

iCo Therapeutics Inc.

Condensed Consolidated Interim Financial
Statements

September 30, 2020 and 2019

(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, 2020 \$	December 31, 2019 \$
Assets			
Current assets			
Cash and cash equivalents		169,759	989,937
Taxes and other receivables	3	438,448	413,953
Prepaid expenses		24,932	58,301
		<u>633,139</u>	<u>1,462,191</u>
Equipment		3,791	6,087
		<u>636,930</u>	<u>1,468,278</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	<u>1,094,980</u>	<u>807,620</u>
Shareholders' Equity			
Capital stock	5	29,769,224	29,769,224
Contributed surplus	5	6,508,997	6,446,097
Warrants	5	1,431,981	1,431,981
Accumulated other comprehensive income		(16,249)	(4,068)
Accumulated deficit		<u>(38,152,003)</u>	<u>(36,982,576)</u>
Total Equity		<u>(458,050)</u>	<u>660,658</u>
		<u>636,930</u>	<u>1,468,278</u>

Nature of operations and going concern (Note 1)

Approved by the Board of Directors

(signed) William Jarosz Director

(signed) Michael Liggett 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, 2020 and 2019

(in Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Expenses				
Research and development	\$48,649	\$84,253	\$796,225	\$325,681
General and administrative	147,367	440,257	533,568	960,603
Foreign exchange (gain)	(1,439)	6,668	2,698	150
	194,577	531,178	1,332,491	1,286,434
Other income (expense) (Note 3)	1,212	15,650	163,064	27,486
Loss for the period	193,365	515,528	1,169,427	1,258,948
Other Comprehensive income (loss)				
Foreign currency translation adjustments	(6,205)	2,029	(12,181)	5,342
Total comprehensive loss	(199,570)	(513,499)	(1,181,608)	(1,253,606)
Basic and diluted loss per share	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.01)
Weighted average number of shares (basic and diluted)	153,747,713	130,395,625	153,747,713	111,854,599

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, 2020 and 2019

(in Canadian dollars)

	Number of shares	Capital stock \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income \$	Accumulated deficit \$	Shareholders' equity \$
Balance – December 31, 2018	84,457,713	28,048,137	4,283,898	2,097,906	(10,101)	(35,044,341)	(624,501)
Shares Issuance	69,290,000	1,732,664	64,293	1,441,732	-	-	3,238,688
Share based payments	-	-	-	-	-	-	-
Warrant expiration	-	-	2,097,906	(2,097,906)	-	-	-
Other comprehensive income	-	-	-	-	5,342	-	5,342
Loss for the period	-	-	-	-	-	(1,258,948)	(1,258,948)
Balance – September 30, 2019	153,747,713	29,780,801	6,446,097	1,441,732	(4,759)	(36,303,290)	1,360,581
Balance – December 31, 2019	153,747,713	29,769,224	6,446,097	1,431,981	(4,068)	(36,982,576)	660,658
Shares Issuance	-	-	-	-	-	-	-
Share based payments	-	-	62,900	-	-	-	62,900
Warrant expiration	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(12,181)	-	(12,181)
Loss for the period	-	-	-	-	-	(1,169,427)	(1,169,427)
Balance – September 30, 2020	153,747,713	29,769,224	6,508,997	1,431,981	(16,249)	(38,152,003)	(458,050)

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, 2020 and 2019

(in Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cash flows from operating activities				
Loss for the quarter	(\$193,365)	(\$515,528)	(\$1,169,427)	(\$1,258,948)
Items not affecting cash				
Amortization	478	22	2,297	68
Stock-based compensation	11,100	-	62,900	-
Unrealized foreign exchange loss (gain)	-	393	-	-
	(181,787)	(515,113)	(1,104,230)	(1,258,880)
Changes in non-cash working capital				
Taxes and other receivables	(2,688)	(21,451)	(24,495)	(27,998)
Prepaid expenses	15,089	73,761	33,369	(6,772)
Accounts payable and accrued liabilities	(23,435)	(200,129)	287,359	(399,653)
Net cash flow used in operating activities	(192,821)	(662,932)	(807,997)	(1,693,304)
Cash flows from investing activities				
Purchase of equipment	2,961	-	-	-
Net cash flow from investing activities	2,961	-	-	-
Cash flows from financing activities				
Net proceeds from issuance of units	-	1,879,818	-	3,238,688
Proceeds from exercise of warrants	-	228,250	-	-
Net cash flow from financing activities	-	2,108,068	-	3,238,688
Effect of foreign currency exchange rates on cash and cash equivalents	(6,205)	1,568	(12,181)	5,343
(Decrease) increase in cash and cash equivalents	(196,065)	1,446,704	(820,178)	1,550,726
Cash and cash equivalents, beginning of period	365,824	114,162	989,937	10,140
Cash and cash equivalents, end of period	\$169,759	\$1,560,866	\$169,759	\$1,560,866
Supplementary information				
Cash received for interest within operating activities	(1)	-	(17)	-

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, 2020 and 2019

(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 has demonstrated promising efficacy in a Phase II study in bullous pemphigoid.

The Oral AmpB Delivery System is an experimental oral formulation of Amphotericin B that is in 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, 2020, the Company incurred a loss of \$1,169,427 (nine months ended September 30, 2019 - loss of \$1,258,948) and negative cash flows used in operating activities of \$807,997 (negative cashflows for nine months ended September 30, 2019 - \$1,693,304). At September 30, 2020, the Company had an accumulated deficit of \$38,152,003 (December 31, 2019 - accumulated deficit of \$36,982,576) and a working capital deficit of \$461,841. 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

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited) For the Three and Nine months ended September 30, 2020 and 2019

(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 and nine months and ended September 30, 2020 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, 2019 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, 2019.

These condensed interim consolidated financial statements were approved by the board of directors for issue on November 24, 2020.

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.

3 Taxes and other receivables

	September 30, 2020	December 31, 2019
Taxes (HST/GST)	\$13,796	\$ 48,413
Other receivables ¹	\$424,652	\$365,540
	\$438,448	\$413,953

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the Three and Nine months ended September 30, 2020 and 2019

(in Canadian dollars)

¹Receivables in the amount of \$424,652 (December 31, 2019 - \$365,540) 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, 2020 \$	December 31, 2019 \$
Trade payables	914,380	658,663
Other accruals	180,600	148,957
	<u>1,094,980</u>	<u>807,620</u>

5 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount \$
Balance - December 31, 2019	153,747,713	29,769,224
Balance – September 30, 2020	<u>153,747,713</u>	<u>29,769,224</u>

Share issuances for the quarter ended March 31, 2019

During the quarter ended March 31, 2019, the Company completed several tranches of a non-brokered private placement ("Private Placement") of 25,000,000 units (the Units) at a price of \$0.05 per Unit for net proceeds of \$1,130,620. Each Unit comprises one common share of the Company and one share purchase warrant (a "Warrant") exercisable at \$0.075 for 36 months from the date of the closing of the private placement. The Warrants are subject to an acceleration clause (the "Acceleration Clause") that allows the Company to accelerate the expiry date of the Warrants in the event that the volume weighted average trading price of the Common Shares on the TSX Venture Exchange equals or exceeds \$0.14 for ten consecutive trading days. The Warrants will expire on the date that is at least 30 days following the issuance of a press release announcing such acceleration from the Company

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the Three and Nine months ended September 30, 2020 and 2019

(in Canadian dollars)

The Company allocated the net proceeds from issuance of Units to its component common share and Warrant based on the relative fair value of each of the components. The fair value of the net proceeds allocated to share capital and Warrants was \$583,107 and \$547,513 respectively.

The fair value of each warrant was determined by using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	1.78%
Expected volatility	170%
Expected life in years	3
Expected dividend yield	\$nil

In connection with the Private Placement the Company paid a finder's fee to (i) Raymond James Inc. ("Raymond"), consisting of \$12,000 in cash and 240,000 warrants (the "Raymond Broker Warrants"); (ii) Leede Jones Gable Inc. ("Leede"), consisting of \$40,000 in cash and 800,000 warrants (the "Leede Broker Warrants") and (iii) Mackie Research Capital Corporation ("Mackie"), consisting of \$10,400 in cash and 208,000 warrants (the "Mackie Broker Warrants"). The Raymond Broker Warrants entitle Raymond to purchase one Common Share at a price of \$0.05 until January 31, 2021. The Leede Broker Warrants entitle Leede to purchase one Common Share at a price of \$0.05 until February 25, 2021. The Mackie Broker Warrants entitle Mackie to purchase one Common Share at a price of \$0.05 until March 2, 2021.

Share issuances for the quarter ended September 30, 2019

On August 16, 2019, the Company completed a non-brokered private placement (Private Placement 2) of 41,200,000 units (the Units) at a price of \$0.05 per Unit for net proceeds of \$1,858,491. Each Unit comprises one common share of the Company and one share purchase warrant (a Warrant) exercisable at \$0.075 for 36 months from the date of the closing of the private placement. The Warrants are subject to an acceleration clause (the Acceleration Clause) that allows the Company to accelerate the expiry date of the Warrants in the event that the volume weighted average trading price of the Common Shares on the TSX Venture Exchange equals or exceeds \$0.14 for ten consecutive trading days. The Warrants will expire on the date that is at least 30 days following the issuance of a press release announcing such acceleration from the Company

The Company allocated the net proceeds from issuance of Units to its component common share and Warrant based on the relative fair value of each of the components. The fair value of the net proceeds allocated to share capital and Warrants was \$909,741 and \$948,750, respectively.

The fair value of each warrant was determined by using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	1.27%
Expected volatility	160%
Expected life in years	3
Expected dividend yield	\$nil

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the Three and Nine months ended September 30, 2020 and 2019

(in Canadian dollars)

In connection with this Private Placement 2 the Company paid a finder's fee to: i) Leede Jones Gable Inc. (Leede), consisting of \$140,000 in cash and 2,800,000 warrants; ii) RBC Wealth Management consisting of \$2,400 cash and 48,000 warrants and; iii) Acumen Capital Partners consisting of \$2,400 cash and 48,000 warrants. The warrants entitle the holder to purchase one Common Share at a price of \$0.06 for up to 24 months after the date of closing. The Warrants are subject to an acceleration clause (the Acceleration Clause) that allows the Company to accelerate the expiry date of the Warrants in the event that the volume weighted average trading price of the Common Shares on the TSX Venture Exchange equals or exceeds \$0.14 for ten consecutive trading days. The Warrants will expire on the date that is at least 30 days following the issuance of a press release announcing such acceleration from the Company.

Warrants

	Number of warrants	Amount \$
Balance - December 31, 2019	67,254,000	1,431,981
	-	-
Balance – September 30, 2020	<u>67,254,000</u>	<u>1,431,981</u>

All outstanding warrants are exercisable at \$0.075 with expiry dates from January 31 to August 16, 2022. They are subject to an acceleration clause whereby the Company can accelerate the expiry date of the Warrants in the event that the volume weighted average trading price of the common shares on the TSX Venture Exchange equals or exceeds \$0.14 for ten consecutive trading days.

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited) For the Three and Nine months ended September 30, 2020 and 2019

(in Canadian dollars)

Stock options

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

There were no options granted during the quarter ended September 30, 2020.

During the quarter ended March 31, 2020 the Company granted 2,000,000 options to directors and consultants. The options have an exercise price of \$0.08 per share and a five-year term. The options vest one-fifth every six months beginning on January 10, 2020. The company used Black Scholes option pricing model to fair value each option granted and used the following assumptions

Share price on date of grant	\$0.08
Risk-free interest rate	1.60%
Expected volatility	160%
Expected life in years	5
Expected dividend yield	nil

The estimated aggregate fair value of the options granted during the quarter ended March 31, 2020 was \$148,00 (2019 - \$Nil). The Company recognized stock-based compensation expense of \$11,100 (2019 - \$Nil) and \$62,900 (2019-\$Nil) for the quarter and nine months ended September 30, 2020.

	Number of stock options outstanding	Weighted average exercise price \$
Balance - December 31, 2019	975,000	0.05
Options granted	2,000,000	0.08
Options expired	(505,000)	0.05
Options forfeited	(320,000)	0.08
Balance – September 30, 2020	2,150,000	0.07

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2020	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at September 30, 2020	Weighted average exercise price \$
0.05	550,000	0.64	0.05	550,000	0.05
0.08	1,600,000	4.28	0.08	640,000	0.08
	2,150,000	3.35	0.07	1,190,000	0.07

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited) For the Three and Nine months ended September 30, 2020 and 2019

(in Canadian dollars)

6 Related party transactions and compensation of key management

During the nine months ending September 30, 2020, the Company incurred consulting fees from officers and directors totalling CDN \$246,523 (2019 – \$345,936) for the CEO, CFO, CMO and business development services from a director. The amounts outstanding as at September 30, 2020 totalled CDN \$20,269 (2019 – \$57,421). 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, 2020 \$	September 30, 2019 \$
Consulting fees	246,523	345,936
Share-based payments	52,216	-
	<hr/> 298,739	<hr/> 345,936

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.

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.

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited) For the Three and Nine months ended September 30, 2020 and 2019

(in Canadian dollars)

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

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, 2020 and December 31, 2019 are as follows:

	September 30, 2020 US balance	December 31, 2019 US balance
Cash and cash equivalents	6,847	22,296
Accounts payable and accrued liabilities	(101,469)	(127,485)
	<u>(94,622)</u>	<u>(105,189)</u>

Based on the US\$ balance sheet exposure at September 30, 2020, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 10%, relative to the rate at September 30, 2020, the net monetary liabilities would be approximately \$14,024 greater. If the Canadian dollar were to strengthen against the US dollar by 10%, relative to the rate at September 30, 2020, the net monetary liabilities would be approximately \$11,474 less.

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited) For the Three and Nine months ended September 30, 2020 and 2019

(in Canadian dollars)

	September 30, 2020	AUD balance December 31, 2019
	\$	\$
Cash and cash equivalents	7,307	105,748
Taxes and other receivables	444,567	427,276
Prepaid expenses	622	3,570
Accounts payable and accrued liabilities	<u>(834,120)</u>	<u>(544,647)</u>
	<u>(381,624)</u>	<u>(8,053)</u>

Based on the AUD\$ balance sheet exposure at September 30, 2020, with other variables unchanged, if the Canadian dollar were to weaken against the Australian dollar by 10%, relative to the rate at September 30, 2020, the net monetary liabilities would be approximately \$40,472 greater. If the Canadian dollar were to strengthen against the Australian dollar by 10%, relative to the rate at September 30, 2020, the net monetary liabilities would be approximately \$33,114 less.

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, 2020, cash and cash equivalents balance was \$169,759. 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.

iCo Therapeutics Inc.

Notes to the Interim Consolidated Financial Statements (Unaudited) For the Three and Nine months ended September 30, 2020 and 2019

(in Canadian dollars)

The following table summarizes the relative maturities of the financial liabilities of the Company at September 30, 2020:

	Maturity	
	Less than one year \$	Greater than one year \$
Accounts payable and accrued liabilities	1,094,980	-

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.

