

# **iCo Therapeutics Inc.**

Condensed Interim Financial Statements  
(Unaudited)

For the three and nine months ended  
September 30, 2013 and 2012  
(in Canadian dollars)

# iCo Therapeutics Inc.

## Balance Sheet (Unaudited)

(in Canadian dollars)

	Note	September 30, 2013 \$	December 31 2012 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		644,204	599,457
Short-term investments		1,498,796	660,739
Other investments	3	1,447,633	-
Taxes and other receivables		9,441	25,118
Deferred financing		22,604	22,604
Prepaid expenses		17,779	30,934
		<u>3,640,457</u>	<u>1,338,852</u>
<b>Other investments</b>	3	-	1,432,657
<b>Equipment</b>		7,025	8,125
<b>Intangible assets</b>		<u>163,317</u>	<u>233,801</u>
		<u>3,810,798</u>	<u>3,013,435</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	4	<u>2,852,676</u>	<u>963,731</u>
<b>Shareholders' Equity</b>			
<b>Capital stock</b>	5	22,730,229	19,978,848
<b>Contributed surplus</b>	5	3,036,579	2,403,324
<b>Warrants</b>	5	1,303,483	559,083
<b>Accumulated other comprehensive (loss) income</b>		(659,422)	250,776
<b>Accumulated deficit</b>		<u>(25,452,747)</u>	<u>(21,142,327)</u>
		<u>958,122</u>	<u>2,049,704</u>
		<u>3,810,798</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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>Expenses</b>				
Research and development	\$ 1,368,337	\$ 582,302	\$ 3,558,167	\$ 1,321,383
General and administrative	422,692	338,798	1,589,172	1,020,091
	<u>1,791,030</u>	<u>921,100</u>	<u>5,147,339</u>	<u>2,341,474</u>
<b>Interest income</b>	3,621	1,808	8,341	4,120
<b>Other income</b>	(41,143)	1,795	41,628	1,795
<b>Gain on other investments (note 3)</b>	127,173	-	925,174	-
<b>Foreign exchange (loss)</b>	<u>(15,450)</u>	<u>7,724</u>	<u>(138,223)</u>	<u>1,052</u>
	74,202	11,327	836,920	6,967
<b>Loss for the period</b>	(1,716,828)	(909,772)	(4,310,419)	(2,334,506)
<b>Other comprehensive loss</b>				
Change in fair value of the available –for-sale investment	<u>(616,958)</u>	<u>(25,380)</u>	<u>(910,198)</u>	<u>(1,380)</u>
<b>Total comprehensive loss</b>	<u>\$ (2,333,786)</u>	<u>\$ (935,152)</u>	<u>\$ (5,220,617)</u>	<u>\$ (2,335,886)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.07)</u>	<u>\$ (0.05)</u>
<b>Weighted average number of shares</b>	<u>58,030,658</u>	<u>47,381,932</u>	<u>58,030,658</u>	<u>47,381,932</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 \$
<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
Private Placement	5,675,332	2,165,430	-	388,469	-	-	2,553,899
Share cap costs	-	(375,925)	-	(36,579)	-	-	(412,504)
Exercise of warrants	387,000	103,530	-	(6,780)	-	-	96,750
Expired warrants	-	-	93,083	(93,083)	-	-	-
Share-based compensation	-	-	162,136	-	-	-	162,136
Other comprehensive income	-	-	-	-	(39,900)	-	(39,900)
Loss for the period	-	-	-	-	-	(2,334,506)	(2,334,506)
<b>Balance – September 30, 2012</b>	<b>52,694,633</b>	<b>19,480,965</b>	<b>2,483,674</b>	<b>587,556</b>	<b>(1,380)</b>	<b>(19,834,150)</b>	<b>2,716,665</b>
<b>Balance - December 31, 2012</b>	53,608,627	19,978,848	2,403,324	559,083	250,776	(21,142,328)	2,049,703
Issuance of common shares	9,655,771	2,965,506	-	-	-	-	2,965,506
Exercise of options	100,000	58,000	(29,000)	-	-	-	29,000
Allocation of warrants	-	(795,583)	-	795,584	-	-	-
Exercise of warrants	1,239,832	523,458	-	(51,183)	-	-	472,275
Share-based compensation	-	-	662,255	-	-	-	662,255
Other comprehensive loss	-	-	-	-	(910,198)	-	(910,198)
Loss for the period	-	-	-	-	-	(4,310,419)	(4,310,419)
<b>Balance – September 30, 2013</b>	<b>64,604,230</b>	<b>22,730,229</b>	<b>3,036,579</b>	<b>1,303,483</b>	<b>(659,422)</b>	<b>(25,452,747)</b>	<b>958,122</b>

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

# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

### For the three and nine months ending September 30, 2013 and 2012

(in Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>Cash flows from operating activities</b>				
(Loss) Income for the period	\$ (1,716,828)	\$ (909,772)	\$ (4,310,419)	\$ (2,334,506)
Items not affecting cash				
Gain on other investments	(127,173)	-	(925,174)	-
Amortization	23,917	24,076	71,585	72,255
Stock-based compensation	138,989	-	708,446	76,125
Interest received	-	-	8,341	-
Unrealized foreign exchange loss	112,452	-	27,410	-
	(1,560,302)	(885,697)	(4,419,811)	(2,186,127)
Changes in non-cash working capital				
Taxes and other receivable	56,523	(7,315)	15,678	(7,848)
Deferred financing	-	29,731	-	(22,604)
Prepaid expenses	22,584	(4,599)	13,154	3,006
Accounts payable and accrued liabilities	398,737	63,011	1,810,826	354,640
Net cash flow used in operating activities	(1,082,453)	(804,869)	(2,580,153)	(1,585,933)
<b>Cash flows from investing activities</b>				
Purchase of equipment	-	(2,975)	-	(2,975)
Sale of short-term investments	(1,279,241)	(199,239)	(838,056)	760,371
Net cash flow from investing activities	(1,271,241)	(202,268)	(838,056)	757,396
<b>Cash flows from financing activities</b>				
Issuance of common shares	(1,629)	2,227,406	2,965,506	2,227,406
Exercise of options	-	-	29,000	-
Exercise of warrants	27,000	93,750	472,274	96,750
Net cash flow from financing activities	25,371	2,321,156	3,466,780	2,324,156
Effect of foreign currency exchange rates on cash and cash equivalents	1,888	-	(3,824)	-
<b>(Decrease) increase in cash and cash equivalents</b>	224,044	(1,314,020)	44,748	(1,222,619)
<b>Cash and cash equivalents, beginning of period</b>	420,160	164,147	599,457	255,548
<b>Cash and cash equivalents, end of period</b>	\$ 644,204	\$ 1,478,167	\$ 644,204	\$ 1,478,167

### Supplementary information

Cash received for interest within operating activities  
Other investments

-  
925,174

4,120  
-

# **iCo Therapeutics Inc.**

Notes to Condensed Financial Statements (Unaudited)

**For the three and nine months ending September 30, 2013 and 2012**

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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 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 nine months ended September 30, 2013, the Company reported a loss of \$4,310,419 (2012: loss of \$2,334,506) and an accumulated deficit of \$25,452,747 at that date. As at September 30, 2013, iCo had cash and cash equivalents and short-term investments on hand of \$3,590,632 (December 31, 2012 - \$1,260,196) and a working capital balance of \$787,781 (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.

# **iCo Therapeutics Inc.**

## **Notes to Condensed Financial Statements (Unaudited)**

**For the three and nine months ending September 30, 2013 and 2012**

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(in Canadian dollars)

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 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 nine months ended September 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 November 27, 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)

For the three and nine months ending September 30, 2013 and 2012

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(in Canadian dollars)

## 3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the group's assets and liabilities that are measured at fair value at September 30, 2013 and December 31, 2012.

			At December 31, 2012
<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available for sale -equity	-	-	1,432,656
Fair value through profit and loss	-	-	1

  

			At September 30, 2013
<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available for sale -equity	-	1,320,460	-
Fair value through profit and loss	-	-	127,173

Transfers between Levels 3 and 2 are addressed in the level 3 reconciliation below.

Fair value measurement using significant unobservable inputs (Level 3)

	<b>Level 2</b>	<b>Level 3</b>
Opening balance at January 1, 2013	1,432,657	-
Addition (insignificant difference)	796,893	-
Transfer to (from)* Level 3	(1,915,744)	1,915,744
Change in fair value recognized statement of loss	127,173	-
Change in fair value in other comprehensive loss	(313,806)	(596,392)
Closing balance at September 30, 2013	<u>127,173</u>	<u>1,319,352</u>

# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

### For the three and nine months ending September 30, 2013 and 2012

(in Canadian dollars)

\* in 2013, the company transferred a held-for-equity instrument that has been fair valued using a most recent financing for these instruments from Level 3 into Level 2.

#### Other investments

Movement in other investments for the nine months ended September 30, 2013 is as follows:

	Shares	Warrants	\$
Balance - December 31, 2012	600,000	200,000	1,432,657
Addition (note a)	458,621		798,001
Change in fair value			(293,240)
Balance – June 30, 2013	1,058,621	200,000	1,937,418
Change due to merger (note b)	(404,135)		(616,958)
Change in value of derivative (note b)		(76,351)	127,173
Balance – September 30, 2013	654,486	123,649	1,447,633

- a) 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. As at June 30, 2013, 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.
- b) On August 26, 2013 IMMUNE completed a merger (the “Merger”) with EpiCept Corporation (“Epiccept”), a public company traded on the OTCQX market in the United States. The new entity changed its name to Immune Pharmaceuticals, Inc. and now trades under the symbol IMNP. Under the Merger, Immune shareholders received an approximate 81% ownership position of the combined company (subject to certain adjustments) and accordingly, at completion of the Merger, the Company’s ownership of Immune shares was reduced from 1,058,621 at June 30, 2013 to 654,486 as at September 30, 2013. Further, the Company’s warrant ownership in Immune (the Immune Warrants”) was reduced from 200,000 warrants to 123,649 warrants. Immune’s share price as at August 26, 2013, the date of the Merger, was US\$3.48 and the share price of Immune at September 30, 2013 was US\$2.45. The Immune shares have been designated a Level 2 financial instrument for the purposes of determining fair value. The fair value of the Immune shares has been determined based on the number of Immune shares held at September 30, 2013, multiplied by the share price of US\$2.45. A discount factor of 20% has been applied given that the shares are not freely tradable until February 25, 2014. The Immune Warrants were valued using the Black

# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ending September 30, 2013 and 2012

(in Canadian dollars)

Scholes pricing model. The inputs used for the model are as follows: Stock price US\$1.96, strike price US\$2.63, term of 3 years, volatility of 91% and a risk free interest rate of 1.42%. As the Immune Shares and Immune Warrants are considered available for sale, they have been included in current assets.

### 4 Accounts payable and accrued liabilities

	September 30, 2013 \$	December 31, 2012 \$
Trade payables	139,937	119,047
Accruals related to clinical expenses (i)	2,677,589	764,865
Other accruals	35,149	79,819
	<u>2,852,675</u>	<u>963,731</u>

- i) Accruals in the amount of \$2,677,589 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		(414,013)
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	1,239,832	472,274
Transfer from warrants on exercise of warrants		51,183
Balance – September 30, 2013	<u>64,604,230</u>	<u>22,730,229</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

# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

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(in Canadian dollars)

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 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	1,140,000	0.73
Exercised	(100,000)	0.29
Expired	(35,000)	0.98
	<hr/>	
Balance – September 30, 2013	2,965,000	0.51

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2013	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at September 30, 2013	Weighted average exercise price \$
0.18 - 0.30	1,125,000	2.79	0.28	1,106,250	0.28
0.40 - 0.60	740,000	1.20	0.54	726,400	0.54
0.73	1,100,000	4.31	0.73	726,000	0.73
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	2,965,000	2.98	0.51	2,558,650	0.44

# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

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(in Canadian dollars)

### 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	<u>(1,239,832)</u>	0.30 - 0.60	<u>(51,183)</u>
Balance – September 30, 2013	<u>19,948,118</u>		<u>1,303,483</u>

### Contributed surplus

	\$
Balance - December 31, 2012	2,403,324
Share-based compensation	662,255
Exercise of options	<u>(29,000)</u>
Balance – September 30, 2013	<u>2,036,579</u>

## 6 Related party transactions

For the nine months ending September 30, 2013, the Company incurred director's fees totalling \$45,750 (September 30, 2012 - \$42,750). For the three months ending September 30, 2013, the Company incurred director's fees totalling \$15,250 (September 30, 2012 - \$15,250). Compensation of key management:

	September 30, 2013 \$	September 30, 2012 \$
Salaries	364,584	348,750
Directors fees	45,750	78,750
Share-based payments	<u>515,233</u>	<u>54,375</u>
	<u>925,567</u>	<u>481,875</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

# **iCo Therapeutics Inc.**

Notes to Condensed Financial Statements (Unaudited)

**For the three and nine months ending September 30, 2013 and 2012**

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(in Canadian dollars)

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**

Subsequent to the quarter ended September 30, 2013, 3,270,000 warrants from the November 1<sup>st</sup>, 2011 financing which were exercisable at \$0.30 and due on November 1<sup>st</sup> (the "Warrants"), have been exercised for total proceeds of approximately \$962,000.

Of the total 5,767,000 warrants issued during the financing in November 2011, 4,834,000 (84%) were exercised for total gross proceeds of \$1,450,200. No warrants from the financing remain outstanding.

