iCo Therapeutics Inc.
(a development stage company)

Financial Statements
December 31, 2011 and 2010
(in Canadian dollars)

April 13, 2012

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, 2011, December 31, 2010 and January 1, 2010 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows and for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

PricewaterhouseCoopers LLP, Chartered Accountants
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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, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the financial statements which discloses matters and conditions 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

(in Canadian dollars)

	Note	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets				
Current assets				
Cash and cash equivalents		255,548	632,312	1,384,802
Short-term investments		1,070,851	1,408,395	2,511,263
Taxes and other receivable	5	26,155	45,966	34,933
Prepaid expenses		46,214	28,307	22,499
		1,398,768	2,114,980	3,953,497
Other investments	4	1,220,401		-
Equipment	6	7,631	12,268	16,514
Intangible assets	7	319,129	552,074	658,539
		2,945,929	2,679,322	4,628,550
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	8	255,139	291,702	322,778
Shareholders' Equity				
Capital stock	9	17,587,930	16,798,970	15,733,967
Contributed surplus	9	2,228,455	1,975,652	1,599,669
Warrants	9	335,529	80,631	335,128
Accumulated other comprehensive income		38,520	-	-
Accumulated deficit		(17,499,644)	(16,467,633)	(13,362,992)
		2,690,790	2,387,620	4,305,772
		2,945,929	2,679,322	4,628,550

Nature of operations and going concern (note 1)

Commitments and contingencies (note 16)

Subsequent event (note 19)

Approved by the Board of Directors

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

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

iCo Therapeutics Inc.

(a development stage company)

Statements of Loss and Comprehensive Loss

For the years ended December 31, 2011 and 2010

(in Canadian dollars)

	Note	2011 $	2010 $
Expenses			
Research and development	12	1,126,378	1,770,623
General and administrative	13	1,347,515	1,435,633
Foreign exchange (gain) loss		(765)	24,928
		2,473,128	3,231,184
Interest income		14,305	26,543
Other income	4	203,076	100,000
Gain on sale of rights	4	1,223,736	-
		1,441,117	126,543
Loss for the year		(1,032,011)	(3,104,641)
Other comprehensive income (loss)			
Changes in fair value of the available-for-sale investment		38,520	-
Total comprehensive loss		(993,491)	(3,104,641)
Basic and diluted loss per share		(0.02)	(0.08)
Weighted average number of shares		41,958,476	40,855,713

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

iCo Therapeutics Inc.

(a development stage company)

Statements of Changes in Shareholders' Equity

For the years ended December 31, 2011 and 2010

(in Canadian dollars)

	Shares	Capital stock $	Contributed surplus $	Warrants $	Accumulated other comprehensive income $	Accumulated deficit $	Shareholders' equity $
Balance - January 1, 2010	38,285,426	15,733,967	1,599,669	335,128	-	(13,362,992)	4,305,772
Exercise of options	70,000	16,940	(6,440)	-	-	-	10,500
Exercise of warrants	2,701,875	1,047,897	-	(237,334)	-	-	810,563
Share-based compensation	-	-	272,343	-	-	-	272,343
Expiration of warrants	-	-	110,080	(110,080)	-	-	-
Transfer from warrants on forfeited warrants	-	166	-	(166)	-	-	-
Issuance of ISIS warrants (note 10)	-	-	-	93,083	-	-	93,083
Loss for the year	-	-	-	-	-	(3,104,641)	(3,104,641)
Balance - December 31, 2010	41,057,301	16,798,970	1,975,652	80,631	-	(16,467,633)	2,387,620
Issuance of common shares and warrants (note 9)	5,575,000	853,317	-	261,683	-	-	1,115,000
Share issue costs	-	(64,357)	-	(19,737)	-	-	(84,094)
Broker warrants issuance on private placement (note 9)	-	-	-	12,952	-	-	12,952
Share-based compensation	-	-	252,803	-	-	-	252,803
Other comprehensive loss	-	-	-	-	38,520	-	38,520
Loss for the year	-	-	-	-	-	(1,032,011)	(1,032,011)
Balance - December 31, 2011	46,632,301	17,587,930	2,228,455	335,529	38,520	(17,499,644)	2,690,790

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

iCo Therapeutics Inc.

(a development stage company)

Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(in Canadian dollars)

	2011 $	2010 $
Cash flows from operating activities		
Loss for the year	(1,032,011)	(3,104,641)
Items not affecting cash		
Amortization and other	109,286	110,557
Share-based compensation	252,803	272,343
Gain on sale of rights	(1,223,736)	-
Warrants issued for research and development	-	93,083
	(1,893,658)	(2,628,658)
Changes in non-cash working capital		
Taxes and other receivable	19,811	(11,033)
Prepaid expenses	(24,905)	1,190
Accounts payable and accrued liabilities	(36,563)	(31,076)
	(1,935,315)	(2,669,577)
Cash flows from investing activities		
Purchase of equipment	(2,106)	(6,844)
Purchase of short-term investments	337,544	1,102,868
Net proceeds of sale of intangible assets	179,255	-
	514,693	1,096,024
Cash flows from financing activities		
Exercise of warrants	-	810,563
Exercise of options	-	10,500
Net proceeds from issuance of units	1,043,858	-
	1,043,858	821,063
Decrease in cash and cash equivalents	(376,764)	(752,490)
Cash and cash equivalents - Beginning of year	632,312	1,384,802
Cash and cash equivalents - End of year	255,548	632,312
Supplementary information		
Cash received for interest	14,305	22,087
Non-cash investing activities		
Share and warrant consideration from the sale of intangible asset	1,181,880	-
Non-cash financing activities		
Broker warrants issued in the private placement	12,952	-

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

(in Canadian dollars)

1 Nature of operations and going concern

Nature of operations

iCo Therapeutics Inc. ("iCo" or the "Company") is a development stage pharmaceutical company focused on the reprofiling and repositioning of drugs and drug candidates with a previous clinical history for new disease indications. iCo's current business strategy is to acquire the rights to drugs and drug candidates from third parties and run human clinical trial programs for new disease indications, with an emphasis on ophthalmology. The Company currently has three compounds under development. The first, iCo-007, is an anti-sense molecule that the Company believes reduces levels of a key protein associated with diabetic retinopathy. The Company completed a Phase I, open label, dose-escalating clinical trial at four trial sites in the United States using a single injection of iCo-007 in patients with diffuse diabetic macular edema ("DME") which met its primary end point of safety. The, Company subsequently initiated a Phase II clinical trial for iCo-007 in patients with DME and announced on September 26, 2011 a research and collaboration with JDRF to support the Phase II trial. The Phase II trial is currently enrolling up to 208 patients with DME and will involve up to 30 clinical sites in the US. It is expected to be complete in 2013. iCo-008 is a monoclonal antibody that the Company plans to take into clinical trials for Vernal Keratoconjunctivitis ("VKC") and possibly age related macular degeneration. On December 8, 2010, the Company also signed an option to license the systemic applications of iCo-008 to IMMUNE Pharmaceuticals Corp. ("IMMUNE"). The option to convert to a full licence was exercised by IMMUNE on June 24, 2011 and IMMUNE is preparing to enter a Phase II trial in 2012 with iCo-008 to treat inflammatory bowel disease. iCo-009 is an experimental oral formulation of Amphotericin B that is at a pre-clinical stage.

The Company is considered to be in the development stage as most of its efforts have been devoted to research and development, raising capital, recruitment of personnel and long-term planning. The Company is publicly traded on the TSX Venture Exchange under the symbol "ICO." The Company is incorporated and domiciled in British Columbia, Canada. The address of its registered office is Suite 1300, 777 Dunsmuir Street, Vancouver, British Columbia, V7Y 1K2.

Going concern

For the year ended December 31, 2011, the Company reported a loss of $1,032,011 (2010 - $3,104,641) and an accumulated deficit of $17,499,644 at that date. As at December 31, 2011, iCo has cash and cash equivalents and short-term investments on hand of $1,326,399 (2010 - $2,040,707) and a positive working capital balance of $1,143,629 (2010: $1,823,278). However, as iCo does not have the prospect of achieving revenues in the near future, iCo will require additional funding to maintain its research and development projects and for general operations. These circumstances lend significant doubt as to the ability of iCo to meet its obligations as they come due.

Consequently, management is pursuing various financing alternatives to fund iCo'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.

(in Canadian dollars)

These financial statements have been prepared on a going concern basis which assumes that iCo will continue its operations for the foreseeable future and contemplates the realization of assets and the settlement of liabilities in the normal course of business.

The conditions and risks noted above cast significant doubt on the validity of that assumption. These financial statements do not give effect to any adjustments to the amounts and classification of assets and liabilities that may be necessary and could potentially be material, should iCo be unable to continue as a going concern.

2 Significant accounting policies

Basis of presentation and statement of compliance

The financial statements of iCo have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars which is the Company's functional currency.

These financial statements were approved by the board of directors for issue on March 30, 2012.

Significant estimates and judgments

The preparation of financial statements in accordance with IFRS requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and notes thereto. The Company regularly reviews its estimates; however, actual amounts could differ from the estimates used and, accordingly, materially affect the results of operations. Significant areas requiring management to make estimates include the useful lives of equipment and intangible assets, share-based compensation, impairment of intangibles and valuation of investment in IMMUNE common shares and warrants. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements. Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include: share-based compensation, and the impairment of intangible assets and other investments.

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 loss.

(in Canadian dollars)

Foreign currency translation

The financial statements are presented in Canadian dollars, the Company's functional currency.

Foreign currency transactions are translated into Canadian dollars (functional currency) using the exchange rates at the date of the transactions or valuation where items are re-measured. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of loss.

Current and deferred 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.

Financial instruments

Financial instruments are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

At initial recognition, the Company classifies its financial instruments in the following categories:

a) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets comprise investments in equity securities (other than those qualifying as cash equivalents).

   Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from remeasurement are recognized in other comprehensive income except for exchange gains and losses on the translation of debt securities, which are recognized in the consolidated statements of loss. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in other gains and losses (net). Available-for-sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

(in Canadian dollars)

b) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise other receivable and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

c) Financial liabilities at amortized cost: Financial liabilities at amortized cost are amounts payable and accounts payable are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss, as follows:

a) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

b) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statements of loss. This amount represents the loss in accumulated other comprehensive income that is reclassified to net loss.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

(in Canadian dollars)

Equipment

Equipment is stated at cost less accumulated amortization and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the assets carrying amount and recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate. Amortization is recorded on a straight-line basis over the estimated lives of the equipment as follows:

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other gains (losses) - net in the statements of loss.

Intangible assets

Intangible assets include patent rights and technology rights which have been acquired from third parties. The Company's intangible assets are shown separately at historical costs. The Company's intangible assets have a finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the licence over their estimated useful lives of 9 to 11 years.

Expenditures associated with the maintenance of the licensing are expensed as incurred. Costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Impairment of non-financial assets

The Company periodically reviews the useful lives and the carrying value of its long-lived assets. Long-lived 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. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGU. The recoverable amount is the higher of an asset's fair value less costs to sell and value in the use (being the present value of the expected future flow of the relevant asset or CGU). Any impairment loss is recognized for the amount by which the asset's carry amount exceeds its recoverable amount.

(in Canadian dollars)

Provisions

Provisions for research and development and general operations are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Share-based payments

The Company grants share-based options to directors, officers, employees and consultants as consideration for work or services performed. Compensation expense is recorded for share-based grants that vest in instalments over the vesting period as separate arrangements.

When the share-based options are exercised, the Company issues new shares. The proceeds are credited to capital stock (note 9).

The expense is recognized over the vesting period, which is the period over which all the vesting conditions are to be satisfied.

Loss per share

Basic and diluted loss per share is calculated by dividing net loss for the period attributable to the Company by the weighted average number of common shares outstanding during the period. The outstanding warrants and options have been excluded from the calculations of diluted loss per share because their inclusion would be anti-dilutive.

3 Transition to IFRS

In preparing these financial statements in accordance with IFRS 1, no significant differences were identified. As a result, equity reported in accordance with Canadian generally accepted accounting principles ("GAAP") is the same as IFRS as at January 1, 2010 and December 31, 2010. Similarly total comprehensive loss and cash flows reported under Canadian GAAP are the same as IFRS for the year ended December 31, 2010.

In preparing these financial statements in accordance with IFRS 1, the Company has applied the mandatory exceptions and selected certain optional exemptions from full retrospective application of IFRS. Below describes select IFRS 1 applicable exemptions applied by the Company in the conversion from Canadian GAAP to IFRS.

(in Canadian dollars)

IFRS 1 Exemptions and Exceptions Selected

Share-based payments - IFRS 1 encourages application of IFRS 2, *Share-based Payments*, to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to apply IFRS 2 to equity instruments granted after November 7, 2002 that had not vested by the Transition Date.

Estimates

In accordance with the requirements of IFRS, hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised in the transition to IFRS except where necessary to reflect any differences in accounting policies.

Accounting standards issued and not yet applied

a) Financial instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments,* as the first step in its project to replace IAS 39, *Financial Instruments: Recognition and Measurement,* with a new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 addressed the classification and measurement of financial assets and financial liabilities and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

b) Fair value measurement

On May 12, 2011 the IASB issued IFRS 13, *Fair Value Measurement*. This standard defines fair value and sets out in a single IFRS a framework for measuring fair value. The standard applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The standard has an effective date of January 1, 2013. The Company is currently evaluating the impact that the standard is expected to have on its financial statements.

4 Other investments

In December 2010, iCo granted IMMUNE, based in Israel and the United States, an option to an exclusive license (the "Option") on a worldwide basis for the development and commercialization rights to the systemic uses of iCo-008. It is IMMUNE's intention to pursue inflammatory bowel disease and severe asthma. iCo retained worldwide exclusive rights to all uses and applications in the ocular field. Under the terms of the agreement, IMMUNE paid iCo a US$100,000, non-refundable option fee creditable upon conversion against an upfront license fee payment of US $1 million. iCo may receive up to an additional US$32 million in milestone payments as well as royalties on net sales of licensed products.

(in Canadian dollars)

On February 2, 2011, the Company received an additional payment of US$100,000 as an option extension fee from IMMUNE, in consideration for extending the option period until March 31, 2011. The option extension fee is non-refundable and is not creditable against the upfront license fee payment of US $1 million.

Accordingly, it was recognized as license revenue. On March 31, 2011, the agreement with IMMUNE was further amended to permit IMMUNE to extend the option period for up to three additional months beyond March 31, 2011. For each month extension, IMMUNE paid to the Company US$50,000. These payments were non-refundable and creditable against the upfront licence fee payment of $ 1 million. On April 6, 2011, the Company received a payment of US$50,000 to extend the option period to April 30, 2011, and on May 2, 2011, the Company received a payment of US$50,000 to extend the option period to May 30, 2011.

Subsequently on June 24, 2011, the Option was converted to an exclusive licence agreement (the IMMUNE Licence Agreement"). In consideration for the conversion, iCo received a further payment of US$200,000 total aggregate cash payments of $300,000 plus 600,000 IMMUNE ordinary shares and 200,000 IMMUNE warrants. IMMUNE will also share in funding 50% of the patent prosecution and maintenance costs of the iCo-008 patent family. iCo has no further performance obligations under the IMMUNE Licence Agreement.

iCo has recognized a gain on the sale of these rights in the amount of $1,223,736 the details of which are described in the following table:

	Warrants	Shares	$
Consideration			
Cash	-	-	196,980
Common share warrants of IMMUNE	200,000	-	1
Common shares of IMMUNE	-	600,000	1,181,880
Total consideration			1,378,861
Asset disposed			
Cost of rights transferred			(137,400)
Legal fees			(17,725)
Total cost of disposal			(155,125)
Gain on disposal			1,223,736

5 Taxes and other receivable

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Taxes (HST)	26,155	24,968	34,933
Other receivable	-	20,998	-
	26,155	45,966	34,933

(in Canadian dollars)

6 Equipment

	January 1, 2011						December 31, 2011
	Opening cost $	Additions/ (disposals) $	Closing cost $	Opening amortization $	Amortization $	Closing amortization $	Net $
Computer equipment	38,387	2,107	40,494	29,501	3,521	33,022	7,472
Computer software	14,708	-	14,708	12,174	2,478	14,652	56
Office equipment	4,989	-	4,989	4,141	745	4,886	103
	58,084	2,107	60,191	45,816	6,744	52,560	7,631

	January 1, 2010						December 31, 2010
	Opening cost $	Additions/ (disposals) $	Closing cost $	Opening amortization $	Amortization $	Closing amortization $	Net $
Computer equipment	31,994	6,393	38,387	24,081	5,420	29,501	8,886
Computer software	14,258	450	14,708	7,360	4,814	12,174	2,534
Office equipment	4,989	-	4,989	3,143	998	4,141	848
	51,241	6,843	58,084	34,584	11,232	45,816	12,268

7 Intangible assets

	January 1, 2011							December 31, 2011
	Opening cost $	Additions/ (disposals) $	Closing cost $	Opening amortization $	Amortization $	Disposals $	Closing amortization $	Net $
ISIS (iCo-007)	599,071	-	599,071	342,933	64,198	-	407,131	191,940
MedImmune	464,935	(232,468)	232,467	168,999	31,347	(95,068)	105,278	127,189
	1,064,006	(232,468)	831,538	511,932	95,545	(95,068)	512,409	319,129

	January 1, 2010							December 31, 2010
	Opening cost $	Additions $	Closing cost $	Opening amortization $	Amortization $	Disposals $	Closing amortization $	Net $
ISIS (iCo-007)	599,071	-	599,071	278,735	64,198	-	342,933	256,138
MedImmune	464,935	-	464,935	126,737	42,262	-	168,999	295,936
	1,064,006	-	1,064,006	405,472	106,460	-	511,932	552,074

(in Canadian dollars)

8 Accounts payable and accrued liabilities

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade payables	70,788	85,207	128,115
Payable to related parties	-	12,250	-
Accruals	184,351	194,245	194,663
	255,139	291,702	322,778

9 Capital stock

Authorized
Unlimited number of common shares with no par value

Issued and outstanding

	Number of shares	Amount $
Balance - January 1, 2010	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
Net proceeds allocated from the private placement (a)	5,575,000	788,960
Balance - December 31, 2011	46,632,301	17,587,930

a) On November 2, 2011, the Company completed a non-brokered private placement for gross proceeds in the amount of $1,115,000 through the issuance of 5,575,000 Units at a subscription price of $0.20 per Unit. Each Unit comprised one common share in the capital of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"). Each Warrant will entitle the holder, on exercise, to purchase one additional Common Share, at any time on or prior to the date which is 24 months after the Closing Date, at an exercise price of $0.25 per share at any time on or prior to the 12 month anniversary of the Closing Date and $0.30 per share at any time after the 12-month anniversary of the Closing Date on or prior to the 24-month anniversary of the Closing Date. The gross proceeds were allocated to the common shares and warrants based on the relative fair value. The amount allocated to shares was $788,960 and warrants $241,946.

(in Canadian dollars)

Stock options

Under the stock option plan the aggregate number of common shares reserved for issuance is 3,200,000.

	Number of stock options outstanding	Weighted average exercise price $
Balance - January 1, 2010	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
Granted	1,050,000	0.57
Forfeited	(135,000)	0.57
Expired	(811,429)	0.68
Balance - December 31, 2011	1,950,000	0.49

	Options outstanding			Options exercisable	
Range of exercise price $	Number outstanding at December 31, 2011	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable at December 31, 2011	Weighted average exercise price $
0.18 - 0.39	1,200,000	4.48	0.29	937,500	0.28
0.40 - 0.60	700,000	2.95	0.54	700,000	0.54
0.98 - 1.00	50,000	0.71	0.99	50,000	0.99
	1,950,000	3.84	0.40	1,687,500	0.41

For the year ended December 31, 2011, the Company recognized $252,803 (2010 - $255,621) in share-based compensation for options granted to directors, officers and employees, and recognized $nil (2010 - $16,722) in share-based compensation for stock options granted to non-employees.

(in Canadian dollars)

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:

	2011 $	2010 $
Dividends yield	0%	0%
Expected volatility	282%	136% - 226%
Risk-free interest rate	1.40%	1.58% - 1.62%
Forfeiture rate	0%	0%
Expected life (years)	5	5

Warrants

	Number of warrants	Transfer to capital stock on exercise of warrants $	Amount $
Balance - January 1, 2010	3,037,084		335,128
Exercise of warrants	(2,701,875)	0.30	(237,334)
Forfeited	(1,875)	0.30	(166)
ISIS warrants issued	235,000	0.61	93,083
Expired warrants	(333,334)	0.60	(110,080)
Balance - December 31, 2010	235,000		80,631
Warrants issued from private placement (includes 192,000 broker warrants)	5,767,000		254,898
Balance - December 31, 2011	6,002,000		335,529

Contributed surplus

	$
Balance - January 1, 2010	1,599,669
Share-based compensation	272,343
Exercise of options	(6,440)
Expired warrants	110,080
Balance - December 31, 2010	1,975,652
Share-based compensation	252,803
Balance - December 31, 2011	2,228,455

(in Canadian dollars)

10 Related party transactions

During the year ended December 31, 2011:

a) the Company incurred consulting fees with a director totalling US$25,000 (2010 - US$25,000). The amounts outstanding as at December 31, 2011 totalled $nil (2010 - US$6,250). 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 (2010 - $24,000). The amounts outstanding as at December 31, 2011 totalled $nil (2010 - $6,000). 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 private placements. 1,065,000 (2010 - 458,250) units of the Company were issued to these directors, officers and related parties for gross proceeds of $213,000 (2010 - $115,110).

d) 700,000 options were granted to directors and officers of the Company (2010 - nil) to purchase common shares of the Company. Of these options, 700,000 options were granted on September 26, 2011 and have a strike price of $0.29.

e) directors and officers of the Company exercised nil warrants (2010 - 156,875).

f) ISIS exercised nil warrants (2010 - 1,075,000). ISIS issued nil warrants (2010 - 235,000).

11 Compensation of key management

	2011 $	2010 $
Salaries	564,260	614,790
Directors fees	49,000	49,000
Share-based payments	224,750	235,711
	838,010	899,501

(in Canadian dollars)

12 Research and development

	2011 $	2010 $
Personnel	347,208	359,849
Research projects	336,049	847,859
Intellectual property	133,530	143,008
Business development	8,164	54,943
Travel	39,032	98,096
Facilities	82,872	89,883
Share-based payment	83,978	70,662
Amortization and other	95,545	106,323
	1,126,378	1,770,623

13 General and administrative

	2011 $	2010 $
Personnel	479,245	423,688
Professional fees	559,484	665,768
Travel	91,517	96,212
Facilities	41,700	37,052
Share-based payment	168,825	201,681
Amortization and other	6,744	11,232
	1,347,515	1,435,633

14 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
2031	2,244,591

(in Canadian dollars)

Unrecognized deferred tax assets are comprised of the following:

	2011 $	2010 $
Non-capital losses carried forward	3,970,755	3,417,107
Share costs and other	71,416	146,943
Equipment	188,652	473,444
Scientific research and experimental development costs	122,846	122,846
	4,353,669	4,160,340

The income tax benefit of these tax attributes have not been recorded in these financial statements because of the uncertainty of their recovery.

The Company's effective income tax rate differs from the statutory income tax rate of 26.5% (2010 - 28.5%). The differences arise from the following items:

	2011 $	2010 $
Loss before tax	(1,032,001)	(3,104,641)
Income tax at statutory rate	(273,480)	(884,823)
Income tax benefit not recognized	199,265	687,206
Change in future tax rate	18,995	108,734
Permanent differences	55,220	107,626
Other	-	(18,743)
	-	-

15 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.

(in Canadian dollars)

16 Commitments and contingencies

a) Lease commitments

The Company's operating lease agreement for office space expires on May 31, 2012. In January 2012, the lease was extended to May 31, 2014. Future minimum annual lease payments under the lease are as follows:

	$
2011	53,787
2012	55,470

Rent expense for the year ended December 31, 2011 amounted to $50,530 (2010 - $49,842).

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, 2011 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. 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. 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.

(in Canadian dollars)

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.

17 Financial instruments and financial risk management

Fair value

Financial instrument 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. The Company does not have any financial instruments in this category.

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. Cash and cash equivalents and short-term investments are included in this level.

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. Other investments are included in this category.

Financial instruments whose carrying value approximates fair value

Cash and cash equivalents, short-term investments, accounts payable and other receivable 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.

The common shares of IMMUNE have been recorded at their fair value on the date they were acquired. Management has classified these shares as available for sale. The Company uses Level 3 inputs to value these instruments. There is currently no public market for these shares, however iCo was able to benchmark the value of IMMUNE common shares previous financing rounds completed by IMMUNE in recent months.

(in Canadian dollars)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or valuation of its financial instruments.

The Company is exposed to financial risk related to fluctuation of foreign exchange rates. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar, primarily expenses for research and development incurred in US dollars ("US$"). The Company believes that the results of operations, financial position and cash flows would be affected by a sudden change in foreign exchange rates, but would not impair or enhance its ability to pay its US$. The Company manages foreign exchange risk by maintaining US$ cash on hand to fund its short-term US$ expenditures. As at December 31, 2011, US$ denominated cash totalled US$ $148,669. The only accounts payable and accrued liabilities exposure is in US$ and that total is $170,000.

a) 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 at December 31, 2011 and 2010 are as follows:

	2011 US balance $	2010 US balance $
Cash and cash equivalents	148,668	93,544
Trade payables	(125,507)	(168,223)
	23,161	(74,679)

Based on the US dollar balance sheet exposure at December 31, 2011, with other variables unchanged, a 10% change in the US dollar compared to the US dollar would not have a significant impact on and the statements of loss and comprehensive loss.

b) Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and short-term investments and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short-term nature of the investments. As at December 31, 2011, cash and cash equivalents held in Canadian dollar savings accounts or short-term investments is $1,326,399. The interest rates range from 0.05% to 1.0%.

(in Canadian dollars)

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 based on the outflows experienced for the year ended December 31, 2011 and is undertaking efforts to conserve cash resources wherever possible.

Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as outstanding receivables. The Company invests its excess cash in short-term money market instruments such as Guaranteed Investment Certificates. The Company has established guidelines relative to diversification, credit ratings and maturities that maintain safety and liquidity. These guidelines are periodically reviewed by the Company's board of directors and modified to reflect changes in market conditions.

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	839,773	100,000	739,773
Raymond James	420,014	420,014	-
Manulife	66,612	66,612	-
	1,326,399	586,626	739,773

(in Canadian dollars)

18 Capital management

The Company considers its capital stock and contributed surplus as capital. As at December 31, 2011, the amount of capital totalled $20,151,914 (2010 - $18,774,622).

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.

Additional information regarding capital management is disclosed in note 1.

19 Subsequent event

On February 24, 2012, the Company renewed its office lease for a two-year period expiring May 31, 2014.