Hemostemix Inc.

Consolidated Financial Statements

December 31, 2017 and 2016

(Expressed in Canadian Dollars)

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December 31, 2017 and 2016

Independent Auditors' Report

To the Shareholders of Hemostemix Inc.:

We have audited the accompanying consolidated financial statements of Hemostemix Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hemostemix Inc. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Hemostemix Inc.'s ability to continue as a going concern.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 30, 2018 — Licensed Public Accountants

MNP

Hemostemix Inc.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2017	December 31, 2016
Assets		
Current		
Cash and cash equivalents	**$ 3,958,703**	$ 34,834
Short term investments	**1,254,659**	-
HST receivable	**27,085**	16,012
Other receivables and prepaid expenses	**62,041**	74,427
	5,302,488	125,273
Equipment, net *(note 5)*	**-**	101,837
Intangible assets, net *(note 6)*	**1**	1
	$ 5,302,489	$ 227,111
Liabilities		
Current		
Accounts payable and accrued expenses *(notes 7, 14 and 15)*	**$ 464,792**	$ 1,518,040
Income taxes payable	**-**	4,805
Demand notes payable *(note 8b)*	**-**	500,000
Convertible promissory notes payable *(note 8c)*	**-**	578,508
Derivative liability *(note 8d)*	**-**	775,325
	464,792	3,376,678
Convertible debenture payable *(note 8d)*	**-**	312,659
	464,792	3,689,337
Shareholders' Equity (Deficiency)		
Share capital *(note 9)*	**30,741,184**	22,097,981
Warrants *(note 10)*	**3,227,777**	-
Contributed surplus *(note 11)*	**1,284,758**	848,697
Equity portion of convertible debt *(note 12)*	**-**	72,207
Deficit	**(30,416,022)**	(26,481,111)
	4,837,697	(3,462,226)
	$ 5,302,489	$ 227,111

Going concern *(note 1)*
Commitments and contingencies *(note 14)*
Subsequent events *(note 18)*

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"***

Director, Angus Jenkins

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars, except per share and number of shares amounts)

	2017	2016
		(Note 4)
	$	$
Expenses		
Research and development consulting fees	**60,262**	178,643
Consultant fees *(note 14 and 15)*	**850,193**	1,348,725
Stock compensation expense *(note 11)*	**454,261**	-
Lease and office maintenance	**68,845**	232,105
Professional fees *(note 9e)*	**1,294,009**	817,048
Travel expenses	**82,659**	37,386
Accretion expense *(note 8c, d and 12)*	**979,833**	74,440
Foreign exchange (gain) loss	**(74,676)**	19,188
Interest expense, net *(note 8)*	**158,987**	2,297
Loss on settlement of debt *(note 9b and 9g)*	**411,944**	-
Change in fair value of derivative *(note 8d)*	**(775,325)**	46,290
Net loss from continuing operations before income taxes	**(3,510,992)**	(2,756,122)
Recovery for income taxes *(note 13)*	**(60,155)**	(26,030)
Net loss from continuing operations	**(3,450,837)**	(2,730,092)
Loss from discontinued operations, net of income taxes *(note 4)*	**(484,074)**	(1,054,420)
Net loss and comprehensive loss	**(3,934,911)**	(3,784,512)

Net Loss per share		
Basic and diluted from continuing operations	**(0.02)**	(0.04)
Basic and diluted from discontinued operations	**(0.00)**	(0.02)
Weighted average number of shares - basic and diluted	**139,538,260**	67,409,376

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

Consolidated Statements of Changes in Equity (Deficiency)
For the years ended December 31, 2017 and 2016
(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, 2015	67,098,119	21,952,821	-	917,857	-	(22,696,599)	174,079
Exercise of share options *(note 9a)*	760,000	145,160	-	(69,160)	-	-	76,000
Equity component of promissory notes *(note 9b)*	-	-	-	-	72,207	-	72,207
Net loss and comprehensive loss for the year	-	-	-	-	-	(3,784,512)	(3,784,512)
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 9b]*	2,500,000	412,500	-	-	-	-	412,500
Conversion of promissory notes payable *[note 9b]*	4,025,000	716,207	-	-	(72,207)	-	644,000
Issuance of convertible secured debt facilities *[note 8d]*	-	-	-	-	166,845	-	166,845
Shares issued pursuant to Right of First Refusal *[note 9b]*	200,000	-	-	-	-	-	-
Shares issued pursuant to Private Placement *[note 9c]*	106,151,700	5,307,585		-	-	-	5,307,585
Shares issued pursuant to Rights Offering *[note 9d]*	21,275,015	1,063,751	-	-	-	-	1,063,751
Shares issued for Secured Credit *[note 8a and 9e]*	88,000,000	4,566,845	-	-	(166,845)	-	4,400,000
Warrants issued pursuant to Private Placement, Rights Offering and Secured Credit transaction *[note 9f]*	-	(3,227,777)	3,227,777	-	-	-	-
Shares issued for debt *[note 9g]*	6,664,886	866,435	-	-	-	-	866,435
Share options issued *[note 11]*	-	-	-	454,261	-	-	454,261
Exercise of share options *[note 9h]*	200,000	38,200	-	(18,200)	-	-	20,000
Share issue costs *[note 9i]*	-	(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**

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016 (Note 4)
	$	$
Cash flow from operating activities		
Net loss from continuing operations	**(3,450,837)**	(2,730,092)
Items not affecting cash:		
Stock compensation expense	**454,261**	-
Accretion expense *(note 8c,d)*	**979,833**	74,440
Interest expense reimbursed in secured credit transaction *(note 9e)*	**172,390**	-
Loss on settlement of debt *(note 9b and 9g)*	**411,944**	-
Change in fair value of derivative *(note 8d)*	**(775,325)**	46,290
Professional fees reimbursed in secured credit transaction *(note 9e)*	**1,020,905**	-
Deferred income tax recovery *(note 13)*	**(60,155)**	(26,030)
Change in non-cash working capital items:		
Purchase of short term investments	**(1,254,659)**	-
Other receivables and prepaid expenses	**12,386**	58,026
HST receivable	**58,521**	2,900
Accounts payable and accrued expenses	**(395,462)**	902,507
Income taxes payable	**(4,805)**	(2,392)
Cash flow from continuing operations	**(2,831,003)**	(1,674,351)
Cash flow from discontinued operations *(note 4)*	**(382,237)**	(1,015,864)
	(3,213,240)	(2,690,215)
Cash flow from investing activities		
Purchase of equipment	-	(1,532)
Cash flow from financing activities		
Proceeds from issuance of demand notes	-	500,000
Proceeds from issuance of convertible promissory notes	-	644,000
Proceeds from issuance of convertible debenture	-	1,000,000
Advances from secured credit facility	**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	**20,000**	76,000
	7,137,109	2,220,000
Increase (decrease) in cash and cash equivalents	**3,923,869**	(471,747)
Cash and cash equivalents, beginning of year	**34,834**	506,581
Cash and cash equivalents, end of year	**3,958,703**	34,834

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 1049, 150 – 9th Ave SW Calgary, AB T2P 3H9.

Hemostemix Inc. has 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. Effective October 1, 2017, Hemostemix Ltd. ceased operations. *[see note 4]*

The Company incurred a net loss of $3,934,911 for the year (2016 - $3,784,512) and had accumulated deficit as of December 31, 2017, of $30,416,022 (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 December 31, 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 continuing financial support. During 2017, the Company completed several transactions to raise financing and restructure its debt.

On January 25, 2017, the Company converted $1,144,000 in debt with the issuance of 6,525,000 common shares of the Company and converted $40,000 pursuant to a right of first refusal agreement resulting in a further issuance of 200,000 shares.

On September 15, 2017, the Company completed a series of financings including a brokered and non-brokered private placement, rights offering, secured credit transaction and a series of shares for debt transactions with the Company's creditors through the issuance of common shares. Collectively, the Company generated gross proceeds of $11,138,327, aggregating $5,307,585 from the private placements, $1,063,751 from the rights offering, $4,400,000 from the secured credit transaction and $366,991 from shares issued for debt. The financings resulted in the Company issuing a total of 222,091,601 common shares aggregating 106,151,700 pursuant to the private placement, 21,275,015 pursuant to the rights offering, 88,000,000 pursuant to the secured credit transaction and 6,664,886 pursuant to the shares for debt transaction.

During 2016 the Company raised proceeds of $2,144,000 from the issuance of debt which was satisfied in full upon the completion of the series of financings on September 15, 2017 noted above.

These consolidated financial statements were approved by the Company's Board of Directors on April 30, 2018.

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 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. 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.

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.

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 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.

2. Summary of Significant Accounting Policies - continued

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. The Company has current assets of $20,238 (2016 - $67,901) and non-current assets of $Nil (2016 - $101,837) located in Israel, the remaining assets are 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 estimates used in determining the fair value for the derivative liability, which is composed of estimates made by management in determining the appropriate input variables in the option pricing valuation model as disclosed in Note 8.

ii) 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, volatility and dividend yield and making assumptions about them which are disclosed in Note 11.

Financial instruments

Financial instruments of the Company consist of cash and cash equivalents, short term investements, other receivables and accounts payable and accrued expenses, demand notes payable, convertible notes payable, derivative liability and convertible debenture payable.

Financial assets

All financial assets are recognized and derecognized on the trade date, where their purchase or sale are under a contract whose terms require delivering the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for financial assets classified at fair value through profit or loss, which are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Company does not currently have any financial assets in the held-to-maturity or available-for-sale categories.

2. Summary of Significant Accounting Policies - continued

Financial instruments - continued

Other receivables having fixed or determinable payments and not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables for which recognizing interest would be immaterial.

The Company assesses financial assets, other than those at FVTPL, for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initially recognizing the financial asset, the investment's estimated future cash flows have been affected. Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For trade receivables, the carrying amount is reduced through an allowance account.

Financial liabilities

The Company classifies financial liabilities as either financial liabilities at 'FVTPL' or 'other financial liabilities'. Other financial liabilities, consisting of accounts payable and accrued expenses, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

The Company's financial instruments consist of the following:

Cash and cash equivalents	Loans and receivables
Short term investments	Loans and receivables
Other receivables	Loans and receivables
Accounts payable and accrued expenses	Other financial liabilities
Demand notes payable	Other financial liabilities
Convertible notes payable	Other financial liabilities
Convertible debenture payable	Other financial liabilities
Derivative liability	Fair value through profit and loss

Financial instruments recorded at fair value in the unaudited statement of financial position are classified according to a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

2. Summary of Significant Accounting Policies - continued

Financial instruments - continued

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The derivative liability is classified as level 3 in the fair value hierarchy.

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.

Equipment

Equipment is recorded at cost less accumulated depreciation and impairment, if any. These assets are depreciated over their estimated useful lives using the following annual rates and methods:

Computers and equipment	33%	declining balance
Office furniture and equipment	7% - 15%	declining balance

2. Summary of Significant Accounting Policies - continued

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets (which include equipment and intangibles) is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit and loss for the year.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount; however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. An impairment loss with respect to goodwill is never reversed.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

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.

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.

2. Summary of Significant Accounting Policies - continued

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.

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.

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. The Company intends to adopt the standard when it becomes effective. The Company has completed its assessment and there will be no significant impact on the 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." (“the Company”). The TSX Venture Exchange accepted the filing of the Company’s Qualifying Transaction effective November 27, 2014, resulting in the shares of the Company beginning to trade on the 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.

(Expressed in Canadian dollars)

4. Discontinued Operations

On October 1, 2017, the Company ceased its 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.

The following table summarizes the Israel activities as classified as discontinued operations for the years ended December 31, 2017 and 2016:

	December 31, 2017 $	December 31, 2016 $
Operating expenses	**380,986**	1,000,129
Depreciation	**28,671**	38,556
Write down of equipment	**73,166**	-
Loss from discontinued operations before income tax expense	**482,823**	1,038,685
Income tax expense	**1,251**	15,735
Loss from discontinued operations, net of tax	**(484,074)**	(1,054,420)

The Israel operations had current assets of $20,238 as at December 31, 2017 (December 31, 2016 - $67,901) and current liabilities of $11,727 as at December 31, 2017 (December 31, 2016 - $186,008). The net book value of equipment at December 31, 2017 was $Nil (December 31, 2016 - $101,837) after recording a write down of equipment on October 1, 2017 of $73,166.

The following table summarizes the net cash flow attributable to the discontinued operations for the year ended December 31, 2017 and 2016.

	December 31, 2017 $	December 31, 2016 $
Net loss	**(484,074)**	(1,054,420)
Items not affecting cash:		
Depreciation expense	**28,671**	38,556
Write down of equipment	**73,166**	-
Cash flows from operating activities	**(382,237)**	(1,015,864)

Notes to Consolidated Financial Statements
December 31, 2017 and 2016
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5. Equipment

	Computers and equipment	Office furniture and equipment	Total
Cost			
As at December 31, 2015	$ 34,857	$ 227,562	$ 262,419
Additions	1,532	-	1,532
As at December 31, 2016	**$ 36,389**	**$ 227,562**	**$ 263,951**
Write down of equipment	(38,389)	(227,562)	(263,961)
As at December 31, 2017	**$ -**	**$ -**	**$ -**
Accumulated depreciation			
As at December 31, 2015	$ 12,379	$ 111,179	$ 123,558
Depreciation	3,326	35,230	38,556
As at December 31, 2016	$ 15,705	$ 146,409	$ 162,114
Depreciation	2,251	26,420	28,671
Write down of equipment	(17,956)	(172,829)	(190,785)
As at December 31, 2017	**$** -	**$** -	**$** -
Net book value			
As at December 31, 2017	**$** -	**$** -	**$** -
As at December 31, 2016	$ 20,684	$ 81,153	$ 101,837

On October 1, 2017, the Company's Israel subsidiary which held the equipment ceased operations. Depreciation for the period January 1, 2017 to September 30, 2017 was $28,671. At September 30, 2017, the net book value of equipment of $73,166 was written down to $nil. The equipment was given to the landlord towards settlement of leased premised obligations.

(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 pursued in additional jurisdictions**;** 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

	December 31 2017	December 31 2016
Accounts payable	**$ 412,046**	$ 953,403
Employee and payroll accruals	**-**	139,130
Accrued expenses	**52,746**	425,507
	$ 464,792	$ 1,518,040

(Expressed in Canadian dollars)

8. Loans and Borrowings

(a) **Secured Credit Facility:**

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. This facility was subsequently increased and advances totaling $1,250,000 were made to the Company. Interest expense of $172,390 was recorded in the year ended December 31, 2017.

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 9e]*

(b) **Demand notes payable consist of the following:**

		December 31 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 common shares *[see note 9b]*. The Company recorded a gain on settlement of this debt in the amount of $87,500 representing the difference between the fair value of the equity issued and the fair value of the debt on the date of conversion.

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

		December 31 2017		December 31 2016
Face value of convertible promissory notes upon issuance	$	**644,000**	$	644,000
Less: discount		**(98,237)**		(98,237)
Book value of convertible promissory notes on initial recognition		**545,763**		545,763
Accumulated accretion expense		**98,237**		32,745
		644,000		578,508
Conversion of notes payable into common shares		**(644,000)**		-
Balance at end of year	**$**	-	$	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.

(Expressed in Canadian dollars)

8. Loans and Borrowings - continued

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. The residual value of $98,237 was allocated to equity *[see note 12]*.

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 9b]* Accretion expense for the year was $65,492 representing the interest that was fully accreted up to the full discount.

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

	December 31, 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	**729,035**	41,694
	1,000,000	312,659
Extinguishment of convertible debenture payable	**(1,000,000)**	-
Balance, end of year	$ -	$ 312,659

On September 2, 2016, the Company received proceeds of $1,000,000 from the issuance of a convertible debenture. The debenture was non-interest bearing and due on September 2, 2019. 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. The derivative liability of $729,035 was re-valued at $775,325 as at December 31, 2016.

On May 4, 2017, the Company entered into a convertible secured debt agreement to provide facilities up to $4,400,000. As a result, the previous $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 the extinguishment of the derivative liability of $775,325, included in the change in fair value of derivative liability on the consolidated statement of loss and comprehensive loss *[see note 9e]*. Accretion expense for the year was $687,341 representing the interest that was fully accreted up to the face value of the convertible debenture.

(Expressed in Canadian dollars)

8. Loans and Borrowings - continued

The $4,400,000 convertible secured debt facilities bore interest at 12% per annum and matures on May 4, 2018. The convertible secured debt facilities were convertible into units of the Company at a conversion price of $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 *[see note 13]*.

On September 15, 2017, the convertible secured debt facilities were converted into units at $0.05 per unit as part of the secured credit transaction *[see note 9e]*. 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 *[see note 12]*.

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.

Common Shares

	Number of Shares #	**Amount** $
Balance, December 31, 2015	**67,098,119**	**$ 21,952,821**
Share options exercised (a)	760,000	145,160
Balance, December 31, 2016	**67,858,119**	**22,097,981**
Conversion of demand notes payable (b)	2,500,000	412,500
Conversion of promissory notes payable (b)	4,025,000	716,207
Shares issued pursuant to ROFR agreement (b)	200,000	-
Shares issued pursuant to private placements (c)	106,151,700	5,307,585
Shares issued pursuant to rights offering (d)	21,275,015	1,063,751
Shares issued pursuant to secured credit transaction (e)	88,000,000	4,566,845
Value of warrants issued on private placements, Rights offering and secured credit transaction (f)	-	(3,227,777)
Shares issued for debt (g)	6,664,886	866,435
Share options exercised (h)	200,000	38,200
Share issue costs (i)	-	(1,100,543)
Balance, December 31, 2017	**296,874,720**	**30,741,184**

9. Share Capital - continued

(a) 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.

(b) 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 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.

(c) On September 15, 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 *[note 10a]*.

(d) On September 15, 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 *[note 10a]*.

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

(e) On September 15, 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 *[note 10a]*. The secured credit transaction of $4,566,845 is comprised of the following amounts:

- $1,250,000 advances under the secured credit facility. *[see note 8a]*
- $1,000,000 secured debenture. *[see note 8d]*
- $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.

9. Share Capital - continued

- $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.

(f) 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 10]*

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.

(g) On September 15, 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.

(h) 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.

(i) 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.

(Expressed in Canadian dollars)

10. Warrants

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

	December 31, 2017		December 31, 2016	
	Number of warrants #	Weighted average exercise price $	Number of warrants #	Weighted average exercise price $
Balance, beginning of year	**1,325,411**	**0.86**	1,325,411	0.86
Granted on financing (a)	**107,713,358**	**0.20**	-	-
Expired (b)	**(630,500)**	**(1.25)**	-	-
Balance, end of year	**108,408,269**	**0.20**	1,325,411	0.86

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

	December 31, 2017		December 31, 2016	
	Number of agent warrants #	Weighted average exercise price $	Number of agent warrants #	Weighted average exercise price $
Balance, beginning of year	**560,280**	**0.54**	560,280	0.54
Granted on financing (a)	**7,879,961**	**0.05**	-	-
Expired (b)	**(17,500)**	**(1.25)**	-	-
Balance, end of year	**8,422,741**	**0.08**	560,280	0.54

(Expressed in Canadian dollars)

10. Warrants - continued

a) 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. 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 per $0.20 per common share for a period of 2 years from the date of issuance. The agent's unit warrants are subject to an accelerated exercise provision attached to each agent's 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.

b) On December 2, 2017, 630,500 warrants and 17,500 investor warrants at price of $1.25 expired.

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

Warrants	Exercise Price		Expiry Date
1,159,911	$	0.50	November 27, 2019
77,780	$	0.65	December 2, 2020
107,713,358	$	0.20	September 15, 2019
7,879,961	$	0.05	September 15, 2020
116,831,010			

(Expressed in Canadian dollars)

11. Share Options

	December 31, 2017		December 31, 2016	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Balance, beginning of year	**2,670,000**	**0.10**	5,305,000	0.11
Granted	**20,767,230**	**0.05**	-	-
Exercised	**(200,000)**	**(0.10)**	(760,000)	(0.10)
Expired	**(250,000)**	**(0.10)**	-	-
Cancelled	**(1,550,000)**	**(0.10)**	(1,875,000)	(0.12)
Balance, end of year	**21,437,230**	**0.05**	2,670,000	0.10

During 2016, 760,000 share options were exercised at a price of $0.10 for proceeds of $76,000. 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.

Based on the financings completed on September 15, 2017, the Company granted stock options with respect to an existing management agreement. 20,767,230 share options were granted at an exercise price of $0.05 per share which vest over three years and are exercisable for a period of five years. These options were granted pursuant to the Company's existing incentive stock 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 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%, risk-free interest rates of 1.4%, and an average expected life of five years. The estimated fair value of the granted options is $2,535,679. This amount is amortized over the vesting period and $454,261 has been expensed during the year ended December 31, 2017 (2016 - $nil).

In addition, during the year 1,800,000 share options at a price of $0.10 expired or cancelled, and 200,000 share options at $0.10 were exercised for proceeds of $20,000.

The following summarizes the shares options outstanding at December 31, 2017:

Number of Options #	**Exercise Price** $	**Weighted average remaining life** [years]
670,000	0.10	0.80
20,767,230	0.05	4.71
21,437,230		

As at December 31, 2017, 670,000 share options were exercisable.

(Expressed in Canadian dollars)

12. Equity Portion of Convertible Debt

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. The residual value of $98,237, net of deferred tax recovery of $26,030, for an amount of $72,207 was allocated to equity. *[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 9b]* The residual value of $98,237 net of deferred tax recovery of $26,030 or $72,207 was transferred to share capital.

On September 15, 2017, the secured debt facilities were converted into units at $0.05 per unit as part of the secured credit transaction *[see note 9e]*. The value allocated to the conversion feature of $227,000 net of deferred tax recovery of $60,155 or $166,845 was transferred to share capital.

13. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2016 – 26.5%) to the effective tax rate is as follows:

		2017		2016
Loss from continuing operations before provision for income taxes	**$**	**(3,450,837)**	**$**	(2,730,092)
Expected income tax (recovery)	**$**	**(930,410)**	$	(730,372)
Other permanent differences		**(18,035)**		(1,192)
Loss on settlement of debt		**109,170**		-
Stock-based compensation		**120,380**		-
Undeducted share issue costs		**(291,640)**		-
Change in tax benefits not recognized		**950,380**		705,534
Provision for income taxes (recovery)	**$**	**(60,155)**	$	(26,030)

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

Current tax expense	**$**	**-**	**$**	**-**
Deferred tax recovery		**(60,155)**		(26,030)
Provision for income taxes (recovery)	**$**	**(60,155)**	$	(26,030)

(Expressed in Canadian dollars)

13. 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:

		2017		2016
Equipment	**$**	**6,610**	$	6,608
Share issuance costs	**$**	**1,115,083**	$	439,808
Cumulative eligible capital	**$**	**16,711,960**	$	9,586,618
Non-capital losses - Canada	**$**	**19,643,200**	$	17,008,678
Intangible assets - Cyprus	**$**	**7,125,340**	$	6,707,347

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
Total	$	**19,643,200**

14. Commitments and Contingencies

Contingencies

In 2015, the Company was party to a claim made by a former officer and director related to share options held in escrow. Management reached a settlement for $60,000 with this individual which was paid during the year ended December 31, 2017. As at December 31, 2016, the Company included $60,000 in accounts payable.

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 has been paid in full as of December 30, 2017.

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. As a resolution to the judgement, the Company finalized a full and final settlement with this party for $120,000, of which $60,000 was paid in cash and $60,000 was settled by way of the issuance of 1,200,000 common shares at $0.05 included in shares for debt transaction of $366,991 on September 15, 2017. *[see note 9g]*.

Former 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 in Taiwan, China and South Korea.

On August 29, 2016, the Company announced that it has terminated this agreement with HEMA. HEMA initially sued the Company over the termination of this agreement and was 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. As part of the agreement, the Company has agreed to pay HEMA $217,000 by way of the issuance of 4,340,000 common shares in the capital of the Company at $0.05 and is included in the shares for debt transaction of $366,991 completed on September 15, 2017. *[see note 9g]*. HEMA has released all claims against the Company. HEMA's litigation has now been discontinued on a without costs basis and the strategic alliance between the Company and HEMA has been terminated.

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. During the year ended December 31, 2017, the Company paid Topstone $72,400.

14. Commitments and Contingencies - continued

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. *[see note 11]*

15. 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 $915,656 in consulting fees to the CFO of the Company and the management contractor, who is providing a Chief Executive Officer, accountant and technical consultant among other services, during 2017. The management contractor was also reimbursed $103,819 in travel expenses during 2017 (2016 - $495,569 in consulting fees to a director and officer and two other officers one of which is a former director). As at December 31, 2017, the Company has $116,382 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 credit facility 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 $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 9e]*.

In 2016, 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 non-interest bearing and due on September 2, 2019. On September 15, 2017, as part of a series of the secured credit transaction, this debenture was converted into common shares of the Company *[see note 9e]*.

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 2016 amounted to $464,000. *[see note 8c]*.

16. Comparative Figures

Certain comparative figures have been reclassified for discontinued operations to conform with the current year's financial statement presentation. *[see note 4]*

17. Capital and Risk Management

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.

Financial risk management

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).

17. Capital and Risk Management - continued

Financial risk management - continued

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 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:

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. As at December 31, 2017, the Company has a working capital of $4,837,696 (2016 – deficiency $3,251,405). As at December 31, 2017, the Company has an accumulated deficit of $30,416,022 (2016 - $26,481,111) and is not yet generating operating cash flows. The Company believes that it mitigates its liquidity risks to an acceptable level. However, as indicated in note 1, the Company intends on continuing to raise additional funds by way of private placements and through share issuances as part of a publicly traded company, and through the issuance of debt.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. This risk is mitigated by using reputable financial institutions from which management believes the risk of loss to be remote.

Market risk

Interest rate risk arises because of the fluctuation in interest rates. The Company's objective in managing interest rate risk is to minimize the interest expense on liabilities and debt. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates as the Company does not have any interest-bearing debt.

18. Subsequent Events

Manufacturing Agreement

On February 22, 2018, Hemostemix announced that it has entered into a Manufacturing Agreement with Aspire Health Science, LLC (“Aspire”) located in Orlando, Florida. The Manufacturing Agreement has an initial one-year term with provisions to renew for additional six-month extensions. Basic charges and pricing is fixed throughout the initial one-year term

License Agreement

On February 23, 2018, Hemostemix announced that it has entered into a License Agreement with Aspire Health Science. Under the terms of the License Agreement, Aspire has the exclusive rights to use, sell and import ACP-01 in The Bahamas, Costa Rica, the Dominican Republic, Mexico, Panama and the State of Florida for the treatment of certain approved medical indications, namely Coronary Artery Disease (CAD), Peripheral Artery Disease (PAD), CLI, Congestive Heart Failure (CHF) and such other indications as may be designated by Hemostemix from time to time. Aspire will have related rights to manufacture ACP-01 at its Orlando, Florida facilities for such purposes. Hemostemix will receive double digit on net sales from all revenue generated from ACP-01 in the assigned territories. The License Agreement has an initial three (3) year term, with options for Hemostemix to renew for additional two (2) year extensions.

Expiry of Share Options

On April 17, 2018, 330,000 share purchase options, with and exercise price of $0.10 expired

Exercise of Agent Warrants

On April 20, 2018, the Company received $9,954 from the exercise of 199,079 agent’s warrants issued pursuant to the 2017 Private Placement offering. The agent’s warrants were exercised into 199,079 common shares and 99,539 warrants.

On April 23, 2018 the Company received $26,643 from the exercise of 532,855 agent’s warrants issued pursuant to the rights offering. The agent’s warrants were exercised into 532,855 common shares and 266,427 warrants.

Granting of Options

On April 27, 2018, the Company granted 6,300,000 options to directors, officers, employees and consultants at an exercise price of $0.10 per common share. These options expire five years from the date of grant and vest one-third on each of the first, second and third anniversaries from the date of grant.