

iCo Therapeutics Inc.

(a development stage company)

Condensed Interim Financial Statements

March 31, 2014 and 2013

(in Canadian dollars)

iCo Therapeutics Inc.
(a development stage company)
Balance Sheets (Unaudited)

(in Canadian dollars)

	Note	March 31, 2014 \$	December 31, 2013 \$
Assets			
Current assets			
Cash and cash equivalents		4,282,300	1,104,584
Short-term investments		2,953,065	798,805
Taxes and other receivables		195,749	128,560
Deferred financing		22,604	22,604
Prepaid expenses		33,125	14,365
		<u>7,486,843</u>	<u>2,068,918</u>
Other investments	3	3,973,074	1,705,191
Equipment		6,000	6,423
Intangible assets		<u>127,139</u>	<u>148,472</u>
		<u>11,593,056</u>	<u>3,929,004</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	<u>2,622,983</u>	<u>2,630,406</u>
Shareholders' Equity			
Capital stock	5	28,094,169	23,836,143
Contributed surplus	5	3,153,189	3,154,094
Warrants	5	3,168,163	1,118,877
Accumulated other comprehensive income		1,965,801	-
Accumulated deficit		<u>(27,411,749)</u>	<u>(26,810,516)</u>
		<u>8,970,073</u>	<u>1,298,598</u>
		<u>11,598,056</u>	<u>3,929,004</u>

Subsequent events (note 9)

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 (Unaudited)

For the three months ended March 31, 2014 and 2013

(in Canadian dollars)

	Note	March 31, 2014 \$	March 31, 2013 \$
Expenses			
Research and development		624,891	1,119,044
General and administrative		365,591	626,094
Foreign exchange loss (gain)		116,689	38,021
		<hr/>	<hr/>
		1,107,171	1,863,159
Gain on other investments	3	302,082	-
Other income		200,190	41,271
Interest income		4,166	111
		<hr/>	<hr/>
		520,377	41,382
Loss for the year		(609,733)	(1,821,777)
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Changes in fair value of other investments		1,965,801	31,392
		<hr/>	<hr/>
Total comprehensive income (loss)		1,365,068	(1,790,385)
Basic and diluted earnings (loss) per share		<hr/>	<hr/>
		0.02	(0.04)
Weighted average number of shares (basic and diluted)		<hr/>	<hr/>
		67,659,972	51,380,734

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

iCo Therapeutics Inc.

(a development stage company)

Statements of Loss and Comprehensive Loss (Unaudited)

For the three months ended March 31, 2014 and 2013

(in Canadian dollars)

	Number of shares	Capital stock \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income (loss) \$	Accumulated deficit \$	Shareholders' equity \$
Balance - December 31, 2012	53,608,627	19,978,848	2,403,324	559,083	250,776	(21,142,327)	2,049,704
Exercise of options	100,000	58,000	(29,000)	-	-	-	29,000
Exercise of warrants	919,000	399,683	-	(43,283)	-	-	356,400
Share-based compensation	-	-	383,059	-	-	-	383,059
Other comprehensive income	-	-	-	-	31,392	-	31,392
Loss for the year	-	-	-	-	-	(1,821,777)	(1,821,777)
Balance - March 31, 2013	54,627,627	20,436,531	2,757,383	515,800	282,168	(22,964,104)	1,027,778
Balance - December 31, 2013	67,811,230	23,836,143	3,154,094	1,118,877	-	(26,810,516)	1,298,598
Private placement (note 5)	16,206,483	4,038,306	-	2,097,906	-	-	6,136,212
Exercise of warrants	340,000	184,620	-	(48,620)	-	-	136,000
Exercise of options	100,000	35,100	(17,100)	-	-	-	18,000
Share-based payments	-	-	16,195	-	-	-	16,195
Other comprehensive loss	-	-	-	-	1,965,801	-	1,965,801
Loss for the year	-	-	-	-	-	(600,732)	(600,733)
Balance - March 31, 2014	84,457,713	28,094,169	3,153,189	3,168,183	1,965,801	(27,411,249)	8,970,073

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

iCo Therapeutics Inc.

(a development stage company)

Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2014 and 2013

(in Canadian dollars)

	March 31, 2014 \$	March 31, 2013 \$
Cash flows from operating activities		
Loss for the year	(600,733)	(1,821,777)
Items not affecting cash		
Amortization	21,756	24,174
Share-based payments	16,195	383,059
Gain on other investments	(302,082)	-
Unrealized foreign exchange loss	88,466	25,753
	(776,398)	(1,388,791)
Changes in non-cash working capital		
Taxes and other receivables	(67,189)	(39,747)
Prepaid expenses	(18,763)	3,546
Accounts payable and accrued liabilities	(90,865)	854,328
	(953,215)	(573,663)
Cash flows from investing activities		
(Purchase) redemption of short-term investments	(2,154,259)	99,226
	(2,154,259)	99,226
Cash flows from financing activities		
Exercise of warrants	136,000	385,400
Exercise of options	18,000	-
Net proceeds from issuance of units	6,136,212	-
	6,290,212	385,400
Effect of foreign currency exchange rates on cash and cash equivalents	(5,022)	2,543
Increase in cash and cash equivalents	3,177,716	(88,581)
Cash and cash equivalents - Beginning of year	1,104,584	599,457
Cash and cash equivalents - End of year	4,282,300	510,876
Supplementary information		
Cash received for interest within operating activities	4,166	111

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

iCo Therapeutics Inc.

Statements of Cash Flows ...continued

For the years ended March 31, 2014 and 2013

(in Canadian dollars)

1 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 (the “iDEAL” Study”) and announced on September 26, 2011, research and collaboration with Juvenile Diabetes Research Foundation (“JDRF”) to support the Phase II trial. On June 18, 2013 the Company announced that it had completed enrollment for the iDEAL Study and subsequently on March 5, 2014, the Company announced the final month eight patient visit in the iDEAL Study. Next steps include data queries and subsequent data lock. Once these activities are complete, the results will be analyzed and top-line results will be made public, which the Company expects to be in the second quarter of 2014.

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. The Phase II program was further expanded to examine Bertilimumab for the treatment of bullous pemphigoid, a rare auto-immune condition that affects the skin and causes the formation of blisters.

The Oral AmpB program (formerly “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” and the OTCQX under the symbol “ICOTF”. The Company is incorporated and domiciled in British Columbia, Canada. The address of its head office is Suite 760, 777 Hornby Street, Vancouver, B.C. V6Z 1S4..

iCo Therapeutics Inc.
Statements of Cash Flows ...*continued*
For the years ended March 31, 2014 and 2013

(in Canadian dollars)

2 Significant accounting policies

Basis of presentation and statement of compliance

These condensed interim financial statements for the three months ended March 31, 2014 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, 2013 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, 2013.

These financial statements were approved by the board of directors for issue on May 29, 2014.

Critical accounting estimates and judgments

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.

Critical accounting estimates and assumptions

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 include the clinical trial accruals and valuation of investment in IMMUNE. During the period and as a result of the removal of the trading restrictions of the Immune common shares (included in Other Investment), this is now considered a Level 1 financial instrument (note 3b).

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 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 clinical trial accruals and fair value of other investments.

a) 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.

iCo Therapeutics Inc.
Statements of Cash Flows ...continued
For the years ended March 31, 2014 and 2013

(in Canadian dollars)

b) 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 used market value for the shares and Black Scholes model for the warrants to determining the fair value of the other investments.

3 Other investments

- 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 IMMUNE common shares (“IMMUNE Shares”) and IMMUNE Warrants in addition to certain other cash consideration.

	Shares	Warrants	\$
Balance - December 31, 2013	654,486	123,649	1,705,191
Change in fair value of derivative	-	-	302,082
Change in fair value of common shares	-	-	1,965,801
Balance - March 31, 2014	654,486	123,649	3,973,074

The fair value of the IMMUNE Shares has been determined based on the number of IMMUNE Shares held at March 31, 2014, multiplied by the share price of US\$4.82(OTCQX). The IMMUNE Warrants were valued at year end using the Black Scholes option pricing model. The inputs used for the model are as follows: stock price US\$4.82, strike price US\$2.63, term of 1.75 years, volatility of 136.6% and a risk free interest rate of 0.40%%.

b) 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 March 31, 2014 and December 31, 2013.

iCo Therapeutics Inc.
Statements of Cash Flows ...continued
For the years ended March 31, 2014 and 2013

(in Canadian dollars)

			At December 31, 2013
Assets	Level 1	Level 2	Level 3
Available for sale -equity	-	-	1,432,656
Fair value through profit and loss	-	-	1

			At March 31, 2014
Assets	Level 1	Level 2	Level 3
Available for sale -equity	3,486,804	-	-
Fair value through profit and loss	-	-	486,270

Transfers between Levels 3 and 1 are addressed in the Level 3 reconciliation below.

Fair value measurement using significant unobservable inputs (Level 3)

	Level 3	Level 1
Opening balance at January 1, 2014	1,705,191	-
Transfer from Level 3	(1,521,003)	1,521,003
Change in fair value recognized statement of loss	302,082	-
Change in fair value in other comprehensive loss	-	1,965,801
Closing balance at March 31, 2014	<u>486,270</u>	<u>3,486,804</u>

4 Accounts payable and accrued liabilities

	March 31, 2014 \$	December 31, 2013 \$
Trade payables	256,963	273,494
Accruals related to clinical expenses (i)	2,342,877	2,318,669
Other accruals	23,143	38,243
	<u>2,622,983</u>	<u>2,630,406</u>

- i) Of the accruals related to clinical expenses, \$2,342,877 (December 31, 2013 - \$2,318,669) relate to expenses incurred for the Company's Phase II clinical trial payable to JDRF. These accruals are due over the next twelve-month period.

iCo Therapeutics Inc.

Statements of Cash Flows ...continued

For the years ended March 31, 2014 and 2013

(in Canadian dollars)

5 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount \$
Balance - December 31, 2013	67,811,230	23,836,143
Shares issued (a)	16,206,483	6,136,211
Attributable to warrants (a)	-	(2,097,906)
Exercise of warrants	340,000	136,000
Exercise of options	100,000	18,000
Transfer from warrants on exercise of warrants	-	48,620
Transfer from contributed surplus on the exercise of options	-	17,100
Balance - March 31, 2014	84,457,713	28,094,169

- a) On January 27, 2014, the Company issued 16,206,483 units at a price of \$0.4165 per unit for aggregate gross proceeds of \$6.75 million. Each unit is comprised of one common share of the company and three-quarters of one common share purchase warrant (a "Warrant"). Each warrant is exercisable at a price of \$0.539 and entitles the holder to acquire one common share for a period of five years following the date of issuance of the Warrant.

The Warrants were valued utilizing the Black-Scholes option pricing model. The Warrants were valued at \$2,307,754. The Company incurred cash share issuance cost of \$613,788 which \$209,848 was allocated to Warrants. The key assumptions used to estimate the fair value of Warrants and Agent Units were: dividend yield 0%; volatility 94.74%; and risk-free interest rate 1.63%.

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, 2013	2,965,000	0.51
Forfeited	(75,000)	0.60
Exercised	(100,000)	0.18
Balance - March 31, 2014	2,790,000	0.52

iCo Therapeutics Inc.

Statements of Cash Flows ...continued

For the years ended March 31, 2014 and 2013

(in Canadian dollars)

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at March 31, 2014	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at March 31, 2014	Weighted average exercise price \$
0.29 - 0.30	1,025,000	2.53	0.29	1,025,000	0.29
0.40 - 0.54	665,000	0.95	0.53	665,400	0.53
0.73	1,100,000	3.81	0.73	1,000,000	0.73
	<u>2,790,000</u>	<u>2.43</u>	<u>0.52</u>	<u>2,790,000</u>	<u>0.52</u>

Warrants

	Number of warrants	Transfer to capital stock on exercise of warrants \$	Amount \$
Balance - December 31, 2013	16,262,144		1,118,877
Private placement (a)	12,154,862		2,307,754
Allocation of proceeds to Warrants issued	-		(209,848)
Exercise of warrants	<u>(340,000)</u>	0.40	<u>(48,620)</u>
Balance - March 31, 2014 (issued and outstanding)	<u>28,177,006</u>		<u>3,168,163</u>

Contributed surplus

	\$
Balance - December 31, 2013	3,154,094
Share-based payments	16,195
Exercise options	<u>(17,100)</u>
Balance - March 31, 2014	<u>3,153,189</u>

6 Related party transactions

During the three months ending March 31, 2014:

iCo Therapeutics Inc.

Statements of Cash Flows ...continued

For the years ended March 31, 2014 and 2013

(in Canadian dollars)

- a) the Company incurred consulting director fees with a director totalling US\$6,250 (2013 - US\$6,250). The amounts outstanding as at March 31, 2014 totalled US \$nil (2013 – 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 \$9,000 (2013 - \$9,000). The amounts outstanding as at March 31, 2014 totalled \$nil (2013 - \$ nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.

7 Compensation of key management

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

	March 31, 2014 \$	March 31, 2013 \$
Salaries	140,000	116,250
Consulting and directors fees	15,875	15,250
Share-based payments	15,182	278,588
	<hr/>	<hr/>
	171,057	410,088

8 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.

