

**iCo Therapeutics Inc.**  
(a development stage company)

Financial Statements  
(Unaudited)  
**March 31, 2012 and 2011**  
(in Canadian dollars)

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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 financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's audit.

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

(in Canadian dollars)

	Note	March 31, 2012 \$ (Unaudited)	December 31, 2011 \$ (Audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		346,469	255,548
Short-term investments		371,098	1,070,851
Taxes and other receivable	5	19,640	26,155
Deferred financing		4,376	-
Prepaid expenses		35,480	46,214
		<u>777,063</u>	<u>1,398,768</u>
<b>Other investments</b>	4	1,198,981	1,220,401
<b>Equipment</b>	6	7,055	7,631
<b>Intangible assets</b>	7	<u>294,744</u>	<u>319,129</u>
		<u>2,277,843</u>	<u>2,945,929</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	8	<u>322,609</u>	<u>255,139</u>
<b>Shareholders' Equity</b>			
<b>Capital stock</b>	9	17,589,816	17,587,930
<b>Contributed surplus</b>	9	2,304,580	2,228,455
<b>Warrants</b>	9	335,143	335,529
<b>Accumulated other comprehensive income (loss)</b>		17,100	38,520
<b>Accumulated deficit</b>		<u>(18,291,405)</u>	<u>(17,499,644)</u>
		<u>1,955,234</u>	<u>2,690,790</u>
		<u>2,277,843</u>	<u>2,945,929</u>

**Nature of operations and going concern** (note 1)  
**Commitments and contingencies** (note 15)

**Approved by the Board of Directors**

\_\_\_\_\_ (signed) Andrew Rae \_\_\_\_\_ Director

\_\_\_\_\_ (signed) William Jarosz \_\_\_\_\_ 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**

**For the quarter ended March 31, 2012 and 2011**

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(in Canadian dollars)

	<b>Note</b>	<b>March 31, 2012 \$ (Unaudited)</b>	<b>March 31, 2011 \$ (Unaudited)</b>
<b>Expenses</b>			
Research and development	12	408,032	354,956
General and administrative	13	384,058	236,931
Foreign exchange (gain) loss		1,398	2,420
		<hr/>	<hr/>
		793,487	594,307
<b>Interest income</b>		1,726	5,373
<b>Other income</b>	4	-	100,000
		<hr/>	<hr/>
		1,726	105,373
<b>Loss for the quarter</b>		(791,761)	(488,934)
<b>Other comprehensive income (loss)</b>			
Changes in fair value of the available-for-sale investment		17,100	-
		<hr/>	<hr/>
<b>Total comprehensive loss</b>		(774,661)	(488,934)
<b>Basic and diluted loss per share</b>		(0.02)	(0.01)
<b>Weighted average number of shares</b>		43,348,408	41,057,312

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

**iCo Therapeutics Inc.**  
(a development stage company)  
**Statements of Changes in Shareholders' Equity**  
**For the quarter ended March 31, 2012**

(in Canadian dollars)

	Shares	Capital stock \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income \$	Accumulated deficit \$	Shareholders' equity \$
<b>Balance - December 31, 2010</b>	41,057,301	16,798,970	1,975,652	80,631	-	(16,467,633)	2,387,620
Issuance of common shares	-	-	-	-	-	-	-
Share issue costs	-	-	-	-	-	-	-
Share-based compensation	-	-	6,357	-	-	-	6,357
Other comprehensive loss	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	(488,934)	(488,934)
<b>Balance - March 31, 2011</b>	41,057,301	16,798,970	1,982,009	80,631	-	(16,956,567)	1,905,043
<b>Balance - December 31, 2011</b>	46,632,301	17,587,930	2,228,455	335,529	38,520	(17,499,644)	2,690,790
Issuance of common shares	6,000	1,500	-	-	-	-	1,500
Exercise warrants	-	386	-	(386)	-	-	-
Share-based compensation	-	-	76,125	-	-	-	76,125
Other comprehensive loss	-	-	-	-	(21,420)	-	(21,420)
Loss for the year	-	-	-	-	-	(791,761)	(791,761)
<b>Balance - March 31, 2012</b>	46,638,301	17,589,816	2,304,580	335,143	17,100	(18,291,405)	1,955,234

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

# iCo Therapeutics Inc.

(a development stage company)

## Statements of Cash Flows

For the quarter ended March 31, 2012 and 2011

(in Canadian dollars)

	March 31, 2012 \$ (Unaudited)	March 31, 2011 \$ (Unaudited)
<b>Cash flows from operating activities</b>		
Loss for the year	(791,761)	(488,934)
Items not affecting cash		
Amortization and other	24,961	29,282
Share-based compensation	76,125	6,357
Gain on sale of rights	-	-
Warrants issued for research and development	-	-
	(690,675)	(453,295)
Changes in non-cash working capital		
Taxes and other receivable	6,515	(32,561)
Deferred financing	(4,377)	6,998
Prepaid expenses	10,734	(6,371)
Accounts payable and accrued liabilities	67,470	45,117
	(610,333)	(362,739)
<b>Cash flows from investing activities</b>		
Purchase of equipment	-	-
Sale of short-term investments	669,753	348,285
Net proceeds of sale of intangible assets	-	-
	669,753	348,285
<b>Cash flows from financing activities</b>		
Exercise of warrants	1,500	-
Exercise of options	-	-
Net proceeds from issuance of units	-	-
	1,500	-
<b>Decrease in cash and cash equivalents</b>	(90,920)	(14,454)
<b>Cash and cash equivalents - Beginning of year</b>	255,548	633,224
<b>Cash and cash equivalents - End of year</b>	346,469	618,770
<b>Supplementary information</b>		
Cash received for interest	1,726	5,373

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

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

## **1 Nature of operations and going concern**

### **Nature of operations**

iCo Therapeutics Inc. (“iCo” or the “Company”) is a development stage pharmaceutical company focused on the reprofiling and repositioning of drugs and drug candidates with a previous clinical history for new disease indications. iCo’s current business strategy is to acquire the rights to drugs and drug candidates from third parties and run human clinical trial programs for new disease indications, with an emphasis on ophthalmology. The Company currently has three compounds under development. The first, iCo-007, is an anti-sense molecule that the Company believes reduces levels of a key protein associated with diabetic retinopathy. The Company completed a Phase I, open label, dose-escalating clinical trial at four trial sites in the United States using a single injection of iCo-007 in patients with diffuse diabetic macular edema (“DME”) which met its primary end point of safety. The Company subsequently initiated a Phase II clinical trial for iCo-007 in patients with DME and announced on September 26, 2011 a research and collaboration with JDRF to support the Phase II trial. The Phase II trial is currently enrolling up to 208 patients with DME and will involve up to 30 clinical sites in the US. It is expected to be complete in 2013. iCo-008 is a monoclonal antibody that the Company plans to take into clinical trials for Vernal Keratoconjunctivitis (“VKC”) and possibly age related macular degeneration. On December 8, 2010, the Company also signed an option to license the systemic applications of iCo-008 to IMMUNE Pharmaceuticals Corp. (“IMMUNE”). The option to convert to a full licence was exercised by IMMUNE on June 24, 2011 and IMMUNE is preparing to enter a Phase II trial in 2012 with iCo-008 to treat inflammatory bowel disease. iCo-009 is an experimental oral formulation of Amphotericin B that is at a pre-clinical stage.

The Company is considered to be in the development stage as most of its efforts have been devoted to research and development, raising capital, recruitment of personnel and long-term planning. The Company is publicly traded on the TSX Venture Exchange under the symbol “ICO.” The Company is incorporated and domiciled in British Columbia, Canada. The address of its registered office is Suite 1300, 777 Dunsmuir Street, Vancouver, British Columbia, V7Y 1K2.

### **Going concern**

For the quarter ended March 31, 2012, the Company reported a loss of \$791,761 (2011 - \$488,934) and an accumulated deficit of \$18,291,405 at that date. As at March 31, 2012, iCo has cash and cash equivalents and short-term investments on hand of \$717,566 (2011 - \$1,678,880) and a positive working capital balance of \$450,077 (2011: \$1,369,982). However, as iCo does not have the prospect of achieving revenues in the near future, iCo will require additional funding to maintain its research and development projects and for general operations. These circumstances lend significant doubt as to the ability of iCo to meet its obligations as they come due.

Consequently, management is pursuing various financing alternatives to fund iCo’s operations so it can continue as a going concern. Management plans to secure the necessary financing through the issue of new equity and/or the entering into of strategic partnership arrangements. Nevertheless, there is no assurance that these initiatives will be successful.

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

These financial statements have been prepared on a going concern basis which assumes that iCo will continue its operations for the foreseeable future and contemplates the realization of assets and the settlement of liabilities in the normal course of business.

The conditions and risks noted above cast significant doubt on the validity of that assumption. These financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities that may be necessary and could potentially be material, should iCo be unable to continue as a going concern.

## **2 Significant accounting policies**

### **Basis of presentation and statement of compliance**

The financial statements of iCo have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars which is the Company’s functional currency.

These financial statements were approved by the board of directors for issue on May 30, 2012.

### **Significant estimates and judgments**

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 thereto. The Company regularly reviews its estimates; however, actual amounts could differ from the estimates used and, accordingly, materially affect the results of operations. Significant areas requiring management to make estimates include the useful lives of equipment and intangible assets, share-based compensation, impairment of intangibles and valuation of investment in IMMUNE common shares and warrants. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements. Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include: share-based compensation, and the impairment of intangible assets and other investments.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less. Cash and cash equivalents are held at recognized Canadian financial institutions. Interest earned is recognized in the statements of loss.



# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

## **Foreign currency translation**

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

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

## **Current and deferred income taxes**

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized in the current period for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future 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 future 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: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

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

- a) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise investments in equity securities (other than those qualifying as cash equivalents).

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

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

- b) **Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise other receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- c) **Financial liabilities at amortized cost:** Financial liabilities at amortized cost are amounts payable and accounts payable are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months.

## **Impairment of financial assets**

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

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

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

- a) **Financial assets carried at amortized cost:** The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- b) **Available-for-sale financial assets:** The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statements of loss. This amount represents the loss in accumulated other comprehensive income that is reclassified to net loss.

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

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

## **Equipment**

Equipment is stated at cost less accumulated amortization and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the assets carrying amount and recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate. Amortization is recorded on a straight-line basis over the estimated lives of the equipment as follows:

Computer equipment	3 years
Computer software	2 years
Office equipment	5 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other gains (losses) - net in the statements of loss.

## **Intangible assets**

Intangible assets include patent rights and technology rights which have been acquired from third parties. The Company's intangible assets are shown separately at historical costs. The Company's intangible assets have a finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the licence over their estimated useful lives of 9 to 11 years.

Expenditures associated with the maintenance of the licensing are expensed as incurred. Costs previously recognized as an expense are not recognized as an asset in a subsequent period.

## **Impairment of non-financial assets**

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

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

## **Provisions**

Provisions for research and development and general operations are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

## **Share-based payments**

The Company grants share-based options to directors, officers, employees and consultants as consideration for work or services performed. Compensation expense is recorded for share-based grants that vest in instalments over the vesting period as separate arrangements.

When the share-based options are exercised, the Company issues new shares. The proceeds are credited to capital stock (note 9).

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 during the period. The outstanding warrants and options have been excluded from the calculations of diluted loss per share because their inclusion would be anti-dilutive.

## **3 Accounting standards issued and not yet applied**

### a) Financial instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments*, as the first step in its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, with a new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 addressed the classification and measurement of financial assets and financial liabilities and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

### b) Fair value measurement

On May 12, 2011 the IASB issued IFRS 13, *Fair Value Measurement*. This standard defines fair value and sets out in a single IFRS a framework for measuring fair value. The standard applies when another IFRS

# iCo Therapeutics Inc.

(a development stage company)

Notes to Financial Statements

March 31, 2012 and 2011 (Unaudited)

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(in Canadian dollars)

requires or permits fair value measurements or disclosures about fair value measurements. The standard has an effective date of January 1, 2013. The Company is currently evaluating the impact that the standard is expected to have on its financial statements.

## 4 Other investments

In December 2010, iCo granted IMMUNE, based in Israel and the United States, an option to an exclusive license (the "Option") on a worldwide basis for the development and commercialization rights to the systemic uses of iCo-008. It is IMMUNE's intention to pursue inflammatory bowel disease and severe asthma. iCo retained worldwide exclusive rights to all uses and applications in the ocular field. Under the terms of the agreement, IMMUNE paid iCo a US\$100,000, non-refundable option fee creditable upon conversion against an upfront license fee payment of US \$1 million. iCo may receive up to an additional US\$32 million in milestone payments as well as royalties on net sales of licensed products.

On February 2, 2011, the Company received an additional payment of US\$100,000 as an option extension fee from IMMUNE, in consideration for extending the option period until March 31, 2011. The option extension fee is non-refundable and is not creditable against the upfront license fee payment of US \$1 million.

Accordingly, it was recognized as license revenue. On March 31, 2011, the agreement with IMMUNE was further amended to permit IMMUNE to extend the option period for up to three additional months beyond March 31, 2011. For each month extension, IMMUNE paid to the Company US\$50,000. These payments were non-refundable and creditable against the upfront licence fee payment of \$ 1 million. On April 6, 2011, the Company received a payment of US\$50,000 to extend the option period to April 30, 2011, and on May 2, 2011, the Company received a payment of US\$50,000 to extend the option period to May 30, 2011.

Subsequently on June 24, 2011, the Option was converted to an exclusive licence agreement (the IMMUNE Licence Agreement"). In consideration for the conversion, iCo received a further payment of US\$200,000 total aggregate cash payments of \$300,000 plus 600,000 IMMUNE ordinary shares and 200,000 IMMUNE warrants. IMMUNE will also share in funding 50% of the patent prosecution and maintenance costs of the iCo-008 patent family. iCo has no further performance obligations under the IMMUNE Licence Agreement.

Other comprehensive income is the foreign exchange associated with the investment.

## 5 Taxes and other receivable

	March 31, 2012 \$	March 31, 2011 \$
Taxes (HST)	19,640	13,405
	<hr/>	<hr/>
	19,640	13,405

# iCo Therapeutics Inc.

(a development stage company)

Notes to Financial Statements

March 31, 2012 and 2011 (Unaudited)

(in Canadian dollars)

## 6 Equipment

	December 31, 2011						March 31, 2012
	Opening cost \$	Additions/ (disposals) \$	Closing cost \$	Opening amortization \$	Amortization \$	Closing amortization \$	Net \$
Computer equipment	40,494	-	40,494	33,022	417	33,439	7,055
Computer software	14,708	-	14,708	14,652	56	14,708	-
Office equipment	4,989	-	4,989	4,886	103	4,989	-
	60,191	-	60,191	52,560	576	53,135	7,055

  

	January 1, 2011						December 31, 2011
	Opening cost \$	Additions/ (disposals) \$	Closing cost \$	Opening amortization \$	Amortization \$	Closing amortization \$	Net \$
Computer equipment	38,387	2,107	40,494	29,501	3,521	33,022	7,472
Computer software	14,708	-	14,708	12,174	2,478	14,652	56
Office equipment	4,989	-	4,989	4,141	745	4,886	103
	58,084	2,107	60,191	45,816	6,744	52,560	7,631

## 7 Intangible assets

	December 31, 2011						March 31, 2012
	Opening cost \$	Additions/ (disposals) \$	Closing cost \$	Opening amortization \$	Amortization \$	Disposals \$	Net \$
ISIS (iCo-007)	599,071	-	599,071	407,131	16,050	-	175,890
MedImmune	232,467	-	232,467	105,278	8,336	-	118,854
	831,538	-	831,538	512,409	24,385	-	294,744

  

	January 1, 2011						December 31, 2011
	Opening cost \$	Additions \$	Closing cost \$	Opening amortization \$	Amortization \$	Disposals \$	Net \$
ISIS (iCo-007)	599,071	-	599,071	342,933	64,198	-	191,940
MedImmune	464,935	(232,468)	232,467	168,999	31,347	(95,068)	127,189
	1,064,006	(232,468)	831,538	511,932	95,545	(95,068)	319,129

# iCo Therapeutics Inc.

(a development stage company)

Notes to Financial Statements

March 31, 2012 and 2011 (Unaudited)

(in Canadian dollars)

## 8 Accounts payable and accrued liabilities

	March 31, 2012 \$	March 31, 2011 \$
Trade payables	161,930	289,256
Payable to related parties	-	12,250
Accruals	160,679	48,476
	<u>322,609</u>	<u>349,982</u>

## 9 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount \$
Balance - December 31, 2011	46,632,301	17,587,930
Warrants exercised	6,000	1,500
Transfer from warrants on exercise of warrants	-	386
Balance - March 31, 2012	<u>46,638,301</u>	<u>17,589,816</u>

## Stock options

Under the stock option plan the aggregate number of common shares reserved for issuance is 3,200,000.

	Number of stock options outstanding	Weighted average exercise price \$
Balance - December 31, 2011	1,950,000	0.68
Granted	75,000	0.30
Forfeited	-	-
Expired	(15,000)	1.00
Balance - March 31, 2012	<u>2,010,000</u>	<u>0.39</u>

# iCo Therapeutics Inc.

(a development stage company)

Notes to Financial Statements

March 31, 2012 and 2011 (Unaudited)

(in Canadian dollars)

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at March 31, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at March 31, 2012	Weighted average exercise price \$
0.18 - 0.39	1,275,000	4.27	0.29	1,225,000	0.29
0.40 - 0.60	700,000	2.70	0.54	700,000	0.54
0.98	35,000	0.70	0.98	35,000	0.98
	<u>2,010,000</u>	3.67	0.39	<u>1,960,000</u>	0.39

## Warrants

	Number of warrants	Transfer to capital stock on exercise of warrants \$	Amount \$
Balance - December 31, 2011	6,002,000		335,529
Warrants exercised	<u>(6,000)</u>	0.25	<u>(386)</u>
Balance - March 31, 2012	<u>5,996,000</u>		<u>335,143</u>

## Contributed surplus

	\$
Balance – December 31, 2011	2,228,455
Share-based compensation	<u>76,125</u>
Balance - March 31, 2012	<u>2,304,580</u>

## 10 Related party transactions

During the year ended March 31, 2012:



# iCo Therapeutics Inc.

(a development stage company)

Notes to Financial Statements

March 31, 2012 and 2011 (Unaudited)

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(in Canadian dollars)

- a) the Company incurred director's fees totalling \$6,250 (2011 - \$12,250). The amounts outstanding as at March 31, 2012 totalled \$nil (2011 - \$nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.

## 11 Compensation of key management

	<b>March 31 2012</b>	<b>March 31, 2011</b>
	\$	\$
Salaries	116,250	155,080
Directors fees	12,250	12,250
Share-based payments	54,375	-
	<hr/>	<hr/>
	182,875	167,330
	<hr/>	<hr/>

## 12 Research and development

	<b>March 31 2012</b>	<b>March 31 2011</b>
	\$	\$
Personnel	68,552	104,700
Research projects	200,674	137,836
Intellectual property	66,200	47,517
Business development	175	2,375
Travel	11,730	15,073
Facilities	13,480	20,839
Share-based payment	22,837	-
Amortization and other	24,385	26,616
	<hr/>	<hr/>
	408,032	354,956
	<hr/>	<hr/>

## 13 General and administrative

	<b>March 31 2012</b>	<b>March 31 2011</b>
	\$	\$
Personnel	111,806	118,021
Professional fees	180,050	79,973
Travel	21,690	18,231
Facilities	16,648	11,684
Share-based payment	53,288	6,357
Amortization and other	576	2,665
	<hr/>	<hr/>
	384,058	236,931
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# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

## **14 Segmented information**

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

## **15 Commitments and contingencies**

### a) Lease commitments

The Company's operating lease agreement for office space expires on May 31, 2012. In January 2012, the lease was extended to May 31, 2014. Future minimum annual lease payments under the lease are as follows:

	\$
2011	53,787
2012	55,470

Rent expense for the 3 months ended March 31, 2012 amounted to \$13,055 (2011 - \$12,509).

### b) 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 of March 31, 2012 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:

#### *ISIS*

In connection with the licensing agreement between ISIS and the Company, the Company may be required to make additional contingent payments of up to US\$22 million upon the achievement of certain development and commercialization milestones of iCo-007 in its first ocular indication. 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 of iCo-007 in other ocular and non-ocular disease indications.

#### *MedImmune*

In connection with the licensing agreement between MedImmune and the Company, the Company was required to make upfront payments totalling US\$400,000, of which the last payment was made in

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

---

(in Canadian dollars)

December 2007. The Company may be required to make additional contingent payments of up to US\$7 million 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.

*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 obligated 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 iCo-009 program.

## **16 Financial instruments and financial risk management**

### **Fair value**

Financial instrument disclosures, establish a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. The 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. Cash and cash equivalents and short-term investments are included in this level.

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. Other investments are included in this category.

*Financial instruments whose carrying value approximates fair value*

# iCo Therapeutics Inc.

(a development stage company)

Notes to Financial Statements

March 31, 2012 and 2011 (Unaudited)

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(in Canadian dollars)

Cash and cash equivalents, short-term investments, accounts payable and other receivable 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 a Level 2 input as they are valued using observable market data.

The common shares of IMMUNE have been recorded at their fair value on the date they were acquired. Management has classified these shares as available for sale. The Company uses Level 3 inputs to value these instruments. There is currently no public market for these shares, however iCo was able to benchmark the value of IMMUNE common shares previous financing rounds completed by IMMUNE in recent months.

## 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\$"). The Company believes that the results of operations, financial position and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its US\$. The Company manages foreign exchange risk by maintaining US\$ cash on hand to fund its short-term US\$ expenditures. As at March 31, 2012, US\$ denominated cash totalled US\$ \$65,217. The only accounts payable and accrued liabilities exposure is in US\$ and that total is \$85,049.

### 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 March 31, 2012 and 2011 are as follows:

	<b>March 31 2012 US balance \$</b>	<b>March 31 2011 US balance \$</b>
Cash and cash equivalents	65,217	26,588
Trade payables	(85,049)	(220,190)
	<u>(19,832)</u>	<u>(193,602)</u>

Based on the US dollar balance sheet exposure at March 31, 2012, with other variables unchanged, a 10% change in the US dollar compared to the US dollar would not have a significant impact on and the statements of loss and comprehensive loss.

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

b) 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. As at March 31, 2012, cash and cash equivalents held in Canadian dollar savings accounts or short-term investments is \$717,566. The interest rates range from 0.05% to 1.0%.

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.

## **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 recent problems in the global credit markets have resulted in a drastic reduction in the ability of companies to raise capital through the public markets.

See note 1, going concern, for additional comments relating to liquidity risk.

The Company continues to manage its liquidity risk based on the outflows experienced for the quarter ended March 31, 2012 and is undertaking efforts to conserve cash resources wherever possible.

## **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 money market instruments such as 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.

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to Financial Statements

**March 31, 2012 and 2011 (Unaudited)**

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(in Canadian dollars)

The Company limits its exposure to credit risk, with respect to cash and cash equivalents, by placing them with high quality credit financial institutions. The Company's cash equivalents consist primarily of operating funds and deposit investments with commercial banks. Of the amounts with financial institutions on deposit, the following table summarizes the amounts at risk should the financial institutions with which the deposits are held cease trading:

	<b>Cash and cash equivalents</b>	<b>Insured amount</b>	<b>Non- insured amount</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
CIBC	430,457	100,000	330,457
Raymond James	220,261	220,261	-
Manulife	66,848	66,848	-
	<hr/>	<hr/>	<hr/>
	717,566	387,109	330,457

