MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

This management's discussion and analysis ("**MD&A**") has been prepared as of August 29, 2018 and should be read in conjunction with the consolidated financial statements of iCo Therapeutics Inc. ("**iCo**" or the "**Company**") for the three and six months ended June 30, 2018 and the related notes thereto. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**") and all dollar amounts are expressed in Canadian dollars unless otherwise noted. In this discussion, unless the context requires otherwise, references to "we" or "our" are references to iCo Therapeutics Inc. Additional information relating to our Company, including our annual information form dated July 23, 2018 (the "**Annual Information Form**") is available by accessing the SEDAR website at www.sedar.com.

Forward Looking Statements

Certain statements and information in this MD&A contain forward-looking statements or forward-looking information under applicable Canadian securities legislation that may not be based on historical fact, including, without limitation, statements containing the words "believe", "may", "plan", "will", "estimate", "continue", "anticipate", "intend", "expect", "predict", "project", "potential", "continue", "ongoing", "could", "would", "seek", "target" or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words and similar expressions.

Forward-looking statements are necessarily based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors that we believe are appropriate. Forward-looking statements in this MD&A include, but are not limited to, statements relating to:

- the initiation, timing, cost, progress and success of our research and development programs;
- our ability to re-dose, formulate and develop drug candidates;
- our ability and our partners' ability to advance product candidates into, and successfully complete, clinical trials;
- our expectations regarding the Immune Pharmaceuticals Inc. ("**IMMUNE**") Phase II meeting with the FDA (as defined below) and the beginning of a pivotal Phase II/III study for iCo-008 (as defined below);
- our expectations regarding the advancement of the Oral Amp B Delivery System (as defined below) through further studies;
- our expectations regarding enrolment and the timing of enrolment in the studies conducted by our licensees for our product candidates including the Phase II clinical testing conducted by IMMUNE for the treatment of ulcerative colitis and our Phase II and III clinical testing for the treatment of Visceral Leishmaniasis ("**VL**") or fungal infections;
- the expected therapeutic benefits, effectiveness and safety of our product candidates, including our belief that our approach may reduce the risk, time and cost of developing therapeutics by avoiding some of the uncertainty associated with certain research and pre-clinical stages of drug development;
- the ability of iCo-008 to inhibit both early stage and late stage development of severe eotaxin-1 mediated indications;
- our ability to obtain funding for our operations, including funding for research and commercial activities;

- our ability to achieve profitability;
- our ability to establish and maintain relationships with collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;
- our ability to enter into agreements or partnerships with pharmaceutical or biotechnology companies that have sales and marketing capabilities, which will enable us to increase our returns from our product candidates or to further accelerate development of our product candidates;
- the implementation of our business model and strategic plans;
- our expectations regarding federal, provincial and foreign regulatory requirements;
- the rate and degree of market acceptance and clinical utility of our future products, if any;
- the milestone payments of up to US$32,000,000 and royalties expected to be received on net sales of license products under the IMMUNE License Agreement dated June 24, 2011, through which the Company retained worldwide exclusive rights to all uses and applications of iCo-008 in the ocular field;
- our expectations regarding market risk, including interest rate changes and foreign currency fluctuations;
- the compensation that is expected to be paid to consultants or employees of the Company;
- our future financial performance and projected expenditures; and
- estimates of our expenses, future revenue, capital requirements and our needs for additional financing.

Such forward-looking statements reflect our current views with respect to future events, are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by iCo as of the date of such statements, are inherently subject to significant medical, scientific, business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause our actual results, performance, achievements, prospects or opportunities to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions, including, but not limited to: (i) obtaining positive results of clinical trials; (ii) obtaining regulatory approvals; (iii) assumptions regarding general business and economic conditions; (iv) assumptions regarding the cost and timing of each study; (v) the Company's ability to successfully develop iCo-008 and the Oral Amp B Delivery System; (vi) that the Company's current positive relationships with third parties will be maintained; (vii) the availability of financing on reasonable terms; (viii) the Company's ability to attract and retain skilled consultants; (ix) assumptions regarding market competition; (x) the products and technology offered by the Company's competitors and (xi) the Company's ability to protect patents and proprietary rights.

In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined below under the headings "*Market risk*", "*Interest rate risk*", "*Liquidity risk*" and "*Credit risk*" and under the heading "*Risk Factors*" in the Company's Annual Information Form for the year ended December 31, 2017 filed on SEDAR (www.SEDAR.com). Should one or more of these risks or uncertainties, or a risk that is not currently known to us, materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.

Overview of the Company

We are a Canadian biotechnology company principally focused on the identification, development and commercialization of drug candidates to treat sight and life-threatening diseases.

We principally focus on in-licensing drug candidates with a clinical history and re-dose, reformulate and develop drug candidates for the treatment of sight and life-threatening diseases. We assume the clinical, regulatory and commercial development activities for our product candidates and advance them along the regulatory and clinical pathway toward commercial approval. We believe that our approach may reduce the risk, time and cost of developing therapeutics by avoiding some of the uncertainty associated with certain research and pre-clinical stages of drug development. We use our expertise to manage and perform what we believe are the critical aspects of the drug development process, including the design and conduct of clinical trials, the development and execution of strategies for the protection and maintenance of intellectual property rights and interaction with drug regulatory authorities. We have two in-licensed product candidates: iCo-008 (or "**Bertilimumab**") for potential use in eotaxin-1 mediated indications and an oral Amphotericin B delivery system, ("**Oral Amp B Delivery System**") for potential use in life threatening fungal infections.

The Company's Business Strategy

Identification of Product Candidates

We directly perform scientific evaluation and market assessment of pharmaceutical products and research developed by other biopharmaceutical companies. As part of this process, we evaluate the related scientific research and pre-clinical and clinical research, if any, and the intellectual property rights in such products and research, with a view to determining the therapeutic and commercial potential of the applicable product candidates. We intend to mitigate the risks associated with our development and commercialization efforts by targeting drug candidates that we believe:

- have an established clinical history or are in late-stage pre-clinical trials;
- have well-established safety profiles;
- may be well-suited to reformulation as a means of expanding use indications or altering the route of administration;
- have been successfully manufactured on a clinical grade basis in quantities sufficient for clinical trials; and
- have data suggestive of potential efficacy as treatments for sight or life-threatening diseases.

Our initial focus was on sight threatening diseases because we believe that there is an unmet need for new and effective therapeutics in this field. In addition, several members of our management team and key advisors have considerable expertise in ophthalmology. Subsequently, we have also focused on certain life-threatening diseases, through the advancement of our Oral Amp B Delivery System and the expertise that has been gained through its development.

In-Licensing

Upon identifying a promising biopharmaceutical product, we seek to negotiate a license to the rights for the product from the holder of those rights. The terms of such licenses vary, but generally our goal is to secure licenses that permit us to engage in further development, reformulation, clinical trials, intellectual property protection (on behalf of the licensor or otherwise) and further licensing of manufacturing and marketing rights to any resulting products. This process of securing license rights to products is commonly known as "in-licensing". In certain instances, we have taken the "option" approach, whereby

we gain an exclusive right to in-license a drug candidate for a defined period before we must make a commitment to do so. This approach allows us to review additional data before deciding to in-license a particular drug candidate.

Product Advancement

Upon in-licensing a product candidate, our strategy is to apply our skills and expertise to advance the product toward regulatory approval and then commercial production and sale in major markets. These activities include implementing intellectual property protection and registration strategies, formulating or reformulating existing drug products, making regulatory submissions, performing or managing clinical trials in target jurisdictions, and undertaking or managing the collection, collation and interpretation of clinical and field data and the submission of such data to the relevant regulatory authorities in compliance with applicable protocols and standards.

Developing Partnerships with Biopharmaceutical Companies

To augment our ability to develop our product candidates and effectively market any products in respect of which we obtain regulatory approval, we may enter into an agreement or partnership with a biopharmaceutical company that has drug development or sales and marketing capabilities, or both. Entering into an agreement or partnership with a pharmaceutical or biotechnology company that has these capabilities may enable us to increase our returns from our product candidates by utilizing that company's development or sales and marketing capabilities, or both, to further accelerate development of our product candidates or enable us to develop the candidate in more than one indication simultaneously.

Outsourcing

To optimize the development of our product candidates, we outsource certain of our product development activities. Factors that we consider in determining which activities to outsource include cost, relative expertise, capacity and quality assurance. The product development functions that we have chosen to outsource include pre-clinical activities in support of regulatory filings, clinical trials and manufacturing. We believe that our relationships with external laboratories enable us to complete pre-clinical testing faster and more efficiently than if we performed these activities ourselves. Additionally, there are many independent contract research organizations that are specifically equipped and set up to manage clinical trial projects, thus permitting iCo to outsource these services on a cost-effective basis. Because our manufacturing needs are currently sporadic, we believe that it is more efficient to outsource manufacturing.

2018 Key Corporate and Partner Activities

During Q2 2018, the following milestones were accomplished:

iCo-008

On May 15, 2018, IMMUNE announced positive results from the completed BP trial. Subjects in the study experienced a decline in the BPDAI Activity Score of 81% ($p=0.015$) at day 84 from a mean baseline score of 67, with 86% of subjects showing at least a 50% improvement in the BPDAI Activity Score and 57% showing at least a 90% improvement. Over the course of the study, subjects in the study also had improvements in pruritus, a very challenging symptom for patients with BP, and quality of life. These benefits were seen quickly, with a mean reduction in BPDAI Activity Score of 70% by day 42. For a subgroup of subjects within which lesion healing was assessed, all six showed healing of prior lesions by day 28.

These improvements were observed despite subjects receiving only three doses of Bertilimumab (on days 0, 14 and 28) and modest doses of prednisone that was aggressively tapered. The mean starting dose of prednisone was 28 mg (0.33 mg/kg) which was reduced to 17 mg (0.19 mg/kg) by day 42 (p=0.022) and to 12 mg (0.15 mg/kg) by day 84 (p=0.005). 40% of subjects had a prednisone dose of 10 mg/day or less by day 42, and 58% had achieved 10 mg/day or less by day 84. The standard of care for BP patients treated with systemic steroids is a starting dose of 0.5-1.0 mg/kg tapered slowly over the course of 6-12 months. Subjects in this study received on average approximately 2,900 mg less prednisone than called for by the regimen of Joly et al (Joly et al, New Engl J Med 2002; 347:143-145) and 1,700 mg less prednisone than called for by British treatment guidelines (Venning et al, Br J Dermatol 2012: 1200-1214).

Oral Amp B Delivery System

On April 17, 2018, the first subject was dosed in the Phase I, single ascending dose clinical trial. The Phase I clinical trial design was a randomized, double-masked, placebo-controlled, single dose ascending study to assess the safety, tolerability, and bioavailability of iCo-019 (oral Amp B) in healthy male and non-pregnant female subjects between 18-55 years of age. Subjects were randomized into one of four cohorts, each representing an ascending single dose of treatment. Cohorts were dosed sequentially. Each cohort consisted of eight subjects where six subjects were randomized to receive the investigational product and two subjects were randomized to receive the placebo. All subjects were followed for seven days after dosing.

This clinical study was conducted in Australia, because Australia offers experienced contract research organizations, a pool of suitable subjects and generous refundable tax credits, which significantly lowered overall costs for the Phase I study.

The trial was registered with the TGA in Australia via the Clinical Trial Notification process and involved Linear Clinical Research in Perth, Australia, partnered with the global contract research organization, INC Research/inVentiv Health, recently renamed Syneos.

On June 27, 2018, iCo announced a positive primary end point in its Phase I clinical study. The study met its primary endpoint of safety and tolerability of iCo-019 (oral Amp B) following oral administration of single ascending doses in healthy subjects. There were no serious adverse events and no drug-related adverse events in either of the four study cohorts. All drug doses were tolerated, including the highest dose of 800 mg with no indication of kidney toxicity.

Subsequent Events

On July 16, 2018, iCo announced a positive secondary endpoint in its Phase I clinical study and advancement into later stage clinical trials. It was noted that the distinguishing features of the Company's Oral Amp B candidate are enhanced plasma area under the concentration time curve, which is a measure of systemic drug exposure, and longer blood circulation time without the associated gastrointestinal effects or liver and kidney toxicity.

On July 30, 2018, the Committee for Orphan Medicinal Products of the European Medicines Agency issues a positive opinion on IMMUNE's application for orphan drug designation for bertilimumab for the treatment of BP. On August 20, 2018, IMMUNE announced that the FDA granted orphan drug designation to bertilimumab for the treatment of BP.

On August 14, 2018 iCo filed a short form base shelf prospectus (the "**Base Shelf**") with securities regulators in the provinces of British Columbia, Alberta and Ontario. The Base Shelf allows iCo to offer,

from time to time in one or more public offerings, up to $25,000,000 of common shares, preferred shares, debt securities, subscription receipts, units or warrants, or any combination thereof, during the 25-month period ending September 14, 2020. iCo filed the Base Shelf to provide the Company with financing flexibility going forward.

Products

iCo-008

iCo-008 is a human monoclonal antibody that neutralizes eotaxin-1, a ligand to the C-C chemokine receptor type three ("**CCR3**"). It is our view that iCo-008 neutralizes eotaxin-1 by binding to it and, as a consequence, preventing it from binding to CCR3. We believe that iCo-008 has the potential to inhibit intracellular signaling associated with mast cell degranulation and the recruitment of eosinophils to the site of allergic reactions and, as a result, potentially inhibit both early stage and late stage development of severe eotaxin-1 mediated indications. We believe that iCo-008 shows promise in the treatment of the dermatological condition bullous pemphigoid ("**BP**") and may have utility in atopic dermatitis, gastrointestinal conditions including inflammatory bowel disease/ulcerative colitis, asthma and age-related macular degeneration.

Before we licensed iCo-008 from Medimmune Limited ("**Medimmune**"), Cambridge Antibody Technology ("**CAT**") conducted Phase I clinical trials testing the safety, tolerability and pharmacokinetics of iCo-008 and Phase II clinical trials testing the efficacy of iCo-008 as a treatment for allergic rhinitis and allergic conjunctivitis. In 2008, AstraZeneca integrated CAT into its global biologics business under the Medimmune banner, uniting the resources and expertise from CAT and Mediumme within AstraZeneca. We remain interested in pursuing further clinical development of this program in individuals with a serious sight threatening form of allergic conjunctivitis known as vernal keratoconjunctivitis and atopic keratoconjunctivitis. The Company would need to access additional capital through partnering or financing before deciding to advance this program.

On June 24, 2011, the Company granted IMMUNE an exclusive sublicense for the development and commercialization rights to the systemic uses of iCo-008 (the "**IMMUNE License Agreement**"). 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$500,000 cash plus 600,000 IMMUNE shares and 200,000 IMMUNE warrants. In addition, as part of the IMMUNE License Agreement, the Company may receive up to US$32,000,000 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 Corporation, 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 its shares in the merged company realizing net proceeds of $1,011,569. 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. As at March 31, 2018, the Company still holds the 6,182 IMMUNE warrants and at June 30, 2018 these had a $nil fair value.

iCo–008 development undertaken by IMMUNE

In early 2015, IMMUNE developed an enhanced Good Manufacturing Practice for Bertilimumab. The new process has higher comparable performance and improved productivity than the previous process. This was an important step to support production of clinical supplies for future trials. Recently, IMMUNE announced a collaboration with WuXi Biologics Co. Ltd. ("**WuXi Biologics**") to produce drug product

for pivotal clinical studies, scaling production up to 2,000 liters. WuXi Biologics will serve as the fill/finish manufacturer for Bertilimumab.

iCo–008 for Bullous Pemphigoid

In early 2015, IMMUNE initiated its Phase II program with Bertilimumab to the treatment of BP, a rare autoimmune blistering disease of the skin, which is painful and itchy, and occurs predominantly in patients over 60 years of age.

On October 7, 2015, IMMUNE announced that it had submitted an Investigational New Drug Application ("**IND**") in the U.S. to expand recruitment for Bertilimumab, for the treatment of BP, and subsequently announced on November 9, 2015 that the U.S. Food and Drug Administration ("**FDA**") had accepted IMMUNE's IND application.

The BP trial was an open-label, single arm study in adults with moderate to severe BP and was conducted at six sites in the United States and two sites in Israel with a target enrolment of 10-15 patients. The primary end point was safety and secondary endpoints included a variety of efficacy measures related to clinical signs and symptoms and tapering of systemic corticosteroids. Subjects in this study received Bertilimumab intravenously at a dose of 10 mg/kg on days 0, 14 and 28 and were followed for a total of 84 days. In addition, they received oral prednisone, a systematic steroid, at a maximum initial dose of 30 mg/day, which was to be tapered rapidly according to the subject's clinical status.

On May 15, 2018, IMMUNE announced positive results from the completed BP trial. Subjects in the study experienced a decline in the BP Disease Area Index ("**BPDAI**") Activity Score of 81% (p=0.015) at day 84 from a mean baseline score of 67, with 86% of subjects showing at least a 50% improvement in the BPDAI Activity Score and 57% showing at least a 90% improvement. Over the course of the study, subjects in the study also had improvements in pruritus, a very challenging symptom for patients with BP, and quality of life. These benefits were seen quickly, with a mean reduction in BPDAI Activity Score of 70% by day 42. For a subgroup of subjects within which lesion healing was assessed, all six showed healing of prior lesions by day 28.

These improvements were observed despite subjects receiving only three doses of Bertilimumab (on days 0, 14 and 28) and modest doses of prednisone that was aggressively tapered. The mean starting dose of prednisone was 28 mg (0.33 mg/kg) which was reduced to 17 mg (0.19 mg/kg) by day 42 (p=0.022) and to 12 mg (0.15 mg/kg) by day 84 (p=0.005). 40% of subjects had a prednisone dose of 10 mg/day or less by day 42, and 58% had achieved 10 mg/day or less by day 84. The standard of care for BP patients treated with systemic steroids is a starting dose of 0.5-1.0 mg/kg tapered slowly over the course of 6-12 months. Subjects in this study received on average approximately 2,900 mg less prednisone than called for by the regimen of Joly et al (Joly et al, New Engl J Med 2002; 347:143-145) and 1,700 mg less prednisone than called for by British treatment guidelines (Venning et al, Br J Dermatol 2012: 1200-1214).

IMMUNE plans to seek an end of Phase II, meeting with the FDA by the end of 2018 and could be in a position to start a pivotal Phase II/III study in 2019. Under the terms of the IMMUNE License Agreement with IMMUNE, the initiation of a pivotal Phase II/III study would trigger a milestone payment to the Company.

iCo–008 in Ulcerative Colitis

Following authorization from Israeli health authorities, IMMUNE initiated a Phase II double-blind, placebo-controlled study with Bertilimumab, in patients with moderate-to-severe ulcerative colitis. Currently, enrolment is occurring in nine sites: five in Israel and four in Russia. The clinical trial is a randomized, double-blind, placebo-controlled parallel group study that will evaluate the safety, clinical efficacy, and pharmacokinetic profile of Bertilimumab in subjects with active moderate-to-severe ulcerative colitis. Subjects are randomized in a 2:1 ratio to receive Bertilimumab 10 mg/kg IV or a placebo on days 0, 14 and 28, and are followed for safety and efficacy measures for 12 weeks. The

primary end point is clinical response assessed by the Mayo Clinic Ulcerative Colitis Disease Index at eight weeks. Secondary end points include assessment of mucosal injury and clinical remission.

Up to 42 patients are expected to be enrolled into the study. These patients are being evaluated for clinical response after six weeks to determine the decrease if any in the full Mayo Clinic Ulcerative Colitis Score. Secondary and exploratory end points will include clinical remission defined as symptom free, fecal calprotectin, a recognized marker of gastro-intestinal inflammation, histopathology improvement and degree of mucosal injury. On November 17, 2015, IMMUNE announced that the first patient had been enrolled into the Phase II clinical trial evaluating the safety and efficacy of Bertilimumab in ulcerative colitis. As of August 28, 2017, 17 subjects had been enrolled and enrolment is expected to be completed in the third quarter of 2018.

Oral Amp B Delivery System

The Oral Amp B Delivery System of Amphotericin B ("**Amp B**") began development at the University of British Columbia ("**UBC**") under Dr. Kishor Wasan. Dr. Wasan subsequently moved from UBC to the University of Saskatchewan to become Professor and Dean, College of Pharmacy and Nutrition and remains an advisor to iCo. Although Amp B has been used to treat systemic fungal infections intravenously for approximately 50 years, an oral formulation of Amp B has yet to be developed. Historically, Amp B was shown to have a limited oral bioavailability due to its low aqueous solubility and membrane permeability. Intravenous Amp B has historically been a potent but toxic option for the treatment of serious systemic fungal infections. Systemic fungal infections are fungal infections that affect the entire body and are particularly prevalent among people whose immune systems have been weakened by certain treatments, such as organ transplant recipients, or certain conditions, such as cancer, diabetes or AIDS. Although several drugs have been developed for the treatment of systemic fungal infections, systemic fungal infections remain a leading cause of death for organ transplant recipients and other patients with compromised immune systems. Further, in developing nations, oral therapy would be valuable for the treatment of Visceral Leishmaniasis ("**VL**"), a parasitic infection known for its high mortality rates. Current Amp B therapy for VL or fungal infections requires one or more infusions in the hospital setting and is often associated with infusion-related adverse events, such as renal toxicity. Successful oral formulation could resolve the safety issues associated with parenteral application and enable a much broader patient access to this highly effective treatment option.

We completed several studies with iCo's Oral Amp B Delivery System, which have shown promising pharmacokinetic and tissue distribution results in two anti-fungal pre-clinical models. iCo's Oral Amp B Delivery System has also demonstrated promising results in pre-clinical models for VL conducted at independent laboratories in the United States. Based on these studies, the Oral Amp B Delivery System received Orphan Drug Status from the FDA for the treatment of VL.

On December 12, 2013, we announced that the Oral Amp B Delivery System had been moved into *in-vitro* testing with study partner, ImmuneCarta®, (the immune monitoring business unit of Caprion Biosciences - a proteomics service provider based in Montreal). The deliverables associated with this project included the recruitment of eight HIV-infected subjects successfully treated with the anti-viral regimen HAART but had a detectable latent viral reservoir. Leukapherisis and tissue samples collected from these subjects were used in several assays in order to define the subsets of the cells, CD4+ T cells and monocytes, where HIV frequently hides and to test the effect of the Oral Amp B Delivery System on the reactivation and the elimination of HIV reservoirs. Recruitment of the eight HIV-infected subjects was completed, and, on August 19, 2014, we reported the results of the study. Memory cells, or white blood cells, from the eight HIV-infected subjects were obtained and exposed *in vitro* to various concentrations of our Oral Amp B Delivery System. Samples from one patient were determined not to be susceptible to reactivation. In the remaining subjects, the Oral Amp B Delivery System demonstrated a reactivation response of HIV viral production in six out of seven *in vitro* cultures with detectable HIV reservoir. Some HIV reservoirs are not possible to reactivate and this may explain why one culture did not show reactivation response.

The results in the anti-fungal pre-clinical models and the ex-vivo study in HIV subjects supported the further development of the Oral Amp B Delivery System. On October 26, 2015, we announced that the Company had engaged Corealis Pharma Inc. ("**Corealis**") a contract manufacturing organization, for analytical development, formulation optimization and scale-up of the Oral Amp B Delivery System. This work culminated in the development of new capsule formulations to deliver Amp B.

During 2016, the Company was able to demonstrate scalable and stable drug product in a higher dose form with the new capsule formulations. The Company went on to conduct pre-clinical, pharmacokinetic and distribution studies using these optimized formulations. Two conclusions were drawn from these pre-clinical studies: (i) the optimized formulations exhibited pharmacokinetic and tissue accumulation data with clinical and commercial relevance; and (ii) that a once daily regime may be possible for our drug candidate in certain indications.

On January 23, 2017, the Company announced it had initiated multiple, pre-clinical studies with its Oral Amp B Delivery System program including a fasted/fed study, a 7-day dose range finding study and, importantly, a 14-day Good Laboratory Practice ("**GLP**") toxicology study. All three studies were completed during the first quarter of 2017 and results were reported on June 12, 2017. The results from the 7-day dose range finding study revealed no toxicities of oral Amp B up to 1000mg/day. A previous bridging study between different oral Amp B formulations, iCo-010, iCo-019 and iCo-022, demonstrated similar oral bioavailability with no significant differences noted between the formulation groups. The 14-day GLP toxicology study revealed that the oral administration of Amp B, at dose levels of up to 600 mg/ day once daily for 14 days, was well tolerated with no toxicologically significant histological findings (n=38 subjects).

Substantial non-dilutive, grant funding for the pre-clinical development of the Oral Amp B Delivery System was provided by the National Research Council Industrial Research Assistance Program ("**IRAP**"). For 2017 the Company recognized $190,865 (for 2016, $251,199) in IRAP grants recorded as other income in the Statement of Loss and Comprehensive Loss. The Company has used all of the funding available under this grant application.

On April 17, 2018, the first subject was dosed in the Phase I, single ascending dose clinical trial. The Phase I clinical trial design was a randomized, double-masked, placebo-controlled, single dose ascending study to assess the safety, tolerability, and bioavailability of iCo-019 (oral Amp B) in healthy male and non-pregnant female subjects between 18-55 years of age. Subjects were randomized into one of four cohorts, each representing an ascending single dose of treatment. Cohorts were dosed sequentially. Each cohort consisted of eight subjects where six subjects were randomized to receive the investigational product and two subjects were randomized to receive the placebo. All subjects were followed for seven days after dosing.

This clinical study was conducted in Australia, because Australia offers experienced contract research organizations, a pool of suitable subjects and generous refundable tax credits, which significantly lowered overall costs for the Phase I study.

The trial was registered with the Therapeutic Goods Administration ("**TGA**") in Australia via the Clinical Trial Notification process and involved Linear Clinical Research in Perth, Australia, partnered with the global contract research organization, INC Research/inVentiv Health, recently renamed Syneos.

On June 27, 2018, iCo announced a positive primary end point in its Phase I clinical study. The study met its primary endpoint of safety and tolerability of iCo-019 (oral Amp B) following oral administration of single ascending doses in healthy subjects. There were no serious adverse events and no drug-related adverse events in either of the four study cohorts. All drug doses were tolerated, including the highest dose of 800 mg with no indication of kidney toxicity.

On July 16, 2018, iCo announced a positive secondary endpoint in its Phase I clinical study and advancement into later stage clinical trials. It was noted that the distinguishing features of the Company's Oral Amp B candidate are enhanced plasma area under the concentration time curve, which is a measure

of systemic drug exposure, and longer blood circulation time without the associated gastrointestinal effects or liver and kidney toxicity.

Subsequent Events

On July 30, 2018 IMMUNE received orphan drug designation from the European Medicines Agency. On August 20, 2018, IMMUNE also received Orphan Drug Designation for the use of bertilimumab in BP from the FDA.

Selected Quarterly Information

The financial information reported here-in has been derived from the condensed consolidated interim financial statements prepared in accordance with IFRS as issued by the IASB including IAS 34 "Interim Financial Reporting". The Company uses the Canadian dollar as its functional and presentation currency. From time to time, the Company may deal with several contract research organizations, consultants and suppliers in other countries (primarily the United States). Our financial results may be subject to fluctuations between the Canadian dollar and other international currencies, the U.S. and Australian dollar.

The following table represents selected financial information for the Company's three and six-month periods ended June 30, 2018 and 2017.

Selected Condensed Consolidated Interim statement of Operations Data

	Three Months ended June 30		**Six Months ended June 30**	
	2018	**2017**	**2018**	**2017**
Income (loss) for the period	($622,756)	($333,274)	($1,039,133)	($714,397)
Weighted average number of shares outstanding, basic and diluted	84,457,713	84,457,713	84,457,713	84,457,713
Net gain (loss) per share, basic and diluted	($0.01)	$0.00	($0.01)	($0.01)

The loss from operations for the three months ended June 30, 2018 increased by $289,482 as compared to the three months ended June 30, 2017 mainly because of higher research and development expenses and general & administrative expenses recognized during 2018.

Selected Balance Sheet Data

	Six Months ended June 30, 2018	Year ended December 31, 2017
Cash, cash equivalents and short-term investments	$398,129	$1,127,934
Net working capital surplus	$53,028	$1,085,733
Total assets	$970,807	$1,375,531
Total shareholders' equity	$53,700	$1,087,233

Cash and cash equivalents decreased by $729,805 to $398,129 as at June 30, 2018 as compared to $1,127,934 at December 31, 2017. The decrease reflects primarily funds used in operations during the period primarily on expenses such as research and development and general and administration. Because of this decrease in cash and cash equivalents, working capital decreased by $1,032,705 to $53,028 as at June 30, 2018 from $1,085,733 at December 31, 2017.

The Company experienced a decrease in total assets to $970,807 as at June 30, 2018 from $1,375,531 as at December 31, 2017, primarily due to a lower cash and cash equivalents balance at June 30, 2018.

Comparison of the Quarter and Six Months Ended June 30, 2018 and June 30, 2017

Results of Operations

	Q2 2018 $	**Q2 2017 $**	**Change $**	**Change %**
(Loss) gain on other investments	-	(1,806)	1,806	-100%
Interest income	(699)	3,140	(3,839)	-122%
Other income	252,509	-	252,509	100%
Research and development	671,359	150,226	521,133	347%
General and administrative	200,966	185,219	15,747	9%
Foreign exchange loss/(gain)	2,242	(838)	3,080	-368%
Other comprehensive loss (income)	2,529	-	2,529	100%
Total comprehensive loss	620,227	333,274	286,953	86%

	YTD 2018 $	**YTD 2017 $**	**Change $**	**Change %**
(Loss) gain on other investments	0	(1,169)	1,169	-100%
Interest income	346	6,463	(6,117)	-95%
Other income	401,068	190,997	210,071	110%
Research and development	1,087,087	563,420	523,667	93%
General and administrative	352,177	339,415	12,762	4%
Foreign exchange loss/(gain)	1,282	7,853	(6,571)	-84%
Other comprehensive loss (income)	4,610	-	4,610	100%
Total comprehensive loss	1,034,523	714,397	320,126	45%

We incurred a total comprehensive loss of $620,227 for the quarter ended June 30, 2018 compared to a total comprehensive loss of $333,274 for the quarter ended June 30, 2017, representing an increased loss of $286,953. The increase in the loss for the quarter ended June 30, 2018 is primarily the result of higher research and development expenses recognized during 2018.

We incurred a total comprehensive loss of $1,034,523 for six months ended June 30, 2018 compared to a total comprehensive loss of $714,397 for the six months ended June 30, 2017, representing an increased loss of $320,126. The increase in loss for the six months ended June 30, 2018 is primarily the result of higher research and development expenses.

Research and Development

Our research and development expenses consist primarily of consultants' compensation and contract research organizations.

Research and development expenses were $671,359 for the quarter ended June 30, 2018 compared to $150,266 for the quarter ended June 30, 2017, representing an increase of $521,133. The increase related to higher contract research expenses related to the conduct and completion of the Oral AmpB Phase 1a clinical studies. In the prior year, the Company did not have any ongoing preclinical or clinical trials after completing its formal preclinical toxicology studies in Q1 of fiscal 2017.

Research and development expenses were $1,087,087 for the six months ended June 30, 2018 compared to $563,420 for the six months ended June 30, 2017, representing an increase of $523,667. During the current period and prior year period, the Company's research and development efforts were focused on its Oral AmpB program. During the six months ended June 30, 2018, the Company had higher contract research expenses related to the manufacture of clinical drug supplies, the initiation and successful conclusion of its Phase 1a clinical study in Australia. In the prior year period, the Company was conducting its pre-clinical toxicology studies in preparation of its clinical study. Pre-clinical studies are generally less expensive than clinical studies.

The Phase 1a study was conducted in Australia, which provides refundable tax credits for qualifying research and development activities conducted there. The refundable tax credit is calculated at 43.5% of the qualifying expenditures and the Company recognized $252,509 in other income as its estimate of the tax refund related to qualifying expenditures for the quarter ended June 30, 2018.

With the completion of the Phase 1 study, we expect research and development expenses to decline until the next clinical study is initiated. The Company will require additional funding before it can begin its next clinical study.

General and Administrative

For the quarter ended June 30, 2018 general and administrative expenses were $200,966 compared to $185,219 for the quarter ended June 30, 2017, representing an increase of $15,747. The increase reflects the added administrative expenses related to operating the Company's Australian subsidiary, which had not been incorporated in the prior period.

For the six months ended June 30, 2018 general and administrative expenses were $352,177 compared to $339,415 for the six months ended June 30, 2017, representing an increase of $12,762. The increase

reflects the added administrative expenses related to operating the Company's Australian subsidiary, which had not been incorporated in the prior period.

We believe the Company has sufficient personnel to manage both its research and development and public company activities and do not anticipate any increase in staffing. Accordingly, we believe that general and administrative expenses should remain at current levels in the foreseeable future.

Foreign Exchange

From time to time, the Company may deal with several contract research organizations, consultants and suppliers in other countries (primarily the United States). The Company holds cash in US dollars to pay these vendors and carries US dollar accounts payable balances. Changes in the CDN-US dollar exchange rate during the time the Company holds these monetary assets and liabilities results in a foreign exchange gain/loss being recognized in the Condensed Consolidated Interim Statement of Loss and Comprehensive Loss. Accordingly, our financial results may be subject to fluctuations between the Canadian dollar and other international currencies, in particular the U.S. dollar.

Foreign exchange loss for the quarter ended June 30, 2018 was $2,242 compared to foreign exchange gain of $838 for the same period in 2017, representing a decrease of $3,080.

Foreign exchange loss for the six months ended June 30, 2018 was $1,282 compared to foreign exchange loss of $7,853 for the same period in 2017, representing an increase of $6,571. This increase reflects fluctuations in the exchange rate for U.S dollar and the net US dollar monetary assets held by the Company.

The U.S. dollar cash, cash equivalents and accounts payable balances for June 30, 2018 were US$7,747 (Q2 2017 – USD$126,361) and USD$8,495 (Q2 2017 – USD$14,319) respectively.

The AUD dollar cash, government assistance receivable and accounts payable balances for June 30, 2018 were AUD$23,123 (December 31, 2017 - AUD$138,470), AUD$533,177 (December 31, 2017 – Nil) and AUD$833,410 (December 31, 2017 - AUD$90,631) respectively.

Selected Quarterly Information

The table below sets forth unaudited quarterly results prepared by management for the eight previous quarters to June 30, 2018:

(unaudited)	**2018 Q2**	**2018 Q1**	**2017 Q4**	**2017 Q3**
Expenses	874,566	566,940	265,082	309,784
Gain (loss) on other investments	-	-	(1,050)	(623)
Other income	252,509	148,558	53,601	-
Interest income	(699)	1,045	1,473	1,419
Other comprehensive loss (gain)	(2,529)	(2,081)	-	-
Total comprehensive loss (gain)	620,227	414,296	214,005	308,988
Basic and diluted gain (loss) per share	(0.01)	(0.00)	(0.00)	(0.00)
(unaudited)	**2017 Q2**	**2017 Q1**	**2016 Q4**	**2016 Q3**
Expenses	334,608	576,080	237,637	304,294

Gain (loss) on other investments	(1,806)	638	(4,200)	(4,930)
Other income	-	190,997	10,210	96,773
Interest income	3,140	3,322	3,424	4,410
Other comprehensive loss (gain)	-			
Total comprehensive loss (gain)	333,274	381,123	228,203	208,841
Basic and diluted gain (loss) per share	(0.00)	(0.00)	(0.00)	(0.00)

Liquidity, Capital Resources and Outlook

	Q2 2018	**YE 2017**	**Change**	**Change**
	$	**$**	**$**	**%**
Current assets	970,135	1,374,031	(403,896)	-29%
Current liabilities	917,107	288,298	628,809	218%
Working capital	53,028	1,085,733	(1,032,705)	-95%
Accumulated deficit	34,380,851	33,341,718	1,039,133	3%

As at June 30, 2018, we had cash and cash equivalents of $398,129 compared to $1,127,934 as at December 31, 2017. As at June 30, 2018, the Company had working capital of $53,028 compared to $1,085,733 as at December 31, 2017. Working capital is calculated by subtracting Current Liabilities from Current Assets.

We had a net cash outflow of $729,805 for the six months ended June 30, 2018 reflecting cash used in operations of the company of $733,133. Cash used mainly for research and development expenses and for general and administrative expenses. This compares to a net cash outflow of $736,864 for the six months ended June 30, 2017.

Management of Cash Resources

We use cash flow forecasts to estimate cash requirements for the ensuing twelve-month period. Based on these requirements, we raise equity capital as required to provide the necessary financial resources for operations, ideally for a minimum of twelve months. The timing of equity financings will depend on market conditions and the Company's cash requirements. The Company's cash flow forecasts are continually updated to reflect actual cash inflows and outflows so to monitor the requirements and timing for additional financial resources. Given the volatility of the Canadian and US dollar exchange rate, the company estimates its USD expenses for the year and sets appropriate levels of USD cash and cash equivalent balances. By holding US dollars, the Company remains subject to currency fluctuations which effect its loss and comprehensive loss during any given year.

Further, we continue to monitor additional opportunities to raise equity capital and/or secure additional funding through non-dilutive sources such as government grants and additional license agreements. However, it is possible that our cash and working capital position may not be enough to meet our business objectives in the event of unforeseen circumstances or a change in our strategic direction.

Currently, to manage liquidity, the Company is deferring payments to vendors until it receives its expected tax refund from the Australian tax authorities. In addition, the Company is actively seeking additional funding through financing and partnering activities to fund future clinical trials. See "*Going Concern*" below.

Going Concern

The condensed consolidated interim 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 quarter ended June 30, 2018, the Company incurred a loss of $622,756 (quarter ended June 30, 2017 - loss of $333,274) and, negative cash flows of from operating activities of $234,287 (quarter ended June 30, 2017 - $292,953). At June 30, 2018 the Company had an accumulated deficit of $34,380,851 (December 31, 2017 - accumulated deficit of $33,341,718) and a working capital surplus of $53,028. 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 condensed consolidated interim 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 condensed consolidated interim financial statements. These adjustments could be material.

Long-Term Obligations and Other Contractual Commitments

Contractual Commitments

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 at June 30, 2018 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

We acquired exclusive, world-wide exclusive rights to all use indications from Medimmune to develop and commercialize iCo-008 for all indications pursuant to the Medimmune License Agreement. Under the Medimmune License Agreement, we are solely responsible for the clinical development, commercialization and marketing of iCo-008. In consideration for entering the agreement, we will pay Medimmune up to US$7,400,000, of which US$400,000 has been paid and the rest on achieving certain development milestones. A royalty will also be paid to Medimmune based on future sales. The Medimmune License Agreement provides that we will pay up to an expected US$7,000,000 in milestone payments, plus royalties, for compound development milestones.

UBC

On July 27, 2007, we entered into an option agreement with UBC which granted us an option to negotiate a license for the exclusive rights to the Oral Amp B Delivery System to be used for potential systemic fungal infections. We exercised the option on February 26, 2008 and on May 6, 2008 signed the UBC License Agreement. In consideration for the UBC License Agreement, we paid UBC an initial license fee of $20,000 and are required to pay annual fees to UBC for maintaining the license until such time as a

New Drug Application ("**NDA**") for the Oral Amp B Delivery System is approved by the FDA or other regulatory body. We are required to make additional contingent payments of up to $1,900,000 in aggregate upon the achievement of certain development and commercialization milestones and are also required to pay royalties on future revenues.

As part of the UBC License Agreement, we also made a separate commitment to secure additional research funding for the Oral Amp B Delivery System. The research funding commitment may take the form of indirect financial contributions, such as government or privately sponsored research grants, direct contributions from us, or a combination of the two. We were successful in securing additional research funding for the Oral Amp B Delivery System through the award of a Canadian Institutes of Health Research ("**CHIR**") Research Chair to fund further research over a four-year period. As of the date hereof, we have met all of our direct financial obligations to UBC and the CIHR Research Chair. The original license terms provided that $50,000 was owed upon approval of an IND (or similar approval in a different jurisdiction). These terms were renegotiated, with $20,000 being paid and a further $20,000 owing on finalization of the study.

Transactions with Related parties

Related parties include members of the Board of Directors and officers of the Company. The following fees and expenses were incurred in the normal course of business:

	Six Months Ended June 30, 2018	**Six Months Ended June 30, 2017**
Consulting fees	$191,400	$213,702
Share-based payments	$990	$6,946
	$192,390	$220,648

The Company entered into a consulting service agreement with Mr. Andrew Rae who serves as the President and Chief Executive Officer of the Company, effective February 2016. Pursuant to this consulting agreement with no fixed term, Mr. Rae is compensated at a daily rate of $1,400. During the six months ended June 30, 2018, Mr. Rae charged total consulting fees of $98,700 (2017 - $92,400).

The Company entered into a consulting service agreement with Mr. Michael Liggett who serves as the Chief Financial Officer and Secretary of the Company, effective August 2016. Pursuant to this consulting agreement with no fixed term, Mr. Liggett is compensated at a daily rate of $800. During the six months ended June 30, 2018, Mr. Liggett charged total consulting fees of $25,377 (2017 - $22,925).

The Company entered into a consulting service agreement with Mr. Peter Hnik who serves as the Chief Medical Officer of the Company, effective February 2016. Pursuant to this consulting agreement with no fixed term, Mr. Hnik is compensated at a daily rate of $800. During the six months ended June 30, 2018, Mr. Hnik charged total consulting fees of $41,920 (2017 - $47,200).

One of the Company's directors, Susan Koppy, provided business development services which included: identifying potential partners to in-license the Company's technologies; identifying in-license opportunities for the Company; contacting potential partners; and arranging meetings and presentations with potential partners. During the six months ended June 30, 2018, Ms Koppy charged total fees of $25,403 (2017 - $51,177)

The amounts owing to the related parties as described above were recorded at their exchange amounts.

Off Balance Sheet Arrangements

The Company has no material undisclosed off-balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

Critical Accounting Estimates and Judgments

The preparation of condensed consolidated interim financial statements in accordance with IFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in these condensed consolidated interim 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. Areas requiring management to make significant estimates and judgments include the impairment of intangible assets, clinical trial accruals, and valuation of investment in IMMUNE.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the condensed consolidated interim financial statements. Key sources of estimation uncertainty and critical judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include: the impairment of intangible assets and fair value of other investments.

a) Fair value of other investments

   The fair value of the other investments is determined by using valuation techniques. The Company uses its estimates and judgment to select a variety of methods as prescribed under the accounting standards. At period end management used market value for the shares and Black Scholes model for the warrants to determining the fair value of the other investments. Management applied judgment with respect to the term of the warrants.

Accounting Standard Issued and Adopted

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. The adoption of IFRS 9 did not have a material impact on the condensed interim consolidated financial statements.

Accounting standards and amendments issued but not yet adopted

IFRS 16, Leases
IFRS 16, was issued in January 2016 by the IASB. According to the new standard, all leases will be on the statement of financial position of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the effect the standard will have on its consolidated financial statements.

Financial Instruments

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.

Financial instruments whose carrying value approximates fair value

Cash and cash equivalents are financial instruments whose fair value approximates their carrying value due to their short-term maturity and insignificant impact of credit risk. The input level used by the Company to measure fair value of its cash and cash equivalents is Level 2 as they are valued using observable market data.

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

The warrants of Immune Pharmaceuticals have been recorded at their fair value on the date they were acquired and at subsequent period end dates. Management has classified these warrants as fair value through profit and loss. The Company uses Level 3 inputs to value these instruments. There is no active market for these warrants but the shares that the warrants can be exchanged into are traded on the NASDAQ stock exchange.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or valuation of its financial instruments.

The Company is exposed to financial risk related to fluctuation of foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily expenses for research and development incurred in US$ and Australian dollars (AUS$). The Company believes that the results of operations, financial position and cash flows could be affected by a sudden change in foreign exchange rates but would not impair or enhance its ability to pay its US$ or AUS$ obligations. The Company manages foreign exchange risk by maintaining US$ and AUS$ cash on hand to fund its anticipated short-term US$ and AUS$ expenditures.

Balances in foreign currencies at June 30, 2018 and December 31, 2017 are as follows:

	June 30, 2018 US balance	Dec. 31 2017 US balance
Cash and cash equivalents	7,747	34,674
Accounts payable and accrued liabilities	(8,495)	(5,976)
	(748)	28,698

Based on the US$ balance sheet exposure at June 30, 2018, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 10%, relative to the rate at June 30, 2018, the net monetary assets would be approximately $100 less. If the Canadian dollar were to strengthen against the US dollar by 10%, relative to the rate at June 30, 2018, the net monetary assets would be approximately $90 greater.

	June 30, 2018 AUD balance	Dec. 31, 2017 AUD balance
Cash and cash equivalents	23,123	138,470
Taxes and other receivables	533,177	-
Accounts payable and accrued liabilities	(833,410)	(90,631)
	(277,110)	47,839

Based on the AUD$ balance sheet exposure at June 30, 2018, with other variables unchanged, if the Canadian dollar were to weaken against the Australian dollar by 10%, relative to the rate at June 30, 2018, the net monetary assets would be approximately $30,000 less. If the Canadian dollar were to strengthen against the Australian dollar by 10%, relative to the rate at June 30, 2018, the net monetary assets would be approximately $24,000 greater.

Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and short-term investments and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short-term nature of the investments. The only financial instruments that expose the Company to interest rate risk are its cash and cash equivalents and short-term investments. Cash and cash equivalents in excess of day-to-day requirements are placed in short-term deposits with high quality credit financial institutions and earn interest at rates available at that time.

As at June 30, 2018, cash and cash equivalents held in savings accounts or short-term investments are $398,129. The interest rates range from 0.0% to 0.2%.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash flow requirements associated with financial instruments.

The Company continues to manage its liquidity risk by monitoring its cash flows and investments regularly, comparing actual results with budgets and future cash requirements.

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	917,107	-

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.

Risks and Uncertainties

The primary risk factors affecting the Company are set forth in our Annual Information Form. A copy of our Annual Information Form is available on SEDAR at www.sedar.com.

Outstanding Share Capital

As at August 29, 2018, we had an unlimited number of authorized common shares with 84,457,713 common shares issued and outstanding.

As at August 29, 2018, we had 12,154,862 warrants outstanding.

As at August 29, 2018, we had 1,015,000 options outstanding. Each option entitles the holder to purchase one additional common share at exercise prices ranging from $0.05 to $0.45 and expiry dates ranging from September 05, 2018 to January 23, 2022.

For a detailed summary of all outstanding securities convertible or exercisable into equity securities of the Company refer to Note 5 of the Condensed Consolidated interim financial Statements for the six months ended June 30, 2018.

Additional Information

Additional information about the Company, including the Annual Financial Statements and the Company's Annual Information Form, is available on SEDAR at www.sedar.com.