

iCo Therapeutics Inc.

Condensed Interim Financial Statements
(Unaudited)

September 30, 2012 and 2011
(in Canadian dollars)

iCo Therapeutics Inc.
Balance Sheet (Unaudited)

(in Canadian dollars)

	Note	September 30, 2012 \$	December 31, 2011 \$
Assets			
Current assets			
Cash and cash equivalents		1,478,167	255,548
Short-term investments		310,480	1,070,851
Taxes and other receivable		34,003	26,155
Deferred financing		22,604	-
Prepaid expenses		43,209	46,214
		<u>1,888,464</u>	<u>1,398,768</u>
Other investments	3	1,180,501	1,220,401
Equipment		8,833	7,631
Intangible assets		<u>248,647</u>	<u>319,129</u>
		<u>3,326,445</u>	<u>2,945,929</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		<u>609,780</u>	<u>255,139</u>
Shareholders' Equity			
Capital stock	4	19,480,965	17,587,930
Contributed surplus	4	2,483,674	2,228,455
Warrants	4	587,556	335,529
Accumulated other comprehensive income		(1,380)	38,520
Accumulated deficit		<u>(19,834,150)</u>	<u>(17,499,644)</u>
		<u>2,716,665</u>	<u>2,690,790</u>
		<u>3,326,445</u>	<u>2,945,929</u>
Nature of operations and going concern	1		
Subsequent event	7		

Approved by the Board of Directors

_____ (signed) Andrew Rae _____ Director

_____ (signed) William Jarosz _____ 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,	
	2012	2011	2012	2011
Expenses				
Research and development	\$ 582,302	\$ 265,185	\$ 1,321,383	\$ 899,804
General and administrative	338,798	379,618	1,020,091	933,332
	<u>921,100</u>	<u>644,803</u>	<u>2,341,474</u>	<u>1,833,136</u>
Interest income	1,808	3,232	4,120	14,937
Other income	1,795	-	1,795	100,000
Foreign exchange gain (loss)	7,724	5,430	1,052	5,671
Gain on sale of rights (note 3)	-	-	-	1,339,951
	<u>11,327</u>	<u>8,662</u>	<u>6,967</u>	<u>1,460,559</u>
(Loss) income for the period	(909,772)	636,141	(2,334,506)	372,577
Other comprehensive loss				
Change in fair value of the available –for-sale investment	(25,380)	-	(1,380)	-
Total comprehensive (loss) income	<u>\$ (935,152)</u>	<u>\$ (636,141)</u>	<u>\$ (2,335,886)</u>	<u>\$ (372,577)</u>
Basic and diluted (loss) per share	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>	<u>\$ (0.01)</u>
Weighted average number of shares	<u>47,381,932</u>	<u>41,057,301</u>	<u>47,381,932</u>	<u>41,057,301</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)

	Shares	Capital stock \$	Contributed surplus \$	Warrants \$	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
Share-based compensation	-	-	163,116	-	-	-	163,116
Income (deficit) for the period	-	-	-	-	-	(372,577)	(372,577)
Balance – September 30, 2011	41,057,301	16,798,970	2,138,768	80,631	-	(16,840,210)	2,178,159
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	5,675,332	2,165,430	-	388,469	-	-	2,553,899
Share cap costs	-	(375,925)	-	(36,579)	-	-	(412,504)
Exercise warrants	387,000	103,530	-	(6,780)	-	-	96,750
Expired warrants	-	-	93,083	(93,083)	-	-	-
Share-based compensation	-	-	162,136	-	-	-	162,136
Other comprehensive loss	-	-	-	-	(39,900)	-	(39,900)
Loss for the period	-	-	-	-	-	(2,334,506)	(2,334,506)
Balance – September 30, 2012	52,694,633	19,480,965	2,483,674	587,556	(1,380)	(19,834,150)	2,716,665

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

iCo Therapeutics Inc.

Statements of Cash Flows

Unaudited

(in Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Cash flows from operating activities				
(Loss) Income for the period	\$ (909,772)	\$ (636,141)	\$ (2,334,506)	\$ (372,577)
Items not affecting cash				
Gain on sale of rights	-	-	-	(1,339,951)
Amortization	24,076	28,636	72,255	86,234
Stock-based compensation	-	144,767	76,125	163,116
	(885,697)	(462,738)	(2,186,127)	(1,463,178)
Changes in non-cash working capital				
Taxes and other receivable	(7,315)	1,266	(7,848)	33,691
Deferred financing	29,731	-	(22,604)	6,998
Prepaid expenses	(4,599)	10,842	3,006	(521)
Accounts payable and accrued liabilities	63,011	16,447	354,640	(52,871)
Net cash flow used in (from) operating activities	(804,869)	(434,183)	(1,858,933)	(1,474,839)
Cash flows from investing activities				
Purchase of equipment	(2,975)	-	(2,975)	-
Sale of short-term investments	(199,293)	189,064	760,371	990,620
Proceeds on disposition on intangible assets	-	-	-	295,470
Net cash flow from investing activities	(202,268)	748,741	757,396	1,286,090
Cash flows from financing activities				
Exercise of warrants	93,750	-	96,750	-
Equity offering (net proceeds)	2,227,406	-	2,227,406	-
Net cash flow from financing activities	2,321,156	-	2,324,156	-
Increase (decrease) in cash and cash equivalents	1,314,020	(245,119)	(1,222,619)	(188,749)
Cash and cash equivalents, beginning of period	164,147	689,594	255,548	633,224
Cash and cash equivalents, end of period	\$ 1,478,167	\$ 444,475	\$ 1,478,167	\$ 444,475

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 ended September 30, 2012 and 2011

(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 a research and collaboration with 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 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 and IMMUNE is preparing to enter a Phase II trial in 2012 with iCo-008 to treat inflammatory bowel disease. 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, recruitment of 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, 2012, the Company reported a loss of \$2,334,506 (2011: loss of \$372,577) and an accumulated deficit of \$19,834,150 at that date. As at September 30, 2012, iCo had cash and cash equivalents and short-term investments on hand of \$1,788,648 (December 31, 2011 - \$1,326,399) and a working capital balance of \$1,278,684 (December 31, 2011: \$1,143,629). 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 continues to pursue various financing alternatives to fund iCo’s operations in order for the Company to continue as a going concern. Management plans to secure the necessary financial resources

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ended September 30, 2012 and 2011

(in Canadian dollars)

through the issue of new equity and/or the entering into of strategic partnership arrangements and additional non-dilutive sources such as grants. Nevertheless, there is no assurance that these initiatives will be successful.

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, 2012 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, 2011 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, 2011.

These financial statements were approved by the board of directors for issue on November 29, 2012.

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, 2011.

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 ended September 30, 2012 and 2011

(in Canadian dollars)

3 Other investments

In December 2010, iCo granted IMMUNE, based in Israel and the United States, an option to an exclusive license (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 license 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 licensed 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 license fee payment of US \$1 million.

Accordingly, it was recognized as license 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 \$ 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 ordinary shares and 200,000 IMMUNE warrants, which together have been recorded as Other Investments. 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.

iCo has recognized a gain on the sale of these rights in the amount of \$1,339,951 the details of which are described in the following table:

	Shares	Warrants	\$ CDN
Cash			295,470
Common shares of IMMUE	600,000		1,181,880
Common share warrants of IMMUNE		200,000	1
Total proceeds			1,477,351
Cost of rights transferred			137,400
Gain on sale of rights			<u>1,339,951</u>

Changes in the fair value of the investment is recorded in the other comprehensive income

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

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4 Capital stock

Authorized

Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount \$
Balance - December 31, 2011	46,632,301	17,587,930
Shares issued (a)	5,675,332	2,553,899
Share issue costs (a)		(375,925)
Attributable to warrants (a)		(388,469)
Warrants exercised	387,000	96,750
Allocation from warrants		6,780
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Balance – September 30, 2012	<u>52,694,633</u>	<u>19,480,965</u>

- 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 2 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 share capital and \$13,083 was allocated to Warrants. The Company also incurred cash share issuance costs of \$326,493 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 110.6%; and risk-free interest rate 1.00%.

iCo Therapeutics Inc.

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(in Canadian dollars)

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, 2011	1,950,000	0.49
Granted	75,000	0.30
Cancelled	(50,000)	0.39
Expired	(15,000)	1.00
Balance – September 30, 2012	<u>1,960,000</u>	<u>0.39</u>

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

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(in Canadian dollars)

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2012	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at September 30, 2012	Weighted average exercise price \$
0.18 - 0.39	1,225,000	3.81	0.28	1,200,000	0.28
0.40 - 0.60	700,000	2.20	0.54	700,000	0.54
0.98	35,000	0.26	0.98	35,000	0.98
	<u>1,960,000</u>	<u>3.17</u>	<u>0.39</u>	<u>1,935,000</u>	<u>0.39</u>

Warrants

	Number of warrants		Amount \$
Balance - December 31, 2011	6,002,000		335,529
Private placement (a)	7,037,410	0.60	388,469
Private placement (a)			(36,579)
Warrants expired	(235,000)	0.61	(93,083)
Warrants exercised	<u>(387,000)</u>	0.25	<u>(6,780)</u>
Balance – September 30, 2012	<u>12,417,410</u>		<u>587,556</u>

Contributed surplus

	\$
Balance – December 31, 2011	2,228,455
Expired warrants	93,083
Share-based compensation	76,125
Agent units issued under private placement (a)	<u>86,011</u>
Balance – September 30, 2012	<u>2,483,674</u>

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ended September 30, 2012 and 2011

(in Canadian dollars)

5 Related party transactions

For the nine months ending September 30, 2012, the Company incurred director's fees totalling \$42,750 (September 30, 2011 - \$36,750). The amounts outstanding for the nine month ending September 30, 2012 totalled \$18,250 (September 30, 2011 - \$12,250). The amounts bear no interest and are unsecured with no terms of repayment. For the three months ending September 30, 2012, the Company incurred director's fees totalling \$15,250 (September 30, 2011 - \$12,250). Compensation of key management:

	September 30, 2012	September 30, 2011
	\$	\$
Salaries	348,750	310,000
Directors fees	78,750	24,500
Share-based payments	54,375	4,716
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	481,875	339,216
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6 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.

7 Subsequent Events

Subsequent to the quarter ended September 30, 2012, a total of 846,020 warrants outstanding were exercised for total gross proceeds to the Company of \$304,109.

