

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011

This management's discussion and analysis has been prepared as of April 13, 2012 and should be read in conjunction with the audited financial statements of iCo Therapeutics Inc. ("iCo" or the "Company") for the year ended December 31, 2011 and the related notes thereto. Our financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in Canadian dollars unless otherwise noted. Certain statements in this discussion, other than statements of historical fact, are forward-looking statements. Statements regarding future events, expectations and beliefs of management and other statements that do not express historical facts are forward-looking statements. In this discussion, the words "believe", "may", "will", "estimate", "continue", "anticipate", "intend", "expect", "plan", "predict", "potential" and similar expressions, as they relate to us, our business and our management, are intended to identify forward looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements.

Except as may be required by applicable law or stock exchange regulation, we undertake no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Accordingly, readers should not place undue reliance on forward-looking statements. If we do update one or more forward-looking statements, no inference should be drawn that additional updates will be made with respect to those or other forward-looking statements. Additional information relating to our Company, including our annual information form, is available by accessing the SEDAR website at www.sedar.com.

In this discussion, unless the context requires otherwise, references to "we" or "our" are references to iCo Therapeutics Inc.

Business Overview and Strategy

We are a Canadian biotechnology company focused on the identification, development and commercialization of drug candidates to treat sight threatening and life threatening diseases through a development-only business model.

We principally focus on in-licensing drug candidates with a clinical history and redose, reformulate and develop drug candidates for the treatment of sight-threatening conditions such as diabetic macular edema ("DME") and severe allergic conjunctivitis and life threatening diseases such as severe systemic fungal infections. We assume the clinical, regulatory and commercial development activities for our product candidates and advance them along the regulatory and clinical pathway toward commercial approval. We believe that our approach reduces the risk, time and cost of developing ocular therapeutics by avoiding the uncertainty associated with research and pre clinical stages of drug development. We use our expertise to manage and perform what we believe are the critical aspects of the drug development process, including the design and conduct of clinical trials, the development and execution of strategies for the protection and maintenance of intellectual property rights and interaction with drug regulatory authorities.

The main elements of our strategy are as follows:

Identification of Product Candidates

We directly perform scientific evaluation and market assessment of pharmaceutical products and research developed by other biopharmaceutical companies. As part of this process, we evaluate the related scientific research and pre-clinical and clinical research, if any, and the intellectual property rights in such products and research, with a view to determining the therapeutic and commercial potential of the applicable product candidates. We intend to mitigate the risks associated with our development and commercialization efforts by targeting drug candidates that:

- are approved for clinical trials or are in late-stage pre-clinical trials;
- have well-established safety profiles;
- have been successfully manufactured on a clinical grade basis in quantities sufficient for clinical trials; and
- have data suggestive of potential efficacy as a treatment for ocular indications.

Our initial focus has been on sight threatening diseases because we believe that there is an unmet need for new and effective therapeutics in this field. In addition, several members of our management team and Strategic Advisory Board (“SAB”) have considerable expertise in ophthalmology. Although we may in the future develop product candidates targeting conditions other than ocular disease, our current emphasis is on leveraging our expertise in ophthalmology to focus on the development of product candidates targeting ocular diseases such as DME and allergic conjunctivitis.

In-Licensing

Upon identifying a promising biopharmaceutical product, we seek to negotiate a license to the rights for the product from the holder of those rights. The terms of such licenses vary, but generally our goal is to secure licenses that permit us to engage in further development, clinical trials, intellectual property protection (on behalf of the licensor or otherwise) and further licensing of manufacturing and marketing rights to any resulting products. This process of securing license rights to products is commonly known as “in-licensing”. In certain instances, we have taken the “option” approach, whereby we gain an exclusive right to in-license a drug candidate for a defined period of time. This approach allows us to review additional data before making a decision to in-license a particular drug candidate.

Product Advancement

Upon in-licensing a product candidate, our strategy is to apply our skills and expertise to advance the product toward regulatory approval and commercial production and sale in major markets. These activities include implementing intellectual property protection and registration strategies, formulating or reformulating existing drug products, making regulatory submissions, performing or managing clinical trials in target jurisdictions, and undertaking or managing the collection, collation and interpretation of clinical and field data and the submission of such data to the relevant regulatory authorities in compliance with applicable protocols and standards.

Developing Partnerships with Biopharmaceutical Companies

In order to augment our ability to develop our product candidates and effectively market any products in respect of which we obtain regulatory approval, we may enter into an agreement or partnership with a biopharmaceutical company that has drug development or sales and marketing capabilities, or both. Entering into an agreement or partnership with a pharmaceutical or biotechnology company that has these capabilities may enable us to increase our returns from our product candidates by utilizing that company's development or sales and marketing capabilities, or both, to further accelerate development of our product candidates or enable us to develop the candidate in more than one indication simultaneously.

Outsourcing

In order to optimize the development of our product candidates, we outsource certain of our product development activities. Factors that we consider in determining which activities to outsource include cost, relative expertise, capacity and quality assurance. The product development functions that we have chosen to outsource include pre-clinical activities in support of regulatory filings, clinical trials and manufacturing. We believe that our relationships with external laboratories enable us to complete pre-clinical testing faster and more efficiently than if we performed these activities ourselves. Because our manufacturing needs are currently sporadic, we believe that it is more efficient to outsource manufacturing.

Products

We currently in-license three product candidates (iCo-007, iCo-008 and an Oral Amphotericin B Delivery System (previously known as iCo-009) that we believe have the potential to treat sight threatening and life threatening conditions.

iCo-007

iCo-007 is a second generation anti-sense compound that we believe reduces levels of a key protein, c-Raf Kinase, which is associated with diabetic retinopathy, including DME. Diabetic retinopathy, including DME, is an ocular complication of Type 1 Diabetes ("T1D") and Type 2 Diabetes ("T2D") characterized by new blood vessel growth and increased vascular permeability in the back of the eye. Fluid leaks into the macula, the part of the eye where the sharpest vision occurs, causing it to swell, and impairing vision. We have 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 DME. The primary endpoint for the trial was to assess the safety of iCo-007 at four different dosage levels in four groups ("cohorts") of patients – fifteen patients in total. However as the trial was conducted in patients with disease as opposed to healthy volunteers, as secondary endpoints we were also able to collect data on what effect the drug may be having on the disease itself.

The trial met its primary end point, which was to evaluate the ocular safety and tolerability of iCo-007 following a single intravitreal administration. Secondary objectives included assessment of systemic pharmacokinetics, retinal thickness using optical coherence tomography (OCT) measurements, and visual acuity.

Intravitreal injections of iCo-007 were well tolerated with a good safety profile; ultimately progressing to the highest dose of 1000 ug based on positive safety evaluation committee meetings two months post each dosing level. Analysis of blood plasma in patients demonstrated that iCo-007 was not detectable in the blood plasma with any of the doses used in the Phase I trial. There were signs of biological activity in

responsive patients at 24 weeks with a reduction of retinal thickness ranging between 149 and 743 microns (and 115 to 743 microns if one additional patient followed only to week 18 is included). Mean change in retinal thickness for all patients completing the 24 week follow-up (12 of 15 patients) was minus 169 microns (or 40% reduction of excess retinal thickness), a positive trend. In a number of subjects there was a transient increase in retinal edema preceding biological effect. Approximately 69% of patients completing a 24 week follow up (13 of 15 patients) had stable or improved vision, defined as - 5 letters or better compared to baseline and 23% of patients experienced greater than or equal to 5 letters of visual improvement. The highest dose seemed to show a smaller biological effect than lower doses. The first three doses appeared to display some dose-related biological effect, warranting further exploration of dosing and treatment regimen in a Phase II clinical trial.

Strategic and preliminary planning for the Phase II clinical trial was initiated in 2009 and formal Phase II clinical trial planning started on conclusion of our Phase I trial. Regulatory documents were filed with Health Canada, and we successfully received a “No Objection” letter from Health Canada in response to a Clinical Trial Application to initiate a Canadian Phase II clinical trial in July 2010. In mid 2010, we completed a Technology Transfer Agreement with Isis Pharmaceuticals to transfer certain technology (including certain analytical methods, chemistry reports and assays) related to the manufacturing of iCo-007 to iCo. In consideration of the technology transfer, we issued to Isis a warrant to purchase 235,000 shares of iCo’s common stock at an exercise price of \$0.61 per share. The Warrant expires on May 16, 2012. Subsequently, iCo announced the completion of drug product manufacturing activities as part of its Phase II clinical program in February 2011.

In August, 2011, we initiated a US physician-sponsored Phase II clinical trial involving iCo-007, titled the iDEAL study, which will be conducted in up to thirty sites throughout the United States. The iDEAL Study will be led by the clinician scientists who are investigators in the trial and will be coordinated at the Wilmer Eye Institute of John Hopkins University, one of the leading medical institutions in the United States. The physician-sponsored clinical investigation is entitled, “Randomized, Multi-center, Phase II Study of the Safety, Tolerability and Bioactivity of Repeated Intravitreal Injections of iCo-007 as Monotherapy or in Combination with Ranibizumab or Laser Photocoagulation in the Treatment of Diabetic Macular Edema With Involvement of the FoveAL Center (the iDEAL Study).”

On September 26, 2011, iCo announced a research collaboration agreement with the Juvenile Diabetes Research Foundation (JDRF), the worldwide leader for research to cure, treat, and prevent T1D, to support the previously announced Phase 2 investigator sponsored clinical trial investigating iCo-007 in DME and in March 2012, we outlined the clinical trial plan for the iDEAL study which is in the process of recruiting patients.

iCo-008 (Bertilimumab)

iCo-008 is a human monoclonal antibody that we believe may treat sight threatening forms of allergic conjunctivitis by neutralizing eotaxin-1, a ligand to the chemokine receptor CCR3. It is our view that iCo-008 neutralizes eotaxin-1 by binding to it and, as a consequence, preventing it from binding to CCR3. We believe that iCo-008 has the potential to inhibit intracellular signalling associated with mast cell degranulation and the recruitment of eosinophils to the site of allergic reactions and, as a result, potentially inhibit both early stage and late stage development of severe allergic conjunctivitis. We also believe that iCo-008 could also be used to treat a variety of systemic disease indications which involve eosinophils including severe asthma, food allergies, and inflammatory bowel disease.

Recent published scientific literature has also indicated that iCo-008 may have utility to potentially treat age related macular degeneration (“AMD”), a severe ophthalmic disease which effects elderly patients

and can lead to blindness in just a few years. In light of this new information, we are currently exploring AMD as a possible therapeutic indication for iCo-008. We will only undertake a clinical trial program for iCo-008 in the event we are able to obtain sufficient financial resources to do so.

Before we licensed iCo-008 from Medimmune Limited (“MedImmune”), MedImmune (then known as Cambridge Antibody Technology) conducted Phase I clinical trials testing the safety, tolerability and pharmacokinetics of iCo-008 and Phase II clinical trials testing the efficacy of iCo-008 as a treatment for allergic rhinitis and allergic conjunctivitis. To date we have developed a clinical plan for iCo-008 and assembled a key opinion leader advisory group. While it was our intention to run a Phase II clinical trial to test the efficacy and safety of iCo-008 in individuals with a serious sight threatening form of allergic conjunctivitis known as vernal keratoconjunctivitis, the global credit crisis which began in 2008 severely restricted our ability to raise equity capital. In response to the crisis we made the strategic decision to reserve our cash resources for developing iCo-007 and explore strategic initiatives to fund further development of iCo-008.

In December 2010, we granted IMPH, based in Israel and the United States, an option to an exclusive license for the development and commercialization rights to the systemic uses of iCo-008. The license option is for systemic uses including 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, IMPH paid the Company a 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.

On February 2nd, 2011, the Company received an additional payment of US\$100,000 as an option extension fee from IMPH, in consideration for extending the option period until March 31st, 2011 for an exclusive sub-license for the development and commercialization rights to the systemic uses of iCo-008, iCo’s human monoclonal antibody targeting eotaxin-1 (see Note 4 of the audited financial statements of iCo for the year ended December 31, 2011). The option extension fee is non refundable and not creditable against an upfront license fee payment of US \$1 million. Accordingly, it was recognized as license revenue. On March 31st, 2011, the agreement with IMPH was amended to permit IMPH to further extend the option period for an additional three months beyond March 31st, 2011. For each month extension, IMPH 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 \$ 1 million. On April 6th, 2011, the Company received a payment of US\$50,000 to extend the option period to April 31st, 2011.

Subsequently on June 24, 2011, the option was converted to an exclusive sub-licence agreement (the IMPH Licence Agreement”). In consideration for the conversion, iCo received a further payment of US\$200,000 plus 600,000 IMPH ordinary shares (valued at \$2.00 per share) and 200,000 IMPH warrants. The warrants are exercisable at a discount to the Initial public offering price if as and when IMPH undertakes a going public transaction. IMPH will also share in funding 50% of the patent prosecution and maintenance costs of the iCo-008 patent family. Including the initial option fee, the option extension fees and the fee for converting the option to an exclusive sub-licence, the Company received a total of US\$500,000 in cash.

On July 19, 2011, Lonza, a third party manufacturer announced an exclusive contract for the production of IMPH’s human immunoglobulin monoclonal antibody, Bertilimumab (iCo-008), under investigation for the potential treatment of several inflammatory disorders. Under the agreement, Lonza will produce phase 2 clinical trial material at its mammalian development and manufacturing facility.

Oral Amphotericin B Delivery System, formerly known as iCo-009 (and related derivatives)

iCo's experimental oral formulations of Amphotericin B ("AmpB") are currently being developed at the University of British Columbia ("UBC"). Although AmpB has been used to treat systemic fungal infections intravenously for approximately 50 years, an oral formulation of AmpB has yet to be developed. Intravenous AmpB has historically been a potent but toxic option for the treatment of serious systemic fungal infections. Systemic fungal infections are fungal infections that affect the entire body and are particularly prevalent among people whose immune systems have been weakened by certain treatments, such as organ transplant recipients, or certain conditions, such as cancer, diabetes or AIDS. Although a number of drugs have been developed for the treatment of systemic fungal infections, nonetheless systemic fungal infections remain a leading cause of death for organ transplant recipients and other patients with compromised immune systems. Further, in developing nations, oral therapy is in need for a disease called Visceral Leishmaniasis ("VL"), known for its high mortality rates. Current AmpB therapy requires repeated infusions in the hospital setting and is often associated with infusion-related adverse events, such as renal toxicity. Successful oral formulation could resolve the safety issues associated with parenteral application and enable a much broader patient access to this highly effective treatment option. Oral dosing of AmpB has not been successful in the past due to inactivation of the drug in the gut before it could get into the systemic circulation.

We have completed a number of pre-clinical studies with iCo's oral AmpB delivery system which have shown promising pharmacokinetic and tissue distribution results in two anti-fungal animal models. We are currently generating additional pre-clinical data to further demonstrate oral bioavailability, safety and efficacy prior to commencing a clinical program with iCo's oral AmpB formulations to support an Investigational New Drug application ("IND") to the US Food and Drug Administration ("FDA") prior to commencing a Phase I clinical trial in humans. iCo's oral AmpB formulations have also demonstrated promising results in animal models for VL conducted at independent laboratories in the United States. Based on these studies, the oral AmpB delivery system received Orphan Drug Status from the FDA for the treatment of VL. Formal GLP toxicology studies, manufacturing of drug product under GMP standards and other pre-clinical studies will also be required to support a Phase I clinical trial. These development programs will only be undertaken subject to obtaining appropriate financing. To this end we have been working in cooperation with UBC to obtain third party financing, primarily through government and private granting agencies such as the Canadian Institute of Health Research ("CIHR") to fund certain pre-clinical studies. UBC, with assistance from iCo, has been awarded a number of grants including: CIHR POP I and II grants and National Research Council Funding through the Industrial Research Assistance Program. This support included certain matching funding requirements from iCo. We also completed a collaboration development agreement with the Consortium for Parasitic Drug Development ("CPDD") for up to USD \$182,930 for the research and development of our oral AmpB drug delivery technology for the treatment of neglected diseases such as Leishmaniasis and Trypanosomiasis. UBC and iCo are currently collaborating on obtaining additional non-dilutive sources of capital which would fund the necessary GLP/GMP pre-clinical work to permit iCo's oral AmpB formulations to enter into human Phase I clinical trials.

2011 Corporate Highlights

In 2011 we accomplished the following milestones:

Corporate

- On April 14th, iCo announced that the Company entered into an agreement for a \$10 Million Equity Line Facility with Dutchess Capital
- On May 31st, iCo management presented at BioFinance 2011

- On July 12th, iCo management presented at the Drug Repositioning Conference
- On July 19th, iCo engaged The Equicom Group for strategic investor relations services
- On July 23rd, John Clement resigned from his positions as Chief Technology & Development Officer and Director
- On Sept 13th, iCo management presented at the 4th Annual Drug Repositioning Conference
- On September 27th, the Company granted a total of 1,050,000 stock options to directors, officers and employees of the Company
- On November 2nd, the company completed a non-brokered private placement in the amount of \$1,115,000 through the issuance of 5,575,000 Units at a subscription price of \$0.20 per Unit
- On December 5th, iCo announced the completion of the definitive agreement for the Equity Line Facility previously announced on April 14, 2011.

iCo-007

- On February 22nd, iCo announced the completion of Phase 2 clinical supply manufacturing.
- On February 23rd, iCo announced that the iCo-007 program was to be presented at the Retinal Physician Symposium 2011 by Dr. David Boyer, principal investigator in the completed Phase I trial.
- On May 13th, the Company engaged Ora for ophthalmic clinical and regulatory guidance.
- On August 15th, iCo announced the initiation of a US physician-sponsored Phase II clinical trial involving iCo-007, titled the iDEAL study, which will be conducted across multiple sites throughout the United States. The iDEAL Study will be led by the clinician scientists who are investigators in the trial and will be coordinated at one of the leading medical institutions in the United States. The physician-sponsored clinical investigation is entitled, “Randomized, Multi-center, Phase II Study of the Safety, Tolerability and Bioactivity of Repeated Intravitreal Injections of iCo-007 as Monotherapy or in Combination with Ranibizumab or Laser Photocoagulation in the Treatment of Diabetic Macular Edema With Involvement of the FoveAL Center (the iDEAL Study).”
- On September 26th, iCo announced a research collaboration agreement with JDRF, the worldwide leader for research to cure, treat, and prevent T1D, to support the previously announced Phase 2 investigator sponsored clinical trial investigating iCo-007 in DME.
- On October 20th, iCo management presented at the Ophthalmology Innovation Summit.

iCo-008

- On June 24th, IMPH sub-licensed Bertilimumab (iCo-008) for systemic uses, pursuant to an option agreement previously announced in December 2010. iCo retained worldwide exclusive rights to all ocular applications, including a number of sight-threatening diseases. Total consideration included US \$500,000 cash (inclusive of all option fees, option extension fees and fees for conversion to the sub-licence), 600,000 IMPH shares and 200,000 IMPH warrants. In addition, iCo may receive US \$32 million in milestone consideration for the license, plus royalties.

Oral Amphotericin B Delivery System

- On October 24th, iCo announced that the oral Amphotericin B delivery system was the subject of three poster presentations at the 2011 AAPS Annual Meeting and Exposition and highlighted in an AAPS press release titled, “A Novel Oral Treatment for Leishmaniasis Has Potential to Save Thousands of Lives”.

Subsequent Events

- On January 17, 2012, iCo retained Crescendo Communications, LLC to help broaden investor awareness with its proprietary network of small-cap investors.

On March 28, 2012, we officially announced in collaboration with JDRF, (the largest charitable funder of T1D research the clinical trial design for the iDEAL study. The study is being spearheaded by the Wilmer Eye Institute of the Johns Hopkins University School of Medicine and will include up to 30 clinical sites in the US. The iDEAL study, which is in the process of recruiting participants, follows patients for a 12 month period. During the trial, patients are randomized into one of the following four groups: either one of two mono-therapy arms using repeated intravitreal dosing of two different concentrations of iCo-007; or one of two combination arms using iCo-007 with laser photocoagulation or iCo-007 and ranibizumab. To be eligible for the trial, participants must have T1D or T2D, baseline visual acuity between 20/32 and 20/320 on the Early Treatment Diabetic Retinopathy Study (ETDRS) chart, and DME with central subfoveal thickness greater than 250 microns as measured by optical coherence tomography (OCT).

Selected Annual Information

The financial information reported here in has been prepared in accordance with IFRS. The Company uses the Canadian dollar (“CDN”) as its reporting currency. The following table represents selected financial information for the Company’s fiscal years 2011, 2010, and 2009:

Selected Statement of Operations Data

	Year ended December 31,		
	2011	2010	2009
Loss from operations	\$ (993,491)	\$ (3,104,641)	\$ (2,308,490)
Weighted average number of shares outstanding, basic and diluted	41,958,476	40,855,713	29,542,334
Loss per share, basic and diluted	\$ (0.02)	\$ (0.08)	\$ (0.08)

The loss from operations decrease in 2011 mainly as a result of the gain in income related to the sub-licence for systemic uses of iCo-008 granted to IMPH.

Selected Balance Sheet Data

	Year ended December 31,		
	2011	2010	2009
Cash and cash equivalents and short term investments	\$1,326,399	\$2,040,707	\$3,896,065
Net working capital	\$1,143,629	\$1,823,278	\$3,630,719
Total assets	\$2,945,929	\$2,679,322	\$4,628,550
Long term liabilities	-	-	-

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Total shareholders' equity	\$2,690,790	\$2,387,620	\$4,305,772
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Cash and cash equivalents and short term investments decreased by \$714,308 from \$2,040,707 in 2010 to \$1,326,399 in 2011. As a result of this decrease in cash and cash equivalents, working capital decreased by \$679,649 to \$1,143,629 in 2011 from \$1,823,278 in 2010. However, the Company experienced an increase in total assets from \$2,679,322 in 2010 to \$2,945,929 in 2011 primarily as a result of the shares and warrant consideration received by the Company from IMPH in exchange for sub-licencing the systemic rights to iCo-008. See Note 4 to the Company's audited financial statements for the year ended December 31, 2011.

Comparison of the 2011 and 2010 Financial Years

Results of Operations

	2011 \$	2010 \$	Change \$	Change %
Interest income	14,305	26,543	(12,238)	46%
Licensing income	203,076	100,000	103,076	103%
Gain on Sub-licence of rights	1,223,736	-	1,223,736	100%
Research and development	1,126,378	1,770,623	(644,245)	36%
General and administrative	1,347,515	1,435,633	(88,118)	6%
Foreign exchange (gain)/loss	(765)	24,928	(25,693)	103%
Other comprehensive income	38,520	-	38,520	100%
Net and comprehensive loss	993,491	3,104,641	2,141,151	69%

We incurred a net and comprehensive loss of \$993,491 for the year ended December 31, 2011 compared to a net and comprehensive loss of \$3,104,641 for the year ended 2010, representing a decrease of \$2,111,150. The decrease in our net and comprehensive loss was principally caused by an offsetting increase in non-recurring income related to the Sub-licence of iCo-008 to IMPH.

As we are in the development stage and our products will not reach approval or become commercially viable for several years, if at all, we anticipate that the Company will continue to generate net losses for the foreseeable future. We did not have any product revenues for the years ended December 31, 2011 and 2010 and do not anticipate generating any product revenues in the foreseeable future.

Interest Income

Interest income is earned primarily through interest on excess cash balances that are invested in short term, high quality investments that are highly liquid. Interest income for the year ended December 31, 2011 was \$14,305, compared to \$26,543 for the year ended December 31, 2010, resulting in a decrease of

\$12,238. The lower interest income earned in the year ending December 31, 2011, as compared to the same periods in 2010 was a result of lower cash balances.

Licensing Income

Pursuant to an option agreement with IMPH., the Company received an additional payment of \$203,076 for the year ending December 31, 2011, (for the year ending December 31, 2010, \$100,000) representing a non-refundable option fee for an exclusive license 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 upon conversion against an upfront license fee payment of US \$1 million. As the option fee is non-refundable, it was recognized as license revenue.

Gain on Sub-licence of rights

On June 24, 2011, the option held by IMPH to the systemic rights of iCo-008 was converted to the IMPH Licence Agreement. In consideration for the conversion, iCo received a payment of US\$200,000 (total aggregate cash payments of US\$500,000 since December 2010) plus 600,000 IMPH ordinary shares (valued at \$2.00 per share) and 200,000 IMPH warrants. The warrants are exercisable at a discount to the Initial public offering price if as and when IMPH undertakes a going public transaction. IMPH will also share in funding 50% of the patent prosecution and maintenance costs of the iCo-008 patent family. The transaction was recorded as a gain on the sale of the sub-licence rights on the Statement of Loss and Comprehensive Loss for the year ended December 31, 2011 and the consideration the Company received for the IMPH Licence Agreement is reflected on the Company's Balance Sheet for the year ended December 31, 2011 as "Other Investments". Going forward, the value of the IMPH ordinary shares and the IMPH warrants will be periodically assessed to determine whether an adjustment of the carrying value of this investment is required. Please see Note 4 to the Company's audited Financial Statements for the year ended December 31, 2011 for further details.

Research and Development

Our research and development expenses consist primarily of employee compensation, related stock based compensation, fees paid to consultants and contract research organizations, related amortization and other costs associated with the pre-clinical and clinical trials of our drug candidates and the manufacture of clinical supplies of drug product for clinical testing.

Research and development expenses were \$1,126,378 for the year ended December 31, 2011 compared to \$1,770,623 for the year ended December 31, 2010, representing an decrease of \$644,245. Research and development expenses for the year ending December 31, 2011 were lower than the same period for the previous year primarily due to a decrease in salaries and research and development costs associated with iCo-007. Research and development expenses for year ended December 31, 2011 primarily consisted of salaries, consultants' fees, contract research organization expenses related to the Phase I clinical trial for iCo-007 and research expenses related to pre-clinical studies for an Oral Amphotericin B Delivery System.

General and Administrative

General and administrative expenses primarily comprise salaries, stock based compensation and benefits for company employees not involved in research and development, professional fees such as legal and accounting expenses, and expenses related to office overheads including associated amortization. For the year ended December 31, 2011 general and administrative expenses were \$1,347,515 compared to \$1,435,633 for the year ending December 31, 2010, representing a decrease of \$88,118. This decrease in

the year ended December 31, 2011 compared to the year ended December 31, 2010 was attributable to decreased professional fees and salaries.

We believe the Company has sufficient personnel to manage both its research and development and public company activities and do not anticipate any increase in staffing in the foreseeable future. Accordingly, we believe that general and administrative expenses should remain at current levels in the foreseeable future.

Foreign Exchange

As the Company deals with a number of contract research organizations, consultants and suppliers in other countries (primarily the United States), our financial results are subject to fluctuations between the Canadian dollar and other international currencies, in particular the U.S. dollar. Foreign exchange gain for the year ended December 31, 2011 was \$765 compared to foreign exchange loss of \$24,928 for the same period in 2010, representing an increase of \$25,693. The changes for the period reflect fluctuations in the exchange rate for U.S. dollars.

The U.S. dollar cash and accounts payable balance for December 31, 2011 were \$148,668 (2010 – \$93,544) and \$125,507 (2010 – \$168,223) respectively.

Selected Quarterly Information

The table below sets forth unaudited quarterly results prepared by management for the eight quarters to December 31, 2011. As at January 1, 2011, the Company is required to report results according to IFRS. Previous quarters are reported under Canadian GAAP.

(unaudited)	2011 Q4[†]	2011 Q3[†]	2011 Q2[†]	2011 Q1[†]
Income	13,771	3,232	1,346,283	105,373
Total expenses	467,061	639,373	810,907	594,307
Loss (gain) and comprehensive loss (gain)	403,792	636,373	(535,376)	488,934
Basic and diluted loss per share	(0.01)	(0.01)	0.01	(0.01)
(unaudited)	2010 Q4[*]	2010 Q3[*]	2010 Q2[*]	2010 Q1[*]
Interest income	106,948	5,750	6,975	6,870
Total expenses	1,061,725	522,794	810,907	835,758
Loss and comprehensive loss	(954,777)	(517,044)	(803,932)	(828,888)
Basic and diluted loss per share	(0.03)	(0.01)	(0.02)	(0.02)

[†]Prepared in accordance with International Financial Reporting Standards (“IFRS”).

^{*}Prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

Fourth Quarter Results

The net loss in the fourth quarter of 2011 decreased by 57% to \$412,312 from \$959,233 in the fourth quarter of 2010. The decrease in net loss was principally caused by decreased research and development expenses associated with our research projects.

We do not anticipate earning any revenue in the foreseeable future, other than interest income earned on cash balances and/or potential licensing income from our Sub-licence with IMPH and any future licensing deals.

Net and comprehensive loss, quarter over quarter, is influenced by a number of factors including the scope of clinical development and research programs pursued; the stage (i.e. Phase I, II or III) of clinical trials undertaken; the number of clinical trials that are active during a particular period of time and the rate of patient enrollment. Each of these factors is ultimately a function of decisions made to continue the development and testing of a product candidate based on supporting safety and efficacy from clinical trial results. Consequently, expenses may vary from period to period. General and administrative expenses are dependent on the infrastructure required to support the corporate, clinical and business development objectives and initiatives of the Company. No material increase in general and administrative costs is expected over the short term.

Liquidity, Capital Resources and Outlook

	2011 \$	2010 \$	Change \$	Change %
Current assets	1,398,768	2,114,980	716,212	33.9%
Current liabilities	255,139	291,702	(36,563)	12.5%
Working capital	1,143,629	1,823,278	679,649	37.3%
Accumulated deficit	(17,499,644)	(16,467,633)	1,032,011	6.2%

As at December 31, 2011, we had cash and cash equivalents and short-term investments of \$1,326,399 compared to \$2,040,707 as at December 31, 2010. All cash not required for immediate use in operations is invested in redeemable, short-term money market investments. (The aggregate amount of these short term investments is recorded on the Statement of Cash Flows as Purchase of short-term investments.) As at December 31, 2011, the Company had working capital of \$1,143,629 compared to \$1,823,278 as at December 31, 2010. We anticipate that the combination of year-end cash on hand will be sufficient to fund operations into July of 2012. Additionally, the \$10 million ELF may be available to further fund operations through 2012 and beyond. Further, we continue to pursue additional opportunities to raise equity capital and/or secure additional funding through non-dilutive sources such as government grants and additional license agreements. However, it is possible that our cash and working capital position may not be sufficient enough to meet our business objectives in the event of unforeseen circumstances or a change in our strategic direction (see our Annual Information Form for a description of various risk factors which may affect our future outlook).

Comparison of Cash Flow

We realized a net cash outflow of \$376,764 for the year ended December 31, 2011 reflecting overall operating costs for the Company for the year of \$1,935,315, plus \$514,693 of investing related activities related to the purchase of short-term investments and the proceeds from the sub-licence of iCo-008, less

\$1,043,858 of cash inflows coming from the private placement in the fourth quarter of 2011. This compares to a net cash outflow of \$752,490 for the year ended December 31, 2010 reflecting overall operating costs for the Company for the year of \$2,669,577, plus \$1,096,024 related to the purchase of short-term investments less \$821,063 of cash inflows coming primarily from exercise of warrants.

We expect that overall cash outflows for the ensuing year will increase, primarily as a result of preparing and entering a Phase II clinical trial program for iCo-007.

Long-Term Obligations and Other Contractual Commitments

Lease commitments

On January 30, 2012, the Company extended its operating lease agreement for office space (expiring May 31, 2012) for an additional two year extension extending the expiration date to May 31, 2014. Our lease and operating payments totalled approximately \$50,530 for the year 2011. Future estimated annual lease payments are as follows:

	\$
2012	53,787
2013	55,470
2014	20,325

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 at 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 licence agreement between ISIS and the Company, the Company may be required to make additional contingent payments of up to US\$22 million upon the achievement of certain development and commercialization milestones of iCo-007 in its first ocular indication. 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 its licence agreement between Medimmune and the Company, the Company was required to make up-front payments totalling US\$400,000, of which the last payment was made in December, 2007. The Company may be required to make additional contingent payments of up to US\$7 million upon the achievement of certain development and commercialization milestones. In addition, the Company may be required to pay royalties on future revenues. The Company may also be required to make additional contingent payments upon the achievement of certain development and commercialization milestones for products developed outside the ocular field.

University of British Columbia ("UBC")

On May 6, 2008, the Company signed an agreement with UBC for the exclusive worldwide licence to an Oral Amphotericin B Delivery System (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 an Oral Amphotericin B Delivery System 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 an Oral Amphotericin B Delivery System program.

In February 2009, the Company was successful in securing research funding for an Oral Amphotericin B Delivery System 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 an Oral Amphotericin B Delivery System 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 \$90,000 in direct research funding previously committed to by the Company for 2009. The Company met all its financial obligations to UBC and the Research Chair for 2010 and 2011.

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.

Transactions with Related parties

During the year ended December 31, 2011:

- a) the Company incurred consulting fees totalling US\$25,000 (2010 - US\$25,000). The amounts outstanding as at December 31, 2011 totalled \$nil (2010 - \$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 at \$0.30 (2010 - 1,075,000). ISIS was issued nil warrants (2010 - 235,000).

Off Balance Sheet Arrangements

The Company has no material undisclosed off balance sheet arrangements that have or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

Critical Accounting Estimates

Our financial statements are prepared in accordance with GAAP. These principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, expenses and disclosures within the notes. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

We believe the following policies to be critical to understanding our financial position and results of operations as these policies require management to make significant estimates, assumptions and judgments about matters that are inherently uncertain.

Stock based compensation

We account for stock based compensation under the fair value-based method. Under the fair value based method, stock based payments to employees and non-employees are measured at the fair value of the equity instruments issued. The fair value of stock based payments to non-employees is periodically re-measured until the services are provided or the options vest, and any change therein is recognized over the period. We use the Black-Scholes option pricing model to calculate stock option values, which requires certain assumptions about stock price volatility, expected life of the options and the risk free rate.

Changes to any of these assumptions could produce different results, which could have a material impact on results.

Intangible assets

Our intangible assets are our licenses to use various technologies, and include proprietary rights, intellectual property, patent rights and technology rights which have been acquired from third parties. Intangibles assets are amortized on a straight line basis over the terms of the related license, ranging from 10 to 15 years. Intangible assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carry value of the asset may not be recoverable. A significant change in the estimates used for valuing the intangible assets or the amortization may impact its remaining useful life and therefore would impact results.

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. The amount of future income tax assets recognized will be limited to the amount of the benefit that is more likely than not to be realized.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short term investments, accounts receivable and accounts payable. The carrying amounts reported in the balance sheets for these financial instruments approximate fair value because of the immediate or short-term maturity.

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at December 31, 2011:

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.

The Company has expenditures in foreign currency and therefore is exposed to foreign exchange risk arising from transactions denominated in USD. A significant change in the currency rates could have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations. As approximately 19% of the Company's operating expenses are in US dollar, a 10% increase/decrease in the foreign exchange rate would result in a 2% increase/decrease in costs.

b) Interest rate risk

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

c) 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. Notwithstanding a recent improvement in overall global equity markets subsequent to the global credit crisis of 2008-2010, it remains difficult for companies in the biotechnology industry to raise equity capital and we expect this trend to continue for the foreseeable future.

d) Credit risk

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

The Company limits its exposure to credit risk, with respect to cash and cash equivalents, by placing them with high quality credit financial institutions. The Company's cash equivalents consist primarily of operating funds and deposit investments with commercial banks. Of the amounts with financial institutions on deposit, the following table summarizes the amounts at risk should the financial institutions with which the deposits are held cease trading:

	Cash and cash equivalents	Insured amount	Non-insured amount
	\$	\$	\$
CIBC	839,773	100,000	739,773
Raymond James	420,014	420,014	-
Manulife	66,612	66,612	-
	<hr/>	<hr/>	<hr/>
	1,326,399	586,626	739,773

Risks and Uncertainties

The primary risk factors affecting the Company are set forth in our annual information form for 2011. A copy of our annual information form is available on SEDAR at www.sedar.com.

Disclosure Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the disclosure controls and procedures of the Company, and have so

certified, as required by Multilateral Instrument 52-109. These officers have evaluated the effectiveness of the Corporation's disclosure controls and procedures and have concluded that the disclosure controls and procedures at the Company provide management a reasonable level of assurance that information required to be disclosed by the Company on a continuous basis and in annual and interim filings or other reports is recorded, processed, summarized, and reported or disclosed on a timely basis as required.

It should be noted that while the CEO and CFO believe that the Company's disclosure controls and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect disclosure controls and internal control procedures over financial reporting will prevent all errors and fraud. A control system no matter how well conceived or operated can provide only reasonable, not absolute assurance that the objectives of the control system are met.

Outstanding Share Capital

As at April 13, 2012, we had an unlimited number of authorized common shares with 46,632,301 common shares issued and outstanding.

As at April 13, 2012, we had 6,002,000 warrants outstanding.

5,767,000 Warrants were issued pursuant to a private placement announced on November 2, 2011. 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.

235,000 warrants were issued pursuant to 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 in consideration of the technology transfer was \$93,038. The Warrant expires on May 16, 2012 and has to date not been exercised.

As at April 13, 2012, we had 2,025,000 options outstanding. Each option entitles the holder to purchase one additional common share at exercise prices ranging from \$0.18 to \$1.00 and expiry dates ranging from January 3, 2013 to September 26, 2016.

For a detailed summary of all outstanding securities convertible or exercisable into equity securities of the Company refer to Note 10 of the Financial Statements for the year December 31, 2011.