

iCo Therapeutics Inc.

Condensed Consolidated Interim Financial
Statements

September 30, 2018 and 2017
(in Canadian dollars)
(Unaudited)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

iCo Therapeutics Inc.
Consolidated Balance Sheets (Unaudited)

(in Canadian dollars)

	Note	September 30, 2018 \$	December 31, 2017 \$
Assets			
Current assets			
Cash and cash equivalents		144,044	1,127,934
Taxes and other receivables	3	61,196	88,415
Prepaid expenses		32,250	157,682
		237,849	1,374,031
Equipment		3,354	1,500
		240,843	1,375,531
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	605,697	288,298
Shareholders' Equity			
Capital stock	5	28,048,137	28,048,137
Contributed surplus	5	4,283,898	3,527,327
Warrants	5	2,097,906	2,853,487
Accumulated other comprehensive income		3,403	-
Accumulated deficit		(34,798,199)	(33,341,718)
Total Equity		(364,854)	1,087,233
		240,843	1,375,531

Nature of operations and going concern (Note 1)

Approved by the Board of Directors

(signed) William Jarosz Director

(signed) Andrew Rae Director

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

iCo Therapeutics Inc.

Consolidated Statements of Loss and Comprehensive Loss (Unaudited) For the Three and Nine months ended September 30, 2018 and 2017

(in Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Expenses				
Research and development	\$144,773	\$115,679	\$1,231,861	\$679,099
General and administrative	309,137	188,654	661,314	528,068
Foreign exchange loss (gain)	(308)	5,451	974	13,304
	453,603	309,785	1,894,149	1,220,471
Change in fair value of investments	-	(623)	-	(1,792)
Other income (Note 3)	36,544	-	437,611	190,997
Interest income	(288)	1,419	58	7,882
Loss for the period	417,347	308,989	1,456,480	1,023,385
Other Comprehensive income				
Foreign currency translation adjustments	(1,170)	-	3,403	-
Total comprehensive income (loss)	(418,516)	(308,989)	(1,453,077)	(1,023,385)
Basic and diluted earnings (loss) per share	\$0.00	\$0.00	\$0.02	\$0.00
Weighted average number of shares (basic and diluted)	84,457,713	84,457,713	84,457,713	84,457,713

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

iCo Therapeutics Inc.

Consolidated Statement of Changes in Shareholder's Equity (Unaudited)

For the Nine months ended September 30, 2018 and 2017

(in Canadian dollars)

	Number of shares	Capital stock \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income \$	Accumulated deficit \$	Shareholders' equity \$
Balance – December 31, 2016	84,457,713	28,048,137	3,516,688	2,853,487	-	(32,104,410)	2,313,903
Share based payments	-	-	8,989	-	-	-	8,989
Loss for the period	-	-	-	-	-	(1,023,385)	(1,023,385)
Balance – September 30, 2017	84,457,713	28,048,137	3,525,677	2,853,487	-	(33,127,794)	1,299,507
Balance – December 31, 2017	84,457,713	28,048,137	3,527,327	2,853,487	-	(33,341,718)	1,087,233
Share based payments	-	-	990	-	-	-	990
Warrant expiration	-	-	755,581	(755,581)	-	-	-
Other comprehensive income	-	-	-	-	3,403	-	3,403
Loss for the period	-	-	-	-	-	(1,456,480)	(1,456,480)
Balance – September 30, 2018	84,457,713	28,048,137	4,283,898	2,097,906	3,403	(34,798,198)	(364,854)

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

iCo Therapeutics Inc.

Consolidated Statements of Cash Flows (Unaudited)

For the Three and Nine months ended September 30, 2018 and 2017

(in Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cash flows from operating activities				
(Loss) for the quarter	(\$417,347)	(\$308,988)	(\$1,456,480)	(\$1,023,385)
Items not affecting cash				
(Gain) loss on other investments	-	603	-	1,772
Amortization	514	5,775	1,342	17,325
Stock-based compensation	-	2,043	990	8,989
Unrealized foreign exchange loss/(gain)	(308)	-	974	-
	(417,141)	(300,567)	(1,453,174)	(995,299)
Changes in non-cash working capital				
Taxes and other receivables	462,914	10,195	27,219	15,056
Prepaid expenses	15,646	20,291	125,432	3,364
Accounts payable and accrued liabilities	(311,410)	68,685	317,400	38,619
Net cash flow used in operating activities	(249,991)	(201,396)	(983,124)	(938,260)
Cash flows from investing activities				
Purchase of equipment	(3,195)	-	(3,195)	-
Net cash flow from investing activities	(3,195)	-	(3,195)	-
Effect of foreign currency exchange rates on cash and cash equivalents	(899)	-	2,429	-
(Decrease) increase in cash and cash equivalents	(254,085)	(201,396)	(983,890)	(938,260)
Cash and cash equivalents, beginning of period	398,129	1,624,136	1,127,934	2,361,000
Cash and cash equivalents, end of period	\$144,044	\$1,422,740	\$144,044	\$1,422,740
Supplementary information				
Cash received (spent) for interest within operating activities	(288)	1,419	58	7,882

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

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the Three and Nine months ended September 30, 2018 and 2017

(in Canadian dollars)

1 Nature of operations and going concern

iCo Therapeutics Inc. (“iCo” or the “Company”) is a Canadian biotechnology company principally focused on the identification, development and commercialization of drug candidates with a clinical history and re-doses, reformulates and develops these drug candidates to treat sight and life-threatening diseases. The Company has in-licensed two assets which are in clinical development: iCo-008; and the Oral AmpB Delivery System.

iCo-008 is a monoclonal antibody that the Company plans to take into clinical trials for vernal keratoconjunctivitis (“VKC”) and possibly age related macular degeneration. On December 8, 2010, the Company also signed an option to license the systemic applications of iCo-008 to IMMUNE Pharmaceuticals Corp. (“IMMUNE”). The option to convert to a full licence was exercised by IMMUNE on June 24, 2011. On February 21, 2013, IMMUNE announced it was initiating a Phase II clinical trial with iCo-008 (“Bertilimumab”) in patients with ulcerative colitis. The Phase II program was further expanded to examine Bertilimumab for the treatment of bullous pemphigoid, a rare auto-immune condition that affects the skin and causes the formation of blisters.

The Oral AmpB Delivery System is an experimental oral formulation of Amphotericin B that is in Phase 1 clinical stage of development.

The Company devotes most of its efforts to research and development, raising capital, recruiting personnel and long-term planning. The Company is publicly traded on the TSX Venture Exchange under the symbol “ICO” and the OTCQB under the symbol “ICOTF”. The Company is incorporated and domiciled in British Columbia, Canada. The address of its head office is 6th Floor, 777 Hornby Street, Vancouver, British Columbia, V6Z 1S4. The Company has a wholly owned subsidiary in Australia to conduct clinical trials on its Oral AmpB formulation in Australia.

These interim consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the nine months ended September 30, 2018, the Company incurred a loss of \$1,456,480 (nine months ended September 30, 2017 - loss of \$1,023,385) and negative cash flows from operating activities of \$983,124 (nine months ended September 30, 2017 - \$938,260). At September 30, 2018, the Company had an accumulated deficit of \$34,798,199 (December 31, 2017 - accumulated deficit of \$33,341,718) and a working capital deficit of \$367,848. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company’s ability to continue as a going concern.

The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Currently, to manage liquidity, the Company is deferring payments to vendors. In addition, the Company is actively seeking additional funding through financing, partnering, and other strategic activities, as well as via grants, to fund future clinical trials. Management is of the opinion that sufficient working capital will be obtained from external financing and operations to meet the Company’s liabilities and commitments as they become due. There is a risk that in the future, additional financing will not be available on a timely basis or on terms acceptable to the Company.

These interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets

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(in Canadian dollars)

and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying interim consolidated financial statements. These adjustments could be material.

2 Significant accounting policies

Basis of presentation and statement of compliance

These condensed interim consolidated financial statements for the three months and nine months ended September 30, 2018 have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”) including IAS 34 “Interim Financial Reporting” applicable to the preparation of these interim financial statements. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017 which have been prepared in accordance with IFRS as issued by the IASB.

The condensed interim consolidated financial statements are presented in Canadian dollars which is the Company’s functional currency.

The accounting policies adopted are consistent with those of the previous financial year; December 31, 2017.

These condensed interim consolidated financial statements were approved by the board of directors for issue on November 29, 2018.

Critical accounting estimates and judgments

Critical accounting estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires the Company’s management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and notes. The Company regularly reviews its estimates; however, actual amounts could differ from the estimates used and, accordingly, materially affect the results of operations.

Accounting standard issued and adopted

IFRS 9, Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. It must be applied for financial years commencing on or after January 1, 2018. The adoption of IFRS 9 did not have a material impact on the condensed consolidated interim financial statements.

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Accounting standards and amendments issued but not yet adopted

IFRS 16, Leases

IFRS 16, was issued in January 2016 by the IASB and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the effect the standard will have on its consolidated financial statements.

3 Taxes and other receivables

	September 30, 2018	December 31, 2017
Taxes (HST/GST)	\$22,368	\$ 34,589
Other receivables ¹	\$38,828	\$53,826
	\$61,196	\$88,415

¹Receivables in the amount of \$38,828 (December 31, 2017 - \$53,826) are related to the expected government refundable tax credits for eligible R&D work conducted in Australia.

4 Accounts payable and accrued liabilities

	September 30, 2018 \$	December 31, 2017 \$
Trade payables	489,326	255,317
Other accruals	116,371	32,981
	<u>605,697</u>	<u>288,298</u>

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5 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount \$
Balance - December 31, 2017	84,457,713	28,048,137
	-	-
Balance – September 30, 2018	84,457,713	28,048,137

Stock options

Under the stock option plan, the aggregate number of common shares reserved for issuance is 4,000,000.

	Number of stock options outstanding	Weighted average exercise price \$
Balance - December 31, 2017	1,995,000	0.39
Expired	(1,020,000)	0.73
Balance – September 30, 2018	975,000	0.05

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2018	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at September 30, 2018	Weighted average exercise price \$
0.05	975,000	2.53	0.05	975,000	0.05
	975,000	2.53	0.05	975,000	0.05

The Company recognized stock-based compensation expense of \$Nil (2017 - \$2,043) and \$990 (2017 - \$8,989) for the quarter and nine months ended September 30, 2018.

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Warrants

At September 30, 2018, the Company had 12,154,862 warrants issued and outstanding, exercisable at \$0.54 and expiring January 27, 2019.

	Number of warrants	Amount \$
Balance - December 31, 2017	22,407,448	2,853,487
Expired	(10,252,586)	(755,581)
	<u>-</u>	<u>-</u>
Balance – September 30, 2018 (issued and outstanding)	<u>12,154,862</u>	<u>2,097,906</u>

6 Related party transactions and compensation of key management

During the nine months ending September 30, 2018, the Company incurred consulting fees from officers and directors totalling CDN \$191,400 (2017 – \$213,702) for the CEO, CFO, CMO and business development services from a director. The amounts outstanding as at September 30, 2018 totalled CDN \$28,100 (2017 – \$53,170). All transactions were recorded at their exchange amounts.

The table below provides all compensation to executive officers and directors for the nine months ended:

	September 30, 2018 \$	September 30, 2017 \$
Consulting fees	293,513	311,801
Share-based payments	990	8,989
	<u>294,503</u>	<u>320,790</u>

7 Financial instruments and financial risk management

Financial instrument disclosures establish a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. This section describes three input levels that may be used to measure fair value:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide information on an ongoing basis. The Company does not have any financial instruments in this category.

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Level 2 - quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial instruments whose carrying value approximates fair value

Cash and cash equivalents are financial instruments whose fair value approximates their carrying value due to their short-term maturity and the insignificant impact of credit risk. The input level used by the Company to measure fair value of its cash and cash equivalents and short-term investments is Level 2 as they are valued using observable market data.

The fair value of accounts payable may be less than its carrying value due to liquidity risk.

The warrants of Immune Pharmaceuticals, recorded as other investments, have been recorded at their fair value on the date they were acquired and at subsequent period end dates. Management has classified these warrants as fair value through profit and loss. The Company uses Level 3 inputs to value these instruments. There is no active market for these warrants but the shares that the warrants can be exchanged into are traded on the NASDAQ stock exchange. These warrants have nil value at September 30, 2018.

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Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or valuation of its financial instruments.

The Company is exposed to financial risk related to fluctuation of foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily expenses for research and development incurred in US\$ and Australian dollars (AUS\$). The Company believes that the results of operations, financial position and cash flows could be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its US\$ or AUS\$ obligations. The Company manages foreign exchange risk by maintaining US\$ and AUS\$ cash on hand to fund its anticipated short-term US\$ and AUS\$ expenditures.

Balances in foreign currencies at September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018 US balance	Dec. 31 2017 US balance
Cash and cash equivalents	(982)	34,674
Accounts payable and accrued liabilities	<u>(34,936)</u>	<u>(5,976)</u>
	<u>(33,954)</u>	<u>28,698</u>

Based on the US\$ balance sheet exposure at September 30, 2018, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 10%, relative to the rate at September 30, 2018, the net monetary assets/(liabilities) would be approximately \$5,000 less. If the Canadian dollar were to strengthen against the US dollar by 10%, relative to the rate at September 30, 2018, the net monetary assets/(liabilities) would be approximately \$4,000 greater.

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(in Canadian dollars)

	September 30, 2018	AUD balance December 31, 2017
	\$	\$
Cash and cash equivalents	151,152	138,470
Taxes and other receivables	48,508	-
Accounts payable and accrued liabilities	(317,681)	(90,631)
	<u>(118,021)</u>	<u>47,839</u>

Based on the AUD\$ balance sheet exposure at September 30, 2018, with other variables unchanged, if the Canadian dollar were to weaken against the Australian dollar by 10%, relative to the rate at September 30, 2018, the net monetary assets/(liabilities) would be approximately \$12,000 less. If the Canadian dollar were to strengthen against the Australian dollar by 10%, relative to the rate at September 30, 2018, the net monetary assets/(liabilities) would be approximately \$10,000 greater.

Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and short-term investments and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short-term nature of the investments. The only financial instruments that expose the Company to interest rate risk are its cash and cash equivalents and short-term investments. Cash and cash equivalents in excess of day-to-day requirements are placed in short-term deposits with high quality credit financial institutions and earn interest at rates available at that time.

As at September 30, 2018, cash and cash equivalents balance was \$144,044. The interest rates range from 0.0% to 0.2%.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash flow requirements associated with financial instruments.

The Company continues to manage its liquidity risk by monitoring its cash flows and investments regularly, comparing actual results with budgets and future cash requirements.

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The following table summarizes the relative maturities of the financial liabilities of the Company at September 30, 2018:

	Maturity	
	Less than one year \$	Greater than one year \$
Accounts payable and accrued liabilities	605,697	-

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as outstanding receivables. The Company invests its excess cash in short-term Guaranteed Investment Certificates. The Company has established guidelines relative to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's Board of Directors and modified to reflect changes in market conditions.

The Company limits its exposure to credit risk, with respect to cash and cash equivalents, by placing them with high quality credit financial institutions. The Company's cash equivalents consist primarily of operating funds and deposit investments with commercial banks.

8 Segmented information

The Company identifies its operating segments based on business activities, management responsibility and geographical location. The Company operates within a single operating segment, being the research and development of ophthalmic and anti-infective indications, and operates in one geographic area, being Canada. All of the Company's assets are located in Canada.

