

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis is as of April 10, 2008 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and the related notes thereto. Our audited consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

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, the Company undertakes 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 we will make additional updates with respect to those or other forward-looking statements. Additional information relating to our company is available by accessing the SEDAR website at www.sedar.com or the EDGAR website at www.sec.gov/edgar.

In this discussion, unless the context otherwise requires, references to "we" or "our" are references to iCo Therapeutics Inc. and its wholly-owned subsidiary iCology Corporation.

Overview

We are an emerging biotechnology company focused on the identification, development and commercialization of drug candidates that treat sight and other life threatening diseases through a development-only business model. Our strategy is to in-license and reprofile or reposition drug candidates that have clinical or pre-clinical history and compelling evidence of scientific, clinical and commercial potential in ocular and other disease indications. We have currently in-licensed two product candidates (iCo-007 and iCo-008) that we believe have the potential to treat sight threatening and life threatening conditions. We have also entered into an option agreement with the University of British Columbia ("UBC") and the University of Toronto.

iCo-007 is a second generation anti-sense compound that we believe reduces levels of a key protein associated with diabetic retinopathy, including macular edema. Diabetic retinopathy, including diabetic macular edema, is an ocular complication 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 are currently running a Phase I 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. We expect the last patient to be treated in the fourth quarter of 2008.

iCo-008 is a human monoclonal antibody against eotaxin-1 that we believe may treat sight threatening forms of allergic conjunctivitis by neutralizing eotaxin-1, a ligand to the chemokine receptor CCR3. 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. iCo also believes 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. 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. Subject to obtaining sufficient financing, we plan to begin Phase II clinical trials to test efficacy and safety of iCo-008 in individuals with a serious sight threatening form of allergic conjunctivitis known as vernal keratoconjunctivitis in the second half of 2008.

In July 2007, we entered into an option agreement with the University of British Columbia (“UBC”) pursuant to which we have an option to license exclusive world-wide rights of a novel oral formulation for Amphotericin B (“iCo-009”). The option expires on July 31, 2008. Although Amphotericin B (“AmpB”) has been used to treat systemic fungal infections intravenously for approximately 50 years, an oral formulation of AmpB has yet to be developed. Based on our review of the initial results of research at UBC, we believe that iCo-009 has potential as a more practical and safer treatment for systemic fungal infections than intravenous AmpB.

Recent Developments

Reverse Take-Over

Prior to December 31, 2007, the Company was known as Beanstalk Capital Ltd. On December 31, 2007, the Company completed a reverse takeover with a private company formerly known as iCo Therapeutics Inc. (the “Predecessor Company”). Upon completion of the reverse take-over:

- the Predecessor Company amalgamated with our wholly-owned subsidiary 4448073 Canada Inc. to form a new company known as iCology Corporation (“iCology”);
- all of the issued and outstanding securities of the Predecessor Company, including warrants and options, were exchanged for equivalent securities of the Company on a one-for-one basis; and
- the Company changed its name from Beanstalk Capital Ltd. to iCo Therapeutics Inc.

As a consequence of the reverse take-over, iCology Corporation became a wholly-owned subsidiary of the Company and the shareholders of the Predecessor Company acquired a majority of the Company’s shares. Following completion of the reverse take-over, we continue to conduct the business previously conducted by the Predecessor Company.

Prior to the reverse take-over, the Company had nominal non-monetary assets and was not an operating entity. As a consequence, the reverse take-over has been treated as a capital transaction rather than a business combination. Under the provisions of CICA Handbook EIC 10, the transaction has been accounted for as an issuance of shares, warrants and options by the Predecessor Company for the net monetary assets of the Company. As required under EIC 10, the Company is considered to be a continuation of the Predecessor

Company and, as a consequence, figures shown for period up to and including December 31, 2007 are those of the Predecessor Company.

For further information concerning the reverse take-over, please refer to the Company's audited consolidated financial statements for the year ended December 31, 2007 and the Company's Filing Statement dated December 17, 2007, both of which are filed on SEDAR.

Brokered Private Placement

In conjunction with the Arrangement, the Predecessor Company completed a brokered private placement of 1,895,514 Subscription Receipts for an aggregate subscription price of \$1,857,603 (or \$0.98 per Subscription Receipt). Each Subscription Receipt entitled the holder to receive, immediately prior to completion of the reverse take-over, one unit for no additional consideration. Each Unit was comprised of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share at a price of \$1.26 for a period of 12 months from the closing of the reverse take-over. Upon completion of the reverse take-over the common shares and common share purchase warrants comprising the Units were exchanged for equivalent securities of the Company on a one-for-one basis.

Selected Financial Information

Selected Statement of Operations Data

	Years ended December 31	
	2007	2006
Gain (loss) from operations	\$ (5,187,359)	\$ (2,539,530)
Weighted average number of shares outstanding, basic and diluted	12,714,718	8,933,783
Net gain (loss) per share, basic and diluted	\$(0.41)	\$(0.28)

Selected Balance Sheet Data

	Years ended December 31	
	2007	2006
Cash plus short term investments	\$1,931,407	\$1,602,412
Net working capital	\$1,608,921	\$918,594
Total assets	\$3,279,056	\$2,646,624
Long term liabilities	-	-
Total shareholders' equity	\$2,495,115	\$1,908,701

Results of Operations

We incurred a net loss of \$5,187,359 for the year ended December 31, 2007 compared to a net loss of \$2,539,530 for the same period in 2006, representing an increase of approximately \$2,647,829. The increase in our net loss was principally caused by:

- increases in both research and development expenses and general and administrative expenses due to increased operational activity, including the preparation for and commencement of a Phase I clinical trial for iCo-007 and manufacturing of iCo-008 drug product; and
- professional fees associated with the Company's capital raising activities, attempted initial public offering in the first half of 2007 and the reverse take-over in the fourth quarter of 2007.

As we are in the development stage and our products will not reach approval 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, 2007 and 2006 and do not anticipate generating any product revenue in the foreseeable future.

Interest Revenue

Interest Revenue 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, 2007 was \$40,254, compared to \$25,102 for the year ended December 31, 2006. This increase was due to a higher surplus cash balance in 2007.

Research and Development

Our research and development expenses consist primarily of employee compensation, fees paid to consultants and contract research organizations and other costs associated with the clinical trials of our drug candidates and the manufacture of clinical supplies of drug product. Research and development expenses were \$3,714,665 for the year ended December 31, 2007 compared to \$1,760,011 for the same period in 2006, representing an increase of \$1,954,654. The increase in research and development expenses was primarily as result of: (i) increased costs relating to fees paid to consultants and contract research organizations in connection with Phase I clinical trials for iCo-007 and (ii) consultant and contract manufacturing expenses related to the manufacture of drug product in preparation for a Phase II clinical trial for iCo-008. As a development stage company, we expect the Company to continue to incur significant research and development expenses in the future.

Research and development costs in the years ended December 31, 2007 and 2006 were partially offset by refundable federal investment tax credits available to Canadian controlled private corporations. Research and development expenses for the year ended December 31, 2007 were offset by an expected tax credit of \$209,000. Upon completion of the reverse takeover on December 31, 2007, the Company ceased to be a "Canadian controlled private corporation" and will no longer be eligible for the refundable federal investment tax credits that the Company has claimed in the past.

General and Administrative

General and administrative expenses primarily comprise salaries and benefits for company employees not involved in research and development, professional fees such as legal and accounting expenses, and expenses related to corporate development and office overheads. For the year ended December 31, 2007 general and administrative expenses were \$963,695 compared to \$513,567 for the same period in 2006, representing an increase of \$450,128. This increase was primarily a result of significant professional fees incurred in connection with the Company's attempted initial public offering in the first half of 2007. Personnel expenses also increased during the year ended December 31, 2007 as a result of increasing the number of full-time employees from four to seven in connection the operational growth experienced through the course of the year.

We expect expenses related to personnel and administrative overheads to increase moderately as a consequence of expenses related to investor relations activities and compliance with regulations applicable to publicly traded companies. However, we expect this increase to be offset by a decrease in professional fees. Although we will continue to incur professional fees in the future, particularly in connection with any capital raising activities, the majority of professional fees for the year ended December 31, 2007 were non-recurring expenses incurred in connection with the Company's attempted initial public offering and reverse take-over.

Amortization

Amortization is comprised primarily of technology licences that are recorded at cost and then amortized on a straight-line basis over the term of related licences, which range from 10 to 15 years. We also amortize certain office and computer on a straight-line basis over the estimated useful lives of the equipment, ranging from 2 to 5 years. For the year ended December 31, 2007 amortization was \$114,864 compared to \$69,068 for the same period in 2006, representing an increase of \$45,796. This increase reflects the amortization recorded in 2007 in connection with licensing iCo-008 from MedImmune pursuant to a license agreement entered into in December 2006.

Foreign Exchange

Because our licences are dominated in U.S. dollars and because of our dealings with 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, and the U.S. dollar in particular. Foreign exchange loss for the year ended December 31, 2007 was \$55,092 compared to foreign exchange loss of \$31,408 for the same period in 2006, representing an increase of \$23,684. The increase reflects fluctuations in the exchange rate for U.S. dollars and euros.

Stock Based Compensation

Stock based compensation relates to options granted under our employee stock option plan to directors, officers, employees and consultants. Compensation expense is recorded using the fair value method over the vesting period of the option. The fair value of each option granted is estimated as at the date of grant using the Black-Scholes option pricing model. Share based expense for the year ended December 31, 2007 was \$203,883 compared to \$190,578 for the same period in 2006, representing an increase of \$13,305. This increase was primarily due to the award of 50,000 additional options during the year ended December 31, 2007, as well as the recognition of compensation expense for options granted in prior years which vested during 2007.

Transaction Costs

We incurred transaction costs of \$175,414 during the year ended December 31, 2007 in connection with the reverse take-over described under the heading "Recent Developments" above. For further information concerning the reverse take-over, please refer to our audited consolidated financial statements for the year ended December 31, 2007 and our Filing Statement dated December 17, 2007, both of which are filed on SEDAR. The transaction costs relating to the reverse take-over are a non-recurring expense. The Company does not anticipate incurring any similar expenses in the near future.

Comparison of Cash Flow

We realized a net cash inflow of \$927,581 for the year ended December 31, 2007, consisting of net financing proceeds of \$4,258,265 plus an additional \$587,635 cash in-flow representing the net amount from the sale and purchase of short term investments, equipment and technology licences, offset by a cash outflow from operations of \$3,918,319. This compares to a net cash outflow of \$615,804 for the year ended December 31, 2006, consisting of net financing proceeds of \$2,690,363 offset by a cash outflow from operations of \$1,290,431 and the purchase of equipment, short term investments and technology licences of \$784,128.

We expect that overall cash outflows for the next 12 months will decline relative to the cash outflows experienced in 2007, as we conserve cash while focusing on completing the ongoing Phase I trial for iCo-007

and our planning efforts for potential future clinical trials of iCo-008 and iCo-009. If we raise additional capital in the future, we expect that will increase our operational activity and cash outflows will increase accordingly.

Liquidity, Capital Resources and Outlook

We are a development stage company and, accordingly, have not generated revenue and have incurred significant operating losses to date. From inception in February, 2005 to December 31, 2007, we have raised approximately \$8.8 million (net of share issuance and related costs) through equity financings and accumulated a deficit of approximately \$8.3 million. Our ability to continue is dependent upon our ability to obtain sufficient funding to sustain operations through the development stage, successfully bring our technologies to market and achieve profitable operations. As at December 31, 2007, we had cash of \$1,889,233 and working capital of \$1,608,921. Surplus cash is invested in redeemable, short-term money market investments. We anticipate that our current cash on hand plus expected receivables (relating to Canadian Scientific and Research Development tax credits and a pending claim for United Kingdom Value Added Tax related to the manufacture of iCo-008) will be sufficient to fund operations through to the fourth quarter of 2008, at which time we will need to obtain additional proceeds through equity or debt financing or by selling or licensing our technology for cash proceeds.

Long-Term Obligations

We lease our office facilities under an operating lease which expires May 31, 2009. We will need to negotiate an extension to use its current facilities beyond this date or find new office space. We cannot be assured that any new arrangement will be negotiated at similar or lower office rental and related costs. We are obligated to make minimum lease and operating payments totaling approximately \$45,066 for the year 2008.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. 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 the results of operations because 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. We use the Black-Scholes option pricing model to calculate stock option values, which requires certain assumptions like future stock price volatility. Changes to any of these assumptions could produce different results, which could have a material impact on our earnings.

Intangible assets

Our intangible assets are our licenses to various technologies. We amortize intangibles assets 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 earnings.

Changes in Accounting Policies

Financial Instruments

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

We have classified our financial instruments as follows:

- a) Cash and cash equivalents – we designate our cash and cash equivalents as held-for-trading, which is measured at fair value;
- b) Accounts receivable – we designate our taxes receivable and tax credits receivable as loans and receivables, which are measured at amortized cost.
- c) Short-term investments - short-term investments are classified as held to maturity and measured at amortized cost using the effective interest method.
- d) Accounts payable and accrued liabilities - accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The adoption of the new accounting policies had no material effect on the Company.

Comprehensive income

We have adopted the new recommendations of the CICA Handbook Section 1530, “Comprehensive Income”. This section establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. We had no “other comprehensive income or loss” during the twelve months ended December 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss. As a result, the adoption of Section 1530 had no significant impact on our financial statements.

Outstanding Share Capital

As at December 31, 2007, we had an unlimited number of authorized common shares and had 17,913,181 common shares issued and outstanding.

As at December 31, 2007, we had outstanding warrants to purchase up to 2,886,264 common shares at prices ranging from \$0.28 to \$1.75, all of which expire by December 31, 2008, and outstanding options to purchase up to 1,531,072 common shares at prices ranging from \$0.15 to \$1.00, all of which expire between April 7, 2010 and January 2, 2012.