iCo Therapeutics Inc.

Consolidated Financial Statements
December 31, 2018 and 2017
(in Canadian dollars)

Independent auditor's report

To the Shareholders of iCo Therapeutics Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of iCo Therapeutics Inc. and its subsidiary (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

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Material uncertainty related to going concern

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

Other information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 29, 2019

iCo Therapeutics Inc.

Consolidated Balance Sheets

As at December 31, 2018 and 2017

(in Canadian dollars)

	Note	2018 $	2017 $
Assets			
Current assets			
Cash and cash equivalents		10,140	1,127,934
Taxes and other receivables	4	129,765	88,415
Prepaid expenses		35,114	157,682
		175,019	1,374,031
Equipment		3,158	1,500
		178,177	1,375,531
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	802,678	288,298
Shareholders' (Deficiency) Equity			
Capital stock	6	28,048,137	28,048,137
Contributed surplus	14	4,283,898	3,527,327
Warrants	6	2,097,906	2,853,487
Accumulated other comprehensive loss		(10,101)	-
Accumulated deficit		(35,044,341)	(33,341,718)
		(624,501)	1,087,233
		178,177	1,375,531

Going concern (note 1)

Commitments and contingencies (note 12)

Subsequent events (note 15)

Approved by the Board of Directors

_____ Director _____ 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, 2018 and 2017

(in Canadian dollars)

	Note	2018 $	2017 $
Expenses			
Research and development	8	1,420,457	808,534
General and administrative	9	781,282	664,814
Foreign exchange loss		5,767	12,125
		2,207,506	1,485,473
Loss on other investments		-	2,842
Other income		(504,466)	(244,598)
Interest income		(417)	(6,409)
		(504,883)	(248,165)
Net loss for the year		1,702,623	1,237,308
Other comprehensive loss			
Foreign currency translation adjustments		10,101	-
Total comprehensive loss		1,712,724	1,237,308
Basic and diluted loss per share		(0.02)	(0.01)
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, 2018 and 2017

(in Canadian dollars)

	Number of shares	Capital stock $	Contributed surplus $	Warrants $	Accumulated other comprehensive loss $	Accumulated deficit $	Shareholders' equity (deficiency) $
Balance – December 31, 2016	84,457,713	28,048,137	3,516,688	2,853,487	-	(32,104,410)	2,313,902
Net 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
Net loss for the year	-	-	-	-	-	(1,702,623)	(1,702,623)
Other comprehensive loss	-	-	-	-	(10,101)	-	(10,101)
Warrant expiration	-	-	755,581	(755,581)	-	-	-
Share-based compensation	-	-	990	-	-	-	990
Balance – December 31, 2018	84,457,713	28,048,137	4,283,898	2,097,906	(10,101)	(35,044,341)	(624,501)

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, 2018 and 2017

(in Canadian dollars)

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Net loss for the year	(1,702,623)	(1,237,308)
Items not affecting cash		
Amortization	1,538	23,489
Share-based compensation	990	10,639
Loss on other investments	-	2,822
Unrealized foreign exchange loss	-	12,125
	(1,700,095)	(1,188,233)
Changes in non-cash working capital		
Taxes and other receivables	(41,350)	(51,294)
Prepaid expenses	122,568	(131,486)
Accounts payable and accrued liabilities	514,380	150,072
	(1,104,497)	(1,220,941)
Investing activities		
Purchase of equipment	(3,196)	-
Effect of foreign currency exchange rates on cash and cash equivalents	(10,101)	(12,125)
Decrease in cash and cash equivalents	(1,117,794)	(1,233,066)
Cash and cash equivalents – Beginning of year	1,127,934	2,361,000
Cash and cash equivalents – End of year	10,140	1,127,934
Supplementary information		
Cash received for interest within operating activities	417	6,409

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 redoses, reformulates and develops these drug candidates to treat ocular and infectious diseases. The Company has in-licensed two assets, which are in clinical development: iCo-008; and the Oral AmpB Delivery System.

iCo-008 is a monoclonal antibody that the Company plans to take into clinical trials for vernal keratoconjunctivitis (VKC) and possibly age related macular degeneration. In addition, iCo-008 is being evaluated as a systemic treatment for ulcerative colitis and bullous pemphigoid in Phase II clinical trials.

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

The Company devotes most of its efforts to research and development, raising capital, recruiting personnel and long-term planning. The Company has a wholly owned subsidiary in Australia to conduct clinical trials on its Oral AmpB formulation in Australia.

The Company is publicly traded on the TSX Venture Exchange under the symbol “ICO” and the OTCQB under the symbol “ICOTF”. The Company is incorporated and domiciled in British Columbia, Canada. The address of its head office is 6th Floor, 777 Hornby Street, Vancouver, British Columbia, V6Z 1S4.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. For the year ended December 31, 2018, the Company has incurred a net loss of $1,702,623 (2017 – loss of $1,237,308), negative cash flows of from operating activities of $1,104,497 (2017 – $1,220,941), and had an accumulated deficit of $35,044,341 at December 31, 2018 (December 31, 2017 – accumulated deficit of $33,341,718). The Company had a working capital deficit of $627,659, at December 31, 2018 (December 31, 2017 – surplus of $1,085,733). Subsequent to year-end, the Company completed a private placement netting proceeds of approximately $1,150,000 after estimated expenses of $100,000. The Company expects to substantially use these proceeds for normal business operations in FY 2019. 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 in FY 2019. 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 and are presented in Canadian dollars, which is the Company's functional currency.

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

These consolidated financial statements were approved by the Board of Directors for issue on April 29, 2019.

Critical accounting estimates and judgments

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

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 statement of loss and comprehensive loss.

Foreign currency translation

Functional and presentation currency

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

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

(in Canadian dollars)

Transactions and balances

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

Current and deferred income taxes

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

Financial instruments

Financial instruments are classified into the following categories:

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

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

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

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

(in Canadian dollars)

Impairment of financial assets

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

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected credit losses (ECL) to be recognized from initial recognition of the receivables.

For other receivables, the Company applies the general ECL model. At initial assessment, the Company recognized a loss allowance based on the expected 12-month credit loss. At each subsequent reporting date, the Company assess whether the credit risk for other receivables have increased significantly, and if that is the case, the loss allowance is adjusted to be based on the lifetime expected credit loss.

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

Research and development

Research and development expenses include payroll, employee benefits, share-based payments, and other headcount-related expenses associated with product research and other activities. Research and development expenses also include third-party activities and clinical trial expenses. Such costs related to product development are included in research and development 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.

(in Canadian dollars)

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. Upon exercise, the amount previously recognized in contributed surplus is transferred to capital stock.

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

Loss per share

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

3 New and revised IFRS affecting amounts reported and/or disclosures in the consolidated financial statements

Accounting standard issued and adopted

IFRS 9, Financial Instruments

IFRS 9 has been adopted effective January 1, 2018 and supersedes IAS 39, Financial Instrument: Recognition and Measurement, and sets out requirements for the recognition, measurement, impairment and derecognition of financial assets and financial liabilities.

Under IFRS 9, financial assets are required to be classified as measured at amortized cost, FVOCI or FVPL. The table below outlines the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial instruments at January 1, 2018:

Financial instrument	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities at amortized costs	Amortized cost

There have been no changes to the carrying values of the Company's financial instruments at January 1, 2018, or previously reported figures as a result of the classification changes outlined above.

(in Canadian dollars)

Accounting standards and amendments issued but not yet adopted

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 with an effective date of annual periods beginning on or after January 1, 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17, Leases. Lessees will recognize a 'right of use' asset and a corresponding financial liability on the consolidated balance sheet. The asset will be amortized over the length of the lease and the financial liability measured at amortized cost.

IFRS 16 contains two recognition and measurement exemptions: short-term leases; and leases for which the underlying asset is of low value. The Company has one lease agreement which qualifies as a short-term lease and therefore will have no impact on adoption.

There are no other standards or amendments or interpretations to existing standards issued but not yet effective that are expected to have a material impact on the Company's consolidated financial statements.

4 Taxes and other receivables

	2018 $	2017 $
Taxes (HST/GST)	20,453	34,589
Other receivable (a)	109,312	53,826
	129,765	88,415

a) Receivables in the amount of $109,312 (2017 – $53,826) are related to government refundable tax credits for eligible research and development work conducted in Australia.

5 Accounts payable and accrued liabilities

	2018 $	2017 $
Trade payables	706,306	255,317
Other accruals	96,372	32,981
	802,678	288,298

(in Canadian dollars)

6 Capital stock

Authorized
Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount $
Balance – December 31, 2017 and 2018	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, 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
Expired	(1,020,000)	0.72
Balance – December 31, 2018	975,000	0.05

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding at December 31, 2018	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable at December 31, 2018	Weighted average exercise price $
0.05	975,000	2.28	0.05	975,500	0.05

The estimated aggregate fair value of the options granted during the year ended December 31, 2017 was $6,600. The Company recognized stock-based compensation expense of $990 for the year ended December 31, 2018 (2017 – $10,639).

(in Canadian dollars)

Warrants

At December 31, 2018, the Company had 12,154,862 warrants issued and outstanding, exercisable at $0.54 and expiring on January 27, 2019. These warrants expired unexercised subsequent to year end.

	Number of warrants	Amount $
Balance – December 31, 2018	12,154,862	2,097,906
Balance – December 31, 2017	22,407,448	2,853,487

7 Related party transactions

Compensation of key management and directors

During the year ended December 31, 2018, the Company incurred consulting fees from officers and directors totalling $387,785 (2017 – $429,738) for the Chief Executive Officer, Chief Financial Officer, Chief Medical Officer and business development services from a director. The amounts outstanding as at December 31, 2018 totalled $94,353 (2017 – $32,787). All transactions were recorded at their exchange amounts.

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

	2018 $	2017 $
Consulting fees	387,785	429,738
Share-based payments	990	10,639
	388,775	440,377

The Company incurred directors' fees totalling $nil (2017 – $nil).

(in Canadian dollars)

8 Research and development

	2018 $	2017 $
Consulting	130,367	221,523
Research projects and clinical expenses	1,165,881	476,930
Intellectual property	124,209	70,471
Travel	-	18,087
Amortization and other	-	21,523
	1,420,457	808,534

9 General and administrative

	2018 $	2017 $
Consulting	323,284	346,273
Professional fees	334,825	177,838
Travel	72,960	80,798
Facilities	47,685	47,300
Amortization	1,538	1,966
Share-based compensation	990	10,639
	781,282	664,814

10 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	2,392,171
2030	2,989,348
2031	2,244,591
2032	3,646,887
2033	5,622,233
2034	2,054,626
2035	1,950,164
2036	1,671,474
2037	1,315,395
2038	1,015,562
	32,852,287

In addition, the Company has non-capital losses of $257,060 that do not expire and are available to reduce taxable income of future years.

(in Canadian dollars)

Unrecognized deferred tax assets comprise the following:

	2018 $	2017 $
Non-capital losses carried forward	8,940,809	8,302,538
Share costs and other	285	33,447
Equipment	299,160	287,680
Scientific research and experimental development costs	132,674	127,760
	9,372,928	8,751,425

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

The Company's effective income tax rate differs from the statutory income tax rate of 27.23% (2017 – 26.1%). The differences arise from the following items:

	2018 $	2017 $
Loss before income taxes	(1,702,623)	(1,237,308)
Income tax recovery at statutory rate	(463,617)	(323,009)
Income tax benefit not recognized	621,503	318,749
Permanent differences	182,692	4,260
Difference between current and past tax rate	(335,622)	-
Other	(4,956)	-
	-	-

11 Segmented information

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

(in Canadian dollars)

12 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, 2018 because the milestones have not yet been achieved. The Company's significant contingent milestone, royalty and other research and development commitments are as follows:

a) MedImmune

The Company has in-licensed the development and commercialization rights to iCo-008 from MedImmune pursuant to a licensing agreement between the parties. The Company was required to make upfront payments totalling US$400,000, of which the last payment was made in December 2007. The Company may be required to make additional contingent payments of up to US$7,000,000 upon the achievement of certain development and commercialization milestones. In addition, the Company may be required to pay royalties on future revenues. The Company may also be required to make additional contingent payments upon the achievement of certain development and commercialization milestones for products developed outside the ocular field.

b) University of British Columbia (UBC)

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

(in Canadian dollars)

c) 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, 2018, iCo recognized $nil (2017 – $190,865) of the IRAP grant as other income. The work under this grant was completed during the prior year and no additional grant funding is currently available for the Amp B delivery system.

d) IMMUNE

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

Subsequent to year-end, the Company terminated its exclusive sub-licence with IMMUNE prior to IMMUNE filing a voluntary petition for bankruptcy under chapter 11. The Company will assume the responsibility for the continued development of iCo-008 and is seeking suitable partners to fund this development.

(in Canadian dollars)

13 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.

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, 2018 and 2017, US$ denominated cash totalled US$1,095 (2017 – US$34,674) and AUS$ denominated cash totalled AUS$383 (2017 – AUS$138,470). The US$ denominated accounts payable and accrued liabilities exposure was US$26,759 (2017 – US$5,976) and the AUS$ denominated accounts payable and accrued liabilities exposure was AUS$480,723 (2017 – AUS$90,631).

(in Canadian dollars)

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	
	2018	**2017**
	$	**$**
Cash and cash equivalents	1,095	34,674
Accounts payable and accrued liabilities	(26,759)	(5,976)
	(25,664)	28,698

	AUD balance	
	2018	**2017**
	$	**$**
Cash and cash equivalents	383	138,470
Accounts payable and accrued liabilities	(480,723)	(90,631)
	(480,340)	47,839

Based on the US$ balance sheet exposure at December 31, 2018, with other variables unchanged, if the Canadian dollar were to weaken against the US$ by 10%, relative to the rate at December 31, 2018, the net monetary assets would be approximately $3,890 greater. If the Canadian dollar were to strengthen against the US$ by 10%, relative to the rate at December 31, 2018, the net monetary assets would be approximately $3,183 less.

Based on the AUD$ balance sheet exposure at December 31, 2018, with other variables unchanged, if the Canadian dollar were to weaken against the AU$ by 10%, relative to the rate at December 31, 2018, the net monetary assets would be approximately $51,323 greater. If the Canadian dollar were to strengthen against the AU$ by 10%, relative to the rate at December 31, 2018, the net monetary assets would be approximately $41,992 less.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash flow requirements associated with financial instruments. As indicated in note 1, a material uncertainty exists that may cast significant doubt regarding the Company's ability to continue as a going concern.

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.

(in Canadian dollars)

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	802,678	-

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.

14 Capital management

The Company considers its capital stock, contributed surplus and warrants as capital. As at December 31, 2018, the Company's capital totalled $34,429,941 (2017 – $34,428,951).

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.

(in Canadian dollars)

15 Subsequent events

Subsequent to the year-end, the Company closed several non-brokered private placements, issuing 25,000,000 units at $0.05 per unit for aggregate gross proceeds of $1,250,000. Net proceeds were $1,150,000 after related expenses.

Each unit issued pursuant to the private placement consists of one common share in the capital of the Company (a Common Share) and one common share purchase warrant (a Warrant) exercisable at $0.075 for 36 months from the date of the closing of the private placement. The Warrants are subject to an acceleration clause (the Acceleration Clause) that allows the Company to accelerate the expiry date of the Warrants in the event that the volume weighted average trading price of the Common Shares on the TSX Venture Exchange equals or exceeds $0.14 for ten consecutive trading days. The Warrants will expire on the date that is at least 30 days following the issuance of a press release announcing such acceleration from the Company. In connection with the Private Placement, the Company paid a finder's fee to (i) Raymond James Inc. (Raymond), consisting of $12,000 in cash and 240,000 warrants (the Raymond Broker Warrants); (ii) Leede Jones Gable Inc. (Leede), consisting of $40,000 in cash and 800,000 warrants (the Leede Broker Warrants) and (iii) Mackie Research Capital Corporation (Mackie), consisting of $10,400 in cash and 208,000 warrants (the Mackie Broker Warrants). The Raymond Broker Warrants entitle Raymond to purchase one Common Share at a price of $0.05 until January 31, 2021. The Leede Broker Warrants entitle Leede to purchase one Common Share at a price of $0.05 until February 25, 2021. The Mackie Broker Warrants entitle Mackie to purchase one Common Share at a price of $0.05 until March 2, 2021.