iCo Therapeutics Inc.

Financial Statements
December 31, 2016 and 2015
(in Canadian dollars)

April 19, 2017

Independent Auditor's Report

To the Shareholders of
iCo Therapeutics Inc.

We have audited the accompanying financial statements of iCo Therapeutics Inc., which comprise the balance sheets as at December 31, 2016 and December 31, 2015 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of iCo Therapeutics Inc. as at December 31, 2016 and December 31, 2015 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

iCo Therapeutics Inc.

Balance Sheets

As at December 31, 2016 and 2015

(in Canadian dollars)

	Note	2016 $	2015 $
Assets			
Current assets			
Cash and cash equivalents		2,361,000	3,753,982
Taxes and other receivables	5	37,121	23,816
Prepaid expenses		26,196	25,462
		2,424,317	3,803,260
Other investments	4	2,822	44,196
Equipment		3,466	5,714
Intangible assets	6	21,523	42,657
		2,452,128	3,895,827
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	138,226	115,212
Shareholders' Equity			
Capital stock	8	28,048,137	28,048,137
Contributed surplus	8	3,516,688	3,493,478
Warrants	8	2,853,487	2,853,487
Accumulated deficit		(32,104,410)	(30,614,487)
		2,313,902	3,780,615
		2,452,128	3,895,827

Commitments and contingencies (note 15)

Approved by the Board of Directors

(signed) William Jarosz Director (signed) Andrew Rae Director

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

iCo Therapeutics Inc.

Statements of Loss and Comprehensive Loss

For the years ended December 31, 2016 and 2015

(in Canadian dollars)

	Note	2016 $	2015 $
Expenses			
Research and development	11	741,773	648,439
General and administrative	12	917,932	1,563,347
Foreign exchange loss (gain)		56,634	(431,588)
		1,716,339	1,780,198
Loss on other investments	4	41,374	90,049
Other income	15	(251,199)	(34,387)
Interest income		(16,591)	(40,939)
		(226,416)	14,723
Loss for the year		1,489,923	1,794,921
Other comprehensive loss (income)			
Items that may be subsequently reclassified to profit or loss:			
Changes in fair value of other investments	4	-	(24,305)
Accumulated loss on other investments sold - reclassified to profit or loss	4	-	(46,302)
		-	(70,607)
Total comprehensive loss		1,489,923	1,724,314
Basic and diluted loss per share		(0.02)	(0.02)
Weighted average number of shares (basic and diluted)		84,457,713	84,457,713

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

iCo Therapeutics Inc.

Statements of Changes in Shareholders' Equity

For the years ended December 31, 2016 and 2015

(in Canadian dollars)

	Number of shares	Capital stock $	Contributed surplus $	Warrants $	Accumulated other comprehensive income (loss) $	Accumulated deficit $	Shareholders' equity $
Balance - December 31, 2014	84,457,713	28,048,137	3,493,478	2,853,487	(70,607)	(28,819,566)	5,504,929
Other comprehensive loss (note 4)	-	-	-	-	70,607	-	70,607
Loss for the year	-	-	-	-	-	(1,794,921)	(1,794,921)
Balance - December 31, 2015	84,457,713	28,048,137	3,493,478	2,853,487	-	(30,614,487)	3,780,615
Loss for the year	-	-	-	-	-	(1,489,923)	(1,489,923)
Share-based compensation	-	-	23,210	-	-	-	23,210
Balance - December 31, 2016	84,457,713	28,048,137	3,516,688	2,853,487	-	(32,104,410)	2,313,902

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

iCo Therapeutics Inc.

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(in Canadian dollars)

	2016 $	2015 $
Cash flows from operating activities		
Loss for the year	(1,489,923)	(1,794,921)
Items not affecting cash		
Amortization	27,418	22,013
Share-based compensation	23,210	-
Loss on other investments	41,374	90,049
Unrealized foreign exchange loss (gain)	56,234	(163,936)
	(1,341,687)	(1,846,795)
Changes in non-cash working capital		
Taxes and other receivables	(13,306)	15,251
Prepaid expenses	(734)	3,194
Accounts payable and accrued liabilities	23,014	(1,267,030)
	(1,332,713)	(3,095,380)
Cash flows from investing activities		
Purchase of equipment	(4,035)	(1,864)
Net proceeds from sale of other investments	-	1,011,569
	(4,035)	1,009,705
Effect of foreign currency exchange rates on cash and cash equivalents	(56,234)	131,870
Decrease in cash and cash equivalents	(1,392,982)	(1,953,805)
Cash and cash equivalents - Beginning of year	3,753,982	5,707,787
Cash and cash equivalents - End of year	2,361,000	3,753,982
Supplementary information		
Cash received for interest within operating activities	16,951	40,939

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

(in Canadian dollars)

1 Nature of operations

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 currently has in-licensed two assets: iCo-008 and the Oral AmpB Delivery System.

At the start of this year the Company had a third in-licensed asset, iCo-007, an antisense compound in-licensed from Ionis Pharmaceuticals, Inc. (formerly Isis Pharmaceuticals Inc.). In August 2011, the Company initiated a US physician sponsored Phase 2 clinical trial involving iCo-007, ('iDEAL Study'), evaluating iCo-007 in diabetic macular edema ("DME"). On June 9, 2014, the Company announced top-line results related to the eight-month visual acuity ("VA") primary endpoint for subjects enrolled in the iDEAL Study. The Company determined that the Phase 2 iCo-007 DME data presented at that time, along with additional internal analysis, had not demonstrated any subgroup response rates that warranted further financial investment by iCo in the DME program. The Company investigated other potential indications for this licensed technology but was unable to identify other opportunities. Consequently, during the year, the Company notified Ionis Pharmaceuticals Inc. that it had abandoned this technology.

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

The Oral AmpB Delivery System is an experimental oral formulation of Amphotericin B that is at a pre-clinical stage of development.

On January 18, 2016, the Company announced that it was undertaking a strategic re-organization to preserve its asset base and maximize shareholder value. Steps were taken to significantly reduce iCo's monthly burn rate and fixed costs, which include the termination of all employees. Andrew Rae and John Meekison were retained in a reduced consulting capacity to continue their CEO and CFO positions, respectively. Other key persons, including Dr. Peter Hnik who acted as Chief Medical Officer historically is also participating in a consulting capacity. Remaining non-essential expenses are to be eliminated. The related restructuring costs in the amount of $426,878 were paid in January and February, 2016 (notes 11 and 12).

The Company is considered to be in the development stage as most of its efforts have been devoted 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.

(in Canadian dollars)

2 Significant accounting policies

Basis of presentation and statement of compliance

The financial statements of iCo have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC") interpretations applicable to companies reporting under IFRS.

The financial statements have been prepared on a historical cost basis except for the other investments which are recorded at fair value. The financial statements are presented in Canadian dollars which is the Company's functional currency.

These financial statements were approved by the Board of Directors for issue on April 19, 2017.

Critical accounting estimates and judgments

Critical accounting estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in these 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.

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 Canadian financial institutions. Interest earned is recognized in the statements of loss.

(in Canadian dollars)

Foreign currency translation

The financial statements are presented in Canadian dollars, the Company's functional currency.

Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions or valuation where items are re-measured. 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 statements of 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 basis 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: available-for-sale investments, loans and receivables, financial liabilities at amortized cost and financial assets at fair value through profit or loss ("FVTPL"). Management determines the classification of its financial assets at initial recognition.

At initial recognition, the Company classifies its financial instruments in the following categories:

a) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise investments in equity securities. These are classified as "other investments" within current assets.

   Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from re-measurement are recognized in other comprehensive income except for exchange gains and losses on the translation of debt securities, which are recognized in the statements of loss. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statements of loss and are included in other gains and losses (net). Available-for-sale investments are classified as non-current, unless an investment matures within 12 months, or management expects to dispose of it within 12 months.

(in Canadian dollars)

b) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, and other receivables, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

c) Financial liabilities at amortized cost: Financial liabilities at amortized cost comprise accounts payable, which are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method.

d) Financial assets at FVTPL: Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current if expected to be settled within 12 months; otherwise, they are classified as non-current. The Company's non-current portion of other investments ("IMMUNE Warrants") are classified as FVTPL and re-measured each reporting period with the fair value gains and losses recorded in the statements of loss.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as FVTPL) is impaired.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss, as follows:

a) Financial assets carried at amortized cost: The impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

b) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statements of loss. This amount represents the loss in accumulated other comprehensive income that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

(in Canadian dollars)

Intangible assets

Intangible assets include patent rights and technology rights that have been acquired from third parties. The Company's intangible assets are shown separately at historical cost. The Company's intangible assets have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the licences over their estimated useful lives of nine to 11 years.

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 expense 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.

Impairment of non-financial assets

The Company periodically reviews the useful lives and the carrying values of its long-lived assets. Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGU). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flow of the relevant asset or CGU). Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

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.

(in Canadian dollars)

When the share-based options are exercised, the Company issues new shares. The proceeds are credited to capital stock (note 8). 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 New and revised IFRS affecting amounts reported and or disclosures in the financial statements

Accounting standard issued and not yet applied

IFRS 9, Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge and a new impairment model for financial asset. It must be applied for financial years commencing on or after January 1, 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods before February 1, 2015. After that date, the new rules must be adopted in their entirely. The Company does not expect IFRS 9 to have a material impact on the financial statements.

4 Other investments

As part of an exclusive licence agreement entered into on June 24, 2011, with IMMUNE Pharmaceutical Inc., a private Israeli company (the “IMMUNE Licence Agreement”) the Company received 600,000 IMMUNE common shares (“IMMUNE Shares”) and 200,000 IMMUNE Warrants in addition to certain other cash consideration. Subsequently, pursuant to a share exchange in connection with IMMUNE’s merger with Epicept Corporation (“Epicept”) in 2013, the Company exchanged its IMMUNE shares and warrants for 654,486 common shares and 123,649 warrants of Epicept, which was renamed Immune Pharmaceuticals Inc.

Effective December 8, 2014, the Company began selling the IMMUNE Shares, which trade on the NASDAQ under the symbol IMNP. During 2015, the remaining IMMUNE Shares were sold at fair market value. On disposition, the accumulated loss of $46,302 held within other comprehensive income was reclassified to the statements of loss. In addition, transaction costs of $27,300 were included within the loss on disposal.

(in Canadian dollars)

	Warrants	$
Balance - December 31, 2015	123,649	44,196
Change in fair value (a)	-	(41,374)
Balance - December 31, 2016	123,649	2,822

a) The IMMUNE Warrants were valued at year end using the Black Scholes option pricing model. The inputs used for the model are as follows: stock price US$0.18, strike price US$2.63, term of two years, volatility of 113% and a risk-free interest rate of 1.08%.

5 Taxes and other receivables

	2016 $	2015 $
Taxes (HST/GST)	6,691	15,144
Other receivable (i)	30,430	8,672
	37,121	23,816

i) Receivables in the amount of $30,430 (2015 - $8,672) are related to National Research Council of Canada's Industrial Research Assistance Program ("IRAP") grant (note 15).

6 Intangible assets

	January 1, 2016							December 31, 2016
	Opening cost $	Impairment $	Closing cost $	Opening amortization $	Amortization $	Disposals $	Closing amortization $	Net $
MedImmune	232,467	-	232,467	189,810	21,134	-	210,944	21,523

	January 1, 2015							December 31, 2015
	Opening cost $	Disposals $	Closing cost $	Opening amortization $	Amortization $	Disposals $	Closing amortization $	Net $
ISIS (iCo-007)	562,344	-	562,344	562,344	-	-	562,344	-
MedImmune	232,467	-	232,467	168,677	21,133	-	189,810	42,657
	794,811	-	794,811	731,021	21,133	-	752,154	42,657

(in Canadian dollars)

7 Accounts payable and accrued liabilities

	2016 $	2015 $
Trade payables	62,375	69,443
Other accruals	75,851	45,769
	138,226	115,212

8 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount $
Balance - December 31, 2016 and 2015	84,457,713	28,048,137

Stock options

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

	Number of stock options outstanding	Weighted average exercise price $
Balance - December 31, 2014	2,165,000	0.52
Cancelled	(20,000)	0.40
Balance - December 31, 2015	2,145,000	0.52
Granted	850,000	0.05
Cancelled	(1,125,000)	0.33
Balance - December 31, 2016	1,870,000	0.42

(in Canadian dollars)

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding at December 31, 2016	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable at December 31, 2016	Weighted average exercise price $
0.30 - 0.45	65,000	1.11	0.39	65,000	0.29
0.73	980,000	1.06	0.73	980,000	0.73
0.05	825,000	4.13	0.05	690,938	0.05
	1,870,000	2.42	0.42	1,735,938	0.45

During the year ended December 31, 2016, the Company granted 850,000 options to consultants and directors of the Company. The options had an exercise price of $0.05 and a five-year term. The Options vest over an eighteen-month period, with the first 20% options vesting on the date of grant, then 20% on each quarter after the date of grant for three quarters, and the final 20% vests monthly over the subsequent eight months.

The Company used the Black-Scholes option pricing model to estimate the fair value of each option on the grant date. For the options granted during the year ended December 31, 2016, the Company used the following assumptions:

Share price on date of grant	$0.04
Risk-free rate	0.75%
Expected volatility	130%
Expected life in years	5
Expected dividend yield	nil

The estimated aggregate fair value of the options granted during the year ended December 31, 2016 was $28,900. The Company recognized share-based compensation expense of $23,210 (2015 - $nil) for the year ended December 31, 2016.

Warrants

At December 31, 2016, the Company had 22,407,448 warrants issued and outstanding. 12,154,862 warrants are exercisable at $0.54 and expire January 27, 2019. The remaining 10,252,586 warrants are exercisable at $0.40 and expire May 17, 2018.

	Number of warrants	Amount $
Balance - December 31, 2016 and 2015 (issued and outstanding)	22,407,448	2,853,487

(in Canadian dollars)

9 Related party transactions

During the year ended December 31, 2016:

a) the Company incurred consulting fees with directors totalling CA$249,569 (2015 - US$25,000). All transactions were recorded at their exchange amounts.

b) the Company incurred directors' fees totalling $nil (2015 - $36,000). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.

10 Compensation of key management

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

	2016 $	2015 $
Salaries	23,333	644,000
Termination of payments	329,067	-
Consulting and directors fees	365,929	67,500
Share-based payments	17,749	-
	736,078	711,500

11 Research and development

	2016 $	2015 $
Wages and salaries (including share-based payments)	10,833	295,826
Termination payments	156,004	-
Consulting	96,640	-
Research projects and clinical expenses	331,540	146,462
Intellectual property	89,137	103,391
Travel	9,604	25,285
Facilities	26,881	56,342
Amortization and other	21,134	21,133
	741,773	648,439

(in Canadian dollars)

12 General and administrative

	2016 $	2015 $
Wages and salaries (including share-based payments)	24,626	623,109
Termination payments	272,578	-
Consulting	346,407	-
Professional fees	138,109	794,981
Travel	52,792	71,965
Facilities	53,926	72,412
Amortization	6,284	880
Share-based compensation	23,210	-
	917,932	1,563,347

13 Income taxes

The Company has the following 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	2,382,171
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
	30,511,330

Unrecognized deferred tax assets comprise the following:

	2016 $	2015 $
Non-capital losses carried forward	7,935,546	7,567,319
Share costs and other	88,164	161,035
Equipment	281,573	274,445
Scientific research and experimental development costs	127,760	127,760
Other investments	(367)	(5,745)
	8,432,676	8,124,814

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

(in Canadian dollars)

The Company’s effective income tax rate differs from the statutory income tax rate of • % (2015 - 26%). The differences arise from the following items:

	2016 $	2015 $
Loss before tax	(1,489,923)	(1,794,921)
Income tax at statutory rate	(387,380)	(466,679)
Income tax benefit not recognized	307,864	448,939
Permanent differences	7,781	1,824
Other	71,735	15,916
	-	-

14 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 indications, and operates in one geographic area, being Canada. All of the Company’s assets are located in Canada.

15 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, 2016 due to the uncertainty over whether these milestones will be achieved. The Company’s significant contingent milestone, royalty and other research and development commitments are as follows:

MedImmune

In connection with the licensing agreement between MedImmune and the Company, 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. 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.

(in Canadian dollars)

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 license 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.

NRC - IRAP

On May 31, 2012, the Company was awarded a $1,100,000 three-year, non-repayable financial contribution from the National Research Council ("NRC") of Industrial Research Assistance Program ("IRAP") to support iCo's Oral Amphotericin B ("Amp B") delivery system as novel treatment for patients with Human Immunodeficiency Virus ("HIV"). The funding was intended to support feasibility testing and pre-clinical toxicology studies, as well as human safety and efficacy clinical trials to examine the role of the Oral Amp B delivery system in potentially treating patients with latent HIV reservoirs. Under the grant, up to 75% of the costs of the project may be claimed subject to the $1,100,000 maximum. The Company submits monthly expenditure claims that are subject to IRAP approval and subsequent reimbursement. The grant has been annually extended since the end of the initial three-year period and an accumulated amount of $654,386 was granted since then. For the year ended December 31, 2016, iCo recognized $251,199 (2015 - $34,387) of the IRAP grant as other income.

IMMUNE

On June 24, 2011, the Company granted IMMUNE an exclusive license 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 license, 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 license 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 shares in funding 50% of the patent prosecution and maintenance costs of the iCo-008 patent family.

On August 26, 2013, IMMUNE completed a merger with Epicept, and the merged company began trading on NASDAQ under the name Immune Pharmaceuticals Inc. and the symbol IMNP. The original IMMUNE shares and warrants were exchanged for 654,386 common shares and 123,649 warrants in the merged company. During 2015, the Company sold all of its shares in the merged company but is still holding the warrants at December 31, 2016 (note 4).

(in Canadian dollars)

SALVAT

Effective November 7, 2016, the Company acquired an exclusive option to in-license the worldwide development and commercialization rights to a novel glaucoma asset from Laboratorios SALVAT ("SALVAT"). The Company also agreed that if it exercises the option it will out-license EU commercialization rights back to SALVAT. If the Company exercises the option on, or before, May 7, 2017, a payment of US$1.25 million would be due. If the option is exercised between May 8 and August 7, 2017 a payment of US$1.5 million is due. The option expires nine months after grant on August 7, 2017. SALVAT will continue to maintain the 29 patents covering the asset during the option period.

16 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.

The following table presents the Company's assets and liabilities that are measured at fair value at December 31:

			At December 31, 2016
	Level 1 $	Level 2 $	Level 3 $
Assets			
Fair value through profit or loss			
Warrants (IMMUNE)	-	-	2,822

(in Canadian dollars)

	At December 31, 2015		
	Level 1 $	**Level 2** $	**Level 3** $
Assets			
Fair value through profit or loss			
Warrants (IMMUNE)	-	-	44,196

Financial instruments whose carrying value approximates fair value

Cash and cash equivalents and other receivables 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.

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$. The Company believes that the results of operations, financial position and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its US$. The Company manages foreign exchange risk by maintaining US$ cash on hand to fund its short-term US$ expenditures. As at December 31, 2016, US$ denominated cash and short-term investments totalled US$665,981. The US$ denominated accounts payable and accrued liabilities exposure is US$28,289.

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.

Balances in foreign currencies at December 31 are as follows:

	2016 US balance $	**2015 US balance** $
Cash and cash equivalents	665,981	1,318,143
Accounts payable and accrued liabilities	(28,289)	(17,410)
	637,692	1,300,733

(in Canadian dollars)

Based on the US$ balance sheet exposure at December 31, 2016, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 10%, relative to the rate at December 31, 2016, the net monetary assets would be approximately $95,000 greater. If the Canadian dollar were to strengthen against the US dollar by 10%, relative to the rate at December 31, 2016, the net monetary assets would be approximately $78,000 less.

b) Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents 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. 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 December 31, 2016, cash and cash equivalents held in Canadian dollar savings accounts total $1,467,063 (2015 - $1,318,143). The interest rates range from 0.0% to 0.25%.

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.

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	138,266	-

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.

(in Canadian dollars)

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.

17 Capital management

The Company considers its capital stock, contributed surplus and warrants as capital. As at December 31, 2016, the Company's capital totalled $34,418,312 (2015 - $34,395,102).

The Company manages its capital structure in order 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 exposed capital requirements.

18 Subsequent events

Stock options granted

On January 23, 2017, the Company announced the grant of stock options to a director. iCo granted an aggregate of 150,000 options to acquire common shares of the Company at an exercise price of $0.05. The options will expire on January 23, 2022 and shall vest as follows: 1/5 on the grant date (the "Effective Date"), 1/5 three (3) months after the Effective Date, 1/5 six (6) months after the Effective Date, 1/5 nine (9) months after the Effective Date and the remaining 1/5 to vest ratably per month beginning ten (10) months after the Effective Date and ending eighteen (18) months after the Effective Date. After giving effect to this option grant, a total of 2,020,000 stock options will be issued and outstanding with 1,665,357 remaining for future issuance under the Company's stock option plan.