Hemostemix Inc.

Interim Condensed Consolidated Financial Statements

Second Quarter June 30, 2017 and 2016

(Expressed in Canadian Dollars)
(Unaudited)

Table of Contents
For the three and six months ended June 30, 2017 and 2016
Unaudited

Interim Condensed Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

		June 30, 2017		December 31, 2016
Assets				
Current				
Cash and cash equivalents	$	**51,685**	$	34,834
HST receivable		**29,914**		16,012
Other receivables and prepaid expenses *(note 4)*		**87,890**		74,427
		169,489		125,273
Equipment, net *(note 5)*		**81,837**		101,837
Intangible assets, net *(note 6)*		**1**		1
	$	**251,327**	$	227,111
Liabilities				
Current				
Accounts payable and accrued expenses *(notes 7 and 14)*	$	**1,524,802**	$	1,518,040
Income taxes payable		**-**		4,805
Demand loan payable *(note [8a])*		**900,000**		-
Demand notes payable *(note [8b])*		-		500,000
Convertible promissory notes payable *(note [8c])*		**-**		578,508
Derivative liability *(note [8d])*		**775,325**		775,325
		3,200,127		3,376,678
Convertible debenture payable *(note [8d])*		**387,986**		312,659
		3,588,113		3,689,337
Deficiency				
Share capital *(note 9)*		**23,354,188**		22,097,981
Contributed surplus *(note 11)*		**848,697**		848,697
Equity portion of convertible debt *(note 12)*		**-**		72,207
Deficit		**(27,539,671)**		(26,481,111)
		(3,336,786)		(3,462,226)
	$	**251,327**	$	227,111

Going concern *(note 1)*
Commitments and contingencies *(note 13)*
Subsequent events *(note 15)*
The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Approved by the Board:

Signed: ***"David Wood"*** Signed: ***"Angus Jenkins"***

Director, David Wood Director, Angus Jenkins

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
for the three and six months ended June 30, 2017 and 2016
(Expressed in Canadian Dollars)
(Unaudited)

	Three months June 30, 2017	Three months June 30, 2016	**Six months June 30, 2017**	Six Months June 30, 2016
Expenses				
Research and development salaries and related benefits	**$ 88,103**	**$** 186,819	$ **206,079**	$ 378,452
Research and development consulting fees *(note 4)*	**-**	37,988	**7,162**	71,420
Consultant fees *(note 14)*	**224,315**	201,705	**390,988**	398,404
Lease and office maintenance	**55,280**	58,968	**117,724**	171,322
Professional fees	**56,482**	119,625	**128,021**	221,354
Travel expenses	**-**	12,770	**-**	30,325
Depreciation *(note 5)*	**10,000**	9,722	**20,000**	19,266
Accretion expense *(note[8c,d])*	**39,898**	-	**140,818**	-
Foreign exchange loss (gain)	**7,760**	2,605	**(1,006)**	19,549
Interest expense	**24,001**	-	**41,073**	**-**
Finance expenses	**1,013**	543	**1,013**	1,655
Net loss and comprehensive loss for the period before income tax expense	**(506,852)**	(630,745)	**(1,051,872)**	(1,311,747)
Income tax expense	**2,949**	6,017	**6,688**	11,651
Net loss and comprehensive loss for the period	**(509,801)**	(636,762)	**$ (1,058,560)**	$ (1,323,398)
Loss per share – basic and diluted	**(0.01)**	(0.01)	**$ (0.01)**	$ (0.02)
Weighted average number of common shares outstanding - Basic and diluted	**74,208,397**	67,154,786	**74,208,397**	67,125,988

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

Interim Condensed Consolidated Statements of Changes in Deficiency
June 30, 2017 and 2016
(Expressed in Canadian Dollars)
(Unaudited)

	Number of Shares	Share Capital	Contributed Surplus	Equity Portion of Convertible Debt	Deficit	Total
Balance, December 31, 2015	67,098,119	$ 21,952,821	$ 917,857	$ -	$ (22,696,599)	$ 174,079
Exercise of share options	100,000	19,100	(9,100)	-	-	10,000
Net loss and comprehensive loss for the period	-	-	-	-	(1,323,398)	(1,232,398)
Balance, June 30, 2016	**67,198,119**	**$ 21,971,921**	**$ 908,757**	**$ -**	**$ (24,019,997)**	**$(1,139,319)**
Exercise of share options	660,000	126,060	(60,060)	-	-	66,000
Equity component of convertible promissory notes, net of deferred tax recovery	-	-	-	72,207	-	72,207
Net loss and comprehensive loss for the period	-	-	-	-	(2,461,114)	(2,461,114)
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	2,500,000	500,000	-	-	-	500,000
Conversion of promissory notes payable	4,025,000	716,207	-	(72,207)	-	644,000
Shares issued pursuant to Right of First Refusal	200,000	40,000	-	-	-	40,000
Net loss and comprehensive loss for the period	-	-	-	-	(1,058,560)	(1,058,560)
Balance, June 30, 2017	**74,583,119**	**$ 23,354,188**	**$ 848,697**	**$ -**	**$ (27,539,671)**	**$ (3,336,786)**

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

Interim Condensed Consolidated Statements of Cash Flows
for the six months ended June 30, 2017 and 2016
(Expressed in Canadian Dollars)
(Unaudited)

	Six months June 30, 2017	Six months June 30,2016
Cash flow from operating activities		
Net loss for the period	**$ (1,058,560)**	$ (1,323,398)
Items not affecting cash:		
Depreciation expense	**20,000**	19,266
Accretion expense	**140,818**	-
Non-cash working capital items:		
Other receivables and prepaid expenses	**(13,463)**	70,264
HST receivable	**(13,901)**	(684)
Accounts payable and accrued expenses	**6,762**	381,360
Income taxes payable	**(4,805)**	5,410
	(923,149)	(847,782)
Cash flow from investing activities		
Purchase of equipment	-	(1,532)
Cash flow from financing activities		
Proceeds from the issuance of demand loan	**900,000**	-
Proceeds from the issuance of notes payable	-	460,000
Exercise of share options	-	10,000
Shares issued pursuant to right of first refusal	**40,000**	-
	940,000	470,000
Increase (decrease) in cash and cash equivalents	**16,851**	(379,314)
Cash and cash equivalents, beginning of period	**34,834**	506,581
Cash and cash equivalents, end of period	**$ 51,685**	$ 127,267

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

Notes to Interim Condensed Consolidated Financial Statements
June 30, 2017 and 2016
(Expressed in Canadian dollars)
(Unaudited)

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., a new entity under the Business Corporations Act (Alberta) was formed by way of amalgamation of Theravitae Inc. ("TVI") and Technical Ventures RX Corp ("Technical"). The Company's head office is located at 5220 Duncan Ave Blackfalds AB T0M 0J0.

On November 10, 2014, Technical closed a qualifying transaction with TVI by way of a reverse take-over transaction pursuant to which the parties amalgamated to form Hemostemix Inc. *[see note 3]*. TVI was originally incorporated under the Canada Business Corporations Act and had two wholly-owned subsidiaries. Kwalata Trading Ltd, incorporated under the laws of Cyprus was established to own intellectual property ("IP"). Hemostemix Ltd, another wholly-owned subsidiary was incorporated under the laws of Israel. As a result of the amalgamation of TVI and Technical and the formation of Hemostemix Inc., Kwalata Trading Ltd. and Hemostemix Ltd. remain wholly owned subsidiaries of the Company.

The Company incurred a net loss of $1,058,560 during the six months ended June 30 2017 (2016 - $1,323,398) and had an accumulated deficit as of June 30, 2017, was $27,539,671 (2016 - $26,481,111). Recurring sources of revenue have not yet proven to be sufficient, as the Company's biotechnology is at an early stage and the Company has not 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 June 30, 2017 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.

The Company's ability to continue to operate is dependent upon additional financial support. During 2016 the Company raised proceeds of $2,144,000 from the issuance of debt. During the six months ended June 30, 2017, the Company converted $1,184,000 in debt with 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 a further 2,500,000 Shares, and (c) $40,000 owed pursuant to a Right of First Refusal Waiver Agreement resulting in a further issuance of 200,000 Shares. In addition, the Company secured a demand loan agreement providing $750,000 in funding at an annual rate of 12% compounded and payable (interest only) monthly.

On April 10, 2017, the Company announced that an agreement has been reached with a private equity investment firm, on a non-brokered senior secured debt financing of $4,400,000 in one or more tranches with possible conversion privileges. The agreement initially contemplated that the Company is to complete a non-brokered or brokered private placement or placements of a minimum of $4,000,000 up to a maximum of $8,000,000 on terms substantially similar to the conversion privileges in respect of the Secured Debt Financing above.

On July 11, 2017, the Company announced a Rights Offering and update to the proposed private placement and senior secured debt financing. The proposed offering is now of subscription receipts for a minimum of $5,000,000 and a maximum of $8,000,000. The details of the Rights Offering, namely that it will be offering rights to holders of its common shares on the basis of one Right for every one and one-half (1.5) common shares held. Each Right will entitle the holder to subscribe for one subscription receipt upon payment of the subscription price of CAD$0.05 per Subscription Receipt. Upon the completion of certain escrow release conditions, the Subscription Receipts will automatically be converted into units consisting of one common share of the Company and one-half of one transferable warrant. Each Warrant entitles the holder thereof to purchase one Common Share at price of CAD$0.20 for a period of 2 years from the Release Date, with an accelerated exercise provision attached to each Warrant commencing on the day following (x) the conversion of the applicable Subscription Receipts into Units and (y) 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 shares of the Company exceeds CDN $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.

There are currently 74,583,119 Common Shares issued and outstanding. If all of the 49,722,119 Rights issued under the Rights Offering are validly exercised by the shareholders, the Rights Offering will raise gross proceeds of approximately CAD$2.48 million.

As described in part above, the Rights Offering is part of a broader financial plan for the Company comprised of: (i) a CAD$4,400,000 secured credit transaction, (ii) the Rights Offering, (iii) a private placement of Subscription Receipts; and (iv) a series of shares for debt transactions with certain of the Company's creditors to issue Common Shares to such creditors in full satisfaction of trade payables and other debts payable. The Financings, are expected to generate proceeds of up to CAD$12,400,000, without accounting for the Agent's Option. If the Agent's Option were to be fully exercised, that would provide for additional gross proceeds of CAD$1,000,000 and the generation of overall proceeds pursuant to the Financings of CAD$13,400,000.

These interim condensed consolidated financial statements were approved by the Company's Board of Directors on August 29, 2017.

2. Summary of Significant Accounting Policies

The Company's principal accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended December 31, 2016 and have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2016.

Statement of Compliance

The accompanying unaudited interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards including 34, "Interim Financial Reporting" ("IAS 34"). The notes presented in these unaudited interim condensed consolidated financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited financial statements.

Basis of presentation

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

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

Consolidated financial statements

The interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Kwalata Trading Ltd. 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.

These interim condensed 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 interim condensed consolidated financial statements.

Standards issued and not yet adopted

The following are not expected to be adopted prior to their effective dates, and are being evaluated to determine their impact on the Company.

IFRS 9, Financial Instruments

IFRS 9 – Financial Instruments was issued by the IASB to establish principles for the financial reporting of financial assets and liabilities, including requirements to present certain information relating to the amounts, timing, and uncertainty of the entity's future cash flows. This standard is mandatorily effective from January 1, 2018, with earlier application permitted. Management intends to adopt IFRS 9 on its effective date and has not yet determined the potential impact on the Company's consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers

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. The Company intends to adopt the new Standard on its effective date and has yet to consider the impact on its financial reporting. As the company is not currently earning revenue there is no impact on its financial reporting.

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 has yet to consider the impact on its financial reporting.

3. Reverse Take-over Transaction ("RTO")

During 2014, the Company completed a reverse takeover transaction pursuant to which Technical Ventures RX Corp., a public company closed a qualifying transaction with Theravitae Inc. and the two parties amalgamated to form a new entity under the Business Corporations Act (Alberta) called "Hemostemix Inc." On November 27, 2014, shares of the Company began trading on the TSX Venture Exchange under the symbol "HEM". Pursuant to the transaction all outstanding Technical Ventures RX Corp. securities were exchanged for securities on the new entity on a one for five basis; and all outstanding Theravitae Inc. securities were exchanged on a one for ten basis.

Notes to Interim Condensed Consolidated Financial Statements
June 30, 2017 and 2016
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4. Other Receivables and Prepaid Expenses

		June 30, 2017		December 31, 2016
V.A.T. receivable	**$**	**1,942**	$	2,030
Prepaid insurance, rent, security deposit and income taxes		**65,948**		52,397
Prepaid legal fees		**20,000**		20,000
	$	**87,890**	$	74,427

During 2014, the Company entered an agreement with Criterium, Inc. ("Criterium"), a multi-national clinical research organization which specialized in administering and managing clinical trials. Criterium managed most aspects of the Company's phase 2 clinical trials. The value of the agreement with Criterium. was approximately US$3.1 million allocated over the 30-month span of the trial as the expenses are incurred. As at June 30, 2017, the Company had paid Criterium US$1,368,220 (CAD$1,833,415). Of the initial payment, US$150,000 (CAD$201,233) was required as a deposit for clinical research activities that is maintained and replenished as costs are incurred by Criterium. On June 28, 2016, Criterium notified the Company that it has terminated the agreement and thus placed a hold on enrollment for its phase 2 clinical trials in Canada and South Africa. *[see note 13]* As a result, at June 30, 2017, given the company had the legal right to offset, the deposit has been applied to invoices and reduced to $Nil resulting in a net balance payable to Criterium of US$71,290 (CAD$90,565).

(Expressed in Canadian dollars)

5. Equipment

	Computers and equipment	Office furniture and equipment	Total
Cost			
As at December 31, 2015 and 2016	$ 36,389	$ 227,562	$ 263,951
Additions	-	-	-
As at June 30, 2017	**$ 36,389**	**$ 227,562**	**$ 263,951**
Accumulated depreciation			
As at December 31, 2015	$ 15,705	$ 146,409	$ 162,114
Depreciation	-	35,230	38,556
As at December 31, 2016	$ 15,705	$ 146,409	$ 162,114
Depreciation	18,400	1,600	20,000
As at June 30, 2017	**$ 34,105**	**$ 148,009**	**$ 182,114**
Net book value			
As at June 30, 2017	$ 11,484	$ 80,353	$ 81,837
As at December 31, 2016	**$ 20,684**	**$ 81,153**	**$ 101,837**

(Expressed in Canadian dollars)

6. 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 (2016 - $1). Additional provisional patent applications have been filed and patents continue to be prosecuted in additional countries; however, the Company has determined that none of these costs meet their criteria for deferral (2016 - $Nil).

The five patent families are:

Family Patent	Status	Title
1	Granted in several countries including in the US Pending in Canada	In vitro techniques for use with stem cells
2	Granted in Canada and Singapore Pending in several countries, 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

7. Accounts Payable and Accrued Expenses

	June 30 2017	December 31 2016
Accounts payable	**$ 1,011,123**	$ 953,403
Employee and payroll accruals	**127,386**	139,130
Accrued expenses	**386,293**	425,507
	$ 1,524,802	$ 1,518,040

Notes to Interim Condensed Consolidated Financial Statements
June 30, 2017 and 2016
(Expressed in Canadian dollars)
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8. Loans and Borrowings

[a] Demand loan payable consist of the following:

		June 30 2017		December 31 2016
Demand loan payable	$	**900,000**	$	-

On January 25, 2017, the Company secured a demand loan agreement providing initially for $750,000 in funding at an annual rate of 12% compounded and payable (interest only) monthly. $750,000 was advanced during the first quarter of the year and an additional $150,000 was advanced on June 2, 2017.

[b] Demand notes payable consist of the following:

		June 30 2017		December 31 2016
Demand notes payable	$	-	$	500,000

In 2016, the Company received total proceeds of $500,000 from the issuance of notes payable. Interest accrues at a rate of 5% per annum, compounded and payable monthly.

On January 25, 2017, the Company converted these $500,000 of demand notes at $0.20 per share resulting in the issuance of 2,500,000 Shares *[see note 9]*.

[c] Convertible promissory notes payable consists of the following:

		June 30 2017		December 31 2016
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
Accretion expense during the period		-		32,745
Convertible promissory notes payable	**$**	**-**	**$**	**578,508**

In 2016, the Company closed a private placement offering for gross proceeds of $1,644,000. The private placement included a $1,000,000 secured convertible debenture *[see note 8d]* and $644,000 convertible promissory notes payable, including $464,000 advanced from insiders of the Company *[see note 14]*.

The Company allocated the total proceeds received 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 using a discounted cash flow method and an estimated cost of borrowing of 18%. The residual value of $98,237 was allocated to equity *(note 12)*.

(Expressed in Canadian dollars)

On January 25, 2017, the Company converted $644,000 of these promissory notes at $0.16 per share resulting in the issuance of 4,025,000 Shares. *[see note 9]* Accretion expense for the three months ended March 31, 2017 was $65,492 representing the interest that was fully accreted up to the full discount.

[d] Convertible debenture payable consists of the following:

	June 30, 2017	December 31, 2016
Face value of convertible debenture upon issuance	**$ 1,000,000**	$ 1,000,000
Less: Fair value of derivative liability	**(729,035)**	(729,035)
Book value of convertible debenture on initial recognition	**270,965**	270,965
Accumulated Accretion expense	**117,020**	41,694
Convertible debenture payable	$ **387,985**	$ 312,659

Pursuant to the private placement that closed in 2016, *(note [8c])* the Company received proceeds of $1,000,000 from the issuance of a convertible debenture. The debenture is non-interest bearing and due on September 2, 2019. The debenture is secured by a general security agreement and is convertible into units of the Company at a conversion price of $0.16 per unit. Each unit consists of one common share and one-half common share purchase warrant, each entitling the holder to acquire one additional common share for $0.30 within 36 months from the date of conversion. The Company may prepay the loan in whole or in part at any time without penalty. The loan contains customary change in control provisions, including acceleration of maturity date and increased interest rate to 10% in the event of change in control. The conversion feature has been recorded as a derivative liability as the exercise price may 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 as valued using an option pricing model with the following assumptions: risk free rate of return of 1.06%, expected share volatility of 68.8%, dividend yield of 0%, expected life of 3 years, the probability of a subsequent equity raise and expected issuance price. The residual value of $270,965 was allocated to the convertible debenture liability. Accretion expense for the six months ended June 30, 2017 was $75,326 (2016 – Nil)

The derivative liability was re-valued as at December 31, 2016, using an option pricing model with the following assumptions: risk free rate of return of 1.06%, expected share volatility of 68.8%, dividend yield of 0%, expected life of 2.67 years, the probability of a subsequent equity raise and expected issuance price. Change in the fair value of the derivative liability for the year ended December 31, 2016 was $46,290. There was no change in fair value of the derivative liability for the six month period ended June 30, 2017.

Notes to Interim Condensed Consolidated Financial Statements
June 30, 2017 and 2016
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9. 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.

All share numbers below are represented retroactively after giving effect to the share exchanges completed as part of a Qualifying Transaction on November 10, 2014 as outlined in Note 3.

Common Shares

	Number of Shares #	**Amount $**
Balance, December 31, 2014	**65,178,839**	**$ 21,140,085**
Shares issuances (i)	1,261,000	819,650
Shares issued for share issue costs (i)	35,000	-
Share options exercised (ii)	475,000	90,725
Warrants exercised (iii)	148,280	74,140
Share issue costs	-	(171,779)
Balance, December 31, 2015	**67,098,119**	**$ 21,952,821**
Share options exercised	100,000	19,100
Balance, June 30, 2016	**67,198,119**	**21,971,921**
Share options exercised (iv)	660,000	129,060
Balance, December 31, 2016	**67,858,119**	**$ 22,097,981**
Conversion of demand notes payable (v)	2,500,000	500,000
Conversion of promissory notes payable (v)	4,025,000	644,000
Shares issued pursuant to ROFR agreement (v)	200,000	40,000
Transfer of residual value of converted promissory note (v)	-	72,207
Balance, June 30, 2017	**74,583,119**	**23,354,188**

9. Share Capital - continued

(i) On December 2, 2015, the Company entered into share subscription agreements according to which the Company issued 1,261,000 units, at a price of $0.65 per share, for gross proceeds of $819,650. Each unit consisted of one common share and a half of one non-transferable common share purchase warrant. The Company issued an additional 35,000 units and 77,780 warrants as a finders' fee to the broker.

The 648,000 non-transferable units are exercisable at $1.25 a share and the 77,780 agents warrants are exercisable at $1.25 per share.

During the year ended December 31, 2015, the Company incurred cash transaction costs totalling $171,779 in addition to $35,000 of costs that were satisfied by the issue of 35,000 units, and $50,557 of costs that were satisfied by the issue of 77,780 agent warrants at $0.65.

(ii) During the year ended December 31, 2015, 475,000 share options were exercised at a price of $0.10 a share for proceeds of $47,500. An amount of $43,225 representing the fair value of the options exercised was transferred from contributed surplus to share capital.

(iii) During the year ended December 31, 2015, 148,280 warrants were exercised at a price of $0.50 for proceeds of $74,140.

(iv) During the year ended December 31, 2016, 760,000 share options were exercised at a price of $0.10 a share for proceeds of $76,000. An amount of $69,160 representing the fair value of the options exercised was transferred from contributed surplus to share capital.

(v) On January 25, 2017, the Company converted $1,184,000 in debt with 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 a further 2,500,000 Shares, and (c) $40,000 owed pursuant to a Right of First Refusal Waiver Agreement resulting in a further issuance of 200,000 Shares.

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.

(Expressed in Canadian dollars)

10. Warrants

All warrant numbers are represented retroactively after giving effect to the share exchanges completed as part of a Qualifying Transaction on November 10, 2014 as outlined in Note 3.

A summary of the status of the Company's warrants as at June 30, 2017 and December 31, 2016 is as follows:

	June 30 2017		**December 31 2015**	
	Number of warrants #	**Weighted average exercise price** $	**Number of warrants** #	**Weighted average exercise price** $
Balance, beginning of period	**1,885,691**	**0.79**	1,885,691	0.79
Balance, end of period	**1,885,691**	**0.79**	1,885,691	0.79

The exercise price and expiry date of warrants outstanding as at March 31, 2017 are as follows:

Warrants	**Exercise Price**		**Expiry Date**
1,159,911	$	0.50	November 27, 2019
648,000	$	1.25	December 2, 2017
77,780	$	1.25	December 2, 2020
1,885,691			

(Expressed in Canadian dollars)

11. Share Options

	June 30 2017		December 31 2016	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Balance, beginning of period	**2,670,000**	**0.10**	5,305,000	0.11
Exercised	**-**	**-**	(760,000)	(0.10)
Expired	**(1,550,000)**	**(0.10)**	(1,875,000)	(0.12)
Balance, end of period	**1,120,000**	**0.10**	2,670,000	0.10

Number of Options #	**Exercise Price** $	**Weighted average remaining life** [years]
1,120,000	**0.10**	**1.21**

During 2016, 760,000 share options were exercised at a price of $0.10 a share for proceeds of $76,000. An amount of $69,160 representing the fair value of the options exercised was transferred from contributed surplus to share capital. 1,775,000 share options at a price of $0.10 and 100,000 share options at a price of $0.50 totaling 1,875,000 share options expired.

During the six months ended June 30, 2017 1,550,000 share options at a price of $0.10 expired.

12. Equity Portion of Convertible Debt

	June 30 2017	**December 31 2016**
	$	$
Equity component of convertible promissory notes payable	**-**	72,207
Balance, end of period	**-**	72,207

During 2016, the Company issued promissory notes totaling $644,000. The Company bifurcated the equity component from the financial liability component. The value of the financial liability was determined to be $545,763 and the residual value of $98,237 was allocated to equity, net of deferred tax recovery of $26,030. *[see note 8c]*

On January 25, 2017, the Company converted the $644,000 in promissory notes at $0.16 per share resulting in the issuance of 4,025,000 Shares. *[see note 9]* The residual value of $98,237 net of deferred tax recovery of $26,030 or $72,207 was transferred to share capital.

13. Commitments and Contingencies

Lease commitments

The Company and the facility's lessor signed a laboratory and office lease agreement that expires in September 2017. The minimum lease commitments under this agreement are $39,989.

Contingencies

In 2013, a former CEO and current Director of the Company, sued the Company due to unpaid compensation fees in an amount of $138,000, with regards to 2008 until 2010 years. On August 16, 2013, the Company filed a statement of defence to the lawsuit. Management does not consider it probable that it must make any cash outflow therefore; the Company has not recorded a provision. No further action or legal activity has taken place since August 2016.

In 2015, the Company was party to a claim made by a former officer and director related to share options held in escrow. While management reached a settlement with this individual for a total of $120,000, only $60,000 was paid and then a further claim was made after the settlement regarding options. Management further settled the second claim related to options with a cash settlement of $120,000 and has included the payments owing in accounts payable in the amount of $60,000 on December 31, 2016 and the options remain issued and outstanding.

In 2015, the Company was party to a claim made by a former officer related to salary, bonus and options. Management settled the claim on August 12, 2016 in the amount of $170,000 which was included in accounts payable at December 31, 2016. During the six months ended June 30, 2017, a balance of $100,000 was paid in full.

In 2016, the Company was party to a claim made by a former officer and a Company controlled by this officer who have sued based on a historical consulting services agreement. The Company disputes the amounts claimed, but did not have the financial resources available to defend this litigation in the ordinary course of business, and thus, this party has obtained a judgement in the total amount $345,539. The full amount of this claim is included in accounts payable at June 30, 2017 (December 31, 2016 - $345,539) Subsequent to the end of period, the Company finalized a settlement with this party for a settlement amount of $120,000 plus GST, of which $60,000 will be settle by way of the issuance of shares (See Subsequent Events note 15).

Consulting Agreement

The Company entered an agreement with Criterium to provide clinical research as described in Note 4. The value of the agreement with Criterium was approximately US$3.1 million to be allocated over the 30-month span of the trial as the expenses were incurred.

As at June 30, 2017, the Company paid Criterium US$1,368,220 (CAD$1,833,415). Of the initial payment, US$150,000 (CAD$201,232) was required as a deposit for clinical research activities that was to be maintained and replenished as costs were incurred by Criterium.

13. Commitments and Contingencies - continued

Consulting Agreement -continued

On June 28, 2016, Criterium notified the Company that it had terminated the agreement. As a result, Hemostemix placed a hold on enrollment for its phase 2 clinical trials in Canada and South Africa. As a result, at March 31, 2017, the deposit was applied to invoices and reduced to $Nil resulting in a net balance payable to Criterium of US$71,290 (CAD$90,565). With the termination of this agreement, Criterium is no longer be providing any services for the Hemostemix phase 2 clinical trials, including, any further monitoring visits.

Licensing Agreement

In 2015, the Company announced that it had formed a strategic alliance with Hemostemix Asia, Inc. (“HEMA”), a private, independent company based in Taipei, Taiwan. The agreement covered a manufacturing and commercial license to HEMA of the Company’s ACP-01 technology for treating critical limb ischemia patients in Taiwan, China and South Korea.

On August 29, 2016, the Company announced that it has terminated this agreement with HEMA. Per the agreement, HEMA was supposed to raise US$5 million toward the implementation of their business plan and contribute up to 20 participants from three to five clinical sites in Taiwan to the ongoing Hemostemix phase-2 clinical trial for treating CLI. The agreement further designated Hemostemix as an equity partner with 35% ownership in HEMA. These obligations were not met as required. HEMA initially sued the Company over the termination of this agreement and is seeking $50,000,000 in damages.

On August 17, 2017, the Company reached an agreement HEMA to definitively resolve all outstanding matters with HEMA including the litigation against the Company being carried on by HEMA (See Subsequent Events Note 15).

As part of the agreement, the Company has agreed to pay HEMA an amount based on expenses incurred based on the strategic alliance formed between the Company and HEMA in 2015, together with a payment of certain legal fees of HEMA incurred in connection with the litigation against the Company.

The payment based on expenses is to be $217,000 and made by way of the issuance of common shares in the capital of the Company. The Company expects to treat the transaction with HEMA as another one of the previously announced series of shares for debt transactions with certain of the Company’s creditors in full satisfaction of certain trade payables and other debts payable to be concluded in connection with the Company’s previously announced offerings of subscription receipts of the Company comprised of: (i) a private placement; and (ii) concurrent rights offering (the “Offering”). The legal fees are to be paid for in cash.

Pursuant to the agreement, subject only to the receipt of the payments, HEMA will release all claims against the Company, HEMA’s litigation (which included a USD$50 million loss of income claim) will be discontinued on a without costs basis and the strategic alliance between the Company and HEMA will be terminated.

Management Agreement

Effective December 16, 2016, the Company entered into a Management Contractor Agreement to oversee and manage a reorganization of the Company including the appointment of a new board of directors and management team. The agreement has a term of two years and the contractor will be compensated based on 15% of total operating expenses over the term of the agreement and options to acquire 7% of the Company's outstanding shares.

Under the terms of this agreement, Kyle Makofka was appointed as Chief Restructuring Officer ("CRO").

14. 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.

The following includes all compensation to key management personnel:

The Company incurred $352,099 in consulting fees to the CFO of the Company and the management contractor, who is providing a Chief Restructuring Officer, Accountant and technical consultant among other services, during the six-month period ended June 30, 2017 (June 30, 2016 - $198,967 to the CFO and former CEO of the Company). As at June 30, 2016, the Company has $229,841 in accounts payable and accrued liabilities owing to this management company and officer (December 31, 2016 - $194,698).

On January 25, 2017, the Company secured a demand loan agreement providing and initial $750,000 in funding at an annual rate of 12% compounded and payable (interest only) monthly 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 $150,000 on June 2, 2017 bringing the total demand loan payable total to $900,000 on June 30, 2017.

In 2016, (note [8c]) the Company received proceeds of $1,000,000 from the issuance of a convertible debenture. The debenture was acquired by the company that became the management contractor for Hemostemix on December 22, 2016. In early 2017, the debenture was sold to a company related to the management contractor company of Hemostemix. The debenture is noninterest bearing and due on September 2, 2019. The debenture is secured by a general security agreement and is convertible into units of the Company at a conversion price of $0.16 per unit. Each unit consists of one common share and one-half common share purchase warrant, each entitling the holder to acquire one additional common share for $0.30 within 36 months from the date of conversion.

Proceeds of $76,000 were received from the exercise of 760,000 share options from 2 former directors of the Company in 2016.

Proceeds from directors and shareholders in the form of promissory notes payable issued during the 2016 amounted to $464,000. [see note 8c].

Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Expressed in Canadian dollars)

15. Subsequent Events

a) In 2016, the Company was party to a claim made by a former officer and a Company controlled by this officer who have sued based on a historical consulting services agreement. The Company disputes the amounts claimed, but did not have the financial resources available to defend this litigation in the ordinary course of business, and thus, this party has obtained a judgement in the total amount $345,539. Subsequent to the end of period, the Company finalized a settlement with this party for a settlement amount of $120,000 plus GST, of which $60,000 will be settle by way of the issuance of shares.

b) On July 11, 2017, the Company announced a Rights Offering and update to the proposed private placement and senior secured debt financing originally announced on April 10,2017. The proposed offering is now of subscription receipts for a minimum of $5,000,000 and a maximum of $8,000,000. The details of the Rights Offering, namely that it will be offering rights to holders of its common shares on the basis of one Right for every one and one-half (1.5) common shares held. Each Right will entitle the holder to subscribe for one subscription receipt upon payment of the subscription price of CAD$0.05 per Subscription Receipt. Upon the completion of certain escrow release conditions, the Subscription Receipts will automatically be converted into units consisting of one common share of the Company and one-half of one transferable warrant. Each Warrant entitles the holder thereof to purchase one Common Share at price of CAD$0.20 for a period of 2 years from the Release Date, with an accelerated exercise provision attached to each Warrant commencing on the day following (x) the conversion of the applicable Subscription Receipts into Units and (y) 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 shares of the Company exceeds CDN $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.

   There are currently 74,583,119 Common Shares issued and outstanding. If all of the 49,722,119 Rights issued under the Rights Offering are validly exercised by the shareholders, the Rights Offering will raise gross proceeds of approximately CAD$2.48 million.

   As described in part above, the Rights Offering is part of a broader financial plan for the Company comprised of: (i) a CAD$4,400,000 secured credit transaction, (ii) the Rights Offering, (iii) a private placement of Subscription Receipts; and (iv) a series of shares for debt transactions with certain of the Company's creditors to issue Common Shares to such creditors in full satisfaction of trade payables and other debts payable. The Financings, are expected to generate proceeds of up to CAD$12,400,000, without accounting for the Agent's Option. If the Agent's Option were to be fully exercised, that would provide for additional gross proceeds of CAD$1,000,000 and the generation of overall proceeds pursuant to the Financings of CAD$13,400,000.

Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Expressed in Canadian dollars)

c) On July 25, 2017, the Company received an additional $225,000 in demand note payable bringing the total demand note payable to $1,125,000.

d) On August 15, 2017, the Company announced that the Company has raised gross proceeds of $1,063,751 from its previously announced offering of rights ("Rights") which expired on August 11, 2017. In addition, the Company announced that that the Company and its agent in the private placement financing have mutually agreed to extend the time for the closing of the private placement offering and the related escrow deadline and termination date described in its July 11, 2017 press release from August 15, 2017 to August 25, 2017.

e) On August 17, 2017, the Company reached an agreement HEMA to definitively resolve all outstanding matters with HEMA including the litigation against the Company being carried on by HEMA.

As part of the agreement, the Company has agreed to pay HEMA an amount based on expenses incurred based on the strategic alliance formed between the Company and HEMA in 2015, together with a payment of certain legal fees of HEMA incurred in connection with the litigation against the Company.

The payment based on expenses is to be $217,000 and made by way of the issuance of common shares in the capital of the Company. The Company expects to treat the transaction with HEMA as another one of the previously announced series of shares for debt transactions with certain of the Company's creditors in full satisfaction of certain trade payables and other debts payable to be concluded in connection with the Company's previously announced offerings of subscription receipts of the Company comprised of: (i) a private placement; and (ii) concurrent rights offering. The legal fees are to be paid for in cash.

Pursuant to the agreement, subject only to the receipt of the payments, HEMA will release all claims against the Company, HEMA's litigation (which included a USD$50 million loss of income claim) will be discontinued on a without costs basis and the strategic alliance between the Company and HEMA will be terminated.

f) On August 25, 2017, the Company announced that the Company has raised gross proceeds of $5,144,140 from its previously announced brokered private placement of subscription receipts. The Company closed on the Brokered Private Placement together with a related non-brokered private placement of subscription receipts pursuant to which it raised additional gross proceeds of $163,445 and the offering of rights which the Company raised gross proceeds of $1,063,751, for aggregate gross proceeds from the Company from the three sources of $6,371,336. The Company issued an aggregate of 127,426,715 subscription receipts, consisting of 102,882,800 pursuant to the Brokered Private Placement, 3,268,900 pursuant to the Non-Brokered Private Placement and 21,275,015 pursuant to the Rights Offering.

As previously announced, the Offering is part of a capital raising program consisting of (i) a $4,400,000 secured credit transaction, (ii) the Rights Offering, (iii) the Brokered Private Placement (as now supplemented by the Non-Brokered Private Placement); and (iv) a series of shares for debt transactions (collectively, the "Financings").

The gross proceeds of the Offering, will be held in escrow on behalf of the subscribers pending the delivery by the Corporation and the Agent, to the Escrow Agent, a joint notice confirming that the release conditions are satisfied prior to the escrow deadline. Assuming that occurs, each Subscription Receipt issued pursuant to the Offering will automatically be converted into 127,426,715 units consisting of 127,426,715 common shares and 63,713,357 transferable warrants. Each Warrant will entitle the holder thereof to purchase one Common Share at price of $0.20 for a period of 2 years from the Release Date, with an accelerated exercise provision attached to each Warrant.

The Company and the Agent have also mutually agreed to extend the related escrow deadline and termination date described in its July 11, 2017 and August 15, 2017 press releases from August 25, 2017 to September 15, 2017.