

iCo Therapeutics Inc.
(a development stage company)

Condensed Interim Financial Statements
September 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)
Statement of Financial Position (Unaudited)

(in Canadian dollars)

	Note	September 30, 2014 \$	December 31, 2013 \$
Assets			
Current assets			
Cash and cash equivalents		2,868,602	1,104,584
Short-term investments		2,860,711	798,805
Taxes and other receivables		79,760	128,560
Deferred financing		-	22,604
Prepaid expenses		31,350	14,365
		<u>5,840,423</u>	<u>2,068,918</u>
Other investments	3	2,711,960	1,705,191
Equipment		5,153	6,423
Intangible assets		<u>69,074</u>	<u>148,472</u>
		<u>8,626,610</u>	<u>3,929,004</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4	<u>2,265,387</u>	<u>2,630,406</u>
Shareholders' Equity			
Capital stock	5	28,070,018	23,836,143
Contributed surplus	5	3,493,478	3,154,094
Warrants	5	2,831,606	1,118,877
Accumulated other comprehensive income		941,958	-
Accumulated deficit		<u>(28,975,837)</u>	<u>(26,810,516)</u>
		<u>6,361,223</u>	<u>1,298,598</u>
		<u>8,603,410</u>	<u>3,929,004</u>

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)

Statement of Loss and Comprehensive Loss (Unaudited)

For the nine months ended September 30, 2014 and 2013

(in Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Expenses				
Research and development	\$ 85,720	\$ 1,368,337	\$ 1,112,007	\$ 3,558,167
General and administrative	328,969	422,692	1,264,070	1,589,172
Foreign exchange (loss)	53,643	15,450	194,857	138,223
	<u>468,059</u>	<u>1,806,479</u>	<u>2,570,934</u>	<u>5,285,562</u>
Interest income	10,265	3,621	26,089	8,341
Other income	79,251	(41,143)	314,713	41,628
Gain (loss) on other investments (note 3)	90,017	127,173	64,811	925,174
	<u>179,533</u>	<u>89,651</u>	<u>405,613</u>	<u>975,143</u>
Loss for the period	(288,526)	(1,716,828)	(2,165,321)	(4,310,419)
Other comprehensive loss				
Change in fair value of the available –for-sale investment	682,203	(616,958)	941,958	(910,198)
	<u>\$ 393,677</u>	<u>\$ (2,333,786)</u>	<u>\$ (1,223,363)</u>	<u>\$ (5,220,617)</u>
Total comprehensive gain (loss)				
	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>	<u>\$ (0.07)</u>
Basic and diluted loss per share				
	<u>78,734,449</u>	<u>58,030,658</u>	<u>78,734,449</u>	<u>58,030,658</u>
Weighted average number of shares				

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

iCo Therapeutics Inc.

(a development stage company)

Statement of Changes in Shareholder's Equity (Unaudited)

For the nine months ended September 30, 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
Issuance of common shares	9,655,771	2,965,506					2,965,506
Exercise of options	100,000	58,000	(29,000)	-	-	-	29,000
Allocation of warrants	-	(795,583)	-	795,583	-	-	-
Exercise of warrants	1,239,832	523,458	-	(51,183)	-	-	472,275
Share-based compensation	-	-	662,255	-	-	-	662,255
Other comprehensive income	-	-	-	-	(910,198)	-	(910,198)
Loss for the year	-	-	-	-	-	(4,310,419)	(4,310,419)
Balance - September 30, 2013	64,604,230	22,730,229	3,036,579	1,303,483	(659,422)	(25,452,747)	958,125
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	4,014,156	-	2,097,906	-	-	6,112,062
Exercise of warrants	340,000	184,620	-	(48,620)	-	-	136,000
Expired warrants	-	-	336,557	(336,557)	-	-	-
Exercise of options	100,000	35,100	(17,100)	-	-	-	18,000
Share-based payments	-	-	19,927	-	-	-	19,927
Other comprehensive gain (loss)	-	-	-	-	941,958	-	941,958
Loss for the year	-	-	-	-	-	(2,165,321)	(2,165,321)
Balance - September 30, 2014	84,457,713	28,070,019	3,493,478	2,831,606	941,958	(28,975,837)	6,361,224

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

iCo Therapeutics Inc.

(a development stage company)

Statement of Cash Flows (Unaudited)

For the nine months ended September 30, 2014 and 2013

(in Canadian dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Cash flows from operating activities				
(Loss) Income for the period	\$ (288,526)	\$ (1,716,828)	\$ (2,165,321)	\$ (4,310,419)
Items not affecting cash				
Gain (loss) on other investments	(90,018)	(127,173)	(64,811)	(925,174)
Amortization	37,151	23,917	80,669	71,585
Stock-based compensation	720	138,989	19,927	708,446
Interest received	-	-	-	8,341
Unrealized foreign exchange loss	92,806	(112,452)	124,803	27,410
	(247,867)	(1,560,302)	(2,004,733)	(4,419,811)
Changes in non-cash working capital				
Taxes and other receivable	39,763	56,523	48,802	15,678
Deferred financing	22,604	-	22,604	-
Prepaid expenses	(16,491)	22,584	(16,988)	13,154
Accounts payable and accrued liabilities (note 4)	(409,546)	398,737	(446,217)	1,810,826
Net cash flow used in operating activities	(658,081)	(1,082,453)	(2,396,532)	(2,580,153)
Cash flows from investing activities				
Sale of short-term investments	595,958	(1,279,241)	(2,061,907)	(838,056)
Net cash flow from investing activities	595,958	(1,279,241)	(2,061,907)	(838,056)
Cash flows from financing activities				
Issuance of common shares	-	(1,629)	6,112,062	2,965,506
Exercise of options	-	-	18,000	29,000
Exercise of warrants	-	27,000	136,000	472,274
Net cash flow from financing activities	-	25,371	6,266,062	3,466,780
Effect of foreign currency exchange rates on cash and cash equivalents	(92,806)	1,888	(43,605)	(3,824)
(Decrease) increase in cash and cash equivalents	(154,929)	(224,044)	(1,764,018)	44,748
Cash and cash equivalents, beginning of period	3,023,531	420,160	1,104,584	599,457
Cash and cash equivalents, end of period	\$ 2,868,602	\$ 644,204	\$ 2,868,602	\$ 644,204

Supplementary information

Cash received for interest within operating activities

10,265

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

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ending September 30, 2014 and 2013

(in Canadian dollars)

1 Nature of operations

iCo Therapeutics Inc. (“iCo” or the “Company”) is a Canadian biotechnology company principally focused on the identification, development and commercialization of drug candidates with a clinical history and re-doses, reformulates and develops these drug candidates to treat sight and life-threatening diseases. The Company currently has in-licensed three compounds: iCo-007; iCo-008 and the Oral AmpB Delivery System.

iCo-007 is an antisense compound in-licensed from Isis Pharmaceuticals Inc. In August 2011, the Company initiated a US physician sponsored Phase 2 clinical trial involving iCo-007, (iDEAL Study), evaluating iCo-007 in diabetic macular edema (DME). On June, 9, 2014, the Company announced top-line results related to the eight month visual acuity (VA) primary endpoint for subjects enrolled in the iDEAL Study. The Company has determined that the Phase 2 iCo-007 DME data that has been presented, along with additional internal analysis, has not demonstrated to date any subgroup response rates that warrant further financial investment by iCo in the DME program at this time. The Company continues to investigate other potential use indications for its licensed technology which targets the C-Raf kinase pathway. Use indications may include certain oncology applications as a number of approved drugs currently target Raf kinase isoforms.

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 Delivery System 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 nine months ending September 30, 2014 and 2013

(in Canadian dollars)

2 Significant accounting policies

Basis of presentation and statement of compliance

These condensed interim financial statements for the nine months ended September 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 November 28, 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 accruals for the iDEAL study and valuation of the investment in IMMUNE. As a result of the removal of the trading restrictions of the Immune common shares in Q1 2014 (included in Note 3, Other Investments), 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 nine months ending September 30, 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
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
Change in fair value of derivative	-	-	90,019
Change in fair value of common shares	-	-	682,203
Balance – September 30, 2014	654,486	123,649	2,711,960

The fair value of the IMMUNE Shares has been determined based on the number of IMMUNE Shares held at September 30, 2014, multiplied by the share price of US\$3.36 (OTCQX) (US\$2.55 – June 30, 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\$3.36, strike price US\$2.63, term of 1.250 years, volatility of 112.0% and a risk free interest rate of 0.36%.

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).

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ending September 30, 2014 and 2013

(in Canadian dollars)

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

The following table presents the group's assets and liabilities that are measured at fair value at September 30, 2014 and December 31, 2013.

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

Assets	Level 1	Level 2	At September
			30, 2014
			Level 3
Available for sale -equity	2,462,961	-	-
Fair value through profit and loss	-	-	248,999

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	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
Change in fair value recognized statement of loss	90,019	-
Change in fair value in other comprehensive loss	-	682,203
Closing balance at September 30, 2014	248,999	2,462,961

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ending September 30, 2014 and 2013

(in Canadian dollars)

4 Accounts payable and accrued liabilities

	September 30, 2014 \$	December 31, 2013 \$
Trade payables	103,331	273,494
Accruals related to clinical expenses (i)	2,114,561	2,318,669
Other accruals	47,495	38,243
	<u>2,265,387</u>	<u>2,630,406</u>

- a) Accrued liabilities for the Company's iDEAL trial have been reduced by \$295,000 as a result of completion of the trials with billings and costs being finalized with the varying service providers revised estimates of expenses. This reduction of accrued liabilities has been reflected on the Statement of Profit and Loss as a reduction in research and development expenses in the three month period ending September 30, 2014. Management will continue to review this estimate as service providers finalize the costs of the arrangements, and further adjustment may be required at the year end.

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 – September 30, 2014	<u>84,457,713</u>	<u>28,070,019</u>

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ending September 30, 2014 and 2013

(in Canadian dollars)

- 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 comprises 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
Cancelled	(25,000)	0.40
Exercised	(100,000)	0.18
Balance – September 30, 2014	2,765,000	0.52

Range of exercise price \$	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2014	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number exercisable at September 30, 2014	Weighted average exercise price \$
0.29 - 0.30	1,025,000	2.08	0.29	1,025,000	0.29
0.43 - 0.54	640,000	0.47	0.53	640,000	0.53
0.73	1,100,000	3.31	0.73	1,100,000	0.73
	2,765,000	2.18	0.52	2,765,000	0.52

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ending September 30, 2014 and 2013

(in Canadian dollars)

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)
Expired warrants	<u>(6,123,584)</u>	0.45-0.60	<u>(336,557)</u>
Balance – September 30, 2014 (issued and outstanding)	<u>21,953,422</u>		<u>2,831,606</u>

Contributed surplus

	\$
Balance - December 31, 2013	3,154,094
Share-based payments	19,927
Exercise options	(17,100)
Expired warrants	<u>336,557</u>
Balance - September 30, 2014	<u>3,493,478</u>

6 Related party transactions

During the nine months ending September 30, 2014:

- the Company incurred consulting director fees with a director totalling US\$18,750 (2013 - \$ nil). The amounts outstanding as at September 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.
- the Company incurred directors' fees totalling \$27,000 (2013 - \$45,750). The amounts outstanding as at September 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.

iCo Therapeutics Inc.

Notes to Condensed Financial Statements (Unaudited)

For the three and nine months ending September 30, 2014 and 2013

(in Canadian dollars)

	September 30, 2014	September 30, 2013
	\$	\$
Salaries	532,000	364,584
Consulting and directors fees	48,000	45,750
Share-based payments	19,927	515,233
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	599,927	925,567
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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.

9 Subsequent event

On November 25, 2014, IMMUNE announced that it had closed an underwritten public offering of 3.45 million units for gross proceeds of US\$8.625 million. Each unit consisting of one share of IMMUNE's common stock and one warrant to purchase 0.25 of a share of IMMUNE's common stock, at a price to the public of \$2.50 per unit. On November 25, 2014 the closing price for IMMUNE's common stock was US\$2.75.