

iCo Therapeutics Inc.

Condensed Consolidated Interim Financial
Statements

March 31, 2021 and 2020

(in Canadian dollars)

(Unaudited)

iCo Therapeutics Inc.
Consolidated Balance Sheets (Unaudited)

(in Canadian dollars)

	Note	March 31, 2021 \$	December 31, 2020 \$
Assets			
Current assets			
Cash and cash equivalents		2,103,250	65,413
Taxes and other receivables	3	55,760	449,161
Prepaid expenses		23,872	28,836
		2,182,882	543,410
Equipment		2,259	3,025
		2,185,141	546,435
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	1,920,694	1,296,745
Shareholders' Equity /(deficiency)			
Capital stock	5	32,113,631	29,769,224
Contributed surplus	5	6,560,487	6,541,432
Warrants	5	846,369	1,431,981
Accumulated other comprehensive income		(13,614)	(22,164)
Accumulated deficit		(39,242,426)	(38,470,783)
Total Equity/(deficit)		264,447	(750,310)
		2,185,141	546,435

Nature of operations, significant events 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-month periods ended March 31, 2021 and 2020

(in Canadian dollars)

	Three Months Ended March 31,	
	2021	2020
Expenses		
Research and development	\$82,970	\$670,690
General and administrative	690,899	216,436
Foreign exchange (gain)	(2,226)	8,088
	771,643	895,214
Refundable research and development tax credits	-	238,243
Loss for the period	771,643	656,971
Other Comprehensive income		
Items that may be reclassified to net loss		
-Foreign currency translation adjustments	8,550	(11,401)
Total comprehensive loss	780,193	645,570
Basic and diluted loss per share	\$0.00	\$0.00
Weighted average number of shares (basic and diluted)	161,057,213	153,747,713

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 three-month periods ended March 31, 2021 and 2020

(in Canadian dollars)

	Number of shares	Capital stock \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income \$	Accumulated deficit \$	Shareholders' equity \$
Balance – December 31, 2019	153,747,713	29,769,224	6,446,097	1,431,981	(4,068)	(36,982,576)	660,658
Share based payments	-	-	29,600	-	-	-	29,600
Other comprehensive income	-	-	-	-	11,401	-	11,401
Loss for the period	-	-	-	-	-	(656,971)	(656,971)
Balance – March 31, 2020	153,747,713	29,769,224	6,475,697	1,431,981	7,333	(37,639,547)	44,688
Balance – December 31, 2020	153,747,713	29,769,224	6,541,432	1,431,981	(22,164)	(38,470,783)	(750,310)
Exercise of warrants	27,335,000	1,758,795	-	-	-	-	1,758,795
Reclass of warrants balance to share capital	-	585,612	-	(585,612)	-	-	-
Share based payments	-	-	19,055	-	-	-	19,055
Other comprehensive income	-	-	-	-	8,550	-	8,550
Loss for the period	-	-	-	-	-	(771,643)	(771,643)
Balance – March 31, 2021	181,082,713	32,113,631	6,560,487	846,369	(13,614)	(39,242,426)	264,447

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

iCo Therapeutics Inc.

Consolidated Statements of Cash Flows (Unaudited)

For the three-month periods ended March 31, 2021 and 2020

(in Canadian dollars)

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities		
Loss for the period	(\$771,643)	(\$656,971)
Items not affecting cash		
Amortization	766	807
Stock-based compensation	19,055	29,600
	(751,822)	(626,564)
Changes in non-cash working capital		
Taxes and other receivables	393,401	(239,371)
Prepaid expenses	4,964	10,137
Accounts payable and accrued liabilities	623,949	336,427
Net cash flow generated from/(used in) operating activities	270,492	(519,371)
Cash flows from investing activities		
Purchase of equipment	-	(2,962)
Net cash flow from investing activities	-	(2,962)
Cash flows from financing activities		
Proceeds from exercise of warrants	1,758,795	-
Net cash flow from financing activities	1,758,795	-
Effect of foreign currency exchange rates on cash and cash equivalents	8,550	(11,401)
Increase(decrease) in cash and cash equivalents	2,037,837	(510,932)
Cash and cash equivalents, beginning of period	65,413	989,937
Cash and cash equivalents, end of period	\$2,103,250	\$479,005
Supplementary information		
Cash paid for interest within operating activities	-	(15)

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-month periods ended March 31, 2021 and 2020

(in Canadian dollars)

1 Nature of operations, significant events 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. 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 has a wholly owned subsidiary in Australia to conduct clinical trials on its Oral AmpB formulation in Australia and a dormant, wholly owned Canadian subsidiary.

On March 21, 2021, the Company entered into an agreement (the “Arrangement Agreement”), providing for the business combination of iCo and Satellos Bioscience Inc. (Satellos) by way of a plan of arrangement (the Arrangement) in accordance with Section 192 of the Canada Business Corporations Act (the CBCA).

Pursuant to the Arrangement, Satellos will become a wholly-owned subsidiary of iCo, and the parties expect to complete an amalgamation of iCo and Satellos, with the resulting entity named “Satellos Bioscience Inc.” (the Resulting Issuer), operating in the life sciences industry. Following the Arrangement, and the concurrent financing, shareholders of iCo will hold an approximately 27.7% ownership interest, and the shareholders of Satellos will hold approximately 58.8% of the outstanding common shares of the Resulting Issuer (the Resulting Issuer Common Shares). Subsequent to the completion of the Arrangement, iCo, which is formed under the Business Corporations Act (British Columbia), is expected to continue under the CBCA and the Resulting Issuer will exist as a CBCA corporation. The completion of the Arrangement will result in a reverse takeover of iCo as defined in the policies of the TSX Venture Exchange. Completion of the Arrangement is subject to, among other things, the approval of the TSX Venture Exchange and approval from iCo and Satellos’ shareholders.

On April 27, 2021, the Company announced it had issued 85,294,117 subscription receipts (the “Subscription Receipts”) at a price of \$0.085 per Subscription Receipt for aggregate gross proceeds of approximately C\$7.25 million. Each Subscription Receipt will entitle the holder thereof to receive, upon satisfaction of certain escrow release conditions, including without limitation, the completion of the Arrangement, and without payment of additional consideration, one common share of the Resulting Issuer (a “Resulting Issuer Share”). The proceeds from the Financing have been placed in escrow and, upon satisfaction of the escrow release conditions, will be used for research, development, and general corporate expenses of the Resulting Issuer.

The Arrangement Agreement and the Subscription Receipt financing are subject to shareholder approvals, as well as other customary approvals associated with these types of transactions, and accordingly neither of these transactions are recognized in these interim consolidated financial statements.

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 three months ended March 31, 2021, the Company incurred a loss of \$771,643 and generated positive

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For the three-month periods ended March 31, 2021 and 2020

(in Canadian dollars)

cash flows from operating activities of \$270,492. At March 31, 2021, the Company had an accumulated deficit of \$39,242,426 and working capital of \$262,188.

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. As mentioned above, the Company has closed the Subsequent Receipt financing, with the funds in escrow, available to the Company upon completion of the Arrangement Agreement. This funding is in addition to the warrant exercises during the quarter for proceeds of \$1,758,595. Management is of the opinion that sufficient working capital will be obtained from the Subscription Receipt financing to meet the Company's liabilities and commitments as they become due. There is a risk that the Subscription Receipt financing may not close or will not be available on a timely basis to the Company. 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 should the Arrangement Agreement fail close.

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 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 ended March 31, 2021 have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of these interim financial statements, including IAS 34 "Interim Financial Reporting". These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020 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, 2020.

These condensed interim consolidated financial statements were approved by the board of directors for issue on May 31, 2021.

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

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(in Canadian dollars)

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

	March 31, 2021	December 31, 2020
Taxes (HST/GST)	\$25,431	\$ 11,959
Other receivables ¹	\$30,329	\$437,202
	\$55,760	\$449,161

¹Receivables in the amount of \$30,329 (December 31, 2020 - \$437,202) are related to the expected government refundable tax credits for eligible R&D work conducted in Australia.

4 Accounts payable and accrued liabilities

	March 31, 2021 \$	December 31, 2020 \$
Trade payables	1,394,997	1,074,882
Other accruals	525,697	221,863
	<u>1,920,694</u>	<u>1,296,745</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, 2020	153,747,713	29,769,224
Shares issued upon exercise of warrants	27,335,000	1,758,795
Re-class of warrant balances to share capital	-	585,612
Balance – March 31, 2021	<u>181,082,713</u>	<u>32,113,631</u>

Share issuances for the quarter ended March 31, 2021

During the quarter ended March 31, 2021, warrant holders exercised 27,335,000 warrants which generated proceeds of \$1,758,795

Warrants

	Number of warrants	Amount \$
Balance - December 31, 2020	67,254,000	1,431,981
Warrants exercised	<u>(27,335,000)</u>	<u>(585,612)</u>
Balance – March 31, 2021	<u>39,919,000</u>	<u>846,369</u>

The Company has 37,295,000 warrants issued and outstanding. Each warrant is exercisable at \$0.065 with expiration dates ranging from January 31, 2022 to August 16, 2022. The Warrants are subject to an 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 also has 2,624,000 broker warrants which entitle the holders to purchase one common share at \$0.06. The broker warrants expire August 16, 2021.

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Stock options

Under the stock option plan, the aggregate number of common shares reserved for issuance is 10% of the issued and outstanding shares at the time of a grant.

The Company recognized stock-based compensation expense of \$19,055 (2020 - \$29,600) for the quarter ended March 31, 2021.

				Number of stock options outstanding	Weighted average exercise price \$
Balance - December 31, 2020				3,685,000	0.06
Options expired				(400,000)	0.05
Balance – March 31, 2021				<u>3,285,000</u>	<u>0.06</u>

	Options outstanding			Options exercisable	
Range of exercise price \$	Number outstanding at March 31, 2021	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at March 31, 2021	Weighted average exercise price \$
0.05	1,685,000	4.24	0.05	457,000	0.05
0.08	1,600,000	3.78	0.08	960,000	0.08
	<u>3,285,000</u>	<u>4.02</u>	<u>0.06</u>	<u>1,417,000</u>	<u>0.07</u>

6 Related party transactions and compensation of key management

During the three months ending March 31, 2021, the Company incurred consulting fees from officers and directors totalling \$333,864 (2020 – \$116,382) for the CEO, CFO, CMO and business development services from a director. The amounts outstanding as at March 31, 2021 totalled \$330,296 (2020 – \$38,070). All transactions were recorded at their exchange amounts.

Effective March 9, 2020 the Company entered into a consulting agreement with its Chief Executive Officer for the Company. Pursuant to the agreement, the Company incurs a monthly fee of US\$10,000 for Chief Executive Officer services and US\$25,000 per year for his Chairman of the Board services not paid for fiscal years 2016 to 2020 inclusive. These fees are only paid if the Company undergoes a significant liquidity event in excess of \$1,000,000, as defined in the consulting agreement. Upon closing, the signed Arrangement Agreement and

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Subscription Receipt financing (see note 1) will qualify as a significant liquidity event and accordingly the Company has recognized \$301,350 (USD\$245,000) owing to the Chief Executive Officer at March 31, 2021 with a corresponding expense recorded in the consolidated statement of loss and comprehensive loss.

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

	March 31, 2021 \$	March 31, 2020 \$
Consulting fees	333,864	116,382
Share-based payments	17,645	25,160
	<hr/>	<hr/>
	351,509	141,542
	<hr/>	<hr/>

7 Financial instruments and financial risk management

Fair value

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.

Cash and cash equivalents and accounts payable are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

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.

- a) Foreign exchange risk

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(in Canadian dollars)

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in 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 dollars (US\$) and Australian dollars (AUS\$). The Company manages foreign exchange risk by maintaining US\$ and AUS\$ cash on hand to fund its short-term foreign currency expenditures. Balances in foreign currencies at March 31, 2021 and December 31, 2020 are as follows:

	March 31, 2021 US balance	December 31, 2020 US balance
Cash and cash equivalents	314	449
Accounts payable and accrued liabilities	<u>(413,290)</u>	<u>(106,955)</u>
	<u>(412,976)</u>	<u>(106,506)</u>

Based on the US\$ balance sheet exposure at March 31, 2021, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 10%, relative to the rate at March 31, 2021, the net monetary assets/(liabilities) would be approximately \$57,806 greater. If the Canadian dollar were to strengthen against the US dollar by 10%, relative to the rate at March 31, 2021, the net monetary assets/(liabilities) would be approximately \$47,296 less.

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(in Canadian dollars)

	<u>March 31,</u> <u>2021</u> \$	<u>AUD balance</u> <u>December 31,</u> <u>2020</u> \$
Cash and cash equivalents	392,031	832
Taxes and other receivables	31,222	444,680
Accounts payable and accrued liabilities	(824,947)	(842,246)
	<u>(401,694)</u>	<u>(396,734)</u>

Based on the AUD\$ balance sheet exposure at March 31, 2021, with other variables unchanged, if the Canadian dollar were to weaken against the Australian dollar by 10%, relative to the rate at March 31, 2021, the net monetary assets/(liabilities) would be approximately \$42,722 greater. If the Canadian dollar were to strengthen against the Australian dollar by 10%, relative to the rate at March 31, 2021, the net monetary assets/(liabilities) would be approximately \$ \$34,955 less.

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 (see note 1).

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-month periods ended March 31, 2021 and 2020

(in Canadian dollars)

The following table summarizes the relative maturities of the financial liabilities of the Company at March 31, 2021:

	Maturity	
	Less than one year \$	Greater than one year \$
Accounts payable and accrued liabilities	1,920,694	-

Credit risk

Credit risk arises from cash and cash equivalents held at 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.

9 Subsequent events

Subsequent to quarter end, 210,000 options were exercised for proceeds of \$10,500.

