

iCo Therapeutics Inc.
(a development stage company)

Interim Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 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 Consolidated Balance Sheets (in CDN dollars)

As at June 30, 2010

	June 30, 2010 \$ (Unaudited)	December 31, 2009 \$ (Audited)
Assets		
Current assets		
Cash and cash equivalents	736,569	1,384,802
Short-term investments	2,521,092	2,511,263
Taxes and other receivable	7,345	34,933
Prepaid expenses	34,553	22,499
	<u>3,299,559</u>	<u>3,953,497</u>
Equipment (note 5)	13,829	16,514
Intangible assets (note 6)	605,307	658,539
	<u>3,918,695</u>	<u>4,628,550</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	207,904	322,778
Shareholders' Equity (note 7)		
Capital stock	16,798,970	15,733,967
Contributed surplus	1,810,005	1,599,669
Warrants	97,628	335,128
Deficit	(14,995,812)	(13,362,992)
	<u>3,710,791</u>	<u>4,305,772</u>
	<u>3,918,695</u>	<u>4,628,550</u>

Approved by the Board of Directors:

(signed) William Jarosz

Director

(signed) Andrew Rae

Director

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest Revenue	\$ 6,975	\$ 621	\$ 13,845	\$ 2,247
Expenses				
Research and development (note 10)	432,924	280,116	840,055	591,651
General and administrative (note 11)	281,210	201,940	518,127	395,584
Amortization	29,333	28,825	58,887	57,957
Foreign Exchange	10,909	8,918	12,820	27,070
Stock-based compensation	56,531	37,708	216,776	72,294
	810,907	557,507	1,646,665	1,144,556
Net loss and comprehensive loss for the period	(803,932)	(556,886)	(1,632,820)	(1,142,309)
Deficit – Beginning of period	(14,191,880)	(11,639,925)	(13,362,992)	(11,054,502)
Deficit – End of period	\$ (14,995,812)	\$ (12,196,811)	\$ (14,995,812)	\$ (12,196,811)
Basic and diluted loss per share	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.05)
Weighted average number of shares	31,418,629	18,562,866	36,336,285	24,331,262

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Interim Consolidated Statements of Cash Flows (in CDN dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cash flows from operating activities				
Net loss and comprehensive loss for the year	\$ (803,932)	\$ (556,886)	\$(1,632,820)	\$(1,142,309)
Items not affecting cash				
Amortization	29,333	28,825	58,887	57,957
Stock-based compensation	56,532	37,708	216,776	72,294
	(718,067)	(490,353)	(1,357,157)	(1,012,058)
Changes in non-cash working capital				
Taxes or other receivable	37,120	3,452	27,588	27,422
Prepaid expenses	(2,248)	(4,855)	(12,055)	(15,219)
Accounts payable and accrued liabilities	(116,182)	76,373	(114,873)	(81,185)
	(799,377)	(415,383)	(1,456,497)	(1,081,040)
Cash flows from investing activities				
Sale of short-term investments	(4,192)	-	(9,829)	-
Purchase of equipment	-	-	(2,970)	4,177
	(4,192)	-	(12,799)	4,177
Cash flows from financing activities				
Exercise of options	-	-	10,500	-
Exercise of warrants	-	-	810,563	-
Issuance of units	-	(1,917)	-	1,238,075
	-	(1,917)	821,063	1,238,075
Increase (decrease) in cash	(803,569)	(417,300)	(648,233)	161,212
Cash and cash equivalents, beginning of period	1,540,138	1,198,788	1,384,802	620,276
Cash and cash equivalents, end of period	\$ 736,569	\$ 781,488	\$736,569	\$781,488

iCo Therapeutics Inc.

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Notes to the Interim Financial Statements

For the three and six months ended June 30, 2010 (unaudited)

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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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	June 30, 2010 \$
Cash and cash equivalents	Held for trading	Fair value	736,569
Short term investments	Held for trading	Fair value	2,521,092
Other receivables	Loans and receivables	Amortized costs using the effective interest method	7,345
Accounts payable and accrued liabilities	Other financial liabilities	Amortized costs using the effective interest method	207,904

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.

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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 past problems in the global credit markets have resulted in a meaningful reduction in the ability of the companies to raise capital through the public markets. Although there have been recent improvements, 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 June 30, 2010 USD denominated cash totalled USD \$42,800. The only accounts payable and accrued liabilities exposure is in USD and that total is \$83,205.

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 June 30, 2010, cash and cash equivalents held in Canadian dollar savings accounts or short term investments is \$2,521,092. The interest rates range from 0.05% to 1.0%.

5 Equipment

	June 30, 2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	34,513	26,944	7,569
Computer software	14,708	9,795	4,913
Office equipment	4,989	3,642	1,347
	<u>54,210</u>	<u>40,381</u>	<u>13,829</u>

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For the three and six months ended June 30, 2010 (unaudited)

	December 31, 2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Computer equipment	31,993	24,304	7,689
Computer software	14,258	7,279	6,979
Office equipment	4,989	3,143	1,846
	<u>51,240</u>	<u>34,726</u>	<u>16,514</u>

6 Intangible assets

	June 30, 2010	December 31, 2009
	\$	\$
Cost		
ISIS (iCo-007)	599,071	599,071
Medimmune (iCo-008)	464,935	464,935
	<u>1,064,006</u>	<u>1,064,006</u>
Accumulated amortization	458,699	405,467
Net book value	<u>605,307</u>	<u>658,539</u>

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
Balance at June 30, 2010	<u>41,057,301</u>	<u>16,798,970</u>

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For the three and six months ended June 30, 2010 (unaudited)

- 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.
- b) iCo entered into a Technology Transfer Agreement with Isis Pharmaceuticals, Inc. ("Isis") to transfer certain technology related to the manufacture of iCo-007 to iCo to support production of clinical grade drug product for iCo's planned Phase II clinical program. In consideration for the technology transfer, iCo issued a warrant (the "Warrant") to Isis to purchase 235,000 shares of iCo's Common Stock at an exercise price of \$0.61. The Warrant expires May 16, 2012.

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 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
Forfeited	(130,000)	0.23
June 30, 2010	<u>2,321,429</u>	<u>0.50</u>

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Warrants

At June 30, 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)	(1,875)		(166)
Issued (b)	<u>235,000</u>	0.61	<u>-</u>
Balance – June 30, 2010	<u>568,334</u>		<u>97,628</u>

Contributed surplus

	\$
Balance as at December 31, 2009	1,599,669
Stock based compensation	216,776
Transfer to capital stock on exercise of options	<u>(6,440)</u>
Balance as at June 30, 2010	<u>1,810,005</u>

8 Related party transactions

During the six months ended June 30, 2010, directors provided consulting services to the Company totalling \$24,500 (for the six months ended June 30, 2009 - \$3,000).

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.

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10 Research and development

	Six months ended June 30, 2010 \$ (Unaudited)	Six months ended June 30, 2009 \$ (Unaudited)
Personnel	167,850	96,010
Research projects	462,273	305,596
Intellectual property	61,355	67,254
Business development	48,481	67,909
Travel	52,719	25,352
Facilities	47,377	29,530
	<hr/> 840,055	<hr/> 591,651

11 General and administrative

	Six months ended June 30, 2010 \$ (Unaudited)	Six months ended June 30, 2009 \$ (Unaudited)
Personnel	204,690	195,466
Professional fees	260,675	161,162
Travel	31,945	22,006
Facilities	20,817	16,950
	<hr/> 518,127	<hr/> 395,584