iCo Therapeutics Inc.

(a development stage company)

Condensed Interim Financial Statements

June 30, 2017 and 2016

(in Canadian dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

iCo Therapeutics Inc.
(a development stage company)
Balance Sheets (Unaudited)

(in Canadian dollars)

	Note	June 30, 2017	December 31, 2016
		$	$
Assets			
Current assets			
Cash and cash equivalents		1,624,136	2,361,000
Taxes and other receivables	3	32,261	37,121
Prepaid expenses		43,123	26,196
		1,699,520	2,424,317
Other investments	4	1,654	2,822
Equipment		2,484	3,467
Intangible assets		10,956	21,523
		1,714,613	2,452,130
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	108,161	138,226
Shareholders' Equity			
Capital stock	6	28,048,137	28,048,137
Contributed surplus	6	3,523,634	3,516,688
Warrants	6	2,853,487	2,853,487
Accumulated deficit		(32,818,806)	(32,104,409)
Total Equity		1,606,453	2,313,903
		1,714,613	2,452,130

Subsequent event (Note 9)

Approved by the Board of Directors

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

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

iCo Therapeutics Inc.

(a development stage company)

Statements of Loss and Comprehensive Loss (Unaudited)

For the Six months ended June 30, 2017 and 2016

(in Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Expenses				
Research and development	$150,226	$88,966	$563,420	$407,815
General and administrative	185,219	215,405	339,415	683,065
Foreign exchange loss (gain)	(838)	13,655	7,853	83,529
	334,608	318,026	910,688	1,174,409
Change in fair value of investments	(1,806)	(3,650)	(1,169)	(32,244)
Other income	-	124,955	190,997	144,216
Interest income	3,140	3,451	6,463	8,757
Total comprehensive income (loss)	(333,274)	(193,270)	(714,397)	(1,053,680)
Basic and diluted earnings (loss) per share	$0.00	$0.00	($0.01)	($0.01)
Weighted average number of shares (basic and diluted)	84,457,713	84,457,713	84,457,713	84,457,713

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

iCo Therapeutics Inc.

(a development stage company)

Statement of Changes in Shareholder's Equity (Unaudited)

For the Six months ended June 30, 2017 and 2016

(in Canadian dollars)

	Number of shares	Capital stock $	Contributed surplus $	Warrants $	Accumulated deficit $	Shareholders' equity $
Balance – December 31, 2015	84,457,713	28,048,137	3,493,478	2,853,487	(30,614,486)	3,780,616
Share based payments	-	-	11,650	-	-	11,650
Loss for the period	-	-	-	-	(1,053,680)	(1,053,680)
Balance – June 30, 2016	84,457,713	28,048,137	3,505,128	2,853,487	(31,668,166)	2,738,586
Balance – December 31, 2016	84,457,713	28,048,137	3,516,688	2,853,487	(32,104,409)	2,313,903
Share based payments	-	-	6,946	-	-	6,946
Loss for the period	-	-	-	-	(714,397)	(714,397)
Balance – June 30, 2017	84,457,713	28,048,137	3,523,634	2,853,487	(32,818,806)	1,606,453

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

iCo Therapeutics Inc.

(a development stage company)

Statements of Cash Flows (Unaudited)

For the Six months ended June 30, 2017 and 2016

(in Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Cash flows from operating activities				
(Loss) for the quarter	($333,274)	($193,270)	($714,397)	($1,053,680)
Items not affecting cash				
(Gain) loss on other investments	1,807	3,650	1,169	32,244
Amortization	5,775	5,283	11,550	10,721
Stock-based compensation	3,458	5,870	6,946	11,650
	(322,234)	(178,467)	(694,732)	(999,065)
Changes in non-cash working capital				
Taxes and other receivable	178,186	(28,677)	4,860	(18,131)
Prepaid expenses	6,838	8,578	(16,927)	4,048
Accounts payable and accrued liabilities	(155,743)	34,411	(30,066)	(10,631)
Net cash flow used in operating activities	(292,953)	(164,155)	(736,864)	(1,023,779)
Cash flows from investing activities				
Purchase of equipment	-	(2,372)	-	(4,036)
Net proceeds from sale of other investments	-	196,877	-	(494,210)
Net cash flow from investing activities	-	194,505	-	(498,246)
(Decrease) increase in cash and cash equivalents	(292,953)	30,350	(736,864)	(1,522,025)
Cash and cash equivalents, beginning of quarter	1,917,089	1,175,383	2,361,000	2,727,758
Cash and cash equivalents, end of quarter	$1,624,136	$1,205,733	$1,624,136	$1,205,733

Supplementary information				
Cash received for interest within operating activities	3,140	-	6,463	-

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

(in Canadian dollars)

1 Nature of operations

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

The Company is in the development stage as most of its efforts have been devoted to research and development, raising capital, recruiting personnel and long-term planning. The Company is publicly traded on the TSX Venture Exchange under the symbol "ICO" and the OTCQB under the symbol "ICOTF". The Company is incorporated and domiciled in British Columbia, Canada. The address of its head office is 6th floor, 777 Hornby Street, Vancouver, British Columbia, V6Z 1S4.

2 Significant accounting policies

Basis of presentation and statement of compliance

These condensed interim financial statements for the three months and six months ended June 30, 2017 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of these interim financial statements. These condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2016 which have been prepared in accordance with IFRS.

The financial statements are presented in Canadian dollars which is the Company's functional currency.
The accounting policies adopted are consistent with those of the previous financial year; December 31, 2016.

These financial statements were approved by the board of directors for issue on August 29, 2017.

Critical accounting estimates and judgments

Critical accounting estimates and assumptions

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

(in Canadian dollars)

3 Taxes and other receivables

	June 30, 2017	December 31, 2016
Taxes (HST/GST)	$32,261	$ 6,691
Other receivable[1]	-	$30,430
	$32,261	$37,121

[1]Receivables in the amount of $Nil (December 31, 2016 - $30,430) are related to National Research Council of Canada's Industrial Research Assistance Program (“IRAP”)

4 Other investments

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

In 2014 and 2015 the Company sold its IMMUNE Shares and currently holds the Immune warrants. On April 12, 2017, Immune completed a reverse stock split of its common shares at a ratio of 1 for 20. The affect on the Company’s Immune warrants was to reduce the number of warrants to 6,182 from 123,649 and to increase the exercise price to $52.60 from $2.63.

The following tables represent the changes in the investments for the period ending June 30, 2017:

	Warrants	$
Balance - December 31, 2016	123,649	2,822
Effect of reverse stock split	(117,467)	-
Change in fair value (note a)		(1,168)
Balance – June 30, 2017	6,182	1,654

(in Canadian dollars)

a) The IMMUNE Warrants were valued at quarter end using the Black Scholes option pricing model. The inputs used for the model are as follows: stock price US$3.08, strike price US$52.60, term of 1.5 years, volatility of 126% and a risk-free interest rate of 1.04%.

5 Accounts payable and accrued liabilities

	June 30, 2017 $	December 31, 2016 $
Trade payables	48,760	62,375
Other accruals	59,401	75,851
	108,161	138,226

6 Capital stock

Authorized
Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount $
Balance - December 31, 2016	84,457,713	28,048,137
	-	-
Balance – June 30, 2017	84,457,713	28,048,137

(in Canadian dollars)

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
Expired	(25,000)	0.30
Granted	150,000	0.05
Balance – June 30, 2017	1,995,000	0.39

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding at June 30, 2017	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable at June 30, 2017	Weighted average exercise price $
0.05	975,000	3.78	0.05	874,688	0.05
0.45	40,000	1.18	0.45	40,000	0.20
0.73	980,000	0.56	0.73	980,000	0.73
	1,995,000	2.15	0.39	1,894,688	0.41

During the six months ended June 30, 2017, the Company granted 150,000 options to a director of the Company. The options had an exercise price of $0.05 and a five-year term. The Options vest over an eighteen-month period: the first 20% options vesting on the date of grant, then 20% on each quarter after the date of grant for three quarters, and the final 20% vests monthly over the subsequent eight months. The Company used the Black-Scholes option pricing model to estimate the fair value of each option on the grant date. For the options granted during the quarter, the Company used the following assumptions:

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

The estimated aggregate fair values of the options granted during the six months ended June 30, 2017 was $6,600 (2016 - $28,900). The Company recognized stock-based compensation expense of $3,458 (2016 - $5,870) and $6,946 (2016 - $11,650) for the quarter and six months ended June 30, 2017.

(in Canadian dollars)

Warrants

At June 30, 2017, the Company had 22,407,448 warrants issued and outstanding. 12,154,862 warrants are exercisable at $0.54 and expire January 27, 2019. The remaining 10,252,586 warrants are exercisable at $0.40 and expire May 17, 2018.

	Number of warrants	Amount $
Balance - December 31, 2016	22,407,448	2,853,487
	-	-
Balance – June 30, 2017 (issued and outstanding)	22,407,448	2,853,487

7 Related party transactions and compensation of key management

During the six months ending June 30, 2017, the Company incurred consulting fees from officers and directors totalling CDN $213,702 (2016 – $183,810nil) for CEO, CFO, CMO and business development services. The amounts outstanding as at June 30, 2017 totalled CDN $15,425 (2016 – $nil). All transactions were recorded at their exchange amounts.

The table below provides all compensation to executive officers and directors for the six months ended:

	June 30, 2017$	June 30, 2016 $
Salaries and severance	-	352,400
Consulting fees	213,702	183,810
Share-based payments	6,946	11,650
	220,648	547,860

8 Financial instruments and financial risk management

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

(in Canadian dollars)

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, short-term investments and other receivables are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The input level used by the Company to measure fair value of its cash and cash equivalents and short-term investments 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, recorded as other investments, 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 available-for-sale. 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$. The Company believes that the results of operations, financial position and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its US$. The Company manages foreign exchange risk by maintaining US$ cash on hand to fund its anticipated short-term US$ expenditures.

(in Canadian dollars)

Balances in foreign currencies at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017 US balance	Dec. 31, 2016 US balance
Cash and cash equivalents	126,361	665,981
Accounts payable and accrued liabilities	(14,319)	(28,289)
	112,042	637,692

Based on the US$ balance sheet exposure at June 30, 2017, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 10%, relative to the rate at June 30, 2017, the net monetary assets would be approximately $16,000 greater. If the Canadian dollar were to strengthen against the US dollar by 10%, relative to the rate at June 30, 2017, the net monetary assets would be approximately $13,000 less

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, 2017, cash and cash equivalents balance was $1,624,136. 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.

(in Canadian dollars)

The following table summarizes the relative maturities of the financial liabilities of the Company at June 30, 2017:

	Maturity	
	Less than one year $	**Greater than one year $**
Accounts payable and accrued liabilities	108,161	-

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.

9 Segmented information

The Company identifies its operating segments based on business activities, management responsibility and geographical location. The Company operates within a single operating segment, being the research and development of ophthalmic and anti-infective indications, and operates in one geographic area, being Canada. All of the Company's assets are located in Canada.