

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

Interim Financial Statements  
(Unaudited)

**For the three months ended March 31, 2010**

## **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)

Interim Balance Sheets (in CDN dollars)

As at March 31, 2010

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	March 31, 2010 \$ (Unaudited)	December 31, 2009 \$ (Audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,540,137	1,384,802
Short-term investments	2,516,900	2,511,263
Taxes and other receivable	44,465	34,933
Prepaid expenses	32,306	22,499
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	4,133,808	3,953,497
<b>Equipment</b> (note 5)	16,546	16,514
<b>Intangible assets</b> (note 6)	631,923	658,539
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	4,782,277	4,628,550
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	324,085	322,778
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<b>Shareholders' Equity</b> (note 7)		
<b>Capital stock</b>	16,798,970	15,733,967
<b>Contributed surplus</b>	1,753,474	1,599,669
<b>Warrants</b>	97,628	335,128
<b>Deficit</b>	(14,191,880)	(13,362,992)
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	4,458,192	4,305,772
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	4,782,277	4,628,550
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Approved by the Board of Directors

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

Director

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

Director

# iCo Therapeutics Inc.

(a development stage company)

Interim Statements of Operations, Comprehensive Loss and Deficit (in CDN dollars)

As at March 31, 2010

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	Three Months Ended March 31,	
	2010 unaudited	2009 unaudited
<b>Interest Revenue</b>	\$ 6,870	\$ 1,627
<b>Expenses</b>		
Research and development (note 10)	407,130	311,535
General and administrative (note 11)	236,918	193,644
Amortization	29,554	29,132
Foreign Exchange(gain) loss	1,911	18,152
Stock-based compensation	160,245	34,586
	835,758	587,049
<b>Net loss and comprehensive loss for the period</b>	(828,888)	(585,422)
<b>Deficit – Beginning of period</b>	(13,362,992)	(11,054,502)
<b>Deficit – End of period</b>	\$ (14,191,880)	\$ (11,639,924)
<b>Basic and diluted loss per share</b>	\$ (0.02)	\$ (0.02)
<b>Weighted average number of shares</b>	40,197,230	21,989,553

# iCo Therapeutics Inc.

(a development stage company)

Interim Statements of Cash Flows (in CDN dollars)

As at March 31, 2010

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	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>unaudited</b>	<b>unaudited</b>
<b>Cash flows from operating activities</b>		
Net loss and comprehensive loss for the year	\$ (828,888)	\$ (585,422)
Items not affecting cash		
Amortization	29,554	29,132
Stock-based compensation	160,245	34,586
	<u>(639,089)</u>	<u>(521,704)</u>
Changes in non-cash working capital		
Accounts and other receivable	(9,532)	23,790
Prepaid expenses	(9,807)	(10,364)
Accounts payable and accrued liabilities	1,308	(157,558)
	<u>(657,120)</u>	<u>(665,836)</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment	(2,971)	4,358
Sale of short-term investments	(5,637)	-
	<u>(8,608)</u>	<u>4,177</u>
<b>Cash flows from financing activities</b>		
Exercise of options	10,500	-
Exercise of warrants	810,563	-
Issuance of units	-	1,239,990
	<u>821,063</u>	<u>1,239,990</u>
<b>Increase in cash</b>	<b>155,335</b>	<b>578,512</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,384,802</b>	<b>620,276</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$1,540,137</b>	<b>\$1,198,788</b>

# **iCo Therapeutics Inc.**

(a development stage company)

Notes to the Interim Financial Statements

**For the three months ended March 31, 2010 (unaudited)**

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## **1 Basis of presentation and significant accounting policies**

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and do not contain all of the information that is required for annual financial statements. Accordingly, they should be read in conjunction with the annual financial statements for the year ended December 31, 2009. When necessary, the financial statements include amounts based on informed estimates and best judgments of management. The results of operations and comprehensive loss for the interim periods reported are not necessarily indicative of results to be expected for the year.

These interim financial statements follow the same accounting policies and methods of their application as the December 31, 2009 annual financial statements.

## **2 New Accounting Pronouncements**

### **Business combinations, consolidated financial statements and non-controlling interest**

In January 2008, the CICA introduced Handbook Section 1582 to replace Handbook Section 1581, Business Combinations, and Sections 1601 and 1602 to together replace Handbook Section 1600, Consolidated Financial Statements. The adoption of Section 1582 and collectively Sections 1601 and 1602 provides the Canadian equivalent to IFRS 3, Business Combinations, and International Accounting Standards (“IAS”) 27, Consolidated and Separate Financial Statements, respectively. CICA 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601 and Section 1602 apply to interim and annual financial statements relating to years beginning on or after January 1, 2011.

The impact of these standards, effective for the Company on January 1, 2011, on the Company’s financial statements has not been determined.

### **International Financial Reporting Standards**

In February 2008, the CICA confirmed that the use of IFRS will be required, for fiscal years beginning on or after January 1, 2011, for publically accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company has conducted a preliminary assessment of the impact of these new accounting standards on its consolidated financial statements. A detailed assessment will be conducted in 2010. Changes in accounting policies are likely and may materially impact the Company’s financial statements.

## **3 Capital disclosures**

The Company’s objectives when managing capital are to safeguard its accumulated capital in order to maintain its ability to continue as a going concern and to advance its research, development and commercialization activities. The capital structure of the Company consists of shareholder’s equity as well as the cash and cash equivalents and tax credit receivable balances.

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Notes to the Interim Financial Statements

**For the three months ended March 31, 2010 (unaudited)**

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The Company manages its capital structure and makes adjustments to it based on economic conditions and the risk characteristics of the underlying assets. The Company, upon approval from its board of directors, will balance its overall capital structure through new share or debt issuances or by undertaking other activities as deemed appropriate under specific circumstances.

The company expects that its current capital resources will be sufficient to support its research and development plans and operations into the fourth quarter of 2011. The company is not subject to externally imposed capital requirements.

## 4 Financial instruments and financial risk management

### Financial instruments

The Company has classified its financial instruments as follows:

Financial Instrument	Classification	Measurement	March 31, 2010 \$
Cash and cash equivalents	Held for trading	Fair value	4,057,037
Other receivables	Loans and receivables	Amortized costs using the effective interest method	44,465
Accounts payable and accrued liabilities	Other financial liabilities	Amortized costs using the effective interest method	324,086

### Financial risk management

The Company is exposed to certain financial risks, including credit risk, liquidity risk and market risk.

#### a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the company's cash and cash equivalents and other 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 audit committee and modified to reflect changes in market conditions.

#### b) 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 the companies to raise capital through the public

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**For the three months ended March 31, 2010 (unaudited)**

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markets. The Company continues to manage its liquidity risk by being fairly consistent with outflows experienced for the year ended December 31, 2009.

## c) 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 ("USD"). 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 USD. The Company manages foreign exchange risk by maintaining USD cash on hand to fund its short term USD expenditures. As at March 31, 2010 USD denominated cash totalled USD \$26,180. The only accounts payable and accrued liabilities exposure is in USD and that total is \$216,807.

The company is subject to interest rate risk on its cash and cash equivalents and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short term nature of the investments. As at March 31, 2010, cash and cash equivalents held in Canadian dollar savings accounts or short term investments is \$4,057,037. The interest rates range from 0.05% to 1.0%.

## 5 Equipment

	<b>March 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Computer equipment	34,513	25,775	8,738
Computer software	14,708	8,497	6,211
Office equipment	4,989	3,392	1,597
	<b>54,210</b>	<b>37,664</b>	<b>16,546</b>
	<b>December 31, 2009</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
	\$	\$	\$
Computer equipment	31,993	24,304	7,689
Computer software	14,258	7,279	6,979
Office equipment	4,989	3,143	1,846
	<b>51,240</b>	<b>34,726</b>	<b>16,514</b>



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Notes to the Interim Financial Statements

For the three months ended March 31, 2010 (unaudited)

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## 6 Intangible assets

	March 31, 2010 \$	December 31, 2009 \$
Cost		
ISIS (iCo-007)	599,071	599,071
Medimmune (iCo-008)	464,935	464,935
	<hr/>	<hr/>
	1,064,006	1,064,006
Accumulated amortization	432,083	405,467
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Net book value	631,923	658,539
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## 7 Capital stock

Authorized

    Unlimited number of common shares

Issued and outstanding:

	Number of shares	Amount \$
Balance at December 31, 2009	38,285,426	15,733,967
Options exercised	70,000	10,500
Warrants exercised (a)	2,701,875	810,563
Transfer from contributed surplus on exercise of options	-	6,440
Transfer from warrants on exercise of warrants	-	237,334
Transfer from warrants on forfeited warrants	-	166
	<hr/>	<hr/>
Balance at March 31, 2010	41,057,301	16,798,970

- a) In January and February 2010, 2,701,875 warrants were exercised for total gross proceeds of \$810,563. The Warrants were issued pursuant to a private placement completed by the Company which closed in first quarter of 2009. The remaining warrants from this private placement were forfeited. There are no outstanding warrants from this private placement.

### Stock options

Under the stock option plan (the "2007 Option Plan") dated December 31, 2007 (the "Effective Date") whereby up to 2,686,977 common shares representing 7% of the issued and outstanding common shares as at the Effective Date are reserved for issuance pursuant to the exercise of stock options. On April 30, 2009, the

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2007 Option Plan was amended to increase the aggregate number of common shares reserved for issuance to 3,200,000.

	Number of stock options outstanding	Weighted average exercise price \$
December 31, 2009	2,521,429	0.49
Granted	-	-
Exercised	(70,000)	0.15
March 31, 2009	<u>2,451,429</u>	<u>0.50</u>

## Warrants

At March 31, 2010, the following common share purchase warrants were outstanding:

	Number of warrants	Exercise price \$	Amount \$
Balance - December 31, 2009	3,037,084		335,128
Transfer to capital stock on exercise of warrants (a)	(2,701,875)	0.30	(237,334)
Forfeited (a)	<u>(1,875)</u>		<u>(166)</u>
Balance - March 31, 2010	<u>333,334</u>		<u>97,628</u>

## Contributed surplus

	\$
Balance as at December 31, 2009	1,599,669
Stock based compensation	160,245
Transfer to capital stock on exercise of options	<u>(6,440)</u>
Balance as at March 31, 2010	<u>1,753,474</u>

## 8 Related party transactions

During the three months ended March 31, 2010, directors provided consulting services to the Company totalling \$12,350 (for the three months ended March 31, 2009 - \$3,000).

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## 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 drugs with a clinical history for new disease indications, and operates in one geographic area, being Canada. All of the Company's assets are located in Canada.

## 10 Research and development

	<b>Three months ended March 31, 2010 \$ (Unaudited)</b>	<b>Three months ended March 31, 2009 \$ (Unaudited)</b>
Personnel	69,537	44,652
Research projects	210,321	187,593
Intellectual property	28,688	17,347
Business development	45,169	35,103
Travel	31,150	12,943
Facilities	22,265	13,897
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	407,130	311,535
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## 11 General and administrative

	<b>Three months ended March 31, 2010 \$ (Unaudited)</b>	<b>Three months ended March 31, 2009 \$ (Unaudited)</b>
Personnel	111,882	93,945
Professional fees	103,169	84,259
Travel	12,623	7,151
Facilities	9,244	8,290
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	236,918	193,644
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