for a period of 24 months with an exercise price of $0.20 per common share.

(c) In 2017 in connection with a Rights offering, the Company converted all Subscriptions Receipts (initially issued on August 25, 2017) and raised gross proceeds of $1,063,751 through the issuance of 21,275,015 units at $0.05. Each unit consisted of one common shares and one-half common share purchase warrant, with each whole warrant exercisable for a period of 24 months with an exercise price of $0.20 per common share.

In connection with the brokered private placement and the Rights offering respectively, the Company paid a cash marketing commission of $370,148, and a corporate finance fee of $31,500.

(d) In 2017 the Company completed a secured credit transaction consisting of converting its senior secured debt into equity. Pursuant to this transaction, 88,000,000 units were issued at $0.05 for $4,400,000. Each unit consisted of one common share and one-half common share purchase warrant, with each whole warrant exercisable for a period of 24 months with an exercise price of $0.20 per common share. The secured credit transaction of $4,566,845 is comprised of the following amounts:

- $1,250,000 advances under the secured credit facility.
- $1,000,000 secured debenture.
- $596,315 of share issuance costs paid directly by the secured creditor.
- $172,390 of net interest owing on secured credit facility.
- $1,020,905 legal and professional fees paid directly by the secured creditor.
- $219,586 of trade accounts payable and associated HST and GST.
- $140,804 of subscriptions receivable relating to the private placements.
- $166,845 representing the value of the conversion feature of the secured debt facilities which was transferred to share capital from equity portion of convertible debenture.

6. Share Capital - continued

(e) In 2017, the Company issued a total of 107,713,357 share purchase warrants, consisting of 51,441,400 pursuant to the brokered private placement, 1,634,450 pursuant to the non-brokered private placement, 10,637,507 pursuant to the Rights offering and 44,000,000 pursuant to the secured credit transaction. No warrants were issued pursuant to the shares for debt transactions. In addition, in connection with the brokered private placement and the rights offering respectively, the Company issued 7,879,961 agent warrants. *[see note 7]*

A reduction to share capital of $2,329,461 for investor warrants and $898,316 for agent warrants totalling $3,227,777 was made to account for the original Black-Scholes value of these warrants with a corresponding credit to warrants for the same amount. The fair value was calculated using the Black-Scholes model with the following assumptions: expected dividend yield of 0%, expected volatility of 145%, risk-free interest rate of 1.81% and an average expected life of 2 to 3 years.

(f) In 2017, the Company completed a series of shares for debt transactions with certain of the Company's unsecured creditors by issuing common shares of the Company to such creditors for full satisfaction of trade payables and other debts payable. The Company issued 5,540,000 common shares at $0.05 per share, and 1,124,886 common shares at $0.08 per share, amounting to 6,664,886 common shares for the satisfaction of a total of $366,991 in debt.

The fair value of the equity on the date of conversion of $866,435 was recorded as share capital and the Company recorded a loss on settlement of this debt in the amount of $499,444 representing the difference between the fair value of the equity issued and the carrying value of the debt of $366,991 on the date of conversion.

(g) During 2017, 200,000 share options were exercised at a price of $0.10 a share for proceeds of $20,000. An amount of $18,200 representing the fair value of the options exercised was transferred from contributed surplus to share capital.

(h) The Company incurred a total of $1,100,543 share issuance costs including broker fees, commissions, legal fees and corporate finance fees during 2017 relating to the private placements, rights offering, secured credit transaction and share for debt transactions.

(i) During the year ended December 31, 2018, a total of 4,022,890 agent warrants were exercised into 4,022,890 common shares and 2,011,444 Agent's Unit Warrants for total cash proceeds of $201,145, and a fair value amount of $91,383 was transferred from warrants to share capital. In addition, 1,000 investor warrants were exercised into 1,000 common shares for cash proceeds of $500. [see note 7(a)].

(Expressed in Canadian dollars)

7. Warrants

A summary of the status of the Company's warrants as at December 31, 2018 and 2017 is as follows:

	December 31, 2018		December 31, 2017	
Investor Warrants	**Number of warrants** **#**	**Weighted average exercise price** **$**	Number of warrants #	Weighted average exercise price $
Balance, beginning of year	**108,408,269**	**0.20**	1,325,411	0.86
Granted on financing (b)	**-**	**-**	107,713,358	0.20
Expired (c)	**-**	**-**	(630,500)	(1.25)
Issued on exercise of agent warrants (a)	**2,011,444**	**0.20**	-	-
Exercised (a)	**(1,000)**	**(0.50)**	-	-
Balance, end of year	**110,418,713**	**0.20**	108,408,269	0.20

A summary of the status of the Company's agent warrants as at December 31, 2018 and 2017 is as follows:

	December 31, 2018		December 31, 2017	
Agent Warrants	**Number of agent warrants** **#**	**Weighted average exercise price** **$**	Number of agent warrants #	Weighted average exercise price $
Balance, beginning of year	**8,422,741**	**0.08**	560,280	0.54
Granted on financing (b)	**-**	**-**	7,879,961	0.05
Expired (c)	**-**	**-**	(17,500)	(1.25)
Exercised (a)	**(4,022,890)**	**(0.05)**	-	-
Balance, end of year	**4,399,851**	**0.11**	8,422,741	0.08

7. Warrants - continued

a) During the year ended December 31, 2018, 1,000 investor warrants were exercised into 1,000 common shares for proceeds of $500. In addition, a total of 4,022,890 agent warrants were exercised into 4,022,890 common shares and 2,011,444 Agent's Unit Warrants for total cash proceeds of $201,145. A fair value amount of $91,383 was transferred from warrants to share capital [see note 6(i)]. As part of this exercise, a total of 2,011,444 whole Agent Unit Warrants were issued, which are exercisable into one common share at an exercise price of $0.20 per common share, until they expire on September 15, 2019.

b) In 2017, the Company issued a total of 107,713,358 share purchase warrants, consisting of 51,441,400 pursuant to the brokered private placement, 1,634,450 pursuant to the non-brokered private placement, 10,637,507 pursuant to the rights offering and 44,000,000 pursuant to the secured credit transaction. Each whole warrant entitles the holder to purchase one common share at a price of $0.20 per common share for a period of 2 years from the issuance date, with an accelerated exercise provision attached to each warrant commencing on the day following the issue date and the expiry of any hold period on the underlying common share, stating that if, for ten consecutive trading days, the closing price of the listed shares of the Company exceeds $1.00, then the Company may elect to accelerate the expiry date by providing the warrant holders 30 days' notice by way of a press release of the accelerated expiry date.

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In addition, in connection with the brokered private placement and the rights offering respectively, the Company issued 7,879,961 agent warrants. Each agent warrant entitles the agent to purchase one unit, consisting of one common share and one-half of one share purchase warrant ("Agent's Unit Warrants"), at an exercise price of $0.05 per unit exercisable for a period of 3 years from the issuance date. Each whole Agent's Unit Warrant is exercisable into one common share at an exercise price of $0.20 per common share for a period of 2 years from the original date of issuance of the agent warrants. The Agent's Unit Warrants are subject to an accelerated exercise provision attached to each Agent's Unit Warrant commencing on the day following the expiry of any applicable hold period on the underlying common share, stating that if, for ten consecutive trading days, the closing price of the listed common shares of the Company exceeds $1.00, then the Company may elect to accelerate the expiry date by providing the warrant holders, 30 days written notice together with the issue of a press release of the accelerated expiry date.

(Expressed in Canadian dollars)

7. Warrants - continued

c) In 2017, 630,500 warrants and 17,500 investor warrants at a price of $1.25 expired.

The exercise price and expiry date of all warrants outstanding as at December 31, 2018 are as follows:

Warrants	Exercise Price		Expiry Date
1,158,911	$	0.50	November 27, 2019
77,780	$	0.65	December 2, 2020
109,724,802	$	0.20	September 15, 2019
3,857,071	$	0.05	September 15, 2020
114,818,564			

8. Share Options

	December 31, 2018		December 31, 2017	
	Number of options **#**	**Weighted average exercise price** **$**	Number of options #	Weighted average exercise price $
Balance, beginning of year	**21,437,230**	**0.05**	2,670,000	0.10
Granted (a)(c)	**8,950,000**	**0.10**	20,767,230	0.05
Exercised (b)	**-**	**-**	(200,000)	(0.10)
Expired (b)(c)	**(330,000)**	**(0.10)**	(250,000)	(0.10)
Cancelled (b)	**(640,000)**	**(0.10)**	(1,550,000)	(0.10)
Balance, end of year	**29,417,230**	**0.06**	21,437,230	0.05

8. Share Options - continued

a) On September 27, 2018 and August 1, 2018, the Company granted 1,200,000 and 1,450,000 stock options respectively to certain consultants and Scientific Advisory Board members. The stock options all have an exercise price of $0.10 and an expiry date 5 years from the date of issue. The stock options granted have various vesting periods ranging from within 90 days of issuance to over a period of 3 years, while some of the stock options vest based on certain performance-based criteria, which are expected to be met over the next 2 years.

   On April 26, 2018, the Company granted 6,300,000 stock options to directors, officers, employees and consultants at an exercise price of $0.10 per common share. These stock options expire five years from the date of grant and are subject to various vesting provisions that generally have up to one-third vesting on each of the first, second and third anniversaries from the date of grant.

b) During the year ended December 31, 2018, 330,000 stock options at a price of $0.10 expired and 640,000 stock options at a price of $0,10 were cancelled.

c) In 2017 in conjunction with the financings closed, the Company granted 20,767,230 stock options with respect to an existing management agreement at an exercise price of $0.05 per common share. These stock options expire 5 years from the date of grant and vest over three years.

d) In 2017, 1,800,000 stock options at a price of $0.10 expired or were cancelled, and 200,000 stock options at $0.10 were exercised for proceeds of $20,000.

All stock options were granted pursuant to the Company's existing incentive stock option plan (the "Option Plan") and as such be subject to the general terms of the Option Plan and all applicable policies of the TSX Venture Exchange, including without limitation those that provide for maximum issuances to single participants under the Option Plan in any 12-month period.

The fair value of all stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 145% - 151%, risk-free interest rates of 1.4% - 2.3%, and an average expected life of five years. The fair value is amortized over the vesting period and $1,636,143 has been expensed during the year ended December 31, 2018 (2017 - $454,261).

(Expressed in Canadian dollars)

8. Share Options - continued

The following summarizes the stock options outstanding at December 31, 2018:

Number of Options #	Exercise Price $	Weighted average remaining life [years]
8,650,000	0.10	1.21
20,767,230	0.05	2.62
29,417,230		

9. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2017 – 26.5%) to the effective tax rate is as follows:

	2018	2017
Loss from continuing operations before provision for income taxes	**$ (6,181,463)**	$ (3,510,992)
Expected income tax (recovery)	$ (1,668,995)	$ (930,410)
Tax rate changes and other adjustments	-	91,135
Stock-based compensation and non-deductible expenses	443,120	(171,260)
Change in tax benefits not recognized	1,225,875	950,380
Provision for income taxes (recovery)	$ -	$ (60,155)

The Company’s income tax expense is allocated as follows:

Current tax expense	**$ -**	**$** -
Deferred tax recovery	**-**	(60,155)
Provision for income taxes (recovery)	**$ -**	$ (60,155)

(Expressed in Canadian dollars)

9. Income taxes - continued

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
Equipment	$ 6,610	$ 6,610
Share issuance costs	$ 1,357,750	$ 1,115,080
Cumulative eligible capital	$ 14,627,610	$ 9,586,620
Non-capital losses – Canada	$ 24,758,350	$ 19,643,200
Non-capital losses – Cyprus	$ 2,084,360	$ -
Capital losses – Canada	$ 129,420	$ -
Intangible assets - Cyprus	$ -	$ 7,125,340

The Canadian non-capital loss carry forwards expire as noted in the table below. Share issue and financing costs will be fully amortized in 2020. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

2025	$ 347,030
2026	2,934,190
2027	900,120
2028	642,600
2029	1,340,250
2030	661,800
2031	1,307,720
2032	572,060
2033	2,004,110
2034	279,000
2035	2,948,180
2036	2,841,970
2037	2,864,170
2038	5,115,150
Total	$ **24,758,350**

10. Commitments & Contingencies

Commitments

Consulting Agreement
The Company entered an agreement with Topstone Research Inc. (“Topstone”) on September 8, 2017 to provide clinical research. The value payment for services to Topstone in the agreement is approximately $1.7 million to be allocated over the 28-month span of the trial as the expenses are incurred. Based on the payments made to Topstone since the inception of the contract, there is approximately $1.3 million remaining to be paid on the contract.

Clinical Trial Costs
The Company is committed to payments totaling approximately $1.8 million for activities related to our clinical trial such as manufacturing and contract research. These payments are expected to be made over the next 12 months; however, the timing and dollar amount can vary by month depending on amount of clinical trial activity taking place. Additionally, the Company has the right to cancel these future commitments by providing the agreed upon notice in the contract, generally 60 days.

Contingencies

In the ordinary course of operating, the Company may from time to time be subject to various claims or possible claims. Management believes that there are no claims or possible claims that if resolved would either individually or collectively result in a material adverse impact on the Company’s financial position, results of operations, or cash flows. These matters are inherently uncertain, and management’s view of these matters may change in the future.

11. Related Party Balances and Transactions

Related party transactions are conducted on the terms and conditions agreed to by the related parties. It is the Company’s policy to conduct all transactions and settle all balances with related parties on market terms and conditions.

During the year ended December 31, 2018, the Company incurred $1.27 million of research and development expenses to a company related to Hemostemix by virtue of common management (2017 - $Nil)

The following includes all compensation to key management personnel:

The Company incurred $1.4 million, in consulting fees to the Chief Scientific Officer, members of the Scientific Advisory Board, the previous CFO of the Company and the management contractor, who is providing a Chief Executive Officer, Chief Financial Officer, accountant and other services, during the year ended December 31, 2018 (2017 - $915,656).

11. Related Party Balances and Transactions - continued

The management contractor was also reimbursed $91,348 in travel and other expenses during the year ended December 31, 2018 (December 31, 2017 - $103,819).

As at December 31, 2018, the Company had $390,542 in accounts payable and accrued liabilities owing to the management company, contract manufacturing company, Chief Scientific Officer, and Scientific Advisory Board Members (December 31, 2017 - $116,382).

The Company recorded share-based compensation for the year ended December 31, 2018 in the amount of $1,511,467 (2017 – $454,261) to key management personnel.

On January 25, 2017, the Company secured a credit facility providing an initial $750,000 in funding from the company that is the management contractor for Hemostemix. In early 2017, the management contractor assigned the demand loan agreement and sold the related indebtedness of the Company to a company related to the management contractor company of Hemostemix. The Company received an additional $500,000 bringing total advances to $1,250,000. On September 15, 2017, as part of the secured credit transaction, this debt was converted into common shares of the Company *[see note 6d].*

12. Financial Instruments

Our financial instruments consist of cash and cash equivalents, short term investments, other receivables and accounts payable and accrued liabilities. As at December 31, 2018, there are no significant differences between the carrying values of these amounts and their estimated market values.

Credit risk
Credit risk is the risk of financial loss if counterparty to a financial instrument fails to meet its contractual obligations. We are exposed to credit risk on our cash and cash equivalents and short term investments in the event of non-performance by counterparties, but we do not anticipate such non-performance. Our maximum exposure to credit risk at the end of the period is the carrying value of our cash and cash equivalents and short term investments.

We mitigate our exposure to credit risk by maintaining our primary operating and investment bank accounts with Schedule I banks in Canada.

Financial risk management

The Company's financial risk management policies are established to identify and analyze the risks faced by the Company, to set acceptable risk tolerance limits and controls, and to monitor risks and adherence to limits. The financial risk management policies and systems are reviewed regularly to

12. Financial Instruments - continued

Financial risk management – continued

ensure they remain consistent with the objectives and risk tolerance acceptable to the Company and current market trends and conditions. The Company, through its training and management standards and procedures, aims to uphold a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including foreign currency and interest rate risk).

Interest rate risk
Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk through our cash and cash equivalents and our short-term investments. We mitigate this risk by investment of excess cash resources in investment grade vehicles while matching maturities with our operational requirements.

Fluctuations in market rates of interest do not have a significant impact on our results of operations due to the short term to maturity of the investments held.

Currency risk
Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In the normal course of our operations, we are exposed to currency risk from the purchase of goods and services in the United States. In addition, we are exposed to currency risk to the extent cash is held in foreign currencies. The impact of a $0.01 increase in the value of the U.S. dollar against the Canadian dollar would have increased our net loss for the year ended December 31, 2018 by approximately $17,449.

We mitigate our foreign exchange risk by maintaining sufficient foreign currencies, through the purchase of foreign currencies to settle our foreign accounts payable and future commitments.

(Expressed in Canadian dollars)

12. Financial Instruments - continued

Balances in foreign currencies at December 31, 2018 are as follows:

	US Dollars $
Cash and cash equivalents	1,058,328
Accounts payable and accrued expenses	(220,177)
	838,151

Liquidity risk
Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities. We manage liquidity risk through the management of our capital structure. Accounts payable are all due within the current operating period.

As at December 31, 2018, the Company has a working capital of $487,799 (2017 - $4,837,696). As at December 31, 2018, the Company has an accumulated deficit of $36,603,707 (2017 - $30,416,022) and is not yet generating operating cash flows. As such, there is material uncertainty about the ability of the Company to continue as a going concern. In order to continue as a going concern, the Company requires additional capital to fund ongoing operations and intends on continuing to raise additional funds through the issuance of equity and/or debt.

Capital risk management

The Company’s objectives when managing capital are:

- ensuring sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintaining healthy liquidity reserves and access to capital; and
- minimizing the after-tax cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

To assess its effectiveness in managing capital, management monitors certain key ratios to ensure they are within targeted ranges.

The Company defines its capital as its equity. Its capital management objectives and approach were unchanged during the year.

13. Subsequent Events

Option Plan, Grants & Modifications of Awards

Subsequent to the end of the year:

- The Company granted 1,050,000 stock options to an officer of the Company and committed to granting an additional 5,000,000 stock options to the officer as they become available in the option pool. These stock options will vest on a quarterly basis such that all stock options will be fully vested by August 1, 2021.
- In exchange for continued assistance from the management company, whose contract expired in December 2018, the Company removed the vesting provisions of their 5,933,494 stock options and extended the expiry date to December 2019.
- The vesting terms for a total of 1,500,000 stock options granted to a consultant and an officer in April 2018 were modified from a three year vesting term, vesting 1/3 per year to a three year vesting term, vesting 1/3 of the grants on the first anniversary of the grant and 8-1/3% per quarter thereafter.

Non-Brokered Private Placement

On April 15, 2019 the Company announced that it intends to complete, subject to regulatory approval, a non-brokered private placement of up to a maximum of $6,000,000 principal amount of secured convertible debentures Each debenture will consist of $1,000 aggregate principal amount of 8% secured, non-transferable, convertible, redeemable debentures (the “Debentures”). The Debentures will mature twenty four (24) months from the date of the first closing (the "Maturity Date”) and bear interest at a rate of 8% per annum. The principal amount of the Debentures is convertible into common shares of the Company (“Common Shares”) at the option of the holder, at a price of $0.08 per Common Share in the first year after the date of issuance and at a price of $0.10 in the second year (as applicable, the “Conversion Price”), subject to TSX Venture Exchange (“TSXV”) approval.

The Company may elect to force the conversion of the principal amount of the outstanding Debentures at the Conversion Price (“Mandatory Conversion”), on not more than 60 days’ and not less than 30 days’ notice, if the daily closing trading price of the common shares on the TSXV is greater than $0.20 for 20 consecutive trading days preceding such notice, subject to the Mandatory Conversion being permitted under the policies of the TSXV. The Debentures will be secured obligations of the Company. The Debentures may be redeemed by the Company, in whole or in part, plus any accrued and unpaid interest, at any time prior to the Maturity Date. Finders’ fee may be payable in conjunction with the Offering at the election of the Company. The Debentures, and any common shares issuable upon conversion will be subject to a four month hold period from the date of closing.

14. Subsequent Events - continued

New Management Contract

The Company entered into a new management contractor agreement with Kingsman Scientific Management Inc. ("KSM"), dated April 18, 2019 with an effective date of January 1, 2019. KSM is majority owned by Kyle Makofka, the current CEO of the Company. Pursuant to this agreement, KSM will oversee and manage all aspects of the operations and management of Hemostemix, including the Company's current clinical trial, as well as assist in identifying additional appointments to the Company's Board of Directors and management team.

The agreement has a term of one year with an option for an additional one-year renewal period. KSM will be compensated based on a fixed fee for key management personnel costs, support services, accounting and office rental and cost plus 15% for clinical trial operations as well as be entitled to bonuses should it achieve costs savings for the current Phase II clinical trial for critical limb ischemia. In addition, KSM will be granted stock options to acquire common shares in the capital of the Company to be granted in an amount equivalent to up to five percent (5%) of the Company's total issued and outstanding common shares.

Modification of Contract Research Organization Contract

Subsequent to the end of the year, the Company signed a change order with its Contract Research Organization to move all activities related to the Company's Phase II clinical trial for critical limb ischemia to the new management company.