iCo Therapeutics Inc.

(a development stage company)

Financial Statements

December 31, 2010 and 2009

PricewaterhouseCoopers LLP
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April 29, 2011

Independent Auditor's Report

To the Shareholders
of iCo Therapeutics Inc.

We have audited the accompanying financial statements of iCo Therapeutics Inc., which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of iCo Therapeutics Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the financial statements which discloses conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about iCo Therapeutics Inc.'s ability to continue as a going concern.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

iCo Therapeutics Inc.

(a development stage company)
Balance Sheets
As at December 31, 2010 and 2009

	2010 $	2009 $
Assets		
Current assets		
Cash and cash equivalents	632,312	1,384,802
Short-term investments	1,408,395	2,511,263
Taxes and other receivable	45,966	34,933
Deferred financing costs	6,998	-
Prepaid expenses	21,309	22,499
	2,114,980	3,953,497
Equipment (note 4)	12,268	16,514
Intangible assets (note 5)	552,074	658,539
	2,679,322	4,628,550
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	291,702	322,778
Shareholders' Equity (note 6)		
Capital stock	16,798,970	15,733,967
Contributed surplus	1,975,652	1,599,669
Warrants	80,631	335,128
Deficit	(16,467,633)	(13,362,992)
	2,387,620	4,305,772
	2,679,322	4,628,550

Nature of operations and going concern (note 1)

Commitments and contingencies (note 13)

Subsequent events (note 16)

Approved by the Board of Directors

(signed) William Jarosz Director

(signed) Andrew Rae Director

iCo Therapeutics Inc.

(a development stage company)

Statements of Operations, Comprehensive Loss and Deficit

	Year ended December 31, 2010 $	Year ended December 31, 2009 $	Cumulative from inception to December 31, 2010 $
Revenue			
Licensing income (notes 2 and 8)	100,000	-	100,000
Expenses			
Research and development (note 9)	1,593,638	1,133,696	9,839,641
General and administrative (note 10)	1,222,720	836,947	4,823,366
Amortization	117,555	116,845	557,749
Foreign exchange loss	24,928	37,710	205,385
Stock-based compensation	272,343	189,646	1,098,572
Transaction costs	-	-	175,414
	3,231,184	2,314,844	16,700,127
Loss before the undernoted	(3,131,184)	(2,314,844)	(16,600,127)
Interest income	26,543	6,354	132,494
Loss and comprehensive loss for the year	(3,104,641)	(2,308,490)	(16,467,633)
Deficit accumulated during the development stage - Beginning of year	(13,362,992)	(11,054,502)	-
Deficit accumulated during the development stage - End of year	(16,467,633)	(13,362,992)	(16,467,633)
Basic and diluted loss per share	(0.08)	(0.08)	
Weighted average number of shares	40,855,713	29,542,334	

iCo Therapeutics Inc.

(a development stage company)
Statements of Cash Flows

	Year ended December 31, 2010 $	Year ended December 31, 2009 $	Cumulative from inception to December 31, 2010 $
Cash flows from operating activities			
Loss for the year	(3,104,641)	(2,308,490)	(16,467,633)
Items not affecting cash			
Amortization	117,555	116,845	557,749
Stock-based compensation	272,343	189,646	1,098,572
Warrants issued for research and development (note 6(a))	93,083	-	93,083
Foreign exchange gain on conversion of note payable	-	-	(2,580)
Shares issued for service (note 5(a))	-	-	1,311,625
	(2,621,660)	(2,001,999)	(13,409,184)
Changes in non-cash working capital			
Taxes and other receivable	(11,033)	8,017	(12,893)
Tax credits receivable	-	-	(33,073)
Deferred financing costs	(6,998)	-	(6,998)
Prepaid expenses	1,190	(8,729)	(21,309)
Accounts payable and accrued liabilities	(31,076)	(120,022)	378
	(2,669,577)	(2,122,733)	(13,483,079)
Cash flows from investing activities			
Purchase of equipment	(6,844)	(3,065)	(58,086)
Net purchase of short-term investments	1,102,868	(2,511,263)	(1,408,395)
Purchase of intangible assets	-	-	(481,931)
Deposits	-	-	407,050
	1,096,024	(2,514,328)	(1,541,362)
Cash flows from financing activities			
Exercise of warrants	810,563	158,250	1,012,338
Exercise of options	10,500	5,500	19,750
Issuance of units	-	5,767,500	15,767,302
Unit issuance costs	-	(529,663)	(1,142,637)
	821,063	5,401,587	15,656,753
(Decrease) increase in cash and cash equivalents	(752,490)	764,526	632,312
Cash and cash equivalents - Beginning of year	1,384,802	620,276	-
Cash and cash equivalents - End of year	632,312	1,384,802	632,312
Supplementary information			
Cash received for interest	22,087	6,354	

1 Nature of operations and going concern

Nature of operations

iCo Therapeutics Inc. ("iCo" or the "Company") is a development stage pharmaceutical company focused on the reprofiling and repositioning of drugs and drug candidates with a previous clinical history for new disease indications. iCo's current business strategy is to acquire the rights to drugs and drug candidates from third parties and run human clinical trial programs for new disease indications, with an emphasis on ophthalmology. The Company currently has three compounds under development. The first, iCo-007, is an anti-sense molecule that the Company believes reduces levels of a key protein associated with diabetic retinopathy. The Company completed a Phase I, open label, dose-escalating clinical trial at four trial sites in the United States using a single injection of iCo-007 in patients with diffuse diabetic macular edema. The trial met its primary end point, and the Company is currently planning a Phase II clinical trial. iCo-008 is a monoclonal antibody that the Company plans to take into clinical trials for 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"). iCo-009 is an experimental oral formulation of Amphotericin B that is at a pre-clinical stage.

The Company is considered to be in the development stage as most of its efforts have been devoted to research and development, raising capital, recruitment of personnel and long-term planning. The Company is publicly traded on the TSX Venture Exchange under the symbol "ICO."

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.

Going concern

These financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") 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 recoverability of the Company's intangible and other long-term assets and its ability to continue as a going concern are 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, 2010, the Company reported a loss of $3,104,641 and an accumulated deficit of $16,467,633 at that date. Subsequent to December 31, 2010, the Company obtained an equity line facility whereby iCo may access, subject to certain conditions, up to $10 million of equity capital over a three-year period (refer to note 16). However, as the Company does not have the prospect of achieving revenues in the near future, the Company will require additional funding to maintain its research and development projects and for general operations. As at December 31, 2010, the Company had cash and short-term investments on hand of $2,040,707 and working capital of $1,823,278. 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.

Consequently, management is pursuing various financing alternatives to fund the Company's operations so it can continue as a going concern. Management plans to secure the necessary financing through the issue of new equity and/or the entering into of strategic partnership arrangements. 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.

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 GAAP 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 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 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 reverse takeover ("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. In 2010, the Company had no investment tax credits.

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 licences. Expenditures incurred to prepare, file and obtain licences are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the terms of the related licences, 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 GAAP. 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 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.

Revenue recognition

The Company revenue comprises initial fees and milestone payments derived from collaborative and other licensing arrangements. Licensing fees are recognized as revenue when persuasive evidence of an arrangement exists, the contracted fee is fixed or determinable, the intellectual property is delivered to the customer, collection is reasonably assured, and the Company has substantially completed its performance obligations.

Comprehensive income

The Company adopted the recommendations of 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 GAAP. The Company's comprehensive loss is equal to its net loss.

Basic and diluted loss per common share

Loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding. As at December 31, 2010, 1,475,000 (2009 - 2,521,429) options were excluded from the calculation of diluted shares as their exercise price was below the prevailing market price and, accordingly, the effects of the calculation were anti-dilutive.

Financial instruments

Recognition and measurement

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 sheets, 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 statements of operations.

b) Other receivable is 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.

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 Standards ("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. Section 1601 and Section 1602 apply to interim and annual financial statements relating to years beginning on or after January 1, 2011.

The Company has concluded that there is no material impact on the Company's financial statements from the adoption of these standards.

International Financial Reporting Standards

In February 2008, the CICA confirmed that the use of IFRS will be required, for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company has conducted a detailed assessment of the impact of these new accounting standards on its financial statements in 2010. Changes in accounting policies are likely and may materially impact the Company's financial statements.

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 anti-sense 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, 2010 relating to these projects totalled $6,731,415 (2009 - $5,883,556) (note 9). As at December 31, 2010, the Company has not deferred any development costs due to the inherent uncertainty of these products reaching successful commercialization.

4 Equipment

			2010
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Computer equipment	38,387	29,501	8,886
Computer software	14,708	12,174	2,534
Office equipment	4,989	4,141	848
	58,084	45,816	12,268

			2009
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Computer equipment	31,993	24,304	7,689
Computer software	14,258	7,279	6,979
Office equipment	4,989	3,143	1,846
	51,240	34,726	16,514

5 Intangible assets

	2010 **$**	**2009** **$**
Cost		
ISIS (iCo-007)	599,071	599,071
Medimmune (iCo-008)	464,935	464,935
	1,064,006	1,064,006
Accumulated amortization	511,932	405,467
Net book value	552,074	658,539

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 licence to use certain patented technology (iCo-007) in consideration for a licence 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 licence 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.

No milestone payments were made in 2010 as no milestones were reached during the year.

b) On December 20, 2006 (amended December 4, 2007), the Company entered into a licence 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 was to 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 on 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, 2010. A royalty will also be paid based on future sales.

6 Capital stock

Authorized

Unlimited number of common shares

Issued and outstanding

	Number of shares	Amount $
Balance - December 31, 2008	21,754,950	10,666,921
Issuance of common shares for cash (d)	6,462,500	994,231
Share issuance costs (d)	-	(42,351)
Issuance of common shares for cash (c)	1,187,500	475,000
Share issuance costs (c)	-	(22,750)
Options exercised	19,643	5,500
Warrants exercised	527,500	158,250
Issuance of shares for cash (b)	8,333,333	3,889,920
Share issuance costs (b)	-	(440,035)
Transfer from contributed surplus on exercise of options	-	589
Transfer from warrants on exercise of warrants	-	48,692
Balance - December 31, 2009	38,285,426	15,733,967
Options exercised	70,000	10,500
Warrants exercised	2,701,875	810,563
Transfer from contributed surplus on exercise of options	-	6,440
Transfer from warrants on exercise of warrants	-	237,334
Transfer from warrants on forfeited warrants	-	166
Balance - December 31, 2010	41,057,301	16,798,970

a) On May 16, 2010, the Company completed a Technology Transfer Agreement with ISIS to transfer certain technology related to the manufacturing of iCo-007 from ISIS to the Company. In consideration of the technology transfer, the Company issued to ISIS a warrant (the "Warrant") to purchase 235,000 shares of the Company's common stock at an exercise price of $0.61 for a period of 24 months from the date of issuance. The value assigned to the warrants of $93,038 is consideration for the technology transfer. The assumptions used to estimate the fair value of warrants issued were: dividend yield 0%; volatility 229%; expected life 24 months; and risk-free rate 1.85%.

b) The Company closed a private placement in two tranches, with 6,000,000 common shares issued on October 29, 2009 and an additional 2,333,333 common shares issued on November 20, 2009. The shares were issued at a price of $0.48 per share, for aggregate gross proceeds of $4,000,000. Of the gross proceeds, $110,080 was attributable to compensation options (the "Compensation Options"). 333,334 Compensation Options are treated the same as warrants and were granted to Agents along with an aggregate cash commission of 8% totalling $230,400. Each Compensation Option is exercisable for one common share at an exercise price of $0.60 for a period of 12 months from the date of issuance. The issuance costs, including the 8% commission, totalled $452,487, of which $12,452 was allocated to warrants. The assumptions used to estimate the fair value of warrants issued were: dividend yield 0%; volatility 181%; expected life 12 months; and risk-free interest rate 0.58%.

c) On July 16, 2009 the Company closed on a private placement common share offering (the "Offering") for total gross proceeds of $475,000. The issuance costs totalled $22,750. Under the Offering, the Company issued 1,187,500 common shares at a price of $0.40 per common share.

d) 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. Of the gross proceeds, $298,269 was attributable to warrants. In addition, issuance costs of $54,428 were incurred, of which $42,351 was allocated to share capital and $12,077 was allocated to warrants. The assumptions used to estimate the fair value of warrants issued were: dividend yield 0%; volatility 195%; expected life 12 months; and risk-free interest rate 0.82%.

Escrow shares

At December 31, 2010, 715,470 (2009 - 2,146,411) common shares (including common shares held by certain officers, directors and insiders of the Company) were held in escrow pursuant to National Policy 46-201, *Escrow for Initial Public Offerings*. On January 7, 2010 and July 7, 2010, 715,470 and 715,470 common shares, respectively, were released from escrow. The remaining shares in escrow will be released at 15% increments (715,471 common shares) in January 2011.

Stock options

Under the stock option plan (the "2007 Option Plan") dated December 31, 2007 (the "Effective Date"), up to 2,686,977 common shares representing 7% of the issued and outstanding common shares as at the Effective Date are reserved for issuance pursuant to the exercise of stock options. On April 30, 2009, the 2007 Option Plan was amended to increase the aggregate number of common shares reserved for issuance to 3,200,000.

	Number of stock options outstanding	Weighted average exercise price $
Balance - December 31, 2008	1,766,072	0.52
Granted	925,000	0.50
Exercised	(19,643)	0.28
Forfeited	(150,000)	0.98
Balance - December 31, 2009	2,521,429	0.49
Granted	50,000	0.39
Exercised	(70,000)	0.15
Expired	(655,000)	0.19
Balance - December 31, 2010	1,846,429	0.60

Of the total stock options outstanding, 1,613,095 (2009 - 1,856,847) were exercisable at year-end.

The following table summarizes information about common share options outstanding and exercisable at December 31, 2010:

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding at December 31, 2010	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable at December 31, 2010	Weighted average exercise price $
0.18 - 0.39	346,429	2.10	0.27	313,095	0.25
0.40 - 0.60	825,000	3.96	0.54	625,000	0.54
0.80 - 0.80	585,000	0.43	0.80	585,000	0.80
0.98 - 1.00	90,000	1.31	0.99	90,000	0.99
	1,846,429	2.36	0.60	1,613,095	0.60

For the year ended December 31, 2010, the Company recognized $255,621 (2009 - $150,676) in stock-based compensation for options granted to directors, officers and employees, and recognized $16,722 (2009 - $38,970) 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:

	2010	2009
Dividend yield	0%	0%
Expected volatility	136% - 226%	82% - 190%
Risk-free interest rate	1.58% - 1.62%	0.34% - 2.42%
Expected life (years)	2.25	1 - 5

Warrants

	Number of warrants	Transfer to capital stock on exercise of warrants $	Amount $
Balance - December 31, 2008	-		-
Private placement (d)	3,231,250	0.30	298,269
Warrant issue costs (d)	-		(12,077)
Private placement (b)	333,334	0.60	110,080
Warrant issue costs (b)	-		(12,452)
Transfer to capital stock on exercise of warrants	(527,500)	0.30	(48,692)
Balance - December 31, 2009	3,037,084		335,128
Transfer to capital stock on exercise of warrants	(2,701,875)	0.30	(237,334)
Forfeited	(1,875)	0.30	(166)
ISIS warrants issued (a)	235,000	0.61	93,083
Expired warrants	(333,334)	0.60	(110,080)
Balance - December 31, 2010	235,000		80,631

Contributed surplus

	$
Balance - December 31, 2008	1,410,612
Stock-based compensation	189,646
Transfer to capital stock on exercise of options	(589)
Balance - December 31, 2009	1,599,669
Stock-based compensation	272,343
Transfer to capital stock on exercise of options	(6,440)
Expired warrants	110,080
Balance - December 31, 2010	1,975,652

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	1,844,870
2027	3,254,319
2028	2,850,647
2029	2,392,171
2030	2,989,348
	13,668,428

Future tax assets comprise the following:

	2010 $	2009 $
Non-capital losses carried forward	3,417,107	2,652,839
SR&ED expenditures	146,943	253,394
Equipment	473,444	444,056
Share issue costs	122,846	122,846
	4,160,340	3,473,135
Valuation allowance	(4,160,340)	(3,473,135)
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:

	2010 $	2009 $
Income tax at statutory rate	(884,823)	(579,188)
Change in valuation allowance	687,206	410,417
Change in future tax rate	108,734	96,062
Permanent differences	107,626	58,736
Other	(18,743)	13,973
	-	-

8 Licensing revenue

During the year, pursuant to an option agreement with Immune, the Company received an initial payment of $100,000 representing a non-refundable option fee for an exclusive licence for the development and commercialization rights to the systemic uses of iCo-008, iCo's human monoclonal antibody targeting eotaxin-1. The option fee is creditable against an upfront licence fee payment of US$1 million payable to the Company on the conversion of the option. As the initial option fee of $100,000 is non-refundable, it was recognized as licensing revenue. Further option extension fees are payable to the Company in the event that the option has not been converted by January 30, 2011 (note 16(a)).

9 Research and development

	Year ended December 31, 2010 $	Year ended December 31, 2009 $	Cumulative from inception to December 31, 2010 $
Personnel	359,849	191,207	1,567,268
Research projects	847,859	549,894	6,731,415
Intellectual property	143,008	127,225	713,299
Business development	54,943	133,848	518,318
Travel	98,096	57,249	447,265
Facilities	89,883	74,273	426,872
	1,593,638	1,133,696	10,404,437
Government assistance (IRAP contribution)	-	-	(96,389)
Investment tax credits	-	-	(468,407)
	1,593,638	1,133,696	9,839,641

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. 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.

10 General and administrative

	Year ended December 31, 2010 $	Year ended December 31, 2009 $	Cumulative from inception to December 31, 2010 $
Personnel	423,688	354,375	1,824,865
Professional fees	665,768	378,432	2,311,785
Travel	96,212	68,060	446,906
Facilities	37,052	36,080	239,810
	1,222,720	836,947	4,823,366

11 Related party transactions

During the year ended December 31, 2010:

a) the Company incurred consulting fees totalling $25,000 (2009 - $nil). The amounts outstanding as at December 31, 2010 totalled $6,250 (2009 - $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 $24,000 (2009 - $3,000). The amounts outstanding as at December 31, 2010 totalled $6,000 (2009 - $nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.

c) nil shares were issued to any directors and officers of the Company. In 2009, 458,250 units of the Company were issued to these directors, officers and related parties for gross proceeds of $115,110 (note 6(b), (c) and (d)). Also in 2009, 2,150,000 units of the Company were also issued to ISIS, a shareholder holding greater than 10% of the Company, for gross proceeds of $430,000.

d) nil options were granted to directors and officers of the Company (2009 - 690,000 options) to purchase common shares of the Company. Of the 2009 options, 100,000 options were granted on February 18, 2009 and have a strike price of $0.18. The remaining 590,000 options have a strike price of $0.54 and were granted on December 29, 2009.

e) directors and officers of the Company exercised 156,875 warrants (2009 - nil) at price of $0.30 (see note 6).

f) ISIS exercised 1,075,000 warrants at $0.30 (2009 - nil). ISIS was also issued an additional 235,000 warrants (2009 - nil) at an exercise price of $0.61 (note 6(a)).

12 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.

13 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:

	$
2011	28,455
2012	12,075

Rent expense for the year ended December 31, 2010 amounted to $49,842 (2009 - $46,595).

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, 2010 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 licensing 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 licensing agreement between Medimmune and the Company, the Company was required to make upfront 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 (note 5(b)). 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 May 6, 2008, the Company 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. The UBC Licence additionally obligated the Company to contribute research funding (which may be in the form of direct payments from the Company or indirect payments, such as securing research grants) to UBC for the iCo-009 program.

In February 2009, the Company was successful in securing research funding for iCo-009 through the award of a Canadian Institute of Health Research ("CIHR") Research Chair (the "Research Chair") to fund 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 met its annual funding obligations of $75,000 per annum from fiscal 2009 to fiscal 2012 under the Research Chair, and fulfilled its obligation to pay UBC an additional one-time payment of $90,000 in direct research funding previously committed to by the Company for 2009. The Company has met all its financial obligations to UBC and the Research Chair for both 2009 and 2010.

In September 2009, the Company also entered into a collaboration development agreement with the Consortium for Parasitic Drug Development ("CPDD") for up to US$182,930 for the research and development of the Company's oral drug delivery technology for the treatment of neglected diseases such as leishmaniasis and trypanosomiasis. This agreement was completed in the third quarter of 2010.

14 Financial instruments

Fair value

Amendments to CICA Handbook Section 3862, *Financial Instruments - Disclosures*, establish a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. The section describes three input levels that may be used to measure fair value:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide information on an ongoing basis.

Level 2 - quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial instruments whose carrying value approximates fair value

Cash and cash equivalents, short-term investments, and accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The input level used by the Company to measure fair value of its cash and cash equivalents and short-term investments is a Level 2 input as they are valued using observable market data.

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.

Balances in foreign currencies as at December 31, 2010 and 2009 are as follows:

	2010 US balance $	2009 US balance $
Cash and cash equivalents	93,544	37,785
Accounts payable	(168,223)	(162,516)
	(74,679)	(124,731)

Based on the US dollar balance sheet exposure at December 31, 2010, with other variables unchanged, a 10% change in the US dollar compared to the Canadian dollar would not have a significant impact on the statements of operations.

Interest rate risk

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

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, 2010 and is undertaking efforts to conserve cash resources wherever possible.

Credit risk

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

The Company's cash equivalents consist primarily of operating funds and deposit investments with commercial banks. The Company limits its exposure to credit risk, with respect to cash and cash equivalents, by placing them with high quality credit financial institutions.

15 Capital management

The Company considers its capital stock and contributed surplus as capital. As at December 31, 2010, the amount of capital totalled $18,774,622 (2009 - $17,333,636).

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.

See note 1 - going concern, for additional comments relating to capital management.

16 Subsequent events

a) On February 2, 2011, the Company received an additional payment of US$100,000 as an option extension fee from Immune, in consideration for extending the option period until March 31, 2011 for an exclusive licence for the development and commercialization rights to the systemic uses of iCo-008, iCo's human monoclonal antibody targeting eotaxin-1 (note 8). The option extension fee is non-refundable and not creditable against an upfront licence fee payment of US$1 million. Accordingly, it was recognized as licence revenue. On March 31, 2011, the agreement with Immune was amended to permit Immune to further extend the option period for an additional three months beyond March 31, 2011. For each month extension, Immune will pay to the Company an additional US$50,000. The payments are non-refundable but will be creditable against the upfront licence fee payment of US$1 million. On April 6, 2011, the Company received a payment of US$50,000 to extend the option period to April 31, 2011.

b) On April 14, 2011, the Company announced that it had entered into an equity line facility ("ELF") with Dutchess Opportunity Cayman Fund Limited ("Dutchess"). Under the terms of the agreement, Dutchess has committed to provide up to $10 million of equity capital over a three-year period. iCo may choose to draw on the ELF at iCo's sole discretion in amounts of $250,000 or 200% of the daily average volume of the Company's common shares (as traded on the Toronto Stock Venture Exchange) multiplied by the average of the three daily closing prices immediately prior to the draw down date. Any newly issued common shares are subject to a minimum price set by iCo. iCo can terminate the ELF at any time. In connection with the ELF, iCo must file and clear a short-form shelf prospectus with the applicable securities authorities in Canada. The ELF, which will be publicly filed, is subject at this time to certain conditions, including the filing of a shelf prospectus, and customary regulatory approvals.