

iCo Therapeutics Inc.

Condensed Interim Financial Statements
(Unaudited)

For the three and six months ended **June
30, 2013 and 2012**
(in Canadian dollars)

iCo Therapeutics Inc.

Balance Sheet (Unaudited)

(in Canadian dollars)

	Note	June 30, 2013 \$	December 31 2012 \$
Assets			
Current assets			
Cash and cash equivalents		420,160	599,457
Short-term investments		2,778,036	660,739
Taxes and other receivables		65,969	25,118
Deferred financing		22,604	22,604
Prepaid expenses		40,362	30,934
		<u>3,327,132</u>	<u>1,338,852</u>
Other investments	3	1,937,418	1,432,657
Equipment		7,444	8,125
Intangible assets		<u>186,815</u>	<u>233,801</u>
		<u>5,458,809</u>	<u>3,013,435</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	<u>2,285,069</u>	<u>963,731</u>
Shareholders' Equity			
Capital stock	5	22,701,258	19,978,848
Contributed surplus	5	2,943,781	2,403,324
Warrants	5	1,307,083	559,083
Accumulated other comprehensive (loss) income		(42,464)	250,776
Accumulated deficit		<u>(23,735,918)</u>	<u>(21,142,327)</u>
		<u>3,173,740</u>	<u>2,049,704</u>
		<u>5,458,809</u>	<u>3,013,435</u>

Nature of operations and going concern (note 1)

Subsequent events (note 7)

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.
Statements of Loss and Comprehensive Loss
Unaudited

(in Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Expenses				
Research and development	\$ 990,786	\$ 331,049	\$ 2,189,830	\$ 739,081
General and administrative	540,386	297,235	1,166,480	681,293
	<u>1,531,173</u>	<u>628,284</u>	<u>3,356,310</u>	<u>1,420,374</u>
Interest income	4,609	586	4,720	2,312
Other income	41,500	-	82,771	-
Gain on other investments (note 3)	798,001	-	798,001	-
Foreign exchange (loss)	<u>(84,751)</u>	<u>(5,274)</u>	<u>(122,772)</u>	<u>(6,672)</u>
	759,359	(4,688)	762,720	(4,360)
Loss for the period	(771,814)	(632,972)	(2,593,591)	(1,424,734)
Other comprehensive loss				
Change in fair value of the available –for-sale investment	<u>(261,848)</u>	<u>(24,000)</u>	<u>(293,240)</u>	<u>(6,900)</u>
Total comprehensive loss	<u>\$ (1,033,662)</u>	<u>\$ (656,972)</u>	<u>\$ (2,886,831)</u>	<u>\$ (1,431,634)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>	<u>\$ (0.03)</u>
Weighted average number of shares	<u>54,760,282</u>	<u>44,738,857</u>	<u>54,760,282</u>	<u>44,738,857</u>

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

iCo Therapeutics Inc.
Statements of Changes in Shareholders' Equity
Unaudited

(in Canadian dollars)

	Number of shares	Capital stock \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income \$	Accumulated deficit \$	Shareholders' equity \$
Balance - December 31, 2011	46,632,301	17,587,930	2,228,455	335,529	38,520	(17,499,644)	2,690,790
Issuance of common shares	12,000	3,000	-	-	-	-	3,000
Exercise of warrants	-	773	-	(773)	-	-	-
Expired warrants	-	-	93,083	(93,083)	-	-	-
Share-based compensation	-	-	76,125	-	-	-	76,125
Other comprehensive income	-	-	-	-	2,580	-	2,580
Loss for the period	-	-	-	-	-	(1,424,734)	(1,424,734)
Balance – June 30, 2012	46,644,301	17,591,703	2,397,663	241,673	41,100	(18,924,378)	1,347,761
Balance - December 31, 2012	53,608,627	19,978,848	2,403,324	559,083	250,776	(21,142,327)	2,049,704
Issuance of common shares	9,655,771	2,967,135	-	-	-	-	2,967,135
Exercise of options	100,000	58,000	(29,000)	-	-	-	29,000
Allocation of warrants	-	(795,583)	-	795,583	-	-	-
Exercise of warrants	1,149,832	492,858	-	(47,583)	-	-	445,275
Share-based compensation	-	-	569,457	-	-	-	569,457
Other comprehensive loss	-	-	-	-	(293,240)	-	(293,240)
Loss for the period	-	-	-	-	-	(2,593,591)	(2,593,591)
Balance – June 30, 2013	64,514,230	22,701,258	2,943,781	1,307,083	(42,464)	(23,735,918)	3,173,740

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

iCo Therapeutics Inc.

Statements of Cash Flows

Unaudited

(in Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cash flows from operating activities				
(Loss) Income for the period	\$ (771,814)	\$ (632,972)	\$ (2,593,591)	\$ (1,424,734)
Items not affecting cash				
Gain on other investments	(798,001)	-	(798,001)	-
Amortization	23,494	27,593	47,668	48,179
Stock-based compensation	186,398	-	569,457	76,125
Unrealized foreign exchange loss	(110,795)	-	(85,042)	-
	(1,470,718)	(605,379)	(2,859,509)	(1,300,430)
Changes in non-cash working capital				
Taxes and other receivable	(1,107)	(7,052)	(40,851)	(535)
Deferred financing	-	(52,335)	-	(52,335)
Prepaid expenses	(12,974)	(3,127)	(9,429)	7,606
Accounts payable and accrued liabilities	557,761	224,161	1,412,089	291,630
Net cash flow used in operating activities	(927,038)	(443,732)	(1,497,701)	(1,054,064)
Cash flows from investing activities				
Sale of short-term investments	(2,216,523)	259,910	(2,117,297)	959,663
Net cash flow from investing activities	(2,216,523)	259,910	(2,117,297)	959,663
Cash flows from financing activities				
Issuance of common shares	2,967,135	-	2,967,135	-
Exercise of options	-	-	29,000	-
Exercise of warrants	88,874	1,500	445,274	3,000
Net cash flow from financing activities	3,056,009	1,500	3,441,409	3,000
Effect of foreign currency exchange rates on cash and cash equivalents	(3,164)	-	(5,712)	-
(Decrease) increase in cash and cash equivalents	(90,716)	(182,322)	(179,296)	(91,401)
Cash and cash equivalents, beginning of period	510,876	346,469	599,457	255,548
Cash and cash equivalents, end of period	\$ 420,160	\$ 164,147	\$ 420,160	\$ 164,147

Supplementary information

Cash received for interest within operating activities	4,720	2,312
Other investments	798,001	-

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

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and six months ending June 30, 2013 and 2012

(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 across 27 clinical sites in the US and subsequently announced on September 26, 2011 a research and collaboration with Juvenile Diabetes Research Foundation (“JDRF”) to support the Phase II trial. The Phase II trial has completed patient enrollment. 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. On February 21, 2013, IMMUNE announced it was initiating a Phase II clinical trial with iCo-008 (“Bertilimumab”) in patients with ulcerative colitis. 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, recruiting 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

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 below cast significant doubt on the validity of that assumption.

For the six months ended June 30, 2013, the Company reported a loss of \$2,593,591 (2012: loss of \$1,424,734) and an accumulated deficit of \$23,735,918 at that date. As at June 30, 2013, iCo had cash and cash equivalents and short-term investments on hand of \$3,198,196 (December 31, 2012 - \$1,260,196) and working capital balance of \$1,042,063 (December 31, 2012: \$375,121). As iCo does not have the prospect of achieving revenue in the near future, iCo will require additional funding to maintain its research and development projects and for general operations.

Consequently, management continues to pursue 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

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

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equity, exercise of in-the-money warrants, potential monetization of investments and/or the entering into of strategic partnership arrangements. Nevertheless, there is no assurance that these initiatives will be successful.

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

These condensed interim financial statements for the three and six months ended June 30, 2013 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, 2012 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, 2012.

These financial statements were approved by the board of directors for issue on August 26, 2013.

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. In preparing these condensed financial statements, the significant judgements made by management and key sources of estimation were the same as those applied to the financial statements at December 31, 2012.

Government grant

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions complied with. Reimbursements of eligible costs pursuant to government programs are recorded as a reduction of total costs when the related costs have been incurred and there is reasonable assurance regarding collection of the claim. Claims not settled by the balance sheet date are recorded as a receivable on the balance sheet. The determination of the amount of the claim, and hence the receivable amount, requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the program. The reimbursement claims submitted by the Company are subject to review by the relevant government agency. If a grant becomes repayable, it will be treated as a change in estimate.

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

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3 Other investments

Movement in other investments for the six months ended June 30, 2013 is as follows:

	Shares	Warrants	\$
Balance - December 31, 2012		200,000	1,432,657
Addition	458,621		798,001
Change in fair value			<u>(293,240)</u>
Balance – June 30, 2013			<u>1,937,418</u>

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. The IMMUNE shares contained certain anti-dilution features such that the Company’s equity position in IMMUNE would be maintained at 6.14%, subject to certain conditions. Subsequently, the Company has been issued an additional 458,621 IMMUNE shares for a total holding of 1,058,621 IMMUNE shares. Most recently, the fair market value of IMMUNE shares was determined to be US\$1.74. Consequently as a result of these changes, the Company has adjusted the carrying value of its investment in IMMUNE.

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and six months ending June 30, 2013 and 2012

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4 Accounts payable and accrued liabilities

	June 30, 2013 \$	December 31, 2012 \$
Trade payables	157,047	119,047
Accruals related to clinical expenses (i)	2,086,006	764,865
Other accruals	42,016	79,819
	<u>2,285,069</u>	<u>963,731</u>

- i) Accruals in the amount of \$2,086,006 are primarily related to expenses incurred for the Company's Phase II clinical trial payable to JDRF. These accruals are due over the next twelve month period.

5 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount \$
Balance - December 31, 2012	53,608,627	19,978,848
Issue of shares	9,655,771	3,379,520
Share issuance costs		(412,385)
Allocation to warrants		(795,583)
Exercise of options	100,000	29,000
Transfer from contributed surplus on exercise of options		29,000
Exercise of warrants	1,149,832	445,274
Transfer from warrants on exercise of warrants		47,583
Balance – June 30, 2013	<u>64,514,230</u>	<u>22,701,258</u>

- a) On May 10, 2013, the Company announced that it issued 9,655,771 units ("Units") at a price of \$0.35 per unit for aggregate gross proceeds of \$3,379,520. Each Unit includes one common share and one common share purchase warrant (a "Warrant"). Each Warrant is exercisable at a price of \$0.40 for a period of five years from the closing of the Offering. The selling group was paid a cash commission equal to 8% of the gross proceeds of the Offering and receive that number of compensation warrants ("Compensation Warrant") equal to 5% of the number of Units sold pursuant to the Offering. The Compensation Warrants have the same terms and conditions as the Warrants included in the Units.
- b) The Warrants were valued utilizing the Black-Scholes Model. The Warrants were valued at \$866,670 and the Compensation Warrants were valued at \$46,623. The Compensation Warrant costs of the Offering, of

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which \$34,667 was allocated to share capital and \$11,956 was allocated to Warrants. The Company also incurred cash share issuance costs of \$412,385 which was allocated to the Common share and Warrants. The key assumptions used to estimate the fair value of Warrants and Agent Units were: dividend yield 0%; volatility 84%; and risk-free interest rate 1.00%.

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, 2012	1,960,000	0.39
Granted	1,100,000	0.73
Exercised	(100,000)	0.29
Expired	(35,000)	0.98
Balance – June 30, 2013	2,925,000	0.51

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at June 30, 2013	Weighted average exercise price \$
0.18 - 0.30	1,125,000	3.04	0.28	1,106,250	0.28
0.40 - 0.60	700,000	1.45	0.54	700,000	0.54
0.73	1,100,000	4.56	0.73	366,662	0.73
	2,925,000	3.23	0.51	2,172,912	0.44

Warrants

	Number of warrants	Exercise price \$	Amount \$
Balance - December 31, 2012	11,049,390		559,083
Granted	10,138,560	0.40	795,583
Exercise of warrants	(1,149,832)	0.30 - 0.60	(47,583)

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(in Canadian dollars)

Balance – June 30, 2013	<u>20,038,118</u>	<u>1,307,083</u>
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Contributed surplus

		\$
Balance - December 31, 2012		2,403,324
Share-based compensation		569,457
Exercise of options		<u>(29,000)</u>
Balance – June 30, 2013		<u>2,943,781</u>

6 Related party transactions

For the six months ending June 30, 2013, the Company incurred director's fees totalling \$30,500 (June 30, 2012 - \$24,500). For the three months ending June 30, 2012, the Company incurred director's fees totalling \$15,250 (June 30, 2012 - \$6,250). Compensation of key management:

	June 30, 2013 \$	June 30, 2012 \$
Salaries	232,500	232,500
Directors fees	30,500	24,500
Share-based payments	414,150	25,191
	<u>677,150</u>	<u>282,191</u>

7 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.

8 Subsequent events

At a Special Meeting of Shareholders of Epicept Corporation ("Epicept") held on August 6, 2013, Epicept shareholders approved the final conditions to the previously announced merger between IMMUNE and EpiCept. Almost 92% of the votes were cast in favor of the proposals, representing more than 66% of EpiCept's outstanding stock as of the record date. Additionally, shareholders approved a reverse stock split of the outstanding common stock at a ratio of one for forty (1:40), subject to an adjustment not to exceed 25%, as reasonably determined by the Board of Directors. The reverse stock split is being undertaken to increase the price per share of EpiCept's common stock, which will be a requirement for having its shares listed in the future

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and six months ending June 30, 2013 and 2012

(in Canadian dollars)

for trading on a national securities exchange in the United States. It is anticipated that the merger will close on or around the end of August. Following the closing of the merger, Immune plans to enroll patients into a multi-national Phase II trial of bertilimumab for the treatment of moderate-to-severe ulcerative colitis. In late 2013, the company expects to expand the Phase II program to the treatment of bullous pemphigoid, a rare auto-immune condition that affects the skin and causes the formation of blisters. Data from these trials are expected in 2014.

