iCo Therapeutics Inc.

(a development stage company)

Consolidated Financial Statements

December 31, 2008 and 2007

PricewaterhouseCoopers LLP
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April 30, 2009

Auditors' Report

To the Shareholders of
iCo Therapeutics Inc.

We have audited the consolidated balance sheets of **iCo Therapeutics Inc.** (a development stage company) as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

iCo Therapeutics Inc.

(a development stage company)
Consolidated Balance Sheets
As at December 31, 2008 and 2007

	2008 $	2007 $
Assets		
Current assets		
Cash and cash equivalents	620,276	1,889,233
Short-term investments	-	42,174
Taxes and other receivable	42,950	235,520
Tax credits receivable	-	209,000
Prepaid expenses	13,770	16,935
	676,996	2,392,862
Equipment (note 4)	23,830	14,930
Intangible assets (note 5)	765,005	871,264
	1,465,831	3,279,056
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	442,800	783,941
Shareholders' Equity (note 6)		
Capital stock	10,666,921	9,562,359
Contributed surplus	1,410,612	456,615
Warrants	-	788,269
Deficit	(11,054,502)	(8,312,128)
	1,023,031	2,495,115
	1,465,831	3,279,056

Nature of operations and going concern (note 1)

Commitments and contingencies (note 12)

Subsequent events (notes 12 and 15)

Approved by the Board of Directors

(signed) Andrew Rae Director (signed) William Jarosz Director

iCo Therapeutics Inc.

(a development stage company)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

	Year ended December 31, 2008 $	Year ended December 31, 2007 $	Cumulative from inception to December 31 2008 $
Interest income	30,529	40,254	99,597
Expenses			
Research and development (note 10)	1,421,258	3,714,665	7,112,307
General and administrative (note 11)	995,297	963,695	2,763,699
Amortization	115,430	114,864	323,349
Foreign exchange loss	60,950	55,092	142,747
Stock-based compensation	179,968	203,883	636,583
Transaction costs (note 1)	-	175,414	175,414
	2,772,903	5,227,613	11,154,099
Net loss and comprehensive loss for the year	(2,742,374)	(5,187,359)	(11,054,502)
Deficit - Beginning of year	(8,312,128)	(3,124,769)	-
Deficit - End of year	(11,054,502)	(8,312,128)	(11,054,502)
Basic and diluted loss per share	(0.14)	(0.41)	
Weighted average number of shares	20,077,165	12,714,718	

iCo Therapeutics Inc.

(a development stage company)

Consolidated Statements of Cash Flows

	Year ended December 31, 2008 $	Year ended December 31, 2007 $	Cumulative from inception to December 31, 2008 $
Cash flows from operating activities			
Net loss for the year	(2,742,374)	(5,187,359)	(11,054,502)
Items not affecting cash			
Amortization	115,430	114,864	323,349
Stock-based compensation	179,968	203,883	636,583
Foreign exchange gain on conversion of note payable	-	-	(2,580)
Shares issued for service (note 5(a))	-	1,311,625	1,311,625
	(2,446,976)	(3,556,987)	(8,785,525)
Changes in non-cash working capital			
Taxes and other receivable	192,570	(202,447)	(9,877)
Tax credits receivable	209,000	(225,002)	(33,073)
Prepaid expenses	3,165	20,099	(13,770)
Accounts payable and accrued liabilities	(341,141)	46,018	151,476
Deposits	-	-	407,050
	(2,383,382)	(3,918,319)	(8,283,719)
Cash flows from investing activities			
Sale of short-term investments	42,174	598,586	-
Purchase of equipment	(18,071)	(10,951)	(48,178)
Deposits	-	-	(481,931)
	24,103	587,635	(530,109)
Cash flows from financing activities			
Exercise of warrants	4,276	39,250	43,525
Exercise of options	3,750	-	3,750
Issuance of units	1,140,450	4,591,534	9,999,802
Unit issuance costs	(58,154)	(372,519)	(612,973)
	1,090,322	4,258,265	9,434,104
(Decrease) increase in cash and cash equivalents	(1,268,957)	927,581	620,276
Cash and cash equivalents - Beginning of year	1,889,233	961,652	-
Cash and cash equivalents - End of year	620,276	1,889,233	620,276

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 currently in a Phase I clinical trial for diabetic macular edema. iCo-008 is a monoclonal antibody that the Company plans to take into a Phase II clinical trial for allergic conjunctivitis. 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 predecessor company (the "Predecessor Company") to, and having the same name as, the Company was incorporated under the Canada Business Corporation Act on February 15, 2005. On December 31, 2007, the Predecessor Company and a wholly owned subsidiary of Beanstalk Capital Ltd. ("Beanstalk") entered into an amalgamation agreement (the "Arrangement") pursuant to which the Predecessor Company and the wholly owned subsidiary of Beanstalk amalgamated to form iCo Therapeutics Inc., a wholly owned subsidiary of Beanstalk. Beanstalk was a Canadian Capital Pool company ("CPC") traded on the TSX Venture Exchange. Under the Arrangement, the shareholders of the Predecessor Company exchanged their common shares for common shares of Beanstalk on the basis of one common share of Beanstalk for one common share of the Predecessor Company. Beanstalk pre-existing common shares, options and warrants were consolidated on the basis of 2.8 Beanstalk common shares, options or warrants for one new Beanstalk common share, option or warrant, respectively. Upon the closing of the Arrangement, the Predecessor Company amalgamated with the subsidiary and changed its name to iCology Corporation. Beanstalk changed its name to iCo Therapeutics Inc. and commenced operating as the Company. Upon the closing of the Arrangement, all conditions to the closing were satisfied or waived.

For accounting purposes, the Arrangement is considered to be a capital transaction in substance as the arrangement transaction was a reverse takeover ("RTO") involving the Predecessor Company and Beanstalk, which had limited operations and no significant assets other than cash. Since this transaction does not constitute a business combination, the transaction is considered to be equivalent to an issuance of shares, warrants and options by the Predecessor Company for the net monetary assets of Beanstalk, accompanied by a recapitalization of the Predecessor Company.

The net assets of Beanstalk received on December 31, 2007, the date of the amalgamation, were as follows:

	$
Current assets - net of cash of $52,837	64,020
Current liabilities assumed	(7,351)
Net assets acquired	56,669

Total transaction costs were $232,083. As the transaction costs exceeded the value of the net assets acquired, the 1,964,286 shares, 89,286 warrants and 216,072 options were recorded at $nil and the excess of the transaction costs over the net assets acquired of $175,414 has been charged to the consolidated statement of operations.

These financial statements are a continuation of the financial statements of the Predecessor Company and not those of Beanstalk. Accordingly, for periods prior to December 31, 2007 the financial statements include the financial position, results of operations and cash flows of the Predecessor Company only, and subsequent to December 30, 2007, the financial statements reflect the financial position, results of operations and cash flows of the combined companies. The capital structure of the Predecessor Company for periods presented prior to the transaction has been adjusted to reflect the new capital structure of the Company.

As part of the Arrangement and as a condition to closing of the Arrangement, the Predecessor Company completed a brokered private placement (the "Private Placement") and issued 1,895,514 common shares for gross proceeds of $1,857,603 (note 6(d)).

Going concern

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Company's ability to continue as a going concern is dependent upon its ability to fund its research and development programs, manage its foreign currency exposures, defend its patent rights and generate positive cash flows from operations.

For the year ended December 31, 2008, the Company reported a loss of $2,742,374 and an accumulated deficit of $11,054,502 at that date. In addition to its working capital requirements, the Company must secure sufficient funding to maintain its research and development projects and for general operations to continue. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In recognition of these circumstances, on February 9, 2009, the Company completed a private placement and raised gross proceeds of $1,292,500 to fund operations and continue with its research and development activities (note 15(b)). These undertakings, while significant, are not sufficient in and of themselves to enable the Company to fund all aspects of its operations and, accordingly, management is pursuing other financing alternatives to fund the Company's operations so it can continue as a going concern. Management plans to secure the necessary financing through one or more of the following activities: the issue of new equity; the entering into of strategic partnership arrangements; and the potential exercise of outstanding warrants for the purchase of common shares. Nevertheless, there is no assurance that these initiatives will be successful.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Significant accounting policies

Generally accepted accounting principles

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are presented in Canadian dollars.

Basis of consolidation

The accompanying consolidated financial statements for the years ended December 31, 2008 and 2007 include the accounts of the Company and its wholly owned subsidiary, iCology Corporation. All significant intercompany transactions and balances have been eliminated.

Development stage company

The accompanying financial statements have been prepared in accordance with the provisions of Accounting Guideline No. 11, Enterprises in the Development Stage (note 1).

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly. Significant areas requiring the use of estimates and assumptions include the determination of future income taxes, the recoverability of intangible and other long-term assets and the calculation of fair value for stock-based compensation transactions.

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 consolidated statements of operations.

Short-term investments

The Company's investments, which consist of money market accounts and banker's acceptances, are classified as held to maturity for accounting purposes and carried on the consolidated balance sheets at amortized cost using the effective interest method, plus accrued interest. Investments with maturities of greater than 90 days and less than one year are classified as short-term investments.

Government assistance and investment tax credits

The Company periodically applies for financial assistance under available government incentive programs. The Company recognizes government assistance and investment tax credits for qualifying research and development costs when the Company has complied with the terms and conditions of the approved grant program or applicable tax legislation and there is reasonable assurance the government assistance or investment tax credit will be realized.

Government assistance related to research grants for operating expenses is recorded as a reduction of related expenses in the period when the receipt of such assistance is reasonably assured. Government assistance relating to refundable investment tax credits resulting from research and development expenditures is recorded as a reduction of related expenses.

When the Company completed its RTO in December 2007, the Company was no longer eligible for new investment tax credits. Investment tax credits recorded in 2008 relate to the balance of the 2007 claim.

Equipment

Equipment is recorded at cost less accumulated amortization. Management reviews equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by management by comparing the carrying amount to the estimated future net cash flows the assets are expected to generate. Where the carrying value exceeds estimated future net cash flows, the assets are written down to fair value.

Amortization is provided based on the estimated useful lives of the equipment using the straight-line method at the following annual rates:

Computer equipment	3 years
Computer software	2 years
Office equipment	5 years

Intangible assets

Intangible assets include licenses. Expenditures incurred to prepare, file and obtain licenses are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the terms of the related licenses, which range from 10 to 15 years.

Intangible 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, as measured by comparing their net book value to the estimated undiscounted future cash flows generated by their use. Impaired assets are recorded at fair value, determined using discounted future cash flows expected from their use and eventual disposition.

Share issue costs

Direct costs associated with an issue of capital stock or warrants are deducted from the related proceeds at the time of the issuance.

Stock-based compensation

The Company grants stock options to directors, officers, employees and consultants pursuant to a stock-based compensation plan described in note 6. Compensation expense is recorded for stock options issued to employees and non-employees using the fair value method with a corresponding increase in contributed surplus. Any consideration received on exercise of stock options or the purchase of stock, plus the fair value of options or stock, is credited to capital stock.

Under the fair value method, stock-based payments to non-employees are measured at the fair value of the equity instrument issued. The fair value of stock-based payments to non-employees is periodically re-measured until the earlier of completion of the services provided, a firm commitment to complete the services, or the vesting date; any change in fair value is recognized over the service period.

Research and development

Research expenditures are expensed in the period incurred. Product development expenditures are expensed as incurred unless the product candidate meets criteria for deferral and amortization under Canadian generally accepted accounting principles. No product development expenditures have been deferred to date.

Foreign currency transactions

Monetary assets and liabilities denominated in currencies other than the Canadian dollar are translated at the rate of exchange in effect at the end of the period. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Exchange gains or losses are recognized immediately in the consolidated statements of operations.

Future 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.

Comprehensive income

On January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income. This section establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. The Company's comprehensive loss is equal to its net loss.

Basic and diluted loss per common share

Loss per share is calculated using the weighted average number of shares issued and outstanding during the year. The effect of potential issuances of shares in exchange for options and warrants would be anti-dilutive, and therefore basic and diluted losses per share are the same.

Comparative amounts

Comparative amounts have been reclassified, where necessary, to conform with the financial statement presentation adopted in the current year.

Financial instruments

Recognition and measurement

On January 1, 2007, the Company adopted CICA Handbook Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 3251, Equity on a retroactive basis, without restatement of prior periods. Among other things, these sections specify when a financial instrument or non-financial derivative is to be recognized on the balance sheet, require a financial instrument derivative to be measured at fair value or using cost-based measures, depending on its classification, and establish how gains or losses are to be recognized and presented.

The Company has made the following classifications for its financial instruments:

a) Cash and cash equivalents are classified as assets held-for-trading and are measured at fair value at the end of each period, with any resulting gains or losses recognized as net gains or losses in the consolidated statements of operations.

b) Accounts receivable are initially measured at fair value and subsequently at amortized cost using the effective interest rate method, less provisions for impairment.

c) Short-term investments are classified as held to maturity and are measured at fair value upon initial measurement and subsequently at amortized cost using the effective interest rate method.

d) Accounts payable are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

The adoption of these new standards did not have a material impact on the Company's consolidated financial statements.

Disclosure and presentation

On January 1, 2008, the Company adopted the CICA Handbook Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. Section 3862 describes the required disclosure to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. See note 13.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, Financial Instruments - Disclosure and Presentation.

Capital disclosures

On January 1, 2008, the Company adopted CICA Handbook Section 1535, Capital Disclosures. The new standard requires disclosure of quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. See note 14.

Changes in accounting policy

General standards of financial statement presentation

In June 2007, the CICA amended Handbook Section 1400, General Standards of Financial Statement Presentation, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1, 2008. The adoption of this standard, effective for the Company on January 1, 2008, did not impact the Company's operating results or financial position but required additional financial statement disclosure.

New accounting pronouncements

Business combinations, consolidated financial statements and non-controlling interests

In January 2008, the CICA introduced Handbook Section 1582 to replace Handbook Section 1581, Business Combinations, and Sections 1601 and 1602 to together replace Handbook Section 1600, Consolidated Financial Statements. The adoption of Section 1582 and collectively Sections 1601 and 1602 provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, Business Combinations, and International Accounting Standards ("IAS") 27, Consolidated and Separate Financial Statements, respectively. CICA 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

The impact of these standards, effective for the Company on January 1, 2011, on the Company's consolidated financial statements has not been determined.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces Handbook Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This revision aligns Canadian generally accepted accounting principles with IFRS and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to fiscal years beginning October 1, 2008.

The impact of this new standard, effective for the Company on January 1, 2009, on the Company's consolidated financial statements has not been determined.

3 Projects under development

The Company's projects relate to the repositioning of drugs with a previous clinical history for new or expanded disease indications, with a focus on ophthalmology. The primary activities associated with these projects include the planning and running of human clinical trial programs, regulatory submission preparation, and pre-clinical studies. The Company currently has three projects: iCo-007, an antisense compound currently in a Phase I clinical trial for the treatment of diabetic macular edema; iCo-008 a monoclonal antibody that is in the preparation stage for a Phase II clinical trial in allergic conjunctivitis; and iCo-009, an oral formulation of Amphotericin B for the treatment of systemic fungal infections that is at the pre-clinical stage.

Cumulative research and development expenses as at December 31, 2008 relating to these projects totalled $5,333,662 (2007 - $4,582,190) (note 10). As at December 31, 2008, the Company has not deferred any development costs due to the inherent uncertainty of these products reaching successful commercialization.

4 Equipment

			2008
	Cost $	**Accumulated amortization $**	**Net $**
Computer equipment	35,934	18,034	17,900
Computer software	7,254	4,168	3,086
Office equipment	4,989	2,145	2,844
	48,177	24,347	23,830

			2007
	Cost $	**Accumulated amortization $**	**Net $**
Computer equipment	20,152	11,745	8,407
Computer software	4,965	2,283	2,682
Office equipment	4,989	1,148	3,841
	30,106	15,176	14,930

5 Intangible assets

	2008 $	2007 $
Cost		
ISIS (iCo-007)	599,071	599,071
Medimmune (iCo-008)	464,935	464,935
	1,064,006	1,064,006
Accumulated amortization	299,001	192,742
Net book value	765,005	871,264

a) The Company entered into a licensing agreement with Isis Pharmaceuticals Inc. ("ISIS") dated August 24, 2005 (amended September 4, 2007), pursuant to which the Company was granted an exclusive, worldwide license to use certain patented technology (iCo-007) in consideration for a license issuance fee of $599,071 (US$500,000), which was capitalized as an intangible asset.

The Company will also pay a royalty based on future sales. In accordance with the license agreement, the Company issued a note payable for $287,365 (US$250,000) and paid cash of $308,321. On April 26, 2006, the note payable for US$250,000 was converted into 362,094 common shares at $0.80 per share.

During the year ended December 31, 2007, the Company made a payment of $234,920 (US$200,000) and issued 936,875 units comprising one common share and one-quarter of one common share purchase warrant at $1.40 each totalling $1,311,625 (US$1,250,000) in consideration for the attainment of two milestones, being the filing of an investigational new drug ("IND") application and the execution of a clinical site agreement. These milestone payments have been expensed as research and development costs. In addition to the milestone payment described above, the Company will make further payments of up to US$22 million upon the attainment of certain milestones relating to the commercial development of the iCo-007 for diabetic macular edema.

b) On December 20, 2006 (amended December 4, 2007), the Company entered into a license agreement with Medimmune Limited ("Medimmune") to acquire the exclusive, worldwide rights to a drug compound (iCo-008) to be developed by the Company primarily for sight threatening forms of allergic conjunctivitis. In exchange, the Company will pay an initial consideration of $464,935 (US$400,000), of which $173,610 (US$150,000) was paid in December 2006. An additional $291,325 (US$250,000) was accrued at December 31, 2006 for the balance of initial consideration, of which $151,605 (US$150,000) was paid in December 31, 2007 and the balance of $113,638 (US$100,000) plus accrued interest of $1,349 (US$1,542) was paid on June 17, 2008. Additional payments of up to US$7 million will be made upon achieving certain development milestones; however, no milestones have been reached as at December 31, 2008. A royalty will also be paid based on future sales. In 2008, the Company made the strategic decision to fund clinical development of iCo-008 solely through third party strategic partnerships and is pursuing discussions with a number of potential strategic partners for this purpose.

6 Capital stock

Authorized
Unlimited number of common shares

Issued and outstanding

	Number of shares	Amount $
Balance - December 31, 2006	10,886,298	4,533,829
Issuance of units (b)	1,870,380	2,319,526
Share issuance costs	-	(103,744)
Issuance of common shares due to exercise of warrants	29,500	48,407
Issuance of common shares for services (note 5(a))	936,875	1,161,854
Issuance of units (c)	117,742	108,543
Issuance of units (d)	1,895,514	1,557,419
Agent shares (d)	212,586	174,669
Share issuance costs	-	(238,144)
Beanstalk common shares prior to the RTO (e)	5,500,000	305,669
Beanstalk 2.8 : 1 share consolidation (e)	(3,535,714)	-
Elimination of Beanstalk capital	-	(305,669)
Balance - December 31, 2007	17,913,181	9,562,359
Issuance of common shares for cash (a)	3,801,500	1,140,450
Share issuance costs	-	(58,154)
Exercise of options	25,000	3,750
Exercise of warrants	15,269	4,276
Transfer from contributed surplus on exercise of options	-	3,218
Transfer from warrants on exercise of warrants	-	11,022
Balance - December 31, 2008	21,754,950	10,666,921

a) On June 6 and June 9, 2008, the Company completed a private placement for gross proceeds of $1,140,450 through the issuance of 3,801,500 units at a price of $0.30 per unit.

b) On February 28 and March 9, 2007, the Company completed a private placement for gross proceeds of $2,618,532 through the issuance of 1,870,380 units at a price of $1.40 per unit. Each unit comprised one common share and one-quarter of one common share warrant. Each warrant is exercisable at $1.75 for a term ending on the earlier of: (i) 36 months from the date of issuance; (ii) 12 months from the date on which the Company completes an initial public offering; and (iii) the date of closing of a sale of all of the Company. Of the gross proceeds, $299,006 was attributable to warrants. In addition, issuance costs of $117,117 were incurred, of which $103,744 was allocated to share capital and $13,373 was allocated to warrants. The assumptions used to estimate the fair value of warrants issued were: dividend yield 0%; volatility 124%; expected life 18 months; and risk-free interest rate 4.05%.

c) On November 30, 2007, the Company completed a non-brokered private placement of 117,742 subscription receipts at $0.98 per subscription receipt for gross proceeds of $115,387. Each unit consisted of one common share and one-half of one common share warrant. Each warrant is exercisable at $1.26. Of the gross proceeds, $6,854 was allocated to warrants. The assumptions used to estimate the fair value of warrants issued were: dividend yield 0%; volatility 51%; expected life 1 year; and risk-free interest rate 4.14%.

d) On December 31, 2007, the Company completed a brokered private placement of 1,895,514 subscription receipts at $0.98 per subscription receipt for gross proceeds of $1,857,603. An additional 212,586 subscription receipts were issued for agent and finder's fee shares. Each subscription receipt entitles the holder thereof to receive, immediately prior to the completion of the Arrangement and without payment of additional consideration, one common share and one-half of one warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of 12 months from the date of closing of the arrangement at a price of $1.26 per common share (see note 1). Of the gross proceeds, $174,669 was attributable to agent and finder's fee shares, $98,340 was attributable to warrants and $27,175 was attributable to agent warrants. In addition, issuance costs of $255,401 were incurred, of which $13,521 was allocated to warrants and $3,736 was allocated to agent warrants. The assumptions used to estimate the fair value of warrants issued were: dividend yield 0%; volatility 51%; expected life 1 year; and risk-free interest rate 4.14%.

e) Prior to the Arrangement, Beanstalk had 5,500,000 common shares issued and outstanding. As part of the Arrangement, the Beanstalk common shares were consolidated on the basis of 2.8 common shares for one post-consolidation common share, resulting in 1,964,286 post-consolidation common shares Outstanding. On completion of the Arrangement, Beanstalk subsequently issued one post consolidation common share for one iCo common share, such that iCo shareholders received 13,723,053 post- consolidation common shares of the new company representing approximately 77.8% of the issued post-consolidation common shares, after giving consideration to the private placements (and related fees and expenses) described in (b) and (c). Outstanding Beanstalk options and warrants were also consolidated on the basis of 2.8 Beanstalk options and warrants for post each post-consolidation option and warrant.

Escrow shares

At December 31, 2008, 3,577,351 (2007 - 4,769,799) common shares were held in escrow pursuant to National Policy 46 201, Escrow for Initial Public Offerings. On January 7, 2008 and July 7, 2008, 476,979 and 715,470 common shares, respectively, were released from escrow. The remaining shares in escrow will be released at 15% increments (715,470 common shares) every six months until January 2011.

Stock options

Under the original stock option plan (the "2005 Option Plan"), the Company issued options to directors, officers, employee and consultants for up to 1,400,000 shares of common stock. The exercise price of each option was determined by the board of directors on the date of grant. Options vest over a three-year period, unless otherwise specified by the board of directors. All the options had a 10-year term, unless otherwise specified by the board of directors.

On December 31, 2007 as part of the Arrangement, the Company adopted a new stock option plan (the "2007 Option Plan") dated December 31, 2007 (the "Effective Date") whereby up to 2,686,977 common shares representing 15% of the issued and outstanding common shares as at the Effective Date are reserved for issuance pursuant to the exercise of stock options. Under the 2007 Option Plan, options have a maximum five-year term and are subject to certain vesting requirements. The Beanstalk options were transferred in on a one-for-one basis, and they are fully vested and expire on December 1, 2011.

	Number of stock options outstanding	Weighted average exercise price $
Balance - December 31, 2006	1,265,000	0.48
Granted	50,000	0.90
Transferred from Beanstalk on completion of RTO	216,072	0.28
Balance - December 31, 2007	1,531,072	0.42
Granted	260,000	0.87
Exercised	(25,000)	0.15
Balance - December 31, 2008	1,766,072	0.52

Of the total stock options outstanding, 1,539,749 were exercisable at year-end.

The following table summarizes information about common share options outstanding and exercisable at December 31, 2008:

	Options outstanding			Options exercisable	
Range of exercise price $	Number Outstanding at December 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable at December 31, 2008	Weighted average exercise price $
0.15 - 1.00	841,072	0.88	0.18	841,072	0.18
0.60 - 0.80	685,000	0.89	0.78	597,430	0.79
0.98 - 1.00	240,000	0.51	0.98	101,247	0.99
	1,766,072	0.28	0.52	1,539,749	0.47

For the year ended December 31, 2008, the Company recognized $132,021 (2007 - $203,883) in stock-based compensation for options granted to directors, officers and employees, and recognized $47,947 (2007 - $nil) in stock-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:

	2008	2007
Dividend yield	0%	0%
Expected volatility	119%	124%
Risk-free interest rate	4.00%	4.25%
Expected life (years)	2 - 5	5

Warrants

	Number of warrants	Exercise price $	Amount $
Balance - December 31, 2006	966,404		246,909
Private placement (b)	467,586	1.75	299,006
Warrant issue costs (b)	-	-	(13,373)
Warrants issued for intangible assets (note 5(a))	234,219	1.75	149,772
Exercise of warrants	(27,500)	1.30	(7,878)
Exercise of warrants	(2,000)	1.75	(1,279)
Private placement, non-brokered (c)	58,877	1.26	6,854
Private placement, brokered (d)	947,751	1.26	98,340
Agent warrants (d)	151,641	1.26	27,175
Warrant issue costs (d)	-	-	(17,257)
Transferred from Beanstalk on completion of RTO	89,286	0.28	-
Balance - December 31, 2007	2,886,264		788,269
Transfer to capital stock on exercise of warrants	(15,269)		(11,022)
Expired warrants	(2,870,995)		(777,247)
Balance - December 31, 2008	-		-

Contributed surplus

	$
Balance - December 31, 2006	252,732
Stock-based compensation	203,883
Balance - December 31, 2007	456,615
Stock-based compensation	179,968
Transfer to capital stock on exercise of options	(3,218)
Expiration of warrants	777,247
Balance - December 31, 2008	1,410,612

7 Income taxes

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

Expiry date	$
2015	337,073
2026	1,873,731
2027	4,585,475
2028	2,788,280

Future tax assets comprise the following:

	2008 $	2007 $
Non-capital losses carried forward	2,491,984	1,834,995
SR&ED expenditures	127,760	149,529
Equipment	90,416	62,727
Share issue costs	209,819	280,612
	2,919,979	2,327,863
Valuation allowance	(2,919,979)	(2,327,863)
Net future tax assets	-	-

Management believes there is sufficient uncertainty regarding the realization of future tax assets such that a full valuation allowance has been provided.

The Company's effective income tax rate differs from the statutory income tax rate. The differences arise from the following items:

	2008 $	2007 $
Income tax at statutory rate	(713,016)	(914,013)
Change in valuation allowance	576,997	1,483,042
Change in future tax rate	86,217	(422,552)
Permanent differences	49,802	38,675
Book to tax adjustments	-	(185,152)
	-	-

8 Related party transactions

During the year ended December 31, 2008:

a) the Company incurred consulting fees totalling $25,000 (2007 - $26,935). The amounts outstanding as at December 31, 2008 totalled $18,750 (2007 - $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 director's fees totalling $21,000 (2007 - $nil). The amounts outstanding as at December 31, 2008 totalled $9,000 (2007 - $nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.

c) directors and officers of the Company subscribed for shares as part of a private placement. 190,000 (2007 - 127,070) units of the Company were issued to these directors, officers and related parties for gross proceeds of $57,000 in the June 6 and June 9, 2008 private placement (2007 - $147,367 in the February 28 and March 9, 2007 and December 31, 2007 private placements) (note 6(a), (b) and (d)).

d) no options were granted to directors and officers of the Company (2007 - 25,000 options at $1.00 per share) to purchase common shares of the Company.

e) the Company incurred $ nil administrative support services by an officer of Beanstalk (2007 - $10,600).

9 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.

10 Research and development

	Year ended December 31, 2008 $	Year ended December 31, 2007 $	Cumulative from inception to December 31, 2008 $
Personnel	391,274	384,874	1,061,212
Research projects	751,472	3,279,609	5,333,662
Intellectual property	148,989	153,768	443,066
Business development	87,130	176,232	329,527
Travel	79,193	92,728	291,920
Facilities	79,379	76,071	262,716
	1,537,437	4,163,282	7,722,103
Government assistance (IRAP contribution) (a)	(65,796)	(30,593)	(96,389)
Investment tax credits	(50,383)	(418,024)	(468,407)
	1,421,258	3,714,665	7,157,307

a) On October 11, 2007, the Company entered into a funding contribution agreement with the National Research Council Canada ("NRC") for up to $98,010 from the Industrial Research Assistance Program ("IRAP"). The NRC had committed this money to the Company to support its development of an oral Amphotericin B formulation for the treatment of fungal disease. If the NRC determines that certain objectives under the contribution agreement cannot be realized, the Company may be liable to repay contributions received. Under this IRAP program, the Company claimed contributions in the current fiscal year totalling $65,796 (2007 - $30,593). Contributions are recorded as a credit to research and development expense. The IRAP program ended in October 2008, and there are no liabilities related to the NRC.

11 General and administrative

	Year ended December 31, 2008 $	Year ended December 31, 2007 $	Cumulative from inception to December 31, 2008 $
Personnel	455,242	303,564	1,046,802
Professional fees	419,749	538,143	1,267,585
Travel	71,524	86,632	282,634
Facilities	48,782	35,356	166,678
	995,297	963,695	2,763,699

12 Commitments and contingencies

a) Lease commitments

In January 2009, the Company extended its operating lease agreement for office space (originally expiring May 31, 2009). The new lease expires May 31, 2012. Future minimum annual lease payments under the lease are as follows:

	$
2009	34,213
2010	27,195
2011	28,455
2012	12,075

Rent expense for the year ended December 31, 2008 amounted to $42,920 (2007 - $41,676).

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, 2008 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 licence 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 (note 5(a)). 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 licence agreement between Medimmune and the Company, the Company was required to make up-front 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.

University of British Columbia ("UBC")

On July 27, 2007, the Company entered into an option agreement with UBC that granted the Company an option to negotiate a licence for the exclusive rights to a novel formulation for Amphotericin B (iCo-009) to be used for potential systemic fungal infections. Under the option, the Company was committed to making research and development funding payments of $214,673 up to May 1, 2008, of which $114,673 was remaining as at December 31, 2007. The total commitment was partially offset by funding through the NRC IRAP program in the amount of $98,010.

On February 26, 2008, the Company exercised the option to negotiate for the license and, on May 6, 2008, 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.

As part of the UBC Licence, the Company made a separate commitment to secure additional research funding for iCo-009 in the aggregate of $750,000 within eight months of signing, of which $148,000 had been paid directly by the Company to UBC as at December 31, 2008 with a commitment to pay an additional $90,000 in 2009 for a total of $238,000. The research funding commitment may take the form of indirect financial contributions, such as government or privately sponsored research grants, direct contributions from the Company, or a combination of the two. On August 14, 2008, the UBC Licence was amended such that the Company's commitment to the research funding was extended by an additional four months to May 5, 2009.

Subsequent to year-end, the Company was successful in securing additional research funding for iCo-009 through the award of a Canadian Institute of Health Research ("CIHR") Research Chair (the "Research Chair") to fund further research over a four-year period. Under the budget program established by the Research Chair, the Company is required to directly contribute $75,000 per annum starting in fiscal 2009 and ending in fiscal 2012. In consideration of securing the Research Chair, on February 23, 2009 UBC provided notification to the Company that its obligation to UBC under the UBC Licence to secure the research funding for iCo-009 would be satisfied in its entirety as long as the Company meets its funding obligations under the Research Chair and fulfills its obligation to pay UBC the remaining $90,000 in direct research funding committed to by the Company for 2009. The Company subsequently met its financial obligations to UBC and the Research Chair for 2009.

13 Management of financial risk

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at December 31, 2008:

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.

The Company has expenditures in foreign currency and therefore is exposed to foreign exchange risk arising from transactions denominated in US dollars. A significant change in the currency rates could have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations. As approximately 16% of the Company's operating expenses are in US dollars, a 10% increase/decrease in the foreign exchange rate would result in a 2% increase/decrease in costs.

Interest rate risk

The only financial instruments that expose the Company to interest rate risk are its cash and cash equivalents. 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.

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.

On February 9, 2009, the Company completed a private placement for gross proceeds of $1,292,500 (note 15(b)). Also see note 1 - going concern, for additional comments relating to liquidity risk.

The Company continues to manage its liquidity risk by being fairly consistent with outflows experienced for the year ended December 31, 2008 and is undertaking efforts to conserve cash resources wherever possible and, as such, cash outflows may decline moderately over the next six months.

Credit risk

The Company's exposure to credit risk consists of the carrying value of its cash and cash equivalents.

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 $	Insured amount $	Non-insured amount $
CIBC	113,820	100,000	13,820
Raymond James	506,456	506,456	-
	620,276	606,456	13,820

14 Capital management

The Company considers its capital stock and contributed surplus as capital. As at December 31, 2008, the amount of capital totalled $12,077,533.

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 quarterly board of director meetings and regular review of financial information.

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

15 Subsequent events

a) On January 1, 2009, the Company amalgamated with its wholly owned subsidiary, iCology Corporation. iCology Corporation was a dormant holding company and the amalgamation was for the purposes of simplifying the Company's corporate structure and reducing accounting and administrative overhead.

b) As at February 9, 2009, the Company completed a private placement for gross proceeds of $1,292,500 through the issuance of 6,462,500 units at a price of $0.20 per unit. Each unit comprised one common share and one-half of one common share purchase warrant. Each warrant is exercisable at $0.30 for a period of 12 months.