NOVOHEART HOLDINGS INC
(Formerly Novoheart Holdings Limited)

Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(Expressed in Canadian dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Novoheart Holdings Inc.

We have audited the accompanying consolidated financial statements of Novoheart Holdings Inc. (formerly Novoheart Holdings Limited), which comprise the consolidated statement of financial position as at June 30, 2018, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising 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 consolidated 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 audit. We conducted our audit 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 our 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, we consider 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 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 consolidated financial position of Novoheart Holdings Inc. (formerly Novoheart Holdings Limited) as at June 30, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards**.**

Comparative Information

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended June 30, 2017, has been adjusted.

The consolidated financial statements of Novoheart Holdings Inc. (formerly Novoheart Holdings Limited) as at and for the year ended June 30, 2017, excluding the adjustment described in Note 2 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on October 25, 2017.

As part of our audit of the consolidated financial statements as at and for the year ended June 30, 2018, we audited the adjustment described in Note 2 to the consolidated financial statements that was applied to adjust the comparative information presented as at and for the year ended June 30, 2017. In our opinion, the adjustment is appropriate and has been properly applied.

We were not engaged to audit, review, or apply any procedures to the June 30, 2017, consolidated financial statements, other than with respect to the adjustment described in Note 2 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that Novoheart Holdings Inc. (formerly Novoheart Holdings Limited) incurred a loss from operations of $12,463,044 and had negative cash flow from operating activities of $4,777,820 during the year ended June 30, 2018 These conditions, along with other matters as set forth in Note 2 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Novoheart Holdings Inc.'s (formerly Novoheart Holdings Limited) ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
August 21, 2018

NOVOHEART HOLDINGS INC.
(Formerly Novoheart Holdings Limited)

Consolidated Statement of Financial Position
(Expressed in Canadian dollars)

	Notes		June 30, 2018		June 30, 2017
ASSETS					
Current					
Cash and cash equivalents		**$**	**1,595,094**	$	1,319,748
Accounts and other receivables	**7**		**615,332**		602,240
Prepaid expenses and deposits	**8**		**312,161**		98,255
Due from related parties	**14**		**-**		13,874
			2,522,587		2,034,117
Property and equipment, net	**9**		**1,245,981**		214,934
Intangible assets, net	**10**		**277,948**		-
		$	**4,046,516**	$	2,249,051
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable and accrued liabilities		**$**	**1,357,713**	$	443,182
Due to related parties	**14**		**60,684**		39,554
			1,418,397		482,736
Deferred government grants	**11**		**40,648**		64,013
Long-term license payable	**10**		**75,424**		-
			1,534,469		546,749
Shareholders' Equity					
Share capital	**12**		**17,426,693**		5,819,874
Contributed surplus			**1,493,175**		-
Accumulated other comprehensive income			**303,261**		130,466
Accumulated deficit			**(16,711,082)**		(4,248,038)
			2,512,047		1,702,302
		$	**4,046,516**	$	2,249,051

Going concern (Note 2)

Commitments (Note 20)

APPROVED BY

"James Topham"
Director of the Company

"Allen Ma"
Director of the Company

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

NOVOHEART HOLDINGS INC.
(Formerly Novoheart Holdings Limited)

Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended June 30, 2018 and 2017
(Expressed in Canadian dollars, except number of common shares)

	Notes	2018	2017
Revenue	**17**	**$ 95,124**	$ -
Cost of sales		**38,208**	-
		56,916	-
OPERATING EXPENSES	**18**		
Research and development	**19**	**1,478,816**	1,152,576
Intellectual property and patent		**420,399**	205,369
General and administrative		**3,775,144**	1,490,412
Share-based compensation	**13**	**1,172,403**	-
Depreciation and amortization		**399,018**	72,769
		7,245,780	**2,921,126**
LOSS FROM OPERATIONS		**(7,188,864)**	(2,921,126)
Government grants		**63,383**	22,657
Other income		**118,303**	278,155
Interest income / (finance expense)		**31,926**	(1,327)
Foreign exchange (loss) / gain		**(274,195)**	(32,405)
Non-cash loss on completion of reverse takeover	**6**	**(5,213,597)**	-
		(5,274,180)	267,080
NET LOSS FOR THE YEAR		**$ (12,463,044)**	**$** (2,654,046)
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment		**172,795**	(88,657)
COMPREHENSIVE LOSS FOR THE YEAR		**$ (12,290,249)**	**$** (2,742,703)
Loss per share – Basic and Diluted		**$** (0.17)	**$** (0.51)
Weighted average number of shares outstanding – basic and diluted		**72,616,534**	**5,196,260**

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

NOVOHEART HOLDINGS INC.
(Formerly Novoheart Holdings Limited)

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars, except number of common shares)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity
		$	$	$	$	$
BALANCE, JUNE 30, 2016	**2,296,693**	**3,708,824**	**-**	**219,123**	**(1,593,992)**	**2,333,955**
Loss for the year	-	-	-	-	(2,654,046)	(2,654,046)
Exercise of warrants (note 12)	1,861,979	-	-	-	-	-
Issuance of Woodrose's common shares (note 12)	2,914,157	-	-	-	-	-
Issuance of common shares (note 12)	-	2,111,050	-	-	-	2,111,050
Foreign currency translation adjustment	-	-	-	(88,657)	-	(88,657)
BALANCE, JUNE 30, 2017	**7,072,829**	**5,819,874**	**-**	**130,466**	**(4,248,038)**	**1,702,302**
Loss for the year	-	-	-	-	(12,463,044)	(12,463,044)
Exercise of warrants (note 12)	1,052,178	-	-	-	-	-
Share capital issued (note 6)	68,634,800	4,062,500	-	-	-	4,062,500
Reverse takeover (note 6)						
Share capital issued for finders of RTO (note 6)	2,402,218	1,201,109	-	-	-	1,201,109
Share capital issued – subscription offering (note 12)	14,300,000	7,150,000	-	-	-	7,150,000
Cash share issuance cost to broker (note 12)	-	(486,018)	-	-	-	(486,018)
Warrants issued to broker - subscription offering (note 12)	-	(320,772)	320,772	-	-	-
Share-based compensation (note 13)	-	-	1,172,403	-	-	1,172,403
Foreign currency translation adjustment	-	-	-	172,795	-	172,795
BALANCE, JUNE 30, 2018	**93,462,025**	**17,426,693**	**1,493,175**	**303,261**	**(16,711,082)**	**2,512,047**

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

NOVOHEART HOLDINGS INC.
(Formerly Novoheart Holdings Limited)

Consolidated Statements of Cash Flows
For the years ended June 30, 2018 and 2017
(Expressed in Canadian dollars)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year		**$ (12,463,044)**	$ (2,654,046)
Items not affecting cash:			
Non-cash loss on completion of reverse takeover	**6**	**5,213,597**	-
Share-based compensation	**13**	**1,172,043**	-
Depreciation and amortization		**399,378**	72,769
		(5,678,026)	(2,581,277)
Changes in non-cash working capital items:			
Increase in accounts and other receivables		**(5,504)**	(618,458)
Decrease/(increase) in prepaid expenses		**(212,245)**	34,424
Increase in accounts payable and accrued liabilities		**793,432**	145,523
Increase/(decrease) in due to related parties		**270,812**	(87,723)
Increase in other long-term liabilities		**75,474**	-
Decrease in deferred government grants		**(21,763)**	(27,295)
Decrease in deferred income		**-**	(34,688)
		900,206	(588,217)
Net cash used in operating activities		**(4,777,820)**	(3,169,494)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment and payment of leasehold improvements	**9**	**(1,374,690)**	(55,139)
Acquisition of intangible assets	**10**	**(339,630)**	-
Net cash used in investing activities		**(1,714,320)**	(55,139)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issuance, net	**12**	**6,663,982**	2,067,445
Cash acquired in RTO	**6**	**112,662**	-
Net cash provided by financing activities		**6,776,644**	2,067,445
Change in cash during the year		**284,504**	(1,157,188)
Effect of exchange rate changes on cash held in a foreign currency		**(9,158)**	16,898
Cash and cash equivalents, beginning of year		**1,319,748**	2,460,038
Cash and cash equivalents, end of year		**1,595,094**	**1,319,748**

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

1. CORPORATE INFORMATION

Reverse Takeover

On September 27, 2017, Novoheart Holdings Limited completed its reverse takeover transaction (the "Transaction" or "RTO") of Woodrose Ventures Corporation ("Woodrose"), pursuant to which Woodrose acquired all of the issued and outstanding shares of Novoheart Holdings Limited in exchange for the issuance of 5,200 Woodrose shares for each Novoheart share. Woodrose did not have any significant operations at the time of the Transaction. Following the closing of the Transaction, Woodrose changed its name to Novoheart Holdings Inc. ("Novoheart" or the "Company"). The Company reconstituted its board of directors and senior management team at that time. The Company's common shares are listed on the Toronto Stock Exchange's venture exchange ("TSX-V") under the symbol "NVH".

Upon completion of the Transaction, Novoheart Holdings Limited became a wholly owned subsidiary of Novoheart Holdings Inc. Novoheart Holdings Limited has two wholly owned subsidiaries, Novoheart Limited and Novoheart U.S. Corp. Novoheart Holdings Inc. is a global stem cell biotechnology company which focuses on engineering prototypes of bio-artificial human heart tissues and chambers for drug discovery, cardiotoxicity screening, disease modeling and future therapeutic applications.

The Company's office and principal place of business is located at 1430-800 West Pender Street, Vancouver, BC, Canada, V6C 2V6.

2. BASIS OF PRESENTATION AND GOING CONCERN

Statement of compliance

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

These consolidated financial statements were approved and authorized for issue by the directors of the Company on August 21, 2018.

Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has not achieved a scalable commercialization of its products. At June 30, 2018, the Company has an accumulated deficit of $16,711,082 (2017 - $4,248,038) since inception. For the year ended June 30, 2018, the Company incurred a net loss of $12,463,044 (2017 – $2,654,046) and used net cash in operating activities of $4,777,820 (2016 – $3,169,494). These circumstances comprise a material uncertainty which cast significant doubt as to the Company's ability to continue as a going concern.

2. BASIS OF PRESENTATION AND GOING CONCERN (continued)

Going concern (continued)

The Company's ability to continue as a going concern is dependent upon its ability to generate product sales, negotiate collaboration or license agreements with upfront and/or continuing payments, obtain research grants, raise additional financing, and ultimately attain and maintain profitable operations.

While the Company is striving to act on these initiatives, there is no assurance that these and other strategies will be successful or sufficient to permit the Company to continue as a going concern.

These consolidated financial statements do not reflect adjustments to the carrying values of the Company's assets and liabilities, revenue and expenses, and the statement of financial position classifications used, that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Functional and presentation currency

As a result of the Transaction (see Note 1), Novoheart Holdings Inc. became the parent entity of Novoheart Holdings Limited. Novoheart Holdings Inc.'s functional currency is Canadian dollars and the presentation currency of these consolidated financial statements is Canadian dollars. Novoheart Holdings Limited's functional currency changed from U.S. dollars to Canadian dollars as a result of the Transaction since Novoheart Holdings Limited expects future financings to be in Canadian dollars. The change in functional currency has been accounted for prospectively. The change in presentation currency represents a voluntary change that is accounted for retrospectively. The consolidated financial statements of the Company for the periods before July 1, 2017 which were based on a U.S. dollar presentation currency have been translated into a Canadian dollar presentation as follows: assets and liabilities using the exchange rates prevailing at the balance sheet date; shareholders' equity using the applicable historical exchange rates prevailing at the dates of transactions; and revenue, expenses and cash flows using average exchange rates for the relevant period. The change in the presentation currency has resulted in changes to the previously reported foreign currency translation adjustment account which is included as a component of accumulated other comprehensive income. Novoheart Holdings Limited's two wholly-owned subsidiaries, Novoheart Limited and Novoheart U.S. Corp, have functional currencies of Hong Kong dollar and US dollar respectively.

Use of estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of

2. BASIS OF PRESENTATION AND GOING CONCERN (continued)

Use of estimates (continued)
revenues and expenses for the periods reported. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be relevant. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, and may change if new information becomes available. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

Principles of consolidation
These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Novoheart Limited as at June 30, 2018 and 2017.

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All significant inter-company balances and transactions between the Company and its wholly-owned subsidiary have been eliminated in preparing the consolidated financial statements.

Translation of foreign currencies
Foreign currency transactions
Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiary at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rates in effect at the financial position date. Non-monetary assets and liabilities denominated in other than the functional currency that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in other than the functional currency are translated using the exchange rate at the date of transaction. The foreign currency gains and losses arising from settlement of foreign currency transactions are recognized on a net basis in profit or loss.

Foreign operations translation
For consolidation purposes, the assets and liabilities of foreign operations are translated to the presentation currency using the exchange rate prevailing at the financial position date. The income and expenses of foreign operations are translated to the presentation currency using the average rates of exchange during the year. All resulting exchange differences are recorded as other comprehensive income (loss) and accumulated in a separate component of shareholders' equity, described as foreign currency translation adjustment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Classification and measurement

At initial recognition, financial instruments are classified into the following categories depending on the purposes for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit and loss (“FVTPL”):
  A financial asset or liability is classified as FVTPL if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the statement of income (loss) within other gains and losses in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current except for the portion expected to be realized or paid beyond twelve months of the financial position date, which is classified as non-current.

- Available-for-sale:
  Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost in which case the loss is recognized in the statement of income (loss). They are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period.

- Loans and receivables:
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. They are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

- Held-to-maturity investments
  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less a provision for impairment. They are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Financial liabilities at amortized cost:

Financial liabilities other than those classified as FVTPL are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, they are measured at amortized cost using the effective interest method. Financial liabilities at amortized costs are classified as current liabilities if payment is due within twelve months after the end of the reporting period. Otherwise, they are presented as non-current liabilities.

Transaction costs associated with financial assets or financial liabilities carried at FVTPL are expensed as incurred while transaction costs associated with all other financial assets or financial liabilities are included in the initial carrying amount of the asset or liabilities.

The Company classifies cash and cash equivalents, accounts and other receivable, due from related parties as loans and receivables, and accounts payable and accrued liabilities, due to related parties as financial liabilities at amortized cost. The Company does not have any derivative financial instruments.

Impairment of financial assets

Financial assets not carried at FVTPL are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in other comprehensive income (loss) and presented in accumulated other comprehensive income (loss) in equity, to net income (loss). The cumulative loss that is removed from accumulated other comprehensive income (loss) and recognized in net income (loss) is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value less any impairment loss previously recognized in net (income) loss. If subsequently the fair value of any impaired available-for sale financial assets increases, then the impairment loss is reversed with the amount of the reversal recognized in net income (loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid instruments that are readily convertible to cash with a maturity of three months or less when initially purchased.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property and equipment includes the acquisition cost and any direct costs to bring the asset into productive use at its intended location. Depreciation is calculated on a straight-line basis over equipment's estimated useful lives of 60 months. Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Property and equipment are written down to the net recoverable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable. Any gain or loss on disposal of an item of equipment is recognized in profit or loss within the period of disposal.

Leasehold improvements are amortized on a straight-line basis over the lesser of their estimated useful life or the initial lease term. Leasehold improvements are currently amortized over the following periods:

	Estimated Useful life
Leasehold improvements	3 years

Intangible Assets

Licenses that are acquired by the Company in an acquisition that have a finite useful life are measured at acquisition cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in profit or less on a straight-line basis over the estimated useful life of the license from the date that it is available for the Company, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The Company continually evaluates the remaining useful life of its intangible asset being amortized to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Intangible assets with finite lives are currently amortized over the following periods:

	Estimated Useful life
Licenses	2 – 5 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions for legal or constructive obligations are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Government grants

Government grants are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Company will comply with all attached conditions. Government grants are recognized as follows:

- Grants relating to fixed assets are included in non-current liabilities as deferred government grants and recognized in the statement of profit or loss on a straight-line basis over the expected lives of the related assets.
- Grants that compensate the Company for expenses incurred are deferred and recognized in profit or loss on a systematic basis in the periods in which the intended expenses are recognized.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated by reference to the higher of the value in use and fair value less costs to sell. Fair value less costs to sell is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets.

An impairment loss is recognized if the carrying amount of an asset or group of assets exceeds the estimated recoverable amount. Impairment losses are recognized in the statement of profit or loss. When impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimated recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital
The Company's ordinary common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, warrants and stock options, net of any tax effects, are recognized as a deduction from equity.

Revenue Recognition
The Company has initially adopted IFRS 15 Revenue from Contracts with Customers as at July 1, 2017. The effect of initially applying these standards did not have a material impact on the Company's consolidated financial statements and related disclosures.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Company has early adopted IFRS 15 using the cumulative effect method, without practical expedients, with the effect of initially applying this standard recognized at the date of initial application of January 1, 2018. Accordingly, the information presented for 2017 has not been restated. It is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires judgment. The Company generates revenues primarily from drug screening services using its bio-artificial human heart tissues and chambers. On the fixed price drug screening contracts, the customer controls all of the work in progress as the services are being provided; the deliverables are made to a customer's specification and if a contract is terminated by the customer, then the Company is entitled to reimbursement of the costs incurred to date. Revenue from these drug screening contracts and the associated costs are recognized over time on the percentage-of-completion basis as those services are provided, which consists of recognizing revenue on a given contract proportionately with its percentage of completion at any given time. The percentage of completion is determined by dividing the cumulative costs incurred as at the balance sheet date by the sum of incurred and anticipated costs for completing a contract.

The cumulative effect of changes to anticipated revenues and anticipated costs for completing a contract are recognized in the period in which the revisions are identified. In the event that the anticipated costs exceed the anticipated revenues on a contract, such loss is recognized in its entirety in the period it becomes known.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation

Share-based compensation and other share-based payments, including stock options and restricted share units granted to the Company's directors, executive officers, scientific advisory board members and employees are accounted for using the fair-value based method. Under this method, compensation expense for stock options is measured at fair value at the date of grant using the Black-Scholes valuation model and is expensed over the award's vesting period on a graded basis. Stock options granted to consultants are subject to variable accounting treatment and are re-valued at fair value at each balance sheet date until exercise, expiry or forfeiture. Compensation expense for restricted share units is measured at fair value at the date of grant, which is the market price of the underlying security, and is expensed over the award's vesting period on a straight-line basis. The Company estimated the forfeiture rate to be nil on restricted share units due to the short vesting period. Management will revise the estimate if actual forfeitures differ and adjust stock-based compensation expense accordingly.

Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. No development costs have been capitalized to date.

Research and development costs includes fees paid to contract research organizations and other vendors who conduct certain research and development activities on behalf of the Company. The amount of expenses recognized in a period related to research arrangements with third parties is based on estimates of work performed using an accrual basis of accounting. These estimates are based on services provided, contractual terms and experience with similar contracts. The Company monitors these factors and adjusted the estimates accordingly. Payments made to third parties under these research arrangements in advance of receipt of the related services are recorded as prepaid expenses until the services are rendered.

Income taxes

The Company follows the asset and liability method of accounting for income tax. Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of income (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 reporting date, and any adjustment to tax payable in respect of previous years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, nor is it recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Other comprehensive income (loss)

Other comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net income (loss) such as unrealized gains or losses on available-for-sale investments and translation gains or losses on translation of foreign operations to the presentation currency of the Company.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

4. CRITICAL JUDGMENTS

Critical accounting judgments

The critical judgments that the Company’s management has made in the process of applying the Company’s accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements are as follows:

4. CRITICAL JUDGMENTS

Evaluation of the Company's ability to continue as a going concern
Management has applied judgements in the assessment of the Company's ability to continue as a going concern when preparing these consolidated financial statements. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The assessment of the Company's ability to execute its strategy and finance the operations through achieving positive cash flow from operations or by obtaining additional funding through debt or equity financing involves judgments. Management monitors future cash requirements to assess the Company's ability to realize assets and discharge its liabilities in the normal course of operations.

Determination of functional currency of the Company
The functional currency for each of the Company and its subsidiary is the currency of the primary economic environment in which each entity operates. The determination of each entity's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the management to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency the management analyzed both the primary and secondary factors, including the currency of each entity's operating cash flow, and sources of financing.

5. IFRS STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company is still in the process of assessing the impact on the financial statements of these new standards:

IFRS 9 Financial instruments
In July 2014, the IASB issued the complete IFRS 9 - *Financial Instruments* ("IFRS 9"). IFRS 9 introduces new requirements for the classification and measurements of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. IFRS 9 aligns hedge accounting more closely with risk management. This does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions.

5. IFRS STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 Financial instruments (continued)

The Company will adopt IFRS 9 in its financial statements for the annual period beginning on July 1, 2018. The Company has evaluated the impact of IFRS 9 and has determined that IFRS 9 will not have a significant impact on the Company. The Company is continuing to evaluate the impact of disclosures to its future consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 - *Leases*, which supersedes IAS 17 - *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted, but only if also applying IFRS 15 - *Revenue from contracts with Customers*.

The Company is currently evaluating the impact on IFRS 16 on its financial statements and does not intend to early adopt the standard.

6. REVERSE TAKEOVER TRANSACTION (“RTO”)

As a consequence of the plan of arrangement (Note 1), the shareholders of Novoheart Holdings Limited as a group acquired control over the combined entity. Because Woodrose was an inactive shell company, it did not meet the definition of a business. Therefore the transaction was outside of the scope of IFRS 3 “Business Combinations” and was accounted for as a share-based payment transaction under IFRS 2 “Share-based payments”. Under this basis of accounting, the consolidated financial statements are presented as a continuation of the legal acquiree, Novoheart Holdings Limited, except for the capital structure which is that of Woodrose. In addition, the net identifiable assets of Woodrose are deemed to have been acquired by Novoheart Holdings Limited.

Under the terms of the arrangement, Woodrose acquired all of the issued and outstanding shares of Novoheart Holdings Limited in exchange for Woodrose shares on a 1 to 5,200 basis, for a total of 68,634,800 Woodrose shares. Prior to the closing of the Transaction, Woodrose consolidated its common shares on the basis of 3.56878449 old shares for 1 new share.

For the Company’s consolidated financial statements as at June 30, 2017, the Company had disclosed the ending number of shares to be 13,199 (2016 – 11,834), which was the number of shares of Novoheart Holdings Limited prior to the transaction. The number of shares has been revised to 7,072,829 (2016 – 2,296,693) to reflect the number of shares of the legal acquirer in the reverse takeover, Woodrose.

(Expressed in Canadian dollars)

6. REVERSE TAKEOVER TRANSACTION ("RTO") (continued)

The consideration paid by Novoheart Holdings Limited to acquire Woodrose was measured on the basis of the fair value of the notional equity instruments deemed to have been issued considering the price per share of the subscription receipt offering closing concurrently with the Transaction. In accordance with IFRS 2, any excess of the fair value of the shares issued by the Company over the value of the net monetary assets of Woodrose is recognized in the interim consolidated statements of comprehensive loss, as a listing fee. The fair value of the consideration of $4,062,500 has been allocated as follows:

Purchase Price		
8,125,000 common shares of Novoheart	$	4,062,500
Total Purchase Price	$	4,062,500
Allocation of Purchase Price		
Cash	$	112,662
Accounts receivable		20,654
Prepaid expenses		3,836
Accounts payable and accrued liabilities		(87,140)
Non-cash loss on completion of reverse takeover		4,012,488
	$	4,062,500

In addition, finder's fee of 2,402,218 common shares, valued at $1,201,109, was issued and has been recorded in share capital and in non-cash loss on completion of reverse takeover.

7. ACCOUNTS AND OTHER RECEIVABLES

		June 30, 2018		June 30, 2017
Receivable for ITF project	$	433,223	$	482,192
Receivable for agreement with Sumocor (Note 17)		97,198		-
Receivable for internship grants		41,592		-
Receivable for agreement with Pfizer (Note 19)		-		120,048
Other		43,319		-
Accounts and other receivables	$	615,332	$	602,240

As at June 30, 2018, accounts and other receivables include $433,223 (HK$2,670,921) from HKU as a refund for the ITF project (June 30, 2017 - $482,192 (HK$2,897,720)). The ITF project was completed in January 2017 and since actual expenses for the project were lower than budget, the Company's previous prepayment for the project that was not spent and will be refunded to the Company.

(Expressed in Canadian dollars)

8. PREPAID EXPENSES AND DEPOSITS

	June 30, 2018	June 30, 2017
Deposits	$ 216,387	$ 24,246
Prepaid service fees	83,197	-
Prepaid patent fees	12,577	12,903
Prepaid rent	-	30,385
Prepaid legal fees	-	14,801
Other	-	15,920
Prepaid expenses and deposits	$ 312,161	$ 98,255

As at June 30, 2018, Deposits of $216,387 included $148,659 of security deposit for the Company's new lab and office facility in Phase 3 of the Hong Kong Science Park.

9. PROPERTY AND EQUIPMENT

Cost	Computer Equipment	Lab Equipment	Office Equipment	Leasehold Improvements	Total
June 30, 2016	$ 12,280	$ 291,695	$ 11,740	$ -	$ 315,715
Additions	5,688	49,451	-	-	55,139
Exchange difference	597	3,856	(85)	-	4,368
June 30, 2017	$ 18,565	$ 345,002	$ 11,655	$ -	$ 375,222
Additions	26,191	204,338	40,464	1,103,697	1,374,690
Exchange difference	(487)	(8,853)	(320)	(737)	(10,397)
June 30, 2018	$ 44,269	$ 540,487	$ 51,799	$ 1,102,960	$ 1,739,515

(Expressed in Canadian dollars)

9. PROPERTY AND EQUIPMENT (continued)

Accumulated Amortization	Computer Equipment	Lab Equipment	Office Equipment	Leasehold Improvements	Total
June 30, 2016	$ 3,144	$ 83,985	$ 2,950	$ -	$ 90,079
Additions	3,114	67,241	2,393	-	72,748
Exchange difference	(104)	(2,352)	(83)	-	(2,539)
June 30, 2017	$ 6,154	$ 148,874	$ 5,260	$ -	$ 160,288
Additions	6,158	83,522	6,407	241,434	337,521
Exchange difference	(160)	(3,816)	(137)	(162)	(4,275)
June 30, 2018	$ 12,152	$ 228,580	$ 11,530	$ 241,272	$ 493,534

Carrying Amounts	Computer Equipment	Lab Equipment	Office Equipment	Leasehold Improvements	Total
June 30, 2017	$ 12,411	$ 196,128	$ 6,395	$ -	$ 214,934
June 30, 2018	$ 32,117	$ 311,907	$ 40,269	$ 861,688	$ 1,245,981

In December 2017, the Company completed the first phase of its expansion into a new lab and office facility in Phase 3 of the Hong Kong Science Park. The deposit previously paid for the lab construction has been capitalized as leasehold improvement and will be amortized over the life of the lease. The lease is for a term of 3 years and will expire on July 30, 2020.

(Expressed in Canadian dollars)

10. INTANGIBLE ASSETS

As at June 30, 2018, the Company had the following intangible asset:

	Cost	Accumulated Amortization	Net
Licenses	$ 339,404	$ 61,456	$ 277,948

The licenses comprise of intellectual properties that were licensed-in from universities and organizations. Many of the upfront payments are paid over a period of time, and as at June 30, 2018, $138,276 (June 30, 2017 – $nil) of these upfront payments have been recorded in accounts payable and accrued liabilities, as well as $75,424 (June 30, 2017 – $ nil) in long-term license payable for payments that are due beyond a 12 month period.

11. GOVERNMENT GRANTS

Technology Start-up Support Scheme for Universities (“TSSSU”) grants
The Innovation and Technology Commission of the Government of the Hong Kong Special Administrative Region (the “ITC”), has set up TSSSU to provide funding support to universities to support their students, graduates and academic staff to start up technology business and commercialize their research and development results. The University of Hong Kong (“HKU”) has assessed and recommended Novoheart Limited to the ITC for financial assistance under the TSSSU and the ITC has agreed to provide such assistance to the Company through HKU. Accordingly, the Company and HKU entered into the following funding arrangements under the TSSSU (collectively referred as “TSSSU grants”):

- On December 23, 2014, the Company entered into an agreement with HKU to receive a TSSSU grant of $113,547 (HK$750,000) from the ITC through HKU (“2014 TSSSU grant”). The purpose of the grant is to compensate the Company for its operating costs incurred and lab equipment purchased during the period from December 2014 to June 2015. The grant was received on January 19, 2015.

- On May 28, 2015, the Company entered into an agreement with HKU to receive a TSSSU grant of $60,558 (HK$400,000) from the ITC through HKU (“2015 TSSSU grant”). The purpose of the grant is to compensate the Company for its operating costs incurred and lab equipment purchased during the period from May 2015 to March 2016. The 2015 TSSSU grant was received through two installment payments of $30,279 on June 8, 2015 and $34,201 December 11, 2015.

(Expressed in Canadian dollars)

11. GOVERNMENT GRANTS (continued)

In April 2017, the Company received notification that certain expenditures submitted for reimbursement were rejected for the 2015 TSSSU Grant. The rejection was for expenses the Company incurred beyond the grant period due to the delay in the commencement of the research project with the Pfizer. As a result, the Company has paid back $4,436 in August 2017. The amount was included in the accounts payable and accrued liabilities as of June 30, 2017. At June 30, 2017, $3,705 has been recognized as an adjustment to the deferred government grant balance and $931 has been recognized as an expense for the year then ended.

The recognition of the TSSSU grants is summarized as below:

	2014 TSSSU Grant	2015 TSSSU Grant	Total TSSSU Grants
Deferred government grants - June 30, 2016	$ 67,131	$ 24,121	$ 91,252
Government grant income recognized	(18,312)	(5,277)	(23,589)
Adjustments to TSSSU Grant	-	(3,705)	(3,705)
Exchange difference	(6)	61	55
Deferred government grants - June 30, 2017	48,813	15,200	64,013
Government grant income recognized	(17,393)	(4,370)	(21,763)
Exchange difference	(1,221)	(381)	(1,602)
Deferred government grants - June 30, 2018	$ 30,199	$ 10,449	$ 40,648

Internship grants

On August 24, 2017 and February 13, 2018, Novoheart received two internship grants, totaling approximately $142,540, from the ITC of Hong Kong to support the recruitment of local graduates over a period of 24 months each. The internship grants provide financial support towards the expansion of the R&D team in Hong Kong.

Enterprise Support Scheme (“ESS”)

Effective June 1, 2018 the Company entered into an agreement with the ITC to receive funding under the Enterprise Support Scheme (“ESS”) as part of its Innovative and Technology Fund. This grant was awarded to the Company to further enhance the drug screening capabilities of its proprietary human ventricular cardiac tissue strip.

The ESS provides funding support on a matching basis for conducting research and development. The project is estimated to have a total cost of $775,640 (HK$4,782,000). Under the agreement,

11. GOVERNMENT GRANTS (continued)

Enterprise Support Scheme ("ESS") (continued)

the ITC will contribute up to a maximum of $387,820 (HK$2,391,000) and the Company will be responsible for the remaining costs.
Payment from the ITC is subject to performance of the agreement by the Company to the satisfaction of the ITC and subject to the terms and condition of the agreement. As at June 30, 2018, the Company has not incurred any expenses pertaining to this project.

12. SHARE CAPITAL

Authorized:

Unlimited number of preferred and common shares.

Issued Common Shares and Warrants:

On July 19, 2016, Woodrose completed a non-brokered private placement of 2,914,157 units on a consolidated basis (prior to consolidation - 10,400,000 units). Each unit consisted of one common share and one share purchase warrant. Each common share purchase warrant entitles the holder to purchase one additional common share until July 19, 2017. Prior to the reverse takeover transaction, 1,052,178 and 1,861,979 warrants were exercised by the holder during the year ended June 30, 2018 and 2017 respectively.

During the year ended June 30, 2017, Novoheart Holdings Limited issued 1,365 shares for total proceeds of $2,111,050. 1,365 shares are not reflected in the statement of change in equity as the number of shares has been revised to reflect the number of shares of Woodrose (note 6).

Concurrent with the reverse takeover transaction, the Company announced the closing of a subscription receipt financing on September 21, 2017. The subscription receipt financing was a non-brokered private placement offering pursuant to which the Company sold an aggregate of 14,300,000 subscription receipts at a price of $0.50 subscription receipt for gross proceeds of $7,150,000.

Each subscription receipt was automatically converted into one post-consolidation share.

In connection with the subscription receipt offering, a finders' fee of $486,018 was paid and was recorded as share issuance cost, in share capital.

In addition, 972,037 finders' warrants were issued with a fair value of $320,772 recorded as share issuance cost, in share capital. Each finder's warrant is exercisable at a price of $0.50 into one Novoheart share for 24 months following completion of the transaction. The following table reflects the continuity of warrants for the year ended June 30, 2018:

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

	Number of warrants	Weighted average exercise price
Balance, June 30, 2017	-	-
Issued	972,037	$0.50
Balance, June 30, 2018	972,037	$0.50

The following is a summary of the warrants outstanding as at June 30, 2018:

	Warrants	Weighted average exercise price
Outstanding as at June 30, 2017	-	$ -
Issuance of warrants	972,037	0.50
Outstanding as at June 30, 2018	**972,037**	**0.50**

Expiry date	Warrants outstanding	Exercise Price	Weighted average remaining contractual life (in years)
September 27, 2017	972,037	$ 0.50	1.24
	972,037	**$0.50**	**1.24**

The fair values of warrants issued during the year ended June 30, 2018 were measured using the Black-Scholes option pricing model. Expected volatility was determined based on comparable publicly listed companies. The inputs used in the measurement of the fair values at the grant dates for the year ended June 30, 2018 were as follows:

Risk-free interest rate	1.53%
Expected life of warrants	2 years
Expected volatility	132.04%
Expected dividend rate	0%

(Expressed in Canadian dollars)

13. SHARE-BASED COMPENSATION

Stock options

The Company has an equity incentive plan that enables it to grant stock options and restricted share units to its directors, employees, consultants and members of the Company's Scientific Advisory Board up to a 10% of the issued and outstanding common shares. In general, stock options vest over 3 years and expires after 5 years. The following table reflects the continuity of stock options for year ended June 30, 2018:

	Number of stock options	Weighted average exercise price
Balance, June 30, 2017	-	-
Granted	4,897,098	$0.49
Balance, June 30, 2018	4,897,098	$0.49

At June 30, 2018, stock options granted to directors, officers, employees and consultants in were outstanding as follows:

Date of Grant	Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date
September 27, 2017	3,548,576	-	$0.50	September 27, 2022
September 27, 2017	480,000	-	$0.50	September 27, 2022
September 27, 2017	175,000	-	$0.50	September 27, 2019
February 23, 2018	520,000	-	$0.50	September 27, 2022
February 23, 2018	173,522	-	$0.50	February 23, 2023

The weighted average contractual life remaining of all stock options as at June 30, 2018 is 4.20 years. During the year ended June 30, 2018, the Company recorded share-based payments of $877,182 (2017 – $nil).

The fair values of options granted during the year ended June 30, 2018 were measured using the Black-Scholes option pricing model. Expected volatility was determined based on comparable publicly listed companies. The inputs used in the measurement of the fair values at the grant dates and reporting dates (in the case of options issued to non-employees) for the year ended June 30, 2018 were as follows:

(Expressed in Canadian dollars)

13. SHARE-BASED COMPENSATION (continued)

Risk-free interest rate	1.68-1.97%
Expected life of options	1.0-3.5 years
Expected volatility	103.38%-139.98%
Expected dividend rate	0%

Restricted share unit plan

The Company has a treasury-based Restricted Share Unit Plan (the "RSU Plan") to provide long-term incentives to certain executives, scientific advisory board members and other key employees and to support the objective of employee share ownership through the granting of restricted share units ("RSUs"). There is no exercise price and no monetary payment is required from the employees to the Company upon grant of the RSUs or upon the subsequent issuance of shares to settle the award. The vested RSUs are settled through the issuance of common shares from treasury. Vesting of RSUs is conditional upon the expiry of a time-based vesting period. The duration of the vesting period and other vesting terms applicable to the grant of the RSUs are determined at the time of the grant. Generally, RSUs vest monthly over one year, in equal amounts, from the date of grant.

The following table reflects the continuity of restricted share units for year ended June 30, 2018:

	Number of RSUs	Weighted Average Grant Date Fair Value
Balance, June 30, 2017	-	-
Issued	2,080,000	$ 0.47
Released	-	-
Forfeited	-	-
Balance, June 30, 2018	2,080,000	0.47
Vested, June 30, 2018	130,000	$ 0.51

During 2018, the Company granted 2,080,000 RSUs of which 130,000 RSUs were vested as at June 30, 2018. The RSUs granted vests equally every month over a one-year period. For the year June 30, 2018, stock-based compensation expense related to RSUs of $295,221 (2017 – $nil) was recorded.

(Expressed in Canadian dollars)

14. RELATED PARTY TRANSACTIONS

The related party transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions not disclosed elsewhere in these consolidated financial statements are listed below.

	2018	2017
Due from related parties	$ -	$ 13,874
Due to related parties	$ 60,684	$ 39,554

The amounts due to/from related parties are a result of consulting fees payable in accordance with management's contracts with the Company or are advances and expenses incurred by the Officers and Directors on behalf of the Company. Amounts due to related parties are unsecured, non-interest bearing, and due on demand with no specific terms of repayment.

Key management compensation
Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has identified its directors and key officers, including our Chief Executive Officer, Chief Operating Officer, Chief Scientific Officer and Chief Financial Officer, as its key management personnel. Compensation awarded to key management amounted to $1,331,255 for the year ended June 30, 2018 (2017 – $686,799). Compensation includes bonus payments of $504,117 which compromises of a one-off milestone payment for successfully listing the Company as well as an annual bonus for the achievements of the Company's 2018 corporate goals. Share-based payments awarded to key management amounted to $678,165 (2017 – $nil).

15. FINANCIAL INSTRUMENTS

The following table summarizes the carrying values of the Company's financial instruments:

	June 30, 2018 $	June 30, 2017 $
Financial Assets		
Financial assets at amortized cost:		
Cash and cash equivalents	1,595,094	1,319,748
Accounts and other receivables	615,332	602,240
Due from related parties	-	13,874
Financial Liabilities		
Other financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	1,357,713	443,183
Due to related parties	60,684	39,554

15. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

Financial instruments recorded at fair value are measured using a three-level fair value hierarchy:

Level 1 Fair value is determined by reference to quoted prices in active markets for identical assets and liabilities.

Level 2 Fair value is determined based on inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly.

Level 3 Fair value is determined based on inputs that are unobservable and significant to the overall fair value measurement.

The carrying value of cash and cash equivalent, accounts and other receivables, due from related parties, accounts payable and accrued liabilities and due to related parties approximates the fair value because of the short-term nature of these instruments.

Financial risk management

The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

<u>Credit risk</u>

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents as well as accounts and other receivables are subject to credit risk for a maximum of the amount shown on the consolidated statements of financial position. The Company limits its exposure to credit risk on cash and cash equivalents by depositing only with reputable financial institutions, and limits its exposure to credit risk on accounts and other receivables by only working with large and well-funded organizations. Management believes that the Company is subject to minimal credit risk.

<u>Liquidity risk</u>

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The purpose of liquidity risk management is to maintain a sufficient amount of cash and cash equivalents to meet its liquidity requirements at any point in time. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company maintaining sufficient cash on hand through equity and debt financing. Significant commitments in years subsequent to June 30, 2018 are as follows:

15. FINANCIAL INSTRUMENTS (continued)

Financial risk management (continued)
Liquidity risk (continued)

	Carrying value	Contractual Cash flows	Within 1 year	1 – 3 Years
	$	$	$	$
Accounts payable and accrued liabilities	1,357,713	1,357,713	1,357,713	-
Total	1,357,713	1,357,713	1,357,713	-

Interest rate risk
Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is only subject to interest rate risk on its cash balance in the bank and there is unlikely to be a material impact on net income (loss) as the bank deposits are short term.

Currency risk
Foreign currency exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional and reporting currency is Canadian dollars. The Company is exposed to currency risk through the financial assets and liabilities denominated in currencies other than Canadian Dollars. The Company currently does not use derivative instruments to hedge its exposure to the currency risk. As at June 30, 2018, the exposure of the Company's financial assets and financial liabilities to currency risk is summarized as follows:

(Presented in Canadian dollars)	Denominated in USD	Denominated in HKD
Financial Assets		
Cash and cash equivalents	28,738	383,602
Accounts and other receivables	97,198	474,816
Due from related parties	-	68,186
Financial Liabilities		
Accounts payable and accrued liabilities	79,516	951,446
Due to related parties	-	-

A 1% strengthening (weakening) of the Canadian dollars against the Hong Kong dollars and US dollars, with other variables unchanged, would have decreased (increased) the net loss by approximately $42,952 and $3,504 respectively.

(Expressed in Canadian dollars)

16. CAPITAL RISK MANAGEMENT

The Company's primary objective when managing capital is to maintain sufficient resources and raise funding to support current and long-term operating needs. The ability to continue as a going concern is essential to the Company's goal of providing returns to shareholders and other stakeholders. The capital structure of the Company consists of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its operations. The Company balances its overall capital through new share issuances or by undertaking other activities as deemed appropriate in the circumstances. The Company is not subject to externally imposed capital requirements. There have been no significant changes in the Company's approach to capital management during the year. These objectives and strategies are reviewed on a continuous basis.

17. REVENUE

On February 6, 2018, Novoheart entered into a commercial agreement with Sumocor LLC, a biotech company based in New York City that is focused on the development of therapeutics for cardiovascular diseases. Pursuant to the agreement, Novoheart will test Sumocor's candidate therapeutics in three phases on Novoheart's MyHeart Platform of human bioengineered heart constructs, to provide thorough pre-clinical assessment of efficacy and cardiotoxicity in the context of human heart tissues and chambers. For the year ended June 30, 2018, Novoheart recognized $95,124 (US$74,900) of revenue relating to Phase 1 of the commercial agreement. Phase 1 was completed in June 2018. In addition, Novoheart has an accounts receivable balance of $97,198 (US$74,900) as at June 30, 2018, and the outstanding balance was received subsequent to year-end.

18. EXPENSES BY NATURE

	2018	**2017**
Research and development, excluding personnel costs	**$ 386,483**	$ 686,051
IP and Patent	**420,399**	205,369
Personnel costs	**2,870,160**	1,245,452
Professional and regulatory fees	**1,041,270**	373,144
Occupancy costs	**280,144**	86,963
Travelling expenses	**292,154**	127,857
Stock based compensation expenses	**1,172,403**	
Office and administrative expenses	**383,749**	123,521
Depreciation and amortization	**399,018**	72,769
	$ 7,245,780	$ 2,921,126

19. RESEARCH AGREEMENTS

Innovation and Technology Fund Agreement
On January 12, 2015, the Company entered into an agreement with the Government of Hong Kong Special Administrative Region ("the Government") and HKU to carry out a research and development project titled "Establishing an Internationally Competitive Stem Cell Biotech Cluster in HK: Bio-artificial Human Heart" (the "ITF Project" or the "Project"). The ITF project was completed in January 2017. As such, the Company made no cash contributions nor incurred any research and development expenses for the year ended June 30, 2018. No in-kind contributions from the Company was recognized and approved by the Government during the year ended June 30, 2018. As of June 30, 2018, $433,223 (HK$2,670,921) has been included in accounts and other receivables as a refund that the Company expects to receive from HKU since the expenses incurred for the ITF project were lower than expected. The Company expects to receive the refund in the second half of calendar year 2018 once HKU completes an audit of the expenses for the ITF project.

Sponsored research agreement with Mount Sinai
Effective February 29, 2016, the Company entered into a sponsored research agreement with Icahn School of Medicine at Mount Sinai ("Mount Sinai"). Pursuant to the agreement, the Company agrees to reimburse Mount Sinai in the conduct of sponsored research with respect to human cardiac tissue engineering and related bioreactor technology development for therapeutic discovery in an amount totaling $176,400. Payment is scheduled to be made in two installments, with one third made within 60 days of the effective date, and two-thirds six months thereafter. Mount Sinai shall retain all right, title and interest in all resulted intellectual properties. The agreement commenced on the effective date of February 29, 2016.

The Company had made the first installment of $78,807 in 2016. As of June 30, 2018, the Company recorded $152,610 in accounts payable and accrued liabilities. For the year ended June 30, 2018, the Company recognized $ nil (2017 – $167,155) as research and development expenses in the consolidated statements of loss and comprehensive loss based on the progress of the sponsored research project.

Research agreement with Pfizer
The Company entered into research agreement with Pfizer on December 23, 2015 to build diseased cardiac tissues and chambers for Friedreich's ataxia. Pursuant to the agreement, the Company conducts research activities in accordance with an agreed upon research plan in exchange for payments of up to $481,571 (US$363,000) to reimburse portion of the associated costs incurred. The agreement was completed on December 17, 2017 and as such, the Company recognized $111,214 as other income for the year-ended June 30, 2018 (2017 - $278,111).

(Expressed in Canadian dollars)

20. COMMITMENTS

Leases

On August 21, 2017, the Company entered into a leasing agreement with Hong Kong Science and Technology Park to expand its lab and office facilities. Concurrently, the Company extended its previous leases with Hong Kong Science and Technology Park. Future minimum lease payments for the lease for each of the fiscal years ending June 30 are as follows:

2019	335,204
2020	335,204
2021	27,934
Total	$ 698,342

IP Licensing Agreements

The Company has IP licensing agreements with the University of California, Irvine Campus, the Ichan School of Medicine at Mount Sinai, GE Healthcare, the Wisconsin Alumni Research Foundation, and iPS Academia Japan. The commitments under these agreements include upfront payments (paid over twelve or more months), maintenance fees, and minimum royalties. Future minimum payments for each of the fiscal years ending June 30 are as follows: 2019 - $186,692; 2020 - $100,331; 2021 – $109,856; 2022 and thereafter - $215,268.

21. SEGMENT DISCLOSURES

The Company operates in one reporting segment. During the year ended June 30, 2018, the Company had a single customer located in the United States which accounted for 100% of total revenue and all of the Company's capital assets are located in Hong Kong as at June 30, 2018.

22. INCOME TAX

The following table reconciles the expected tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended June 30, 2018 and 2017:

(Expressed in Canadian dollars)

22. INCOME TAX (continued)

	2018	2017
Net loss before tax	$ (12,463,044)	$ (2,654,046)
Statutory tax rate	26.5%	0%
Expected tax recovery	(3,302,707)	-
Share-based compensation	310,687	-
Non-cash loss on completion of reverse takeover	1,381,603	-
Non-deductible expenses	61,047	-
Foreign tax rate difference	482,316	(365,942)
Other	1,355	3,269
Change in deferred tax assets not recognized	1,065,699	362,673
Total tax expense (recovery)	$ -	$ -

As a result of the Transaction (see Note 1), Novoheart Holdings Inc. became the parent entity of Novoheart Holdings Limited. Novoheart Holdings Inc. domiciles in British Columbia, Canada, whereby Novoheart Limited domiciled in the British Virgin Islands, which resulted in a change in statutory tax rate from 0% in 2017 to 26.5% in 2018. The statutory tax rate reflects the tax rate that the parent company is subject to in its jurisdiction of domicile.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes. Deferred tax assets (liabilities) at June 30, 2018 and 2017 are comprised of the following:

	2018	2017
Tax losses	$ 12,773	$ 19,011
Equipment	(12,773)	(19,011)
	$ -	$ -

(Expressed in Canadian dollars)

22. INCOME TAX (continued)

The unrecognized deductible temporary differences are as follows:

	2018	**2017**
Tax losses	$ 9,186,014	$ 3,754,925
Issuance costs	388,814	-
Unrecognized deductible temporary differences	$ 9,574,828	$ 3,754,925

As at June 30, 2018, the Company has not recognized a deferred tax asset in respect of tax losses which may be carried forward to apply against future year income tax for Hong Kong profit tax purposes, Canadian tax purposes, and US tax purposes, subject to the final determination by taxation authorities. Losses in Hong Kong may be carried forward indefinitely, and the Canadian and US tax losses expire beginning in 2038.

	2018	**2017**
Tax losses carried forward – Hong Kong	$ 7,461,369	$ 3,754,925
Tax losses carried forward – Canada	1,337,453	-
Tax losses carried forward – US	358,020	-