iCo Therapeutics Inc.

Consolidated Financial Statements
December 31, 2017 and 2016
(in Canadian dollars)

April 24, 2018

Independent Auditor's Report

To the Shareholders of
iCo Therapeutics Inc.

We have audited the accompanying consolidated financial statements of iCo Therapeutics Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated 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 consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

PricewaterhouseCoopers LLP
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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of iCo Therapeutics Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which discloses conditions and matters that indicate the existence of material uncertainty that may cast significant doubt about iCo Therapeutics Inc.'s ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

iCo Therapeutics Inc.

Consolidated Balance Sheets

As at December 31, 2017 and 2016

(in Canadian dollars)

	Note	2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents		1,127,934	2,361,000
Taxes and other receivables	5	88,415	37,121
Prepaid expenses		157,682	26,196
		1,374,031	2,424,317
Other investments	4	-	2,822
Equipment		1,500	3,466
Intangible assets	6	-	21,523
		1,375,531	2,452,128
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	288,298	138,226
Shareholders' Equity			
Capital stock	8	28,048,137	28,048,137
Contributed surplus	8	3,527,327	3,516,688
Warrants	8	2,853,487	2,853,487
Accumulated deficit		(33,341,718)	(32,104,410)
		1,087,233	2,313,902
		1,375,531	2,452,128

Going concern (note 1)

Commitments and contingencies (note 14)

Approved by the Board of Directors

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

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

iCo Therapeutics Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2017 and 2016

(in Canadian dollars)

	Note	2017 $	2016 $
Expenses			
Research and development	10	808,534	741,773
General and administrative	11	664,814	917,932
Foreign exchange loss		12,125	56,634
		1,485,473	1,716,339
Loss on other investments	4	2,842	41,374
Other income	14	(244,598)	(251,199)
Interest income		(6,409)	(16,591)
		(248,165)	(226,416)
Loss and comprehensive loss for the year		1,237,308	1,489,923
Basic and diluted loss per share		(0.01)	(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 consolidated financial statements.

iCo Therapeutics Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2017 and 2016

(in Canadian dollars)

	Number of shares	Capital stock $	Contributed surplus $	Warrants $	Accumulated other comprehensive income (loss) $	Accumulated deficit $	Shareholders' equity $
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
Loss for the year						(1,237,308)	(1,237,308)
Share-based compensation	-	-	10,639	-	-	-	10,639
Balance - December 31, 2017	84,457,713	28,048,137	3,527,327	2,853,487	-	(33,341,718)	1,087,233

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, 2017 and 2016

(in Canadian dollars)

	2017 $	2016 $
Cash flows from operating activities		
Loss for the year	(1,237,308)	(1,489,923)
Items not affecting cash		
Amortization	23,489	27,418
Share-based compensation	10,639	23,210
Loss on other investments	2,822	41,374
Unrealized foreign exchange loss	12,125	56,234
	(1,188,233)	(1,341,687)
Changes in non-cash working capital		
Taxes and other receivables	(51,294)	(13,306)
Prepaid expenses	(131,486)	(734)
Accounts payable and accrued liabilities	150,072	23,014
	(1,220,941)	(1,332,713)
Cash flows from investing activities		
Purchase of equipment	-	(4,035)
Effect of foreign currency exchange rates on cash and cash equivalents	(12,125)	(56,234)
Decrease in cash and cash equivalents	(1,233,066)	(1,392,982)
Cash and cash equivalents - Beginning of year	2,361,000	3,753,982
Cash and cash equivalents - End of year	1,127,934	2,361,000
Supplementary information		
Cash received for interest within operating activities	6,409	16,951

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

(in Canadian dollars)

1 Nature of operations and going concern

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

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

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

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. During the year, the Company incorporated a wholly owned subsidiary in Australia to conduct clinical trials on its Oral AmpB formulation in Australia.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the year ended December 31, 2017, the Company has incurred a loss of $1,237,308 (2016 - loss of $1,489,923), negative cash flows of from operating activities of $1,220,941 (2016 - $1,332,713), and an accumulated deficit of $33,341,718 at December 31, 2017 (December 31, 2016 - accumulated deficit of $32,104,410). The Company currently has a working capital surplus of $1,085,733, although expects this to be substantially used in FY 2018 through normal business operations. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company's ability to continue as a going concern.

The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing and operations to meet the Company's liabilities and commitments as they become due. There is a risk that in the future, additional financing will not be available on a timely basis or on terms acceptable to the Company.

These 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.

(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 ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC") interpretations applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a historical cost basis except for the other investments which are recorded at fair value. The consolidated financial statements 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 24, 2018.

Critical accounting estimates and judgments

Critical accounting estimates and assumptions

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

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 statements of loss.

Foreign currency translation

The consolidated 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.

Foreign exchange differences arising from net investment in foreign subsidiaries are initially recognized in other comprehensive income and are reclassified from equity to profit or loss upon disposal of the net investment.

(in Canadian dollars)

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.

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.

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.

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.

(in Canadian dollars)

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 assets. It must be applied for financial years commencing on or after January 1, 2018. The Company has assessed that IFRS 9 will not have a material impact on the consolidated financial statements.

4 Other investments

Other investments represent warrants received 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 originally received 200,000 IMMUNE Warrants as partial consideration pursuant to the IMMUNE License Agreement. The number of warrants were reduced to 123,649 following IMMUNE's merger with Epicept corporation in 2013. On April 12, 2017, Immune completed a reverse stock split of its common shares at a ratio of 1 for 20. The affect on the Company's Immune warrants was to reduce the number of warrants to 6,182 from 123,649 and to increase the exercise price to $52.60 from $2.63.

	Warrants	$
Balance - December 31, 2016	123,649	2,822
Change in fair value (a)	(117,467)	(2,822)
Balance - December 31, 2017	6,182	-

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 $0.57, strike price US$52.60, term of one year, volatility of 123% and a risk-free interest rate of 1.66%.

(in Canadian dollars)

5 Taxes and other receivables

	2017 $	2016 $
Taxes (HST/GST)	34,589	6,691
Other receivable (a)	53,826	30,430
	88,415	37,121

a) Receivables in the amount of $53,826 (2016 - $nil) are related to government refundable tax credits for eligible research and development work conducted in Australia. In 2016, the other receivable related to National Research Council of Canada's Industrial Research Assistance Program ("IRAP") grant (note 14).

6 Intangible assets

	January 1, 2017							December 31, 2017
	Opening cost $	Impairment $	Closing cost $	Opening amortization $	Amortization $	Disposals $	Closing amortization $	Net $
MedImmune	232,467	-	232,467	210,944	21,523	-	232,467	-

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

7 Accounts payable and accrued liabilities

	2017 $	2016 $
Trade payables	255,317	62,375
Other accruals	32,981	75,851
	288,298	138,226

(in Canadian dollars)

8 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount $
Balance - December 31, 2017 and 2016	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, 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
Cancelled	(25,000)	0.30
Granted	150,000	0.05
Balance - December 31, 2017	1,995,000	0.39

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding at December 31, 2017	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable at December 31, 2017	Weighted average exercise price $
0.05	975,000	3.28	0.05	952,500	0.05
0.45	40,000	0.68	0.20	40,000	0.20
0.73	980,000	0.06	0.73	980,000	0.73
	1,995,000	1.64	0.39	1,972,500	0.40

(in Canadian dollars)

During the year ended December 31, 2017, the Company granted 150,000 options to a director 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: 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, 2017 and 2016, the Company used the following assumptions:

	2017	2016
Share price on date of grant	$0.05	$0.04
Risk-free rate	1.07%	0.75%
Expected volatility	136%	130%
Expected life in years	5	5
Expected dividend yield	nil	nil

The estimated aggregate fair value of the options granted during the year ended December 31, 2017 was $6,600 (2016 - $28,900). The Company recognized stock-based compensation expense of $10,639 (2016 - $23,210) for the year ended December 31, 2017.

Warrants

At December 31, 2017, 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, 2017 and 2016 (issued and outstanding)	22,407,448	2,853,487

(in Canadian dollars)

9 Related party transactions

Compensation of key management and directors

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

	2017 $	2016 $
Salaries	-	23,333
Termination payments	-	329,067
Consulting fees	429,738	365,929
Share-based payments	10,639	17,749
	440,377	736,078

The Company incurred directors' fees totalling $nil (2016 - $nil).

10 Research and development

	2017 $	2016 $
Wages and salaries (including share-based payments)	-	10,833
Termination payments	-	156,004
Consulting	221,523	96,640
Research projects and clinical expenses	476,930	331,540
Intellectual property	70,471	89,137
Travel	18,087	9,604
Facilities	-	26,881
Amortization and other	21,523	21,134
	808,534	741,773

11 General and administrative

	2017 $	2016 $
Wages and salaries (including share-based payments)	-	24,626
Termination payments	-	272,578
Consulting	346,273	346,407
Professional fees	177,838	138,109
Travel	80,798	52,792
Facilities	47,300	53,926
Amortization	1,966	6,284
Share-based compensation	10,639	23,210
	664,814	917,932

(in Canadian dollars)

12 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
2037	1,315,395
	31,826,725

In addition, the Company has non-capital losses of $90,781 that do not expire and are available to reduce taxable income of future years.

Unrecognized deferred tax assets comprise the following:

	2017 $	2016 $
Non-capital losses carried forward	8,302,538	7,935,546
Share costs and other	33,447	88,164
Equipment	287,680	281,573
Scientific research and experimental development costs	127,760	127,760
Other investments	-	(367)
	8,751,425	8,432,676

The income tax benefit of these tax attributes has not been recorded in these consolidated 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 26.1% (2016 - 26.0%). The differences arise from the following items:

	2017 $	2016 $
Loss before tax	(1,237,308)	(1,489,923)
Income tax recovery at statutory rate	(323,009)	(387,380)
Income tax benefit not recognized	318,749	307,864
Permanent differences	4,260	7,781
Other	-	71,735
	-	-

13 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 two geographic areas, Canada and Australia. All of the Company's assets are located in Canada.

14 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, 2017 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

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. 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 and 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, 2017, iCo recognized $190,865 (2016 - $251,199) of the IRAP grant as other income. The work under this grant was completed during the year and no additional grant funding is currently available for the Amp B delivery system.

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. On April 12, 2017, IMMUNE completed a reverse stock split of its common shares at a ratio of 1 for 20. The effect on the Company's IMMUNE warrants was to reduce the number of warrants to 6,182 from 123,649 and to increase the exercise price to $52.60 from $2.63.

(in Canadian dollars)

During 2015, the Company sold all of its shares in the merged company but is still holding the warrants at December 31, 2017 (note 4).

15 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:

	2017		
	Level 1 $	**Level 2 $**	**Level 3 $**
Assets			
Fair value through profit or loss			
Warrants (IMMUNE)			-

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

(in Canadian dollars)

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 dollars (US$) and Australian dollars (AUS$). 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$ and AUS$. The Company manages foreign exchange risk by maintaining US$ and AUS$ cash on hand to fund its short-term foreign currency expenditures. As at December 31, 2017, US$ denominated cash totalled US$34,674 and AUS$ denominated cash totalled AUS$138,470. The US$ denominated accounts payable and accrued liabilities exposure was US$5,976 and the AUS$ denominated accounts payable and accrued liabilities exposure $90,631.

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:

	US balance	
	2017	**2016**
	$	**$**
Cash and cash equivalents	34,674	665,981
Accounts payable and accrued liabilities	(5,976)	(28,289)
	28,698	637,692

	AUD balance	
	2017	**2016**
	$	**$**
Cash and cash equivalents	138,470	-
Accounts payable and accrued liabilities	(90,631)	-
	47,839	-

(in Canadian dollars)

Based on the US$ balance sheet exposure at December 31, 2017, with other variables unchanged, if the Canadian dollar were to weaken against the US$ by 10%, relative to the rate at December 31, 2017, the net monetary assets would be approximately $4,000 greater. If the Canadian dollar were to strengthen against the US$ by 10%, relative to the rate at December 31, 2017, the net monetary assets would be approximately $3,273 less.

Based on the AUD$ balance sheet exposure at December 31, 2017, with other variables unchanged, if the Canadian dollar were to weaken against the AU$ by 10%, relative to the rate at December 31, 2017, the net monetary assets would be approximately $5,210 greater. If the Canadian dollar were to strengthen against the AU$ by 10%, relative to the rate at December 31, 2017, the net monetary assets would be approximately $4,262 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, 2017, cash and cash equivalents held in Canadian dollar savings accounts total $6,838 (2016 - $1,467,063). 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. 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.

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	288,298	-

(in Canadian dollars)

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.

16 Capital management

The Company considers its capital stock, contributed surplus and warrants as capital. As at December 31, 2017, the Company's capital totalled $34,428,951 (2016 - $34,418,312).

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.