

NOVOHEART HOLDINGS LIMITED

Consolidated Financial Statements

For the years ended June 30, 2017 and 2016

(Expressed in United States Dollars)

Management's Responsibility for Financial Reporting

To the Shareholders of Novoheart Holdings Limited:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board of Directors fulfil these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Board of Directors also has the responsibility of recommending the appointment of the Company's external auditors and meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with the Board of Directors and management to discuss their audit findings.

October 25, 2017

"Ronald Li"

CEO

"Iris Lo"

CFO

Independent Auditors' Report

To the Shareholders of Novoheart Holdings Limited:

We have audited the accompanying consolidated financial statements of Novoheart Holdings Limited, and its subsidiary, (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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 Limited and its subsidiary as at June 30, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which discloses matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Novoheart Holdings Ltd.'s ability to continue as a going concern.

October 25, 2017

Vancouver, BC



Chartered Professional Accountants

NOVOHEART HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States dollars)

	Notes	June 30, 2017	June 30, 2016
ASSETS			
Current			
Cash and cash equivalents		\$ 1,016,000	\$ 1,891,500
Accounts and other receivables	6	463,709	-
Prepaid expenses and deposits	7	75,651	101,998
Due from related parties	12	10,683	-
		1,566,043	1,993,498
Long-term prepayment		-	6,272
Equipment	8	165,494	173,489
		\$ 1,731,537	\$ 2,173,259
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		\$ 341,208	\$ 264,194
Deferred income		-	26,161
Due to related parties	12	31,317	76,620
		372,525	366,975
Deferred government grants	9	49,289	70,163
		421,814	437,138
Shareholders' Equity			
Share capital	10	13,199	11,834
Share premium	10	4,519,075	2,962,300
Accumulated other comprehensive income		(908)	4,711
Accumulated deficit		(3,221,643)	(1,242,724)
		1,309,723	1,736,121
		\$ 1,731,537	\$ 2,173,259

Going concern (Note 2)

Subsequent event (Note 19)

APPROVED BY

"James Topham"

Director of the Company

"Victor Chang"

Director of the Company

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

NOVOHEART HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

	Notes	2017	2016
OPERATING EXPENSES			
Research and development	15	\$ 868,645	\$ 576,478
IP and Patent		154,777	79,815
General and administrative expenses		1,123,169	289,287
Depreciation	8	54,834	47,181
		2,201,425	992,761
LOSS FROM OPERATIONS		(2,201,425)	(992,761)
Government grants	9	17,074	41,236
Other income	6	209,599	64,478
Finance expense		(1,000)	(1,267)
Foreign exchange gain (loss)		(3,167)	56
		222,506	104,503
NET LOSS FOR THE YEAR		(1,978,919)	(888,258)
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation adjustment		(5,619)	(364)
COMPREHENSIVE LOSS FOR THE YEAR		(1,984,538)	(888,622)
Loss per share – Basic and Diluted			
		\$ (163.63)	\$ (87.43)
Weighted average number of shares outstanding – basic and diluted			
		12,094	10,160

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

NOVOHEART HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in United States dollars)

	Notes	Issued common shares		Share premium	Exchange reverse	Deficit	Total equity
		Number	Amount				
			\$	\$	\$	\$	\$
BALANCE, JUNE 30, 2015		10,000	10,000	823,334	5,075	(354,466)	483,943
Issuance of common shares	10	1,834	1,834	2,198,966	-	-	2,200,800
Share issuance cost	10	-	-	(60,000)	-	-	(60,000)
Loss for the year		-	-	-	-	(888,258)	(888,258)
Foreign currency translation adjustment		-	-	-	(364)	-	(364)
BALANCE, JUNE 30, 2016		11,834	11,834	2,962,300	4,711	(1,242,724)	1,736,121
Issuance of common shares	10	1,365	1,365	1,636,635	-	-	1,638,000
Share issuance cost	10	-	-	(79,860)	-	-	(79,860)
Loss for the year		-	-	-	-	(1,978,919)	(1,978,919)
Foreign currency translation adjustment		-	-	-	(5,619)	-	(5,619)
BALANCE, JUNE 30, 2017		13,199	13,199	4,519,075	(908)	(3,221,643)	1,309,723

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

NOVOHEART HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
(in United States dollars)

	Notes	2017	2016
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year		(1,978,919)	(888,258)
Items not affecting cash:			
Depreciation	8	54,834	47,181
		(1,924,085)	(841,077)
Changes in non-cash working capital items:			
Increase in accounts and other receivables		(466,044)	-
Decrease/(increase) in prepaid expenses		25,795	180,098
Increase in accounts payable and accrued liabilities		78,436	244,442
Decrease in due to/from related parties		(58,606)	5,393
Decrease in deferred income		(26,167)	26,161
Decrease in deferred government grants		(20,571)	(41,236)
		(467,157)	414,858
Net cash used in operating activities		(2,391,242)	(426,219)
CASH FLOWS FROM INVESTING ACTIVITIES			
Prepayment for equipment		-	(6,272)
Acquisition of equipment	8	(41,576)	(9,041)
Net cash used in investing activities		(41,576)	(15,313)
CASH FLOWS FROM FINANCING ACTIVITIES			
Government grants	9	-	25,775
Issuance of common shares, net of share issuance cost		1,558,140	2,140,800
Net cash provided by financing activities		1,558,140	2,166,575
Change in cash during the year		(874,678)	1,725,043
Effect of exchange rate changes on cash held in a foreign currency		(822)	(91)
Cash and cash equivalents, beginning of year		1,891,500	166,548
Cash and cash equivalents, end of year		1,016,000	1,891,500

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

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

1. NATURE OF OPERATIONS

Novoheart Holdings Limited (the “Company”) was incorporated in the territory of the British Virgin Islands on June 27, 2014 under the BVI Business Companies Act, 2004. Through its wholly owned subsidiary, Novoheart Limited, the Company focuses on engineering bio-artificial human heart tissues and chambers for drug discovery, cardiotoxicity screening, disease modeling and future therapeutic applications.

The registered address of the Company is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The registered address of Novoheart Limited is Unit 229, 2/F, Hong Kong Science Park, No. 12 Science Park West Avenue, Shatin, New Territories, Hong Kong.

2. BASIS OF PRESENTATION AND GOING CONCERN

Statement of compliance

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

Certain prior year financial information has been reclassified to conform with the presentation in the current year.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on October 25, 2017.

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 profitability through the commercialization of its products and services. At June 30, 2017, the Company has an accumulated deficit of \$3,221,643 since inception. For the year ended June 30, 2017, the Company incurred a net loss of \$1,978,919 (2016 – \$888,258) and used net cash in operating activities of \$2,391,242 (2016 – \$426,219).

The Company’s ability to continue as a going concern is dependent upon its ability to generate service contracts, product sales, negotiate collaboration or license agreements with upfront 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 circumstances comprise a material uncertainty which cast significant doubt as to the Company’s ability 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.

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

2. BASIS OF PRESENTATION AND GOING CONCERN (continued)

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

These consolidated financial statements are presented in United States dollars, which is the Company's functional and reporting currency. The functional currency of its wholly owned subsidiary, Novoheart Limited, is Hong Kong dollars.

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency

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. The resulting exchange gains and losses are recognized in profit or loss. 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.

Foreign operations

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.

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.

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

- 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.
- 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 as FVTPL, 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.

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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.

Equipment

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of 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.

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.

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.

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 include fees paid to universities and other research organizations 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.

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.

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016
(Expressed in United States dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 the consolidated financial statements are as follows:

Evaluation of the Company's ability to continue as a going concern

Management has applied judgments 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.

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. CRITICAL JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of the financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Depreciation

Equipment are depreciated based on the estimated useful life less their estimated residual value. Significant assumptions are involved in the determination of useful life and residual values and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions. Actual useful life and residual values may vary depending on a number of factors including internal technical evaluation, physical condition of the assets and experience with similar assets. Changes to these estimates may affect the carrying value of equipment, net income (loss) and comprehensive income (loss) in future periods.

Current and deferred taxes

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. The Company recognizes the deferred tax benefit related to deferred tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in the future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. In addition, all tax filings are subject to subsequent government audits and potential reassessment. These interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred tax assets and liabilities and results of operations.

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:

NOVOHEART HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. IFRS STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial instruments

On July 24, 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. It also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted.

IFRS 15 Revenue from contracts with customers

On May 28, 2014 the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”). IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The effective date is for reporting periods beginning on or after January 1, 2018 with early application permitted.

IFRS 16 Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

Other new standards or amendments are either not applicable or not expected to have a significant impact on the Company’s consolidated financial statements.

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6. ACCOUNTS AND OTHER RECEIVABLES

	June 30, 2017	June 30, 2016
Receivable for ITF project (note 15)	\$ 371,275	\$ -
Receivable for agreement with Global Pharma Partner	92,434	-
Accounts and other receivables	\$ 463,709	\$ -

At June 30, 2017, accounts and other receivables includes \$371,275 (HK\$2,897,720) from HKU as a refund for the ITF project. 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 will be refunded to the Company. The Company expects to receive the refund in the second quarter of 2018 once HKU completes an audit of the expenses for the ITF project.

On December 23, 2015, the Company entered into a research agreement with a global pharmaceutical company (the "Global Pharma Partner"). Pursuant to the agreement, the Company conducts research activities in accordance with an agreed upon research plan and receives the following payments to reimburse portion of the associated costs incurred by the Company in its conduct of the research plan:

- \$90,750 within 30 days after the effective date;
- \$90,750 within 30 days of the one-year anniversary of this agreement;
- \$90,750 within 30 days after the acceptance by the Global Pharma Partner of the agreed upon deliverables; and
- \$90,750 within 30 days after the Company delivers its final report.

The Company received the first, second and third tranche of payment of \$90,750 in January 2016, March 2017, and July 2017 respectively. Based on the progress of the research plan, the Company recorded \$92,434 as accounts and other receivables (June 30, 2016: \$26,161 was recorded as deferred income) and recognized \$209,599 (2016: \$64,478) as other income for the 2017 fiscal year.

7. PREPAID EXPENSES AND DEPOSITS

	June 30, 2017	June 30, 2016
Deposits	\$ 18,669	\$ 18,698
Prepayment for research agreements (Note 15)	-	32,207
Prepaid service fees	-	34,568
Prepaid patent fee	9,935	9,994
Prepaid rent	23,396	-
Prepaid legal fee	11,394	-
Other	12,257	6,531
Prepaid expenses and deposits	\$ 75,651	\$ 101,998

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8. EQUIPMENT

Cost	Computer Equipment	Lab Equipment	Office Equipment	Total
June 30, 2015	\$ 9,451	\$ 216,957	\$ 7,522	\$ 233,930
Additions	-	7,530	1,511	9,041
Exchange difference	(9)	(206)	(6)	(221)
June 30, 2016	9,442	224,281	9,027	242,750
Additions	4,289	37,287	-	41,576
Exchange difference	563	4,075	(52)	4,586
June 30, 2017	\$ 14,294	\$ 265,643	\$ 8,975	\$ 288,912

Accumulated Amortization	Computer Equipment	Lab Equipment	Office Equipment	Total
June 30, 2015	\$ 529	\$ 20,948	\$ 622	\$ 22,099
Additions	1,888	43,646	1,647	47,181
Exchange difference	-	(19)	-	(19)
June 30, 2016	2,417	64,575	2,269	69,261
Additions	2,347	50,683	1,804	54,834
Exchange difference	(26)	(628)	(23)	(677)
June 30, 2017	\$ 4,738	\$ 114,630	\$ 4,050	\$ 123,418

Carrying Amounts	Computer Equipment	Lab Equipment	Office Equipment	Total
June 30, 2016	\$ 7,025	\$ 159,706	\$ 6,758	\$ 173,489
June 30, 2017	\$ 9,556	\$ 151,013	\$ 4,925	\$ 165,494

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9. GOVERNMENT GRANTS

The Innovation and Technology Commission of the Government of the Hong Kong Special Administrative Region (the "ITC"), has set up a Technology Start-up Support Scheme for Universities ("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 \$96,728 (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 \$51,569 (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 HK\$200,000 on June 8, 2015 (\$25,794) and December 11, 2015 (\$25,775).

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 Global Pharma Partner. As a result, the Company has paid back US\$3,493 in August 2017. The amount was included in the accounts payable and accrued liabilities as of June 30, 2017. At June 30, 2017, \$2,790 has been recognized as an adjustment to the deferred government grant balance and \$702 has been recognized as an expense for the year then ended.

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9. GOVERNMENT GRANTS (continued)

The recognition of the TSSSU grants is summarized as below:

	2014 TSSSU Grant	2015 TSSSU Grant	Total TSSSU Grants
Deferred government grants - June 30, 2015	\$ 65,490	\$ 20,216	\$ 85,706
Receipt of TSSSU grants	-	25,775	25,775
Government grant income recognized	(13,810)	(27,426)	(41,236)
Exchange difference	(63)	(19)	(82)
Deferred government grants - June 30, 2016	51,617	18,546	70,163
Government grant income recognized	(13,254)	(3,820)	(17,074)
Adjustment to TSSSU Grant	-	(2,790)	(2,790)
Exchange difference	(777)	(233)	(1,010)
Deferred government grants - June 30, 2017	\$ 37,586	\$ 11,703	\$ 49,289

10. SHARE CAPITAL

Authorized:

50,000 common shares with a par value of \$1.

Issued and outstanding:

On June 27, 2014, the Company issued 1 share at \$1.

In 2015, the Company issued 9,999 shares for total proceeds of \$833,333. Amount of \$823,334 was recorded as share premium.

In 2016, the Company issued 1,834 shares at \$1,200 each for total proceeds of \$2,200,800. \$1,199,000 was recorded as share premium. As finders' fee, the Company incurred \$60,000 of share issuance cost, which was recorded in share premium.

In 2017, the Company issued 1,365 shares at \$1,200 each for total proceeds of \$1,638,000. \$1,636,635 was recorded as share premium. As finders' fee, the Company incurred \$79,860 of share issuance cost, which was recorded in share premium.

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11. EXPENSES BY NATURE

	2017	2016
Research and development	\$ 517,046	\$ 451,557
IP and Patent	154,777	79,815
Personnel costs	938,682	173,635
Professional and regulatory fees	281,168	102,804
Occupancy costs	65,532	64,584
Travelling expenses	96,298	44,781
Office and administrative expenses	93,088	28,404
Depreciation	54,834	47,181
	\$ 2,201,425	\$ 992,761

12. 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.

	June 30, 2017	June 30, 2016
Due from related parties	\$ 10,683	\$ -
Due to related parties	\$ 31,317	\$ (76,620)

The amounts due to/from related parties are a result of consulting fees payable in accordance with management's contract with the Company, or are advances and expenses incurred by the CEO and Directors on behalf of the Company. 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 \$548,919 for the year ended June 30, 2017 (2016 - \$48,714).

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13. FINANCIAL INSTRUMENTS

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

	June 30, 2017	June 30, 2016
	\$	\$
Financial Assets		
FVTPL at fair value:		
Cash and cash equivalents	1,016,000	1,891,500
Loans and receivables at amortized cost:		
Accounts and other receivables	463,709	-
Due from related parties	10,683	-
Financial Liabilities		
Other financial liabilities at amortized cost:		
Accounts payable and accrued liabilities	341,208	264,194
Due to related parties	31,317	76,620

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.

Fair value of financial instruments

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as follows:

Cash and cash equivalents	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
As at June 30, 2017	1,016,000	-	-	1,016,000
As at June 30, 2016	1,891,500	-	-	1,891,500

The carrying value of 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.

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13. FINANCIAL INSTRUMENTS (continued)

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.

Credit risk

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.

Liquidity risk

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, 2017 are as follows:

	Carrying value	Contractual Cash flows	Within 1 year	1 – 3 Years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	341,208	341,208	341,208	-
Total	341,208	341,208	341,208	-

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 United States dollars. The Company is exposed to currency risk through the financial assets and liabilities denominated in currencies other than United States Dollars. The Company currently does not use derivative instruments to hedge its exposure to the currency risk. As at June 30, 2017, the exposure of the Company's financial assets and financial liabilities to currency risk is summarized as follows:

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13. FINANCIAL INSTRUMENTS (continued)

Financial risk management (continued)

Currency risk (continued)

	Denominated in CAD	Denominated in HKD
Financial Assets		
Cash and cash equivalents	-	302,311
Accounts and other receivables	-	371,276
Due from related parties	-	10,683
Financial Liabilities		
Accounts payable and accrued liabilities	140,555	34,945
Due to related parties	11,317	-

A 1% strengthening (weakening) of the United States dollars against the Hong Kong dollars, with other variables unchanged, would have decreased (increased) the net comprehensive loss by approximately \$7,095.

14. 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.

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15. RESEARCH AGREEMENTS

Innovation and Technology Fund Agreement

The Government of the Hong Kong Special Administrative Region (the "Government") has set up an Innovation and Technology Fund (the "ITF"). HKU, in collaboration with the Company, applied to the Government for financial assistance from the ITF to carry out a research and development project. The aim of the project is to develop the next generation 3D heart tissue constructs in the form of monolayers, heart muscle strips and mini-heart for cardiotoxicity screening and drug discovery (the "ITF Project" or the "Project"). The Company is now using the technology generated from this project in its myHeart™ platform.

The ITF Project commenced on January 12, 2015 and was completed on January 12, 2017, with the final report now being submitted. The ITF project is carried out by a group of scientists and research technicians in HKU, led by a research team comprised of professors from HKU and other universities/research institutes, and governed by a steering committee comprised of the CEO and CSO of the Company. The estimated total cost of the Project is \$2,740,769 (HK\$21,240,960) (the "Project Cost"). Of the total Project Cost, the Government committed to contribute approximately \$1,290,323 (HK\$10,000,000) in cash (47.1% of the estimated Project Cost), and the Company committed to contribute approximately \$1,450,446 (HK\$11,240,960) (52.9% of the estimated Project Cost) consisting of \$1,209,156 (HK\$9,370,960) in cash and \$241,290 (HK\$1,870,000) contribution in-kind.

Pursuant to the ITF Agreement, the ownership title to all equipment acquired under the Project shall vest in and remain with HKU during and after the Project, unless the Government directs HKU to deliver the equipment to the Government within 2 years after the end of the Project. All right, title and interest in all resulted intellectual properties (the "Project IPs") shall vest in and remain with the Company during and after the Project. The Company grants the Government a non-exclusive license to use and exercise the Project IPs strictly for the purposes of design, development, and manufacture of products and use of such products by the Government for the provision of services to the public.

On October 17, 2016, the Company and HKU entered into an agreement pursuant to which HKU agrees that it will not share in any income generated by the Company from the exploitation of the Project IPs, and that all such income will be entirely allocated to the Company. The Company commits a gratuitous contribution to HKU in an amount equivalent to 1% of the net revenue generated from its exploitation of the Project IPs, during the period commencing from July 1, 2016 to June 30, 2026, at a maximum of \$386,622 (HK\$3,000,000) in total, payable within 30 days of the end of each calendar year from 2017 to 2026, from revenue generated in the immediately preceding year commencing from July 1 to June 30.

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16. RESEARCH AGREEMENTS (continued)

Innovation and Technology Fund Agreement (continued)

The expenditure incurred by the Company under the Project is recorded as research and development expenses on an accrual basis as the Project progresses over its term. In 2017, the Company made cash contribution of \$647,909 (2016: \$372,731) and in-kind contributions of \$170,832 (2016: \$nil), while the Government made cash contribution of \$650,875 (2016: \$nil). For the year ended June 30, 2017, the Company recorded \$232,328 (2016: \$305,170) as research and development expenses in the consolidated statements of loss and comprehensive loss based on the actual amount of the Project Costs incurred by HKU.

Actual expenses for the completed project were lower than budget and the Company's previous prepayment for the project that was not spent will be refunded to the Company. The Company expects to receive approximately \$371,275 of refund in the second half of 2018 once HKU completes an audit of the expenses for the 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 a 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 \$58,800 in 2016. As of June 30, 2017, the Company recorded \$117,600 in accounts payable and accrued liabilities. For the year ended June 30, 2017, the Company recognized \$125,977 (2016: \$50,423) as research and development expenses in the consolidated statements of loss and comprehensive loss based on the progress of the sponsored research project.

Sponsored research agreement with UCI

Effective October 12, 2015, the Company entered into a sponsored research agreement with the Regents of the University of California, Irvine campus (UCI). Pursuant to the agreement, the Company agrees to reimburse UCI in the conduct of a sponsored research entitled "Biomimetic Heart Constructs with Machine Learning for Predictive Cardiotoxicity" in an amount of \$81,628. Payment is scheduled to be made in two installments with the first installment of \$30,000 made upon execution of this agreement and the second installment of \$51,628 made six months starting from the effective date of the agreement. UCI shall retain all right, title and interest in all resulted intellectual properties. The agreement commenced on October 12, 2015, and was completed on March 31, 2017.

The Company paid the entire agreed amount of \$81,628 in 2016. For the year ended June 30, 2017, the Company recognized \$23,825 (2016: \$57,803) as research and development expenses in the consolidated statements of loss based on the progress of the sponsored research project.

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16. COMMITMENTS

Leases

The Company entered into an office lease agreement and a lab lease agreement with Hong Kong Science and Technology Park in 2014. Both leases were effective from August 30, 2014 to August 30, 2017. Subsequent to year-end, the office lease was extended to November 4, 2017 and the lab lease was extended to November 29, 2017. In addition, the Company expanded its office and lab facilities by signing a new lease agreement with Hong Kong Science and Technology Park (note 19). The minimum lease payments for both leases are as follow:

2018	269,828
2019	265,430
2020	265,430
2021	22,119
Total	<u>\$ 822,807</u>

IP Licensing Agreements

In March 2017, the Company entered into an IP licensing agreement with the University of California Irvine Campus. Under the agreement, the Company will have to pay an annual maintenance fee of \$2,500 in 2018, \$3,500 in 2019, and \$4,500 from 2020 onwards until the expiration of the agreement, which is at the expiration or abandonment of the last of the patent rights licensed.

Please refer to note 19, Subsequent Event, for the Company's commitments under the new IP licensing agreements signed with the Ichan School of Medicine at Mount Sinai and GE Healthcare.

17. SEGMENT DISCLOSURES

The Company operates in one reporting segment. All of the Company's capital assets are located in Hong Kong.

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18. INCOME TAX

The following table reconciles the expected tax expense (recovery) at the BVI statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the years ended June 30, 2017 and 2016:

	2017	2016
Net loss before tax	\$ (1,978,919)	\$ (888,258)
Statutory tax rate	0%	0%
Expected tax recovery	-	-
Functional currency adjustments	2,574	49
Foreign tax rate difference	(288,139)	(133,063)
Change in deferred tax assets not recognized	285,565	133,014
Total tax expense (recovery)	\$ -	\$ -

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, 2017 and 2016 are comprised of the following:

	2017	2016
Tax losses	\$ 14,598	\$ 16,188
Equipment	(14,598)	(16,188)
Deferred tax asset (liability)	\$ -	\$ -

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18. INCOME TAX (continued)

The unrecognized deductible temporary differences are as follows:

	2017	2016
Tax losses	\$ 2,883,236	\$ 1,152,537
Unrecognized deductible temporary differences	\$ 2,883,236	\$ 1,152,537

As at June 30, 2017, the Company has not recognized a deferred tax asset in respect of tax losses of \$2,883,236 (2016: \$1,152,537) which may be carried forward indefinitely to apply against future year income tax for Hong Kong profit tax purposes, subject to the final determination by taxation authorities.

19. SUBSEQUENT EVENTS

Share exchange agreement

On September 28, 2017, the Company announced the completion of the reverse takeover transaction with Woodrose Venture Corporation (“Woodrose”), a TSX-V listed company. The Company sold to Woodrose all of its outstanding shares. As part of the transaction, the shareholders of Novoheart received 5,200 post-consolidation Woodrose shares for each Novoheart share.

Concurrent with the reverse takeover transaction, Woodrose announced closing of a subscription receipt financing on September 21, 2017. The subscription receipt financing was a non-brokered private placement offering pursuant to which Woodrose sold an aggregate of 14,300,000 subscription receipts at a price of C\$0.50 subscription receipt for gross proceeds of C\$7,150,000. Each subscription receipt will automatically convert into one Woodrose post-consolidation share. In connection with the subscription receipt, finders’ fee of C\$486,018 was paid and 972,037 finders’ warrants were issued. Each finder’s warrants will be exercisable at a price of C\$0.50 into one Woodrose share (on a post-consolidation basis) for 24 months following completion of the transaction.

In addition, at the closing of the reverse takeover transaction, the Company issued 4,203,576 stock options at an exercise price of C\$0.50. Each stock option entitles the holder to acquire one common share of Novoheart. 175,000 of the issued stock options vests in equal monthly portions over 12 months from the date of grant. The remaining 4,028,576 issued stock options vests over a three year period with 40% vesting on 12 months from the date of grant and 30% to be vested on 24 and 36 months from the date of grant.

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19. SUBSEQUENT EVENTS (continued)

License agreement with Icahn School of Medicine at Mount Sinai

On August 31, 2017 (“Effective Date”), the Company entered into an exclusive license agreement with the Icahn School of Medicine at Mount Sinai (“MSSM”), for the exclusive use of certain patents developed by Kevin Costa, Ron Li, Camie Chan and Roger Hajjar, officers and scientific advisory board member of Novoheart. Pursuant to the agreement, the Company agrees to pay an upfront license fee of \$5,000, an annual maintenance fee of \$2,500 to \$10,000, a 5.0% royalty on its net sales of products using the patents, as well as compensation for certain milestones and change of control scenarios.

License agreement with GE Healthcare UK Limited

On October 23, 2017, the Company entered into a non-exclusive sub-license agreement with GE Healthcare UK Limited (“GE Healthcare”) for the use of certain patents. Pursuant to the agreement, the Company agrees to pay an upfront fee of US\$120,000 over four years, a 5-9% royalty on its net sales of products using the patents, as well as compensation for certain milestones.

Rental agreement with Hong Kong Science and Technology Park

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. The lease will be for a term of 3 years commencing on July 31, 2017. The annual lease commitment will be approximately \$265,430 (HK\$2,066,610), including service charges.