iCo Therapeutics Inc.

(a development stage company)

Financial Statements
December 31, 2012 and 2011
(in Canadian dollars)

April 23, 2013

Independent Auditor's Report

To the Shareholders
of iCo Therapeutics Inc.

We have audited the accompanying financial statements of iCo Therapeutics Inc., which comprise the balance sheets as at December 31, 2012 and December 31, 2011 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of iCo Therapeutics Inc. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements which discloses matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about iCo Therapeutics Inc.'s ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

iCo Therapeutics Inc.

(a development stage company)

Balance Sheets

As at December 31, 2012 and 2011

(in Canadian dollars)

	Note	2012 $	2011 $
Assets			
Current assets			
Cash and cash equivalents		599,457	255,548
Short-term investments		660,739	1,070,851
Taxes and other receivables	5	25,118	26,155
Deferred financing		22,604	-
Prepaid expenses		30,934	46,214
		1,338,852	1,398,768
Other investments	4	1,432,657	1,220,401
Equipment	6	8,125	7,631
Intangible assets	7	233,801	319,129
		3,013,435	2,945,929
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	963,731	255,139
Shareholders' Equity			
Capital stock	9	19,978,848	17,587,930
Contributed surplus	9	2,403,324	2,228,455
Warrants	9	559,083	335,529
Accumulated other comprehensive income		250,776	38,520
Accumulated deficit		(21,142,327)	(17,499,644)
		2,049,704	2,690,790
		3,013,435	2,945,929

Nature of operations and going concern (note 1)

Commitments and contingencies (note 16)

Subsequent events (note 19)

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.

(a development stage company)

Statements of Loss and Comprehensive Loss

For the years ended December 31, 2012 and 2011

(in Canadian dollars)

	Note	2012 $	2011 $
Expenses			
Research and development	12	2,287,148	1,126,378
General and administrative	13	1,374,710	1,347,515
Foreign exchange gain		(7,468)	(765)
		3,654,390	2,473,128
Interest income		7,831	14,305
Other income	4	3,876	203,076
Gain on sale of rights	4	-	1,223,736
		11,707	1,441,117
Loss for the year		3,642,683	1,032,011
Other comprehensive income			
Changes in fair value of the available-for-sale investment		212,256	38,520
Total comprehensive loss		3,430,427	993,491
Basic and diluted loss per share		(0.07)	(0.02)
Weighted average number of shares (basic and diluted)		49,499,654	41,958,476

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 years ended December 31, 2012 and 2011

(in Canadian dollars)

	Number of shares	Capital stock $	Contributed surplus $	Warrants $	Accumulated other comprehensive income $	Accumulated deficit $	Shareholders' equity $
Balance - December 31, 2010	41,057,301	16,798,970	1,975,652	80,631	-	(16,467,633)	2,387,620
Issuance of common shares and warrants	5,575,000	853,317	-	261,683	-	-	1,115,000
Share issue costs	-	(64,357)	-	(19,737)	-	-	(84,094)
Broker warrants issuance on private placement	-	-	-	12,952	-	-	12,952
Share-based compensation	-	-	252,803	-	-	-	252,803
Other comprehensive income	-	-	-	-	38,520	-	38,520
Loss for the year	-	-	-	-	-	(1,032,011)	(1,032,011)
Balance - December 31, 2011	46,632,301	17,587,930	2,228,455	335,529	38,520	(17,499,644)	2,690,790
Private placement (note 9)	5,675,332	2,165,430	-	388,469	-	-	2,553,899
Share issue costs	-	(289,914)	-	(36,579)	-	-	(326,493)
Exercise of warrants (note 9)	1,300,994	515,402	-	(47,705)	-	-	467,697
Expired warrants	-	-	80,631	(80,631)	-	-	-
Share-based compensation	-	-	94,238	-	-	-	94,238
Other comprehensive income	-	-	-	-	212,256	-	212,256
Loss for the year	-	-	-	-	-	(3,642,683)	(3,642,683)
Balance - December 31, 2012	53,608,627	19,978,848	2,403,324	559,083	250,776	(21,142,327)	2,049,704

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

iCo Therapeutics Inc.

(a development stage company)

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(in Canadian dollars)

	2012 $	2011 $
Cash flows from operating activities		
Loss for the year	(3,642,683)	(1,032,011)
Items not affecting cash		
Amortization and other	87,809	109,286
Share-based compensation	94,238	252,803
Gain on sale of rights	-	(1,223,736)
Unrealized foreign exchange loss	8,201	6,457
	(3,452,435)	(1,887,201)
Changes in non-cash working capital		
Taxes and other receivables	1,037	19,811
Deferred financing	(22,604)	-
Prepaid expenses	15,280	(24,905)
Accounts payable and accrued liabilities	697,754	(40,335)
	(2,760,968)	(1,932,630)
Cash flows from investing activities		
Purchase of equipment	(2,975)	(2,106)
Redemption of short-term investments	410,112	337,544
Net proceeds on sale of intangible assets	-	179,255
	407,137	514,693
Cash flows from financing activities		
Exercise of warrants	467,697	-
Net proceeds from issuance of units	2,227,406	1,043,858
	2,695,103	1,043,858
Effect of foreign currency exchange rates on cash and cash equivalents	2,637	(2,685)
Increase (decrease) in cash and cash equivalents	343,909	(376,764)
Cash and cash equivalents - Beginning of year	255,548	632,312
Cash and cash equivalents - End of year	599,457	255,548
Supplementary information		
Cash received for interest within operating activities	7,831	14,305
Non-cash investing activities		
Share and warrant consideration from sale of intangible assets	-	1,181,880
Non-cash financing activities		
Broker warrants issued in private placement	-	12,952

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

(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 research and collaboration with Juvenile Diabetes Research Foundation ("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 substantially 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. 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

For the year ended December 31, 2012, the Company reported a loss of $3,642,683 (2011 - $1,032,011) and an accumulated deficit of $21,142,327 at that date. As at December 31, 2012, iCo has cash and cash equivalents and short-term investments on hand of $1,260,196 (2011 - $1,326,399) and a positive working capital balance of $375,121 (2011 - $1,143,629). 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. Management believes that without additional funding iCo's ability to meet its obligations as they come due is in doubt.

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.

(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 April 23, 2013.

Critical accounting 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. The Company regularly reviews its estimates; however, actual amounts could differ from the estimates used and, accordingly, materially affect the results of operations. Areas requiring management to make significant estimates and judgments include the impairment of intangible assets, clinical trial accruals, and valuation of investment in IMMUNE.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 and critical judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include: the impairment of intangible assets, clinical trial accruals, and fair value of other investments.

a) Impairment of intangible assets

The Company assesses at least on every reporting period whether there are indicators of impairment in accordance with the accounting policy stated in the note referenced in these financial statements. There were no indicators of impairment identified by management at year-end.

(in Canadian dollars)

b) Clinical trial accruals

Management examines the accruals in relation to clinical trials on a monthly basis based on the number of patients enrolled in the trials and the stage in the trials. Accruals are based on information obtained from various clinics and estimated costs based on the stage of treatment.

c) Fair value of other investments

The fair value of the other investments is determined by using valuation techniques. The Company uses its estimates and judgment to select a variety of methods as prescribed under the accounting standards. At year-end management utilized a recent financing transaction as a metric in determining the fair value of the 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 statement of loss.

Foreign currency translation

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

Foreign currency transactions are translated into Canadian dollars 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 statement 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: loans and receivables, available-for-sale financial assets, and financial liabilities at amortized cost. Management determines the classification of its financial assets at initial recognition.

(in Canadian dollars)

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 statement 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 loss and are included in other gains and losses (net). Available-for-sale investments are classified as non-current, unless an investment matures within 12 months, or management expects to dispose of it within 12 months.

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 of cash and cash equivalents, short-term investments and other receivables, 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 accounts payable, which 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.

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.

(in Canadian dollars)

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

a) Financial assets carried at amortized cost: The impairment 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 statement 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.

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 asset's 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. Amortization 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 statement of loss.

Intangible assets (including research and development expenses)

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

(in Canadian dollars)

Research and development expenses include payroll, employee benefits, share-based payments, and other headcount-related expenses associated with product development. Research and development expenses also include third-party development and clinical trial expenses. Such costs related to product development are included in research and development expense until the point that technological feasibility is reached, which for the Company's products, is generally shortly before the products are approved by the authorities. Once technological feasibility is reached, such costs are capitalized and amortized to cost of revenue over the estimated lives of the products.

Expenditures associated with the maintenance of the licensing are expensed as incurred. Other development expenditures that do not meet the criteria for capitalization are recognized as an expense when 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 values 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 use (being the present value of the expected future cash flow of the relevant asset or CGU). Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

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.

(in Canadian dollars)

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 and the dilutive impact of outstanding warrants and options during the period.

3 Accounting standards issued and not yet applied

The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company.

a) Financial instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments,* as the first step in its project to replace International Accounting Standards ("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 addresses 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 that the 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 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.

c) Presentation of financial statements

As of January 1, 2013, the Company will be required to adopt the amendments of IAS 1, *Presentation of Financial Statements,* as it relates to the presentation of other comprehensive income ("OCI"). The amendments to this standard do not change the nature of the items that are currently recognized in OCI but require presentational changes. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

(in Canadian dollars)

4 Other investments

a) In December 2010, iCo granted IMMUNE, based in Israel and the United States, an option to an exclusive licence (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 licence 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 licenced 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 licence fee payment of US$1 million. Accordingly, it was recognized as licence 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 US$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 common 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.

(in Canadian dollars)

iCo has recognized a gain on the sale of these rights in the amount of $1,223,736 the details of which are described in the following table:

	Warrants	Shares	$
Consideration			
Cash	-	-	196,980
Common share warrants of IMMUNE	200,000	-	1
Common shares of IMMUNE	-	600,000	1,181,880
Total consideration			1,378,861
Asset disposed			
Cost of rights transferred			(137,400)
Legal fees			(17,725)
Total cost of disposal			(155,125)
Gain on disposal			1,223,736

As at December 31, 2012, the 200,000 IMMUNE warrants increased to 383,571 due to the dilution criteria in the original agreement.

b) Movement in other investments during the years ended December 31, 2012 and 2011 is as follows:

	$
Balance - December 31, 2010	-
Additions	1,181,881
Change in fair value	38,520
Balance - December 31, 2011	1,220,401
Additions	-
Change in fair value	212,256
Balance - December 31, 2012	1,432,657

5 Taxes and other receivables

	2012 $	2011 $
Taxes (HST)	21,432	26,155
Other receivable	3,686	-
	25,118	26,155

(in Canadian dollars)

6 Equipment

	January 1, 2012						December 31, 2012
	Opening cost $	Additions $	Closing cost $	Opening amortization $	Amortization $	Closing amortization $	Net $
Computer equipment	40,494	2,975	43,469	33,022	2,322	35,344	8,125
Computer software	14,708	-	14,708	14,652	56	14,708	-
Office equipment	4,989	-	4,989	4,886	103	4,989	-
	60,191	2,975	63,166	52,560	2,481	55,041	8,125

	January 1, 2011						December 31, 2011
	Opening cost $	Additions $	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

	January 1, 2012							December 31, 2012
	Opening cost $	Disposals $	Closing cost $	Opening amortization $	Amortization $	Disposals $	Closing amortization $	Net $
ISIS (iCo-007)	599,071	-	599,071	407,131	64,195	-	471,326	127,745
MedImmune	232,467	-	232,467	105,278	21,133	-	126,411	106,056
	831,538	-	831,538	512,409	85,328	-	597,737	233,801

	January 1, 2011							December 31, 2011
	Opening cost $	Disposals $	Closing cost $	Opening amortization $	Amortization $	Disposals $	Closing amortization $	Net $
ISIS (iCo-007)	599,071	-	599,071	342,933	64,198	-	407,131	191,940
MedImmune	464,935	(232,468)	232,467	168,999	31,347	(95,068)	105,278	127,189
	1,064,006	(232,468)	831,538	511,932	95,545	(95,068)	512,409	319,129

(in Canadian dollars)

8 Accounts payable and accrued liabilities

	2012 $	2011 $
Trade payables	119,047	115,281
Accruals related to clinical expenses (i)	764,865	95,059
Other accruals	79,819	44,799
	963,731	255,139

i) Accruals in the amount of $764,865 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. As of April 23, 2013, we have treated 174 subjects with iCo-007 for which we expect to have primarily end point data in late 2013.

9 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount $
Balance - December 31, 2010	41,057,301	16,798,970
Net proceeds allocated from the private placements	5,575,000	788,960
Balance - December 31, 2011	46,632,301	17,587,930
Shares issued (a)	5,675,332	2,553,899
Share issue costs (a)	-	(289,914)
Attributable to warrants (a)	-	(388,469)
Transfer from warrants on exercise of warrants	1,300,994	515,402
Balance - December 31, 2012	53,608,627	19,978,848

(in Canadian dollars)

a) On July 13, 2012, the Company completed a private placement (the "Offering") for gross proceeds of $2,553,899 through the issuance of 5,675,332 units ("Units") at a price of $0.45 per Unit. Each Unit comprised one common share and one common share purchase warrant ("Warrant"). Each Warrant is exercisable at $0.60 for a period of two years.

The Company also issued 454,026 Agent Units which are exercisable at $0.45. Each Agent Unit consists of one common share plus a common share purchase warrant exercisable at $0.60 into one common share for a period of two years from closing of the Offering (the "Compensation Warrant"). Consequently, an additional 454,026 common shares and 454,026 Compensation Warrants were also issued in respect of the Agent Units as part of the Offering.

The Warrants were valued utilizing the Black-Scholes model and the Agent Units were valued separately utilizing the Cox, Ross and Rubinstein binomial tree model. The Warrants were valued at $417,435 and the Agent Units were valued at $86,011. The Agent Units are costs of the Offering, of which $72,928 was allocated to capital stock and $13,083 was allocated to Warrants. The Company also incurred cash share issuance costs of $326,493, which was allocated to the common shares and Warrants. The key assumptions used to estimate the fair value of Warrants and Agent Units were: dividend yield 0%; volatility 110.6%; and risk-free interest rate 1%.

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, 2010	1,846,429	0.60
Granted	1,050,000	0.57
Forfeited	(135,000)	0.57
Expired	(811,429)	0.68
Balance - December 31, 2011	1,950,000	0.49
Granted	75,000	0.30
Forfeited	(50,000)	0.39
Expired	(15,000)	1.00
Balance - December 31, 2012	1,960,000	0.39

(in Canadian dollars)

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding at December 31, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable at December 31, 2012	Weighted average exercise price $
0.18 - 0.39	1,225,000	3.55	0.28	1,187,500	0.28
0.40 - 0.60	700,000	1.95	0.54	700,000	0.54
0.98	35,000	0.01	0.98	35,000	0.98
	1,960,000	2.92	0.39	1,922,500	0.39

For the year ended December 31, 2012, the Company recognized $88,201 (2011 - $252,803) in share-based compensation for options granted to directors, officers and employees, and recognized $6,037 (2011 - $ nil) in share-based compensation for stock options granted to non-employees.

The fair value of each option granted is estimated as at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Dividend yield	0%	0%
Expected volatility	161%	282%
Risk-free interest rate	1.49%	1.40%
Forfeiture rate	0%	0%
Expected life (years)	5	5

Warrants

	Number of warrants	Transfer to capital stock on exercise of warrants $	Amount $
Balance - December 31, 2010	235,000		80,631
Warrants issued from private placement (includes 192,000 broker warrants)	5,767,000		254,898
Balance - December 31, 2011 (issued and outstanding)	6,002,000		335,529
Private placement (a)	7,037,410		388,469
Warrants issued for share issue costs	-	0.45 - 0.60	(36,579)
Exercise of warrants	(1,300,994)	0.25 - 0.60	(47,705)
Expired warrants	(235,000)	0.61	(80,631)
Balance - December 31, 2012 (issued 11,503,416 and outstanding 11,332,384)	11,503,416		559,083

(in Canadian dollars)

Contributed surplus

	$
Balance - December 31, 2010	1,975,652
Share-based compensation	252,803
Balance - December 31, 2011	2,228,455
Share-based compensation	94,238
Expired warrants	80,631
Balance - December 31, 2012	2,403,324

10 Related party transactions

During the year ended December 31, 2012:

a) the Company incurred consulting fees with a director totalling US$25,000 (2011 - US$25,000). The amounts outstanding as at December 31, 2012 totalled US$6,250 (2011 - US$nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.

b) the Company incurred directors' fees totalling $33,000 (2011 - $24,000). The amounts outstanding as at December 31, 2012 totalled $18,000 (2011 - $ nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.

c) the Company issued 50,000 options to directors and officers of the Company to purchase common shares of the Company (2011 - 700,000).

11 Compensation of key management

Key management includes the Company's directors and executive officers.

	2012 $	2011 $
Salaries	465,000	564,260
Directors fees	58,000	49,000
Share-based payments	84,576	224,750
	607,576	838,010

(in Canadian dollars)

12 Research and development

	2012 $	2011 $
Wages and salaries (including share-based payments)	280,303	431,186
Research projects and clinical expenses	1,656,550	336,049
Intellectual property	153,521	133,530
Travel	60,748	39,032
Facilities	50,523	82,872
Amortization and other	85,503	103,709
	2,287,148	1,126,378

13 General and administrative

	2012 $	2011 $
Wages and salaries (including share-based payments)	481,519	648,070
Professional fees	687,920	559,484
Travel	139,650	91,517
Facilities	63,140	41,700
Amortization and other	2,481	6,744
	1,374,710	1,347,515

14 Income taxes

The Company has the following non-capital losses available to reduce taxable income of future years:

Expiry date	$
2015	337,073
2026	1,844,870
2027	3,254,319
2028	2,850,647
2029	2,392,171
2030	2,989,348
2031	2,244,591
2032	3,646,878

(in Canadian dollars)

Unrecognized deferred tax assets comprise the following:

	2012 $	2011 $
Non-capital losses carried forward	4,889,977	3,970,755
Share costs and other	102,287	71,416
Equipment	215,035	188,652
Scientific research and experimental development costs	122,846	122,846
	5,330,145	4,353,669

The income tax benefit of these tax attributes has not been recorded in these financial statements because of the uncertainty of their recovery.

The Company's effective income tax rate differs from the statutory income tax rate of 25% (2011 - 26.5%). The differences arise from the following items:

	2012 $	2011 $
Loss before tax	(3,642,683)	(1,032,001)
Income tax at statutory rate	(910,671)	(273,480)
Income tax benefit not recognized	976,475	199,265
Change in future tax rate	-	18,995
Permanent differences	27,750	55,220
Other	(93,554)	-
	-	-

15 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.

(in Canadian dollars)

16 Commitments and contingencies

a) Lease commitments

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

	$
2013	56,488
2014	23,230

Rent expense for the year ended December 31, 2012 amounted to $53,027 (2011 - $50,530).

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 December 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 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.

(in Canadian dollars)

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.

Clinical trials

The Company entered into an agreement with JDRF for work related to the iCo-007 clinical trial. The agreement involves incremental holdbacks as well as other milestone expenses associated with the clinical trial. The total amount of those expenses is not yet measurable and is dependent on a number of criteria and deliverables from JDRF before the Company will incur the full expense.

On May 31, 2012, the Company was awarded a $1.1 million three-year, non-repayable financial contribution from the National Research Council of Canada's Industrial Research Assistance Program ("IRAP") to support iCo's Oral Amphotericin B ("Amp B") delivery system as novel treatment for patients with Human Immunodeficiency Virus ("HIV"). The funding will support feasibility testing and pre-clinical toxicology studies, as well as human safety and efficacy clinical trials to examine the role of the Amp B delivery system in potentially treating patients with latent HIV reservoirs. Under the grant, up to 75% of the costs of the project may be claimed subject to the $1.1 million maximum. The Company submits monthly expenditure claims that are subject to IRAP approval and subsequent reimbursement.

17 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. This 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.

(in Canadian dollars)

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.

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.

Financial instruments whose carrying value approximates fair value

Cash and cash equivalents, short-term investments and other receivables 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 Level 2 as they are valued using observable market data.

The fair value of accounts payable may be less than its carrying value due to liquidity risk.

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 from previous financing rounds completed by IMMUNE in recent months.

			2012
	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Financial assets			
Other investments	-	-	1,432,657

			2011
	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Financial assets			
Other investments	-	-	1,220,401

(in Canadian dollars)

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 December 31, 2012, US$ denominated cash totalled US$93,350. The US$ denominated accounts payable and accrued liabilities exposure is US$808,975.

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 December 31, 2012 and 2011 are as follows:

	2012 US balance $	2011 US balance $
Cash and cash equivalents	93,350	148,668
Accounts payable and accrued liabilities	(808,975)	(125,507)
	(715,625)	23,161

Based on the US dollar balance sheet exposure at December 31, 2012, with other variables unchanged, a 10% change in exchange rates on the net current monetary (liabilities)/assets would be $71,563 (2011 - $2,316).

(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. 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.

As at December 31, 2012, cash and cash equivalents held in Canadian dollar savings accounts or short-term investments are $1,260,196. The interest rates range from 0.05% to 1%.

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 year ended December 31, 2012 and is undertaking efforts to conserve cash resources wherever possible.

The following table summarizes the relative maturities of the financial liabilities of the Company:

	Maturity	
	Less than one year $	**Greater than one year $**
Trade payables	119,047	-

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.

(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:

	Cash and cash equivalents and short-term investments $	Insured amount $	Non-insured amount $
CIBC	781,291	100,000	681,291
Raymond James	310,673	310,673	-
Manulife	168,232	168,232	-
	1,260,196	578,905	681,291

18 Capital management

The Company considers its capital stock, contributed surplus and warrants as capital. As at December 31, 2012, the amount of capital totalled $22,941,255 (2011 - $20,151,914).

The Company manages its capital structure in order to ensure sufficient resources are available to meet day-to-day operation requirements, further develop its existing technology, and advance its clinical trials.

The Company manages its capital through regular review of financial information and the quarterly Board of Director meetings.

The Company is not subject to any externally exposed capital requirements.

Additional information regarding capital management is disclosed in note 1.

19 Subsequent events

As of April 23, 2013, 1,019,000 warrants have been exercised resulting in $415,400 additional capital.

On January 22, 2013, the Company granted 1,100,000 stock options to its directors, officers and employees at an exercise price of $0.73.