

iCo Therapeutics Inc.

Consolidated Financial Statements
December 31, 2020 and 2019
(in Canadian dollars)



Independent auditor's report

To the Shareholders of iCo Therapeutics Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of iCo Therapeutics Inc. and its subsidiary (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Craig McMillan.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 29, 2021

iCo Therapeutics Inc.
Consolidated Balance Sheets
As at December 31, 2020 and 2019

(in Canadian dollars)

	Note	2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents		65,413	989,937
Taxes and other receivables	3	449,161	413,953
Prepaid expenses		28,836	58,301
		<u>543,410</u>	<u>1,462,191</u>
Equipment		<u>3,025</u>	<u>6,087</u>
		<u>546,435</u>	<u>1,468,278</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	<u>1,296,745</u>	<u>807,620</u>
Shareholders' (Deficiency) Equity			
Capital stock	5	29,769,224	29,769,224
Contributed surplus	5	6,541,432	6,446,097
Warrants	5	1,431,981	1,431,981
Accumulated other comprehensive loss		(22,164)	(4,068)
Accumulated deficit		<u>(38,470,783)</u>	<u>(36,982,576)</u>
		<u>(750,310)</u>	<u>660,658</u>
		<u>546,435</u>	<u>1,468,278</u>

Going concern (note 1)

Commitments and contingencies (note 11)

Subsequent events (note 14)

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 For the years ended December 31, 2020 and 2019

(in Canadian dollars)

	Note	2020 \$	2019 \$
Expenses			
Research and development	7	895,112	917,475
General and administrative	8	760,463	1,288,198
Foreign exchange gain		(2,689)	(2,645)
		<u>1,652,886</u>	<u>2,203,028</u>
Refundable research and development tax credits		<u>(164,679)</u>	<u>(264,793)</u>
Net loss for the year		1,488,207	1,938,235
Other comprehensive loss (gain)			
Foreign currency translation adjustments		<u>18,096</u>	<u>(6,033)</u>
Total comprehensive loss		<u>1,506,303</u>	<u>1,932,202</u>
Basic and diluted loss per share		<u>(0.01)</u>	<u>(0.02)</u>
Weighted average number of shares (basic and diluted)		<u>153,747,713</u>	<u>122,413,960</u>

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

iCo Therapeutics Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2020 and 2019

(in Canadian dollars)

	Number of shares	Capital stock \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income (loss) \$	Accumulated deficit \$	Shareholders' equity (deficiency) \$
Balance – December 31, 2018	84,457,713	28,048,137	4,283,898	2,097,906	(10,101)	(35,044,341)	(624,501)
Net loss for the year	-	-	-	-	-	(1,938,235)	(1,938,235)
Other comprehensive gain	-	-	-	-	6,033	-	6,033
Warrant expiration	-	-	2,097,906	(2,097,906)	-	-	-
Finder's warrant exercise	3,090,000	228,250	64,293	(64,293)	-	-	228,250
Shares issuance	66,200,000	1,492,837	-	1,496,274	-	-	2,989,111
Balance – December 31, 2019	153,747,713	29,769,224	6,446,097	1,431,981	(4,068)	(36,982,576)	660,658
Net loss for the year	-	-	-	-	-	(1,488,207)	(1,488,207)
Other comprehensive loss	-	-	-	-	(18,096)	-	(18,096)
Share-based compensation	-	-	95,335	-	-	-	95,335
Balance – December 31, 2020	153,747,713	29,769,224	6,541,432	1,431,981	(22,164)	(38,470,783)	(750,310)

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

iCo Therapeutics Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(in Canadian dollars)

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(1,488,207)	(1,938,235)
Items not affecting cash		
Amortization	3,062	3,063
Share-based compensation	95,335	-
	(1,389,810)	(1,935,172)
Changes in non-cash working capital		
Taxes and other receivables	(35,208)	(284,188)
Prepaid expenses	29,465	(23,187)
Accounts payable and accrued liabilities	489,125	4,942
	(906,428)	(2,237,605)
Investing activities		
Purchase of equipment	-	(5,992)
Financing activities		
Net proceeds from issuance of units	-	2,989,111
Proceeds from exercise of warrants	-	228,250
	-	3,217,361
Effect of foreign currency exchange rates on cash and cash equivalents	(18,096)	6,033
(Decrease) increase in cash and cash equivalents	(924,524)	979,797
Cash and cash equivalents – Beginning of year	989,937	10,140
Cash and cash equivalents – End of year	65,413	989,937
Supplementary information		
Cash received for interest within operating activities	-	(97)

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

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 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 redoses, reformulates and develops these drug candidates to treat ocular and infectious 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. In addition, iCo-008 is being evaluated as a systemic treatment for ulcerative colitis and bullous pemphigoid.

The Oral AmpB Delivery System is an experimental oral formulation of Amphotericin B that is at a 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 has a wholly owned subsidiary in Australia to conduct clinical trials on its Oral AmpB formulation in Australia.

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.

These consolidated financial statements have been prepared on a 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 year ended December 31, 2020, the Company incurred a net loss of \$1,488,207, used cash flows in operating activities of \$906,428 and had an accumulated deficit of \$38,470,783 at December 31, 2020. The Company had cash and cash equivalents of \$65,413 and a working capital deficit of \$753,335 at December 31, 2020.

The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Subsequent to year-end, 27,335,000 warrants were exercised for proceeds of \$1,758,795. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due in fiscal year 2021. However, there is a risk that additional financing will not be available on a timely basis or on terms acceptable 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.

These 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 consolidated financial statements. These adjustments could be material.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

2 Significant accounting policies

Basis of presentation and statement of compliance

The consolidated financial statements of iCo have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

The consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the Company's functional currency.

Intercompany balances and transactions, and unrealized gains and losses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors for issue on April 29, 2021.

Critical accounting estimates and judgments

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. Critical estimates and assumptions are used in the estimation of refundable tax credits related to research and development work completed in Australia and the fair value of stock option compensation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less. Cash and cash equivalents are held at recognized financial institutions. Interest earned is recognized in the consolidated statements of loss and comprehensive loss.

Foreign currency translation

a) **Functional and presentation currency**

The financial statements of subsidiaries that have a functional currency different from that of the Company are translated into Canadian dollars as follows: assets and liabilities at the closing rate at the date of the balance sheets and income and expenses at the average rate. All resulting changes are recognized in the other comprehensive loss (gain) as foreign currency translation adjustments.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

b) Transactions and balances

Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions or valuation where items are remeasured. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of loss and comprehensive loss.

Current and deferred income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Deferred income tax assets and liabilities are recognized in the current period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment.

Financial instruments

Financial instruments are classified into the following categories:

- those to be measured at amortized cost, and
- those to be measured at fair value through other comprehensive income (FVOCI) or through profit or loss (FVPL).

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flow.

Financial instruments at amortized cost include cash and cash equivalents and accounts payable and accrued liabilities. Financial instruments at amortized cost are initially measured at fair value adjusted for directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment loss. Interest income, foreign exchange gains and losses and impairment in relation to these types of financial instruments are recognized in the consolidated statements of loss and comprehensive loss.

Financial instruments at FVPL are initially and subsequently recognized at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in fair value of the financial instruments held at FVPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets.

The Company will recognize in the consolidated statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Research and development

Research and development expenses include payroll, employee benefits, share-based payments, and other headcount-related expenses associated with product research and other activities. Research and development expenses also include third-party activities and clinical trial expenses. Such costs related to product development are included in research and development expenses until the point that technological feasibility is reached, which, for the Company's products, is generally shortly before the products are approved by the authorities. Once technological feasibility is reached, such costs are capitalized and amortized to cost of revenue over the estimated lives of the products.

Expenditures associated with the maintenance of the licensing are expensed as incurred. Other development expenditures that do not meet the criteria for capitalization are recognized as an expense when incurred. Costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Provisions

Provisions for research and development and general operations are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Share-based payments

The Company grants share-based options to directors, officers, employees and consultants as consideration for work or services performed. The Company used the Black-Scholes option pricing model to estimate the fair value of each option on the grant date. Compensation expense is recorded for share-based grants that vest in instalments over the vesting period as separate arrangements.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

When the share-based options are exercised, the Company issues new shares. The proceeds are credited to capital stock. Upon exercise, the amount previously recognized in contributed surplus is transferred to capital stock.

The expense is recognized over the vesting period, which is the period over which all the vesting conditions are to be satisfied.

Loss per share

Basic and diluted loss per share is calculated by dividing net loss for the period attributable to the Company by the weighted average number of common shares outstanding and the dilutive impact of outstanding warrants and options during the period.

3 Taxes and other receivables

	2020 \$	2019 \$
Taxes (GST)	11,959	48,413
Other receivable	437,201	365,540
	<u>449,160</u>	<u>413,953</u>

Receivables in the amount of \$437,201 (2019 – \$365,540) are related to government refundable tax credits for eligible research and development work conducted in Australia.

During the year, the Company recognized \$164,679 (2019 – \$264,793) as other income related to the refundable tax credits in the consolidated statements of loss and comprehensive loss.

4 Accounts payable and accrued liabilities

	2020 \$	2019 \$
Trade payables	1,074,882	658,663
Other accruals	221,863	148,957
	<u>1,296,745</u>	<u>807,620</u>

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

5 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount \$
Balance – December 31, 2020 and 2019	153,747,713	29,769,224

Common share issuances during 2019

a) Private Placement 1

During the quarter ended March 31, 2019, the Company completed several tranches of a non-brokered private placement (Private Placement 1) 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

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

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

In connection with this Private Placement 1 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.

b) Private Placement 2

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 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.

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

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 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 Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

Stock options

Under the stock option plan, the aggregate number of common shares reserved for issuance is 15,374,771.

	Number of stock options outstanding	Weighted average exercise price \$
Balance – December 31, 2019	975,000	0.05
Granted during the year	3,535,000	0.07
Expired during the year	(505,000)	0.05
Forfeited during the year	(320,000)	0.08
	<hr/>	
Balance – December 31, 2020	3,685,000	0.06

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2020	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at December 31, 2020	Weighted average exercise price \$
0.05-0.08	3,685,000	3.81	0.06	1,497,000	0.06

During the year ended December 31, 2020, Company granted 3,535,000 (2019 – nil) options to directors and consultants. The options have an exercise price of either \$0.08 or \$0.05 per share and a five-year term. The options vest one-fifth every six months beginning on the date of grant. The Company used the Black Scholes option pricing model to fair value each option granted and used the following assumptions:

Share price on date of grant	\$0.05 – \$0.08
Risk-free interest rate	0.38% – 1.60%
Expected volatility	160%-162%
Expected life in years	5
Expected dividend yield	\$nil

Option pricing models require the use of subjective estimates and assumptions including the expected stock price volatility. The stock price volatility is calculated based on the Company's historical volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

The estimated aggregate fair value of the options granted during the year ended December 31, 2020 was \$196,465 (2019 – \$nil) at the time of grant. The Company recognized share-based compensation expense of \$95,335 for the year ended December 31, 2020 (2019 – \$nil).

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

Warrants

	Number of warrants	Amount \$
Balance – December 31, 2020 and 2019	67,254,000	1,431,981

All outstanding warrants are exercisable at \$0.05 or \$0.075 with expiry dates from January 31, 2021 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.

On January 21, 2021, the TSX Venture Exchange approved the Company's request to re-price all of the outstanding warrants with an exercise price of \$0.075 to a new exercise price of \$0.065. Subsequent to the price change, 27,335,000 warrants were exercised for proceeds of \$1,758,795.

6 Related party transactions

Compensation of key management and directors

During the year ended December 31, 2020, the Company incurred expenses for officers and directors totalling \$386,089 (2019 – \$478,838) for the Chief Executive Officer, Chief Financial Officer, Chief Medical Officer and business development services from a director. The amounts outstanding as at December 31, 2020 totalled \$34,678 (2019 – \$42,697). All transactions were recorded at their exchange amounts.

Effective March 9, 2020 the Company entered into a consulting agreement with the new 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 Chairman of the Board compensation 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. If the Company chose to pursue liquidity event, the estimated amount owing under the agreement would be US\$215,000.

Key management includes the Company's directors and executive officers.

	2020 \$	2019 \$
Consulting fees	296,394	458,838
Directors' fees	-	20,000
Share-based payments	89,695	-
	<u>386,089</u>	<u>478,838</u>

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

7 Research and development

	2020 \$	2019 \$
Consulting	156,351	125,262
Research projects and clinical expenses	614,565	581,608
Intellectual property	104,585	210,605
Share-based compensation	19,611	-
	<u>895,112</u>	<u>917,475</u>

8 General and administrative

	2020 \$	2019 \$
Consulting	201,683	472,373
Professional fees	412,681	659,735
Travel	26,024	92,988
Facilities	41,289	60,039
Amortization	3,062	3,063
Share-based compensation	75,724	-
	<u>760,463</u>	<u>1,288,198</u>

9 Income taxes

The Company has the following Canadian non-capital losses available to reduce taxable income of future years:

Expiry date	\$
2026	1,844,870
2027	3,254,319
2028	2,850,647
2029	2,392,171
2030	2,989,348
2031	2,244,591
2032	3,646,887
2033	5,622,233
2034	2,054,626
2035	1,950,164
2036	1,671,474
2037	1,315,395
2038	1,015,562
2039	1,527,883
2040	1,021,588
	<u>35,401,758</u>

In addition, the Company has Australian non-capital losses of \$488,384 (2019 – \$387,702) that do not expire and are available to reduce taxable income of future years.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

Unrecognized deferred tax assets comprise the following:

	2020 \$	2019 \$
Non-capital losses carried forward	9,611,898	9,308,382
Share issuance costs and other	48,814	64,991
Equipment	300,814	299,987
Scientific research and experimental development costs	132,674	132,674
	<hr/>	<hr/>
	10,094,200	9,806,034

The income tax benefit of these tax attributes has not been recorded in these consolidated financial statements because of the uncertainty of its recovery.

The Company's effective income tax rate differs from the statutory income tax rate of 27.19% (2019 – 27.12%). The differences arise from the following items:

	2020 \$	2019 \$
Loss before income taxes	(1,488,207)	(1,938,235)
Income tax recovery at statutory rate	(404,419)	(525,647)
Income tax benefit not recognized	288,167	433,105
Permanent differences	116,252	92,542
	<hr/>	<hr/>
	-	-

10 Segmented information

The Company operates within a single operating segment, being the research and development of therapeutics for ophthalmic indications, which is the Company's only reportable segment, which is consistent with the internal reporting provided to the chief operating decision-maker. The Company operates in two geographic areas, Canada and Australia. All of the Company's assets are located in Canada.

11 Commitments and contingencies

The Company may be required to make milestone, royalty, and other research and development funding payments under research and development collaboration and other agreements with third parties. These payments are contingent upon the achievement of specific development, regulatory and/or commercial milestones. The Company has not accrued for these payments as of December 31, 2020 because the milestones have not yet been achieved. The Company's significant contingent milestone, royalty and other research and development commitments are as follows:

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

a) **MedImmune**

The Company has in-licensed the development and commercialization rights to iCo-008 from MedImmune pursuant to a licensing agreement between the parties. The Company was required to make upfront payments totalling US\$400,000, of which the last payment was made in December 2007. The Company may be required to make additional contingent payments of up to US\$7,000,000 upon the achievement of certain development and commercialization milestones. There are no milestone payments required for indications that have Orphan Drug Status, as such term is used under the regulations established by the FDA. Both BP and VKC have Orphan Drug Status. In addition, the Company may be required to pay royalties on future revenues. The Company may also be required to make additional contingent payments upon the achievement of certain development and commercialization milestones for products developed outside the ocular field.

b) **University of British Columbia (UBC)**

On May 6, 2008, the Company signed an agreement with UBC for the exclusive worldwide licence to iCo-009 (the UBC Licence). In consideration for the UBC Licence, the Company paid UBC an initial licence fee of \$20,000 and is required to pay annual fees to UBC for maintaining the licence until such time as a New Drug Application (NDA) for iCo-009 is approved. The Company is required to make additional contingent payments of up to \$1,900,000 in aggregate upon the achievement of certain development and commercialization milestones and is also required to pay royalties on future revenues. The UBC Licence additionally requires the Company to contribute research funding (which may be in the form of direct payments from the Company or indirect payments, such as securing research grants) to UBC for the Oral AmpB program. All the research funding financial obligations have been met by the Company.

c) **Alexion**

On June 24, 2011, the Company granted Immune Pharmaceuticals Inc. (IMMUNE) an exclusive licence for the development and commercialization rights to the systemic uses of iCo-008. The Company retained worldwide exclusive rights to all uses and applications in the ocular field. In consideration for granting the licence, the Company received upfront consideration of US\$200,000 cash plus 600,000 IMMUNE shares (valued at US\$2.00 per share) and 200,000 IMMUNE warrants. In addition, as part of the licence agreement, the Company may receive up to US\$32 million in milestone payments as well as royalties on net sales of licensed products. IMMUNE also shared in funding 50% of the patent prosecution and maintenance costs of the iCo-008 patent family.

On February 17, 2019, IMMUNE filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code in Bankruptcy Court of the District of New Jersey (the Court). On October 21, 2019, the bankruptcy court in New Jersey approved a sale order relating to the assignment of the sublicense of iCo's assets to Alexion Pharmaceuticals, Inc. (Alexion). Subsequently, pursuant to related legal proceedings in Israel, the District Court of Jerusalem, Israel also approved the sales order. The terms of the original sublicense have not been altered and Alexion assumes the rights and obligations of IMMUNE under the original sublicense agreement. iCo remains free to seek development partners for ophthalmic indications that are outside the scope of the original sublicense agreement.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

On December 12, 2020, Alexion announced that it had entered into a definitive agreement for the acquisition of Alexion by AstraZeneca Inc. The proposed transaction cleared U.S. Federal Trade Commission review on April 16, 2021, but is still subject to approval by shareholders of both companies and regulators of other jurisdictions. If approved, the transaction is expected to close during Q3, 2021.

12 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. The following provides a description of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

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.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

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 December 31 are as follows:

	US balance	
	2020	2019
	\$	\$
Cash and cash equivalents	449	22,296
Accounts payable and accrued liabilities	(106,955)	(127,485)
	449	22,296
	AUS balance	
	2020	2019
	\$	\$
Cash and cash equivalents	832	105,748
Taxes and other receivables	444,680	427,276
Accounts payable and accrued liabilities	(842,246)	(544,647)
	(396,734)	(11,623)

Based on the US\$ balance sheet exposure at December 31, 2020, with other variables unchanged, if the Canadian dollar were to weaken against the US\$ by 10%, relative to the rate at December 31, 2019, the net monetary liabilities would be approximately \$15,067 greater. If the Canadian dollar were to strengthen against the US\$ by 10%, relative to the rate at December 31, 2020, the net monetary liabilities would be approximately \$12,328 less.

Based on the AUS\$ balance sheet exposure at December 31, 2019, with other variables unchanged, if the Canadian dollar were to weaken against the AUS\$ by 10%, relative to the rate at December 31, 2020, the net monetary liability would be approximately \$43,000 greater. If the Canadian dollar were to strengthen against the AUS\$ by 10%, relative to the rate at December 31, 2020, the net monetary assets would be approximately \$35,182 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. As indicated in note 1, a material uncertainty exists that may cast significant doubt regarding the Company's ability to continue as a going concern.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

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.

The following table summarizes the relative maturities of the financial liabilities of the Company:

	Maturity	
	Less than one year \$	Greater than one year \$
Accounts payable and accrued liabilities	1,296,745	-

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.

13 Capital management

The Company considers its capital stock, contributed surplus and warrants as capital. As at December 31, 2020, the Company's capital totalled \$37,742,637 (2019 – \$37,647,302).

The Company manages its capital structure in an endeavour to ensure sufficient resources are available to meet day-to-day operation requirements, further develop its existing technology, advance its clinical trials and continue as a going concern.

In order to maintain or adjust the capital structure, the Company may issue new shares or sell assets. Total capital is calculated as the Company's own equity.

The Company is not subject to any externally imposed capital requirements.

iCo Therapeutics Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

(in Canadian dollars)

14 Subsequent events

Warrants

On January 21, 2021, the TSX Venture Exchange approved the Company's request to re-price all of the outstanding warrants with an exercise price of \$0.075 to a new exercise price of \$0.065. Subsequent to the price change, 27,335,000 warrants were exercised for proceeds of \$1,758,795.

Arrangement Agreement

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 whollyowned 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). Prior to 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 \$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 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.