

**iCo Therapeutics Inc.**  
(a development stage company)

Condensed Interim Financial Statements  
**June 30, 2014 and 2013**  
(in Canadian dollars)

## **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

(in Canadian dollars)

	Note	June 30, 2014 \$	December 31, 2013 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		3,023,531	1,104,584
Short-term investments		3,456,669	798,805
Taxes and other receivables		39,999	128,560
Deferred financing		22,604	22,604
Prepaid expenses		47,841	14,365
		<u>6,590,644</u>	<u>2,068,918</u>
<b>Other investments</b>	3	1,939,738	1,705,191
<b>Equipment</b>		5,576	6,423
<b>Intangible assets</b>		<u>105,801</u>	<u>148,472</u>
		<u>8,641,759</u>	<u>3,929,004</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	4	<u>2,674,932</u>	<u>2,630,406</u>
<b>Shareholders' Equity</b>			
<b>Capital stock</b>	5	28,070,019	23,836,143
<b>Contributed surplus</b>	5	3,156,201	3,154,094
<b>Warrants</b>	5	3,168,163	1,118,877
<b>Accumulated other comprehensive income</b>		259,755	-
<b>Accumulated deficit</b>		<u>(28,687,311)</u>	<u>(26,810,516)</u>
		<u>5,966,827</u>	<u>1,298,598</u>
		<u>8,641,759</u>	<u>3,929,004</u>

**Approved by the Board of Directors**

\_\_\_\_\_  
(signed) William Jarosz Director

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(signed) Andrew Rae Director

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

# iCo Therapeutics Inc.

(a development stage company)

Statements of Changes in Shareholder's Equity (Unaudited)

For the six months ended June 30, 2014 and 2013

(in Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Expenses</b>				
Research and development	\$ 401,396	\$ 990,786	\$ 1,026,287	\$ 2,189,830
General and administrative	569,783	540,386	935,374	1,166,480
Foreign exchange (loss)	24,525	84,752	141,214	122,773
	<u>995,704</u>	<u>1,615,924</u>	<u>2,102,875</u>	<u>3,479,083</u>
<b>Interest income</b>	11,659	4,609	15,824	4,720
<b>Other income</b>	35,272	41,500	235,462	82,771
<b>Gain (loss) on other investments (note 3)</b>	<u>(327,290)</u>	<u>798,001</u>	<u>(25,206)</u>	<u>798,001</u>
	<u>(280,359)</u>	<u>844,110</u>	<u>226,080</u>	<u>885,492</u>
<b>Loss for the period</b>	(1,276,063)	(771,814)	(1,876,795)	(2,593,591)
<b>Other comprehensive loss</b>				
Change in fair value of the available –for-sale investment	<u>(1,706,046)</u>	<u>(261,848)</u>	<u>259,755</u>	<u>(293,240)</u>
<b>Total comprehensive loss</b>	<u>\$ (2,982,109)</u>	<u>\$ (1,033,662)</u>	<u>\$ (1,617,040)</u>	<u>\$ (2,886,831)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>
<b>Weighted average number of shares</b>	<u>73,709,324</u>	<u>54,760,282</u>	<u>73,709,324</u>	<u>54,760,282</u>

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

# iCo Therapeutics Inc.

(a development stage company)

## Statements of Changes in Shareholder's Equity (Unaudited)

For the six months ended June 30, 2014 and 2013

(in Canadian dollars)

	Number of shares	Capital stock \$	Contributed surplus \$	Warrants \$	Accumulated other comprehensive income (loss) \$	Accumulated deficit \$	Shareholders' equity \$
<b>Balance - December 31, 2012</b>	53,608,627	19,978,848	2,403,324	559,083	250,776	(21,142,327)	2,049,704
Issuance of common shares	9,655,771	2,967,135	-	-	-	-	2,967,135
Exercise of options	100,000	58,000	(29,000)	-	-	-	29,000
Allocation of warrants	-	(795,583)	-	795,583	-	-	-
Exercise of warrants	1,149,832	492,858	-	(47,583)	-	-	445,275
Share-based compensation	-	-	569,457	-	-	-	569,457
Other comprehensive income	-	-	-	-	(293,240)	-	(293,240)
Loss for the year	-	-	-	-	-	(2,593,591)	(2,593,591)
<b>Balance - June 30, 2013</b>	<b>64,514,230</b>	<b>22,701,258</b>	<b>2,943,781</b>	<b>1,307,083</b>	<b>(42,464)</b>	<b>(23,735,918)</b>	<b>1,027,778</b>
<b>Balance - December 31, 2013</b>	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	4,014,156	-	2,097,906	-	-	6,112,062
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	-	-	19,207	-	-	-	19,207
Other comprehensive loss	-	-	-	-	259,755	-	279,754
Loss for the year	-	-	-	-	-	(1,876,795)	(1,876,795)
<b>Balance - June 30, 2014</b>	<b>84,457,713</b>	<b>28,070,019</b>	<b>3,156,201</b>	<b>3,168,183</b>	<b>259,755</b>	<b>(28,678,311)</b>	<b>5,966,827</b>

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 six months ended June 30, 2014 and 2013**

(in Canadian dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Cash flows from operating activities</b>				
(Loss) Income for the period	\$ (1,276,263)	\$ (771,814)	\$ (1,876,795)	\$ (2,593,591)
Items not affecting cash				
Gain (loss) on other investments	327,290	(798,001)	25,208	(798,001)
Amortization	21,762	23,494	43,518	47,668
Stock-based compensation	3,012	186,398	19,207	569,457
Unrealized foreign exchange loss	(56,469)	(110,795)	31,997	(85,042)
	(980,467)	(1,470,718)	(1,756,865)	(2,859,509)
Changes in non-cash working capital				
Taxes and other receivable	155,749	(1,107)	88,562	(40,851)
Prepaid expenses	(14,714)	(12,974)	(33,478)	(9,429)
Accounts payable and accrued liabilities	54,196	557,761	(36,670)	1,412,089
Net cash flow used in operating activities	(785,236)	(927,038)	(1,738,451)	(1,497,701)
<b>Cash flows from investing activities</b>				
Sale of short-term investments	(503,606)	(2,216,523)	(2,657,865)	(2,117,297)
Net cash flow from investing activities	(503,605)	(2,216,523)	(2,657,865)	(2,117,297)
<b>Cash flows from financing activities</b>				
Issuance of common shares	(24,150)	2,967,135	6,112,062	2,967,135
Exercise of options	-	-	18,000	29,000
Exercise of warrants	-	88,874	136,000	445,274
Net cash flow from financing activities	(24,150)	3,056,009	6,266,062	3,441,409
Effect of foreign currency exchange rates on cash and cash equivalents	54,223	(3,164)	49,201	(5,712)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(1,258,769)</b>	<b>(90,716)</b>	<b>(1,918,947)</b>	<b>(179,296)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,282,300</b>	<b>510,876</b>	<b>1,104,584</b>	<b>599,457</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,023,531</b>	<b>\$ 420,160</b>	<b>\$ 3,023,531</b>	<b>\$ 420,160</b>
<b>Supplementary information</b>				
Cash received for interest within operating activities			15,825	4,720

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

# **iCo Therapeutics Inc.**

Notes to Condensed Financial Statements (Unaudited)

**For the three and six months ending June 30, 2014 and 2013**

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(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. Top line results for the iDEAL Study were announced on June 9, 2014 and it is expected that secondary endpoint and safety data will be announced sometime in or around the fourth 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.**

Notes to Condensed Financial Statements (Unaudited)

**For the three and six months ending June 30, 2014 and 2013**

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(in Canadian dollars)

## **2 Significant accounting policies**

### **Basis of presentation and statement of compliance**

These condensed interim financial statements for the six months ended June 30, 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 August 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.

## Notes to Condensed Financial Statements (Unaudited)

### For the three and six months ending June 30, 2014 and 2013

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(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
Change in fair value of derivative	-	-	(327,289)
Change in fair value of common shares	-	-	(1,706,047)
Balance – June 30, 2014	654,486	123,649	1,939,738

The fair value of the IMMUNE Shares has been determined based on the number of IMMUNE Shares held at June 30, 2014, multiplied by the share price of US\$2.55 (OTCQX) (US\$4.82 – March 31, 2014). 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\$2.55, strike price US\$2.63, term of 1.50 years, volatility of 104.8% and a risk free interest rate of 0.29%.

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).

# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

### For the three and six months ending June 30, 2014 and 2013

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(in Canadian dollars)

- 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 June 30, 2014 and December 31, 2013.

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

  

			At June 30, 2014
<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Available for sale -equity	1,780,758	-	-
Fair value through profit and loss	-	-	158,980

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

Fair value measurement using significant unobservable inputs (Level 3)

	<b>Level 3</b>	<b>Level 1</b>
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	486,270	3,486,804
Change in fair value recognized statement of loss	(327,290)	-
Change in fair value in other comprehensive loss	-	(1,706,046)
Closing balance at June 30, 2014	158,980	1,780,758

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# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

### For the three and six months ending June 30, 2014 and 2013

(in Canadian dollars)

#### 4 Accounts payable and accrued liabilities

	June 30, 2014 \$	December 31, 2013 \$
Trade payables	304,609	273,494
Accruals related to clinical expenses (i)	2,332,717	2,318,669
Other accruals	37,606	38,243
	<u>2,674,932</u>	<u>2,630,406</u>

- i) Of the accruals related to clinical expenses, \$2,180,785 (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.

#### 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	6,112,062
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 - June 30, 2014	<u>84,457,713</u>	<u>28,070,019</u>

- 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%.

# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

### For the three and six months ending June 30, 2014 and 2013

(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, 2013	2,965,000	0.51
Forfeited	(75,000)	0.60
Exercised	(100,000)	0.18
Balance – June 30, 2014	2,790,000	0.52

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2014	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at June 30, 2014	Weighted average exercise price \$
0.29 - 0.30	1,025,000	2.28	0.29	1,025,000	0.29
0.40 - 0.54	665,000	0.70	0.53	665,400	0.53
0.73	1,100,000	3.56	0.73	1,000,000	0.73
	2,790,000	2.41	0.52	2,790,000	0.52

#### 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	(340,000)	0.40	(48,620)
Balance – June 30, 2014 (issued and outstanding)	28,177,006		3,168,163

# iCo Therapeutics Inc.

## Notes to Condensed Financial Statements (Unaudited)

### For the three and six months ending June 30, 2014 and 2013

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(in Canadian dollars)

#### Contributed surplus

	\$
Balance - December 31, 2013	3,154,094
Share-based payments	19,207
Exercise options	<u>(17,100)</u>
Balance - June 30, 2014	<u>3,156,201</u>

#### 6 Related party transactions

During the six months ending June 30, 2014:

- a) the Company incurred consulting director fees with a director totalling US\$6,250 (2013 - \$ nil). The amounts outstanding as at June 30, 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 \$30,500 (2013 - \$30,500). The amounts outstanding as at June 30, 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.

	June 30, 2014 \$	June 30, 2013 \$
Salaries	392,000	232,500
Consulting and directors fees	31,345	30,500
Share-based payments	<u>20,486</u>	<u>414,150</u>
	<u>443,831</u>	<u>677,150</u>

#### 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.