Hemostemix Inc.

Interim Condensed Consolidated Financial Statements

Third Quarter Ended September 30, 2016

(Expressed in Canadian Dollars)
(Unaudited)

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For the three and nine months ended September 30, 2016 and 2015
Unaudited

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

	September 30, 2016	December 31, 2015
Assets		
Current		
Cash and cash equivalents	**$ 141,342**	$ 506,581
HST receivable	**61,591**	18,912
Other receivables and prepaid expenses *(note 4)*	**27,072**	79,696
	230,005	605,189
Other receivables and prepaid expenses - non-current *(note 4)*	**51,998**	52,757
Equipment, net *(note 5)*	**111,481**	138,861
Intangible assets, net *(note 6)*	**1**	1
	$ 393,485	$ 796,808
Liabilities		
Current		
Accounts payable and accrued expenses *(notes 7 and 13)*	**$ 1,223,570**	$ 615,532
Income taxes payable	**8,124**	7,197
Demand notes payable *(note [8a])*	**175,000**	-
Convertible promissory notes payable *(note [8b])*	**553,949**	-
	1,960,643	622,729
Convertible debenture payable *(note [8c])*	**619,502**	-
	$ **2,580,145**	$ 622,729
Equity (Deficiency)		
Share capital *(note 9)*	**22,097,981**	21,952,821
Contributed surplus *(note 11)*	**848,697**	917,857
Equity component of debt *(notes [8b]and [8c])*	**489,606**	-
Deficit	**(25,622,946)**	(22,696,599)
	(2,186,662)	174,079
	$ 393,485	$ 796,808

Going concern *(note 1)*
Commitments and contingencies *(note 12)*
Subsequent events *(note 14)*

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

Approved by the Board

Signed: ***"Vic Redekop"***

Director

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

Director

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
for the three and nine months ended September 30, 2016 and 2015
(Expressed in Canadian Dollars)
(Unaudited)

	Three Months September 30 2016	Three Months September 30 2015	**Nine Months September 30 2016**	Nine Months September 30 2015
Expenses				
Research and development salaries and related benefits	**$ 150,435**	$ 156,806	**$ 528,886**	$ 477,186
Research and development consulting fees *(note 4)*	**280,863**	138,205	**352,283**	532,452
Research and development Expenses	-	37,326	-	77,947
Consultant fees	**398,436**	324,103	**796,839**	825,367
Lease and office maintenance	**251,007**	148,835	**422,332**	392,564
Professional fees	**420,538**	124,864	**641,892**	386.065
Travel expenses	**59,724**	48,791	**90,049**	104,270
Depreciation *(note 5)*	**9,646**	9,417	**28,912**	27,194
Foreign exchange loss (gain)	**6,926**	(19,449)	**26,474**	(22,879)
Accretion expense	**19,058**	-	**19,058**	-
Finance expenses (income)	**1,640**	(315)	**3,295**	2,067
Net loss and comprehensive loss for the period before income tax expense	**(1,598,273)**	(968,583)	**(2,910,020)**	(2,802,233)
Income tax expense	**4,676**	6,857	**16,327**	19,473
Net loss and comprehensive loss for the period	**$ (1,602,949)**	$ (975,440)	**$ (2,926,347)**	$ (2,821,706)
Loss per share – basic and diluted	**$ (0.02)**	$ (0.02)	**$ (0.04)**	$ (0.04)
Weighted average number of common shares outstanding - Basic and diluted	**67,528,119**	65,785,619	**67,261,082**	65,740,608

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

Interim Condensed Consolidated Statements of Changes in Equity
September 30, 2016 and 2015
(Expressed in Canadian Dollars)
(Unaudited)

	Number of Shares	Share Capital	Contributed Surplus	Equity Portion of debt	Deficit	Total
Balance, December 31, 2014	65,178,839	$ 21,140,085	$ 961,082	-	$ (18,711,531)	$ 3,389,636
Exercise of share options	475,000	90,725	(43,225)	-	-	47,500
Exercise of warrants	148,280	74,140	-	-	-	74,140
Net loss and comprehensive loss for the period	-	-	-	-	(2,821,706)	(2,821,706)
Balance, September 30, 2015	65,802,119	21,304,950	917,857	-	(21,533,237)	689,570
Proceeds from private placement	1,261,000	819,650	-	-	-	819,650
Shares issued as agent's fees	35,000	-	-	-	-	-
Shares issue costs	-	(171,779)	-	-	-	(171,779)
Net loss and comprehensive loss for the period	-	-	-	-	(1,163,362)	(1,163,362)
Balance, December 31, 2015	67,098,119	21,952,821	917,857	-	(22,696,599)	174,079
Exercise of share options	760,000	145,160	(69,160)	-	-	76,000
Equity component of convertible notes issued			-	$ 98,237	-	98,237
Equity component of convertible debenture issued	-	-	-	391,369	-	391,369
Net loss and comprehensive loss for the period	-	-	-		(2,926,347)	(2,926,347)
Balance, September 30, 2016	**67,858,119**	**$ 22,097,981**	**$ 848,697**	**$ 489,606**	**$ (25,622,946)**	**$ (2,186,662)**

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

Interim Condensed Consolidated Statements of Cash Flows
for nine months ended September 30, 2016 and 2015
(Expressed in Canadian Dollars)
(Unaudited)

	2016	2015
Cash flow from operating activities		
Net loss for the period	**$ (2,926,347)**	$ (2,821,706)
Items not affecting cash:		
Depreciation of equipment	**28,912**	27,194
Accretion expense	**19,058**	-
Noncash working capital items:		
Other receivables and prepaid expenses	**53,383**	(92,316)
HST receivable	**(42,679)**	219,583
Accounts payable and accrued expenses	**608,038**	(20,047)
Income taxes payable	**927**	(13,708)
	(2,258,707)	(2,701,000)
Cash flow from investing activity		
Purchase of equipment	**(1,532)**	(18,375)
Cash flow from financing activities		
Proceeds from issuance of demand notes	**175,000**	-
Proceeds from issuance of convertible promissory notes	**644,000**	-
Proceeds from issuance of convertible debenture	**1,000,000**	-
Exercise of share options	**76,000**	47,500
Exercise of warrants	**-**	74,140
	1,895,000	121,640
Decrease in cash and cash equivalents	**(365,239)**	(2,597,735)
Cash and cash equivalents, beginning of period	**506,581**	3,305,487
Cash and cash equivalents, end of period	**$ 141,342**	$ 707,752

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

1. Nature of the Company and Going Concern

Hemostemix Inc. ("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 1015 – 4 Street, Suite 730, Calgary, Alberta.

In 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 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.

The Company incurred a net loss of $2,926,347 during the nine months ended September 30, 2016 (2015 - $2,821,706) and had an accumulated deficit as of September 30, 2016, of $25,622,946 (2015 - $22,696,599). 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 September 30, 2016 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 fiscals 2015 and 2014, the Company completed private placement financings for total of net proceeds of $647,871 and $6,107,858 respectively. In the nine months ended September 30, 2016 the company raised total proceeds on $1,819,000 through the issuance or debt.

These interim condensed consolidated financial statements were approved by the Company's Board of Directors on November 29, 2016.

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, 2015 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, 2015.

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

(Expressed in Canadian dollars)

intends to adopt the new Standard on its effective date and has yet to consider the 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. Early adoption will be permitted, provided the Company has adopted IFRS 15.

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.

4. Other Receivables and Prepaid Expenses

	September 30, 2016	December 31, 2015
V.A.T. receivable	**$ 6,432**	$ 12,449
Prepaid insurance, rent and security deposit	**72,638**	100,350
Prepaid research and development expenses	**-**	19,654
	79,070	132,453
Less: longterm- portion of security deposit	**51,998**	52,757
	$ 27,072	$ 79,696

During the year ended December 31, 2014, the Company entered an agreement with Criterium, Inc. ("Criterium"), a multinational clinical research organization which specializes in administering and managing clinical trials. Criterium will manage most aspects of the Company's phase 2 clinical trials.

(Expressed in Canadian dollars)

The value of the agreement with Criterium, Inc. was approximately US$3.1 million and was to be allocated over the 30 month span of the trial as the expenses were incurred. As at September 30, 2016, the Company paid Criterium US$1,368,220 (CAD$1,893,617). Of the initial payment, US$150,000 (CAD$193,500) was required as a deposit for clinical research activities that is maintained and replenished as costs are incurred by Criterium. At September 30, 2016 the deposit has been reduced to Nil resulting in a net balance payable to Criterium of US$69,665 (CAD$90,565).

On June 28, 2016, Criterium notified the Company that it has terminated the agreement and as a result has placed a temporary hold on enrollment for its phase 2 clinical trials in Canada and South Africa. *[see note 12]*

5. Equipment

	Computers and equipment	Office furniture and equipment	Total
Cost			
As at December 31, 2014	$ 31,762	$ 207,362	$ 239,124
Additions	3,095	20,300	23,295
As at December 31, 2015	$ 34,857	$ 227,562	$ 262,419
Additions	1,532	-	1,532
As at September 30, 2016	**$ 36,389**	**$ 227,562**	**$ 263,951**
Accumulated depreciation			
As at December 31, 2014	$ 9,619	$ 77,062	$ 86,681
Depreciation	2,760	34,117	36,877
As at December 31, 2015	$ 12,379	$ 111,179	$ 123,558
Depreciation	2,179	26,733	28,912
As at September 30, 2016	**$ 14,558**	**$ 137,912**	**$ 152,470**
Net book value			
As at December 31, 2015	$ 22,478	$ 116,383	$ 138,861
As at September 30, 2016	**$ 21,831**	**$ 89,650**	**$ 111,481**

(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. Additional provisional patent applications have been filed and patents continue to be prosecuted in additional countries.

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 several countries Pending Canada and US	Production from blood of cells of neural lineage
3	Granted in Singapore Pending in Canada and US	Regulating stem cells
4	Granted in several counties including the US Pending in Canada	Regulating stem cells
5	Granted Mexico, Singapore	Automated cell therapy

7. Accounts Payable and Accrued Expenses

	September 30, 2016	December 31, 2015
Accounts payable	**$ 1,042,743**	$ 409,678
Employee and payroll accruals	**84,824**	75,388
Accrued expenses	**96,003**	130,466
	$ 1,223,570	$ 615,532

Notes to Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2016 and 2015
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(Unaudited)

8. Loans and Borrowings

[a] Demand notes payable consist of the following:		**September 30, 2016**		December 31, 2015
Demand notes payable	$	**175,000**	$	-

The Company received total proceeds of $175,000 from the issuance of demand notes, which are repayable on demand. Interest will accrue at a rate of 5% per annum, compounded monthly and payable monthly.

Subsequent to the period, the Company received additional proceeds of $325,000 from the issuance of demand notes. *[see note 14]*

[b] Promissory notes payable consist of the following:		**September 30, 2016**		December 31, 2015
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		**8,186**		-
Convertible promissory notes payable	**$**	**553,949**	**$**	**-**

On September 2, 2016, the Company closed a private placement offering totalling gross proceeds of $1,644,000. The private placement included a $1,000,000 secured debenture *[see note 8c]* and $644,000 promissory notes payable, including $464,000 advanced from insiders of the Company. *[see note 13]*

The promissory notes payable are unsecured and include a conversion feature allowing the holder to convert the notes into common shares at a price of $0.16 per common share. The notes bear no interest unless there is a change in control, in which case the interest rate becomes 10%, and is repayable with no penalty within one year from the date of issuance.

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 were deemed to be $545,763 based on the discounted cash flow using an estimated cost of borrowing of 18%. The residual value of $98,237 was allocated to equity. Accretion expense for the nine months ended September 30, 2016 is $8,186.

Notes to Interim Condensed Consolidated Financial Statements
For the three and nine months ended September 30, 2016 and 2015
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[c] Debenture payable consists of the following:

	September 30, 2016	December 31, 2015
Face value of convertible debenture upon issuance	**$ 1,000,000**	-
Less: discount	**(391,369)**	-
Book value of convertible debenture on initial recognition	**608,631**	
Accretion expense during the period	**10,871**	-
Convertible debenture payable	$ **619,502**	$ -

Pursuant to the private placement that closed on September 2, 2016, [see note 8b] 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 prior to September 2, 2019. 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 Company allocated the total proceeds received between the debenture payable and equity to account for the conversion feature. The fair value of the debenture was deemed to be $608,631 based on the discounted cash flow using an estimated cost of borrowing of 18%. The residual value of $391,369 was allocated to equity. Accretion expense for the nine months ended September 30, 2016 is $10,871.

[d] On September 22, 2016, The Company announced a non-brokered private placement of subordinated secured convertible debentures for gross proceeds of up to $500,000. Subsequent to the end of the period, this announced private placement expired without closing.

(Expressed in Canadian dollars)

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, 2014	**65,178,839**	**$ 21,140,085**
Share options exercised (i)	475,000	90,725
Warrants exercised (ii)	148,280	74,140
Balance, September 30, 2015	**65,802,119**	**$ 21,304,950**
Proceeds from private placement (iii)	1,261,000	819,650
Shares issued as agents' fees (iii)	35,000	-
Share issue costs	-	(171,779)
Balance, December 31, 2015	**67,098,119**	**$ 21,952,821**
Share options exercised (iv)	760,000	145,160
Balance, September 30, 2016	**67,858,119**	**$ 22,097,981**

(i) During the period ended September 30, 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**.**

(ii) During the period ended September 30, 2015, 148,280 warrants were exercised as a price of $0.50 for proceeds of $74,140.

(iii) 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 common share purchase warrant. The Company issued additional 35,000 common shares as a finders' fee to the broker.

The 630,500 non-transferable warrants are exercisable at $1.25 a share and 17,500 agents warrants exercisable at $1.25 per share and another 77,780 agents warrants exercisable at $1.25 per share. *[see note 10]*

During the period 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 shares, and $50,557 of costs that were satisfied by the issue of 77,780 agent warrants at $0.65. *[see note 10]*

(Expressed in Canadian dollars)

(iv) During the nine months ended September 30, 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.

10. Warrants

A summary of the status of the Company's warrants as at September 30, 2016 and December 31, 2015 is as follows:

	September 30 2016		**December 31, 2015**	
	Number of options #	**Weighted average exercise price** $	**Number of warrants** #	**Weighted average exercise price** $
Balance, beginning of period	**1,885,691**	**0.79**	1,522,438	1.68
Granted	-	-	725,780	1.25
Expired	-	-	(214,247)	(9.05)
Exercised	-	-	(148,280)	(0.50)
Balance, end of period	**1,885,691**	**0.79**	1,885,691	0.79

In 2015 as part of a private placement, the Company issued 630,500 warrants that entitling the holder to acquire an additional common share at $1.25 per share and expiring on December 2, 2017. The Company also issued 17,500 agents warrants entitling the holder to acquire an additional common share at $1.25 per share and expiring on December 2, 2017, and 77,780 agents warrants entitling the holder to acquire an additional common share at $1.25 and expiring on December 2, 2020.

During 2015, 172,403 warrants at a price of $9.00, 12,612 warrants at a price of $10.00 and 29,232 warrants at a price of $7.50 totalling 214,247 warrants expired and 148,280 warrants were exercised at a price of $0.50 for proceeds of $74,140.

No warrants were granted or exercised during the nine months ended September 30, 2016.

The exercise price and expiry date of warrants outstanding as at September 30, 2016 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

	September 30, 2016		December 31, 2015	
	Number of options \#	Weighted average exercise price $	Number of options \#	Weighted average exercise price $
Balance, beginning of period	**5,305,000**	**0.11**	5,780,000	0.11
Exercised	**(760,000)**	**(0.10)**	(475,000)	(0.10)
Cancelled	**(1,840,000)**	**(0.11)**	-	-
Balance, end of period	**2,705,000**	**0.10**	5,305,000	0.11

Number of Options \#	Exercise Price $	Weighted average remaining life [years]
2,670,000	0.10	2.04
35,000	0.50	1.22
2,705,000		**2.06**

During 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.

During the nine months ended September 30, 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. In addition, 1,840,000 share options were cancelled.

(Expressed in Canadian dollars)

12. Commitments and Contingencies

Lease commitments

The Company and the facility's lessor signed a laboratory and office lease agreement in September 2014. The last leasing period under this agreement expires in 2017.

The minimum lease commitments are as follows:

2016	$ 70,448
2017	105,672
	$ 176,120

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 will have to make any cash outflow therefore; the Company has not recorded a provision.

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, a claim was made after the settlement. Management has reached a final settlement on all matters and now made payments towards the balance owing. In addition, a settlement regarding the options in dispute was also reached.

In 2015 the Company was party to a claim made by a former officer related to salary, bonus and options. Management has settled the claim and accrued for all amounts owing.

Consulting

The Company has entered an agreement with Criterium to provide clinical research as described in Note 4. The value of the agreement with Criterium, Inc. was approximately US$3.1 million and was to be allocated over the 30-month span of the trial as the expenses were incurred. As at September 30, 2016, the Company paid Criterium US$1,368,220 (CAD$1,893,617). Of the initial payment, US$150,000 (CAD$193,500) was required as a deposit for clinical research activities that is maintained and replenished as costs are incurred by Criterium. At September 30, 2016, the deposit has been reduced to Nil resulting in a net balance payable to Criterium of US$69,665 (CAD$90,565).

On June 28, 2016, Criterium notified the Company that it has terminated the agreement. As a result, Hemostemix is placing a temporary hold on enrollment for its phase 2 clinical trials in Canada and South Africa. With the termination of this agreement, Criterium will no longer be providing any services for the Hemostemix phase 2 clinical trials, including, any further monitoring visits. The Company is evaluating its options as to how it will continue with the clinical trials and to ensure patient follow up and has decided to temporarily cease enrolling any new patients into the trial.

Licensing Agreement

In 2015, the Company announced that it had formed a strategic alliance by way of a binding term sheet with Hemostemix Asia, Inc. ("HEMA"), a private, independent company based in Taipei, Taiwan. The agreement covers 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 voided a strategic alliance agreement with HEMA According to 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 where not met as required. The Company's progress and commercial viability is not at all dependent, on its agreement with HEMA. (Hemostemix Inc. and Hemostemix Asia, Inc. are separate, unrelated, independent companies even though they have similar names.)

13. 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 $363,686 in consulting fees to a director and officer and two other officers (one of which is a former director) of the Company during the nine months ended September 30, 2016 (September 30, 2015 - $401,915, to a director and officer and two officers of the Company). As at September 30, 2016, the Company has $105,302 in accounts payable and accrued liabilities owing to these directors and officers (December 31, 2015 - $68,260).

Proceeds from directors and shareholders in the form of promissory notes payable issued during the nine months ended September 30, 2016 amounted to $464,000. (2015 – Nil). *[see note 8b]*

14. Subsequent events

The following events occurred subsequent to the period ended September 30,2016:

The Company received additional proceeds of $325,000 from the issuance of demand notes. *[see note 8a]*

Two legal claims were filed with the Company. Currently, management is evaluating the merits and substance of each claim and intends to defend them vigorously as required. Both claims are from former management of the Company and are related to persons who were included in the dissident proxy fight at the Company's 2016 Annual General Meeting on September 8, 2016.