MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2012

This management's discussion and analysis has been prepared as of August 29, 2012 and should be read in conjunction with the financial statements of iCo Therapeutics Inc. ("iCo" or the "Company") for the six months ended June 30, 2012 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. In this discussion, unless the context requires otherwise, references to "we" or "our" are references to iCo Therapeutics Inc. Additional information relating to our Company, including our annual information form, is available by accessing the SEDAR website at www.sedar.com.

Forward Looking Statements

This Management's Discussion and Analysis ("MD&"A) contains certain statements, other than statements of historical fact, that are forward-looking statements which reflect the current view of the Company with respect to future events including corporate developments, financial performance and general economic conditions which may affect the Company. The forward-looking statements in this MD&A include, but are not limited to, statements regarding: the status of our research and development programs; iCo-007, iCo-008 and the Oral AmpB Delivery System; our expectations regarding future research and development expenses; the sufficiency of the Company's financial resources to fund operations for the remainder of 2012 and future funding requirements for the Company. Forward-looking statements include, but are not limited to, those statements set out in this MD&A under Business Overview and Strategy, iCo-007, iCo-008, Oral AmpB Delivery System, research and development, Liquidity, Capital resources and Outlook, Comparison of Cashflows, Long term Obligations and Commitments, Critical Accounting Estimates, Financial Instruments and Risks and Uncertainties.

We have based these forward-looking statements largely on our current expectations, projections and assumptions made based on our experience, perception of historical trends, the current business and financial environment. Key assumptions upon which the forward-looking statements are based include the following:

a) The Company's iDEAL phase II trial will not be unreasonably delayed and expenses will not increase substantially;
b) The Company will be able to secure additional financial resources to continue our research and development activities;
c) Key personnel will continue their employment with the Company;
d) The Company will successfully maintain all necessary commitments to product licences and other agreements and maintain regulatory approvals in good standing;
e) The Company will be able to maintain and enforce its intellectual property rights and otherwise protect its proprietary technologies

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. Risks that could cause actual results to differ from current expectations include: reliance on collaborative partners; changes in government and government agency policies and regulations; general economic and financial market conditions; failure to retain key employees; performance failure of third parties and/or sub-contractors; potential for clinical

trial delays and/or adverse events leading to clinical trial liability; inadequate protection of intellectual property rights; the impact of US/Canadian exchange rates; inability to raise sufficient capital to fund research and development activities, in particular the iDeal Phase II clinical trial; the development and adoption of competitive technologies; and general risks inherent to the biotechnology industry.

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 had an expiry date of May 16, 2012 and have since expired unexercised. 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 is being led by the clinician scientists who are investigators in the trial and is being 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 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 II 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 signaling 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 2, 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 31, 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 31, 2011, the agreement with IMPH was amended to permit IMPH to further extend the option period for an additional three months beyond March 31, 2011. For each month extension, IMPH will pay to the Company and additional US$50,000. The payments are non-refundable but will be 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 31, 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.

On May 31, 2012 we announced that the company had been awarded a $1.1Million non-repayable financial contribution from the National Research Council of Canada to support iCo's Oral Amphotericin B (Amp B) delivery system as novel treatment for patients with Human Immunodeficiency Virus (HIV). The funding will support feasibility testing and pre-clinical toxicology studies, as well as human safety and efficacy clinical trials to examine the role of the Amp B delivery system in potentially treating patients with latent HIV reservoirs. The Oral Amp B technology was developed by Drs. Kishor and Ellen Wasan at the University of British Columbia (UBC).

The funding for the 3-year project comes from the NRC Industrial Research Assistance Program (NRC-IRAP) under the CHTD Program, which aims to encourage and support the participation of small and medium-sized enterprises in the development of an HIV vaccine and other technologies related to the prevention, treatment, and diagnosis of HIV. The program is part of the Canadian HIV Vaccine Initiative (CHVI), a collaboration between the Government of Canada and the Bill & Melinda Gates Foundation.

Although current treatment regimes, such as highly active anti-retroviral therapy (HAART) have been very successful in managing and stabilizing HIV in patients, HIV can also persist by slowly replicating in tissue macrophages and blood monocytes. The long-lived HIV reservoirs enable long-term persistence of the infection during otherwise effective HAART and constitute a major roadblock to the complete eradication of HIV. To date, attempts to eliminate the virus from these reservoirs have been unsuccessful and the economic burden of HIV infection in the United States alone remains significant. The US Centre for Disease Control estimates the total lifetime treatment cost for HIV patients based on new diagnoses in 2009 at $16.6 billion.

However, independent studies have demonstrated that Amphotericin B may be efficient at reactivating HIV-1 infection in THP89GFP cells, a model of HIV-1 latency in macrophages. Therefore, trans-reactivation strategies may hold the key to reactivating latent HIV-1 infections, in effect "flushing" the virus from the reservoirs and enhancing the effectiveness of existing therapies.

2012 Second Quarter Corporate Highlights

Corporate

At our AGM held on May 11, 2012, shareholders re-elected the following members to board of directors: William Jarosz, Andrew Rae, Noel Hall, Richard Barker and Douglas Janzen. Shareholders also voted to re-instate PriceWaterHouseCoopers as the Company's auditors and approved an amendment to the Company's stock option plan to increase the number of shares reserved for issuance from 3,200,000 shares to 4,000,000 shares.

Oral Amp B Delivery System

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Subsequent Events

- On July 3, 2012, we announced that iCo had been featured in a JDRF newsletter entitled *Top Research Highlights*. JDRF is the largest charitable supporter of type 1 diabetes (T1D) and has joined forces with iCo Therapeutics to investigate a potential new treatment for one of the most common complications of diabetes, diabetic macular edema (DME). The iDEAL study is a Phase II clinical trial to evaluate the drug iCo-007 as a treatment for DME. The study is being conducted at a leading US medical institution and 25 additional sites across the United States. *Top Research Highlights* is a quarterly newsletter published by JDRF to highlight new treatments and research for T1D and related complications. A copy of this newsletter may be viewed at:

  http://www.jdrf.org/files/General_Files/Get_Involved/TopResearch_Spring2012.pdf

- On July 13, 2012, we announced the closing of a prospectus offering of 5,675,332 units ("Units") at a price of $0.45 per Unit for aggregate gross proceeds of $2,553,899. Each Unit is comprised of one common share of the Company (a "Common Share") and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one Common Share at a price of $0.60 per share for a period of 2 years following closing of the Offering.

Selected Financial Information

The financial information reported here have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements. This selected financial information should be read in conjunction with the condensed interim financial statements for the period ending June 30, 2012 and the annual financial statements for the year ended December 31, 2011 which have been prepared in accordance with IFRS.

The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars which is the Company's functional currency. The following table represents selected financial information for the Company's three month periods ending June 30, 2012 and June 30, 2011.

Selected Statement of Operations Data

	Three Months ended June 30		**Six Months ended June 30**	
	2012	**2011**	**2012**	**2011**
Gain (loss) from operations	$(632,972)	$752,497	$(1,424,734)	$ 263,564
Weighted average number of shares outstanding, basic and diluted	44,738,857	41,057,301	44,738,857	41,057,301
Net gain (loss) per share, basic and diluted	$(0.01)	$0.02	($0.03)	$0.01

The loss from operations increased for both the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011 as a result of increased expenses related to the iDEAL Phase 2 clinical trial and lower income from both other income and the gain on the sale of licencing rights for iCo-009 which took place in the second quarter of 2011.

Selected Balance Sheet Data

	Six Months ended June 30, 2012	**Year ended December 31, 2011**
Cash and cash equivalents	$275,335	$ 1,326,399
Net working capital	$(153,801)	$ 1,143,629
Total assets	$1,894,530	$ 2,945,929
Long term liabilities	-	-
Total shareholders' equity	$1,347,761	$ 2,690,790

Cash and cash equivalents decreased by $1,051,064 from $1,326,399 in December 31, 2011 to $275,335 at June 30, 2012.

Comparison of the Second Quarter (Six months) for 2012 and 2011 Financial Years

Results of Operations

	Q2 2012 $	Q2 2011 $	Change $	Change %
Interest income	2,312	11,705	9,393	-80%
Licensing income	-	100,000	100,000	-100%
Gain on sale of rights	-	1,339,951	1,339,951	-100%
Research and development	739,081	643,760	95,321	+15%
General and administrative	681,293	544,574	136,719	+25%
Foreign exchange loss/(gain)	6,672	241	6,431	+2,668%
Other comprehensive (loss)/gain	(6,900)	-	6,900	-100%
Net and comprehensive (loss)/ gain	(1,431,634)	263,564	1,695,198	+643%

We incurred a net and comprehensive loss of $1,431,634 for the six months ended June 30, 2012 compared to a net and comprehensive gain of $263,564 for the six months ended June 30, 2011, representing a decrease of $1,695,198. The decrease in our net and comprehensive loss was principally caused by lower licensing income, higher research and development costs and increased professional fees and share based compensation.

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 three months ended June 30, 2012 was $586, compared to $6,332 for the three months ended June 30, 2011, resulting in a decrease of $5,746. Interest income for the six months ended June 30, 2012 was $2,312, compared to $11,705 for the six months ended June 30, 2011, resulting in a decrease of $9,393.

The lower interest income earned in both the three and six months ending June 30, 2012, as compared to the same periods in 2011 was a result of lower cash balances.

Licensing Income

Pursuant to an option agreement with IMPH. the Company received a payment of $100,000 for the quarter ending March 31, 2011, 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. There was no licensing income for either the six or three month period ending June 30, 2012.

Gain on Sub-license of rights

On June 24, 2011, the option held by IMPH to the systemic rights of iCo-008 was converted to the IMPH License 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-license 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 License 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 3 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 $331,049 for the three months ended June 30, 2012 compared to $282,960 for the three months ended June 30, 2011, representing an increase of $58,089. Research and development expenses were $739,081 for the six months ended June 30, 2012 compared to $643,760 for the six months ended June 30, 2011, representing an increase of $95,321. For both the three and six months ending June 30, 2012 expenses higher than the same period for the previous year primarily due to an increase in research and development costs associated with iCo-007. Research and development expenses for the three and six months ended June 30, 2012 primarily consisted of salaries, consultants' fees, contract research organization expenses related to the Phase II clinical trial for iCo-007 and research expenses related to pre-clinical studies for an Oral AmpB Delivery System. As we move farther through the iDEAL Phase II study, we expect research and development expenses to increase.

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 three months ended June 30, 2012 general and administrative expenses were $297,235 compared to $313,485 for the three months ending June 30, 2011, representing a decrease of $16,250. For the six months ended June 30, 2012 expenses were $681,293 compared to $739,081 for the six months ending June 30, 2011, representing an increase of $136,719. The increase in the three and six months ended June 30, 2012 compared to June 30, 2011 was attributable to increase in professional fees and share based compensation.

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. Additionally, as we are now in a Phase II clinical trial which is being run in the US, we anticipate that a significantly greater portion of our operating expenses will be in US dollars, increasing our exposure to fluctuations in the US dollar.

Foreign exchange loss for the three months ended June 30, 2012 was $5,274 compared to foreign exchange gain of $2,659 for the same period in 2011, representing a decrease of $7,933. For the six months ended June 30, 2012 foreign exchange loss was $6,672 compared to foreign exchange loss of $241 for the same period in 2011, representing a decrease of $6,913. The changes for both the three and six month periods reflect fluctuations in the exchange rate for U.S. dollars.

The U.S. dollar working capital balances for June 30, 2012 were $(209,201) compared to $23,161 at June 30, 2011.

Selected Quarterly Information

The table below sets forth unaudited quarterly results prepared by management for the eight quarters up to June 30, 2012. As at January 1, 2011, the Company is required to report results according to IFRS. Previous quarters are reported under Canadian GAAP.

(unaudited)	**2012 Q2†**	**2012 Q1†**	**2011 Q4†**	**2011 Q3†**
Income	586	1,726	13,771	3,232
Total expenses	628,284	793,487	467,061	639,373
Loss (gain) and comprehensive loss (gain)	632,972	774,661	403,792	636,373
Basic and diluted loss per share	(0.01)	(0.02)	(0.01)	(0.01)
(unaudited)	**2011 Q2†**	**2011 Q1†**	**2010 Q4***	**2010 Q3***
Interest & other income	1,346,283	105,373	106,948	5,750
Total expenses	810,907	594,307	1,061,725	522,794
Loss (gain) and comprehensive loss (gain)	(535,376)	488,934	954,777	517,044
Basic and diluted loss per share	0.01	(0.01)	(0.03)	(0.01)

†Prepared in accordance with International Financial Reporting Standards ("IFRS").
* Prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

The fluctuation in expenses throughout the previous eight quarters primarily relates to variations in research and development activities along with fluctuations in general and administrative activities such as stock based compensation, professional fees and salaries. The income fluctuations are a result of the interest on cash balances and in particular for Q2 2011, a recognition of the gain on sale of iCo-008 licencing rights associated with the IMPH transaction (note 3).

Liquidity, Capital Resources and Outlook

	Q2 2012 $	YE 2011 $	Change $	Change %
Current assets	392,967	1,398,768	1,005,801	72%
Current liabilities	546,769	255,139	291,630	114%
Working capital	(153,802)	1,143,629	1,297,431	113%
Accumulated deficit	(18,924,378)	(17,499,644)	1,424,734	8%

As at June 30, 2012, we had cash and cash equivalents and short-term investments of $275,335 compared to $1,326,399 as at December 31, 2011. 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 June 30, 2012, the Company had working capital of $(153,802) compared to $1,143,629 as at December 31, 2011. Subsequent to this on July 13, 2012, we announced the closing of a prospectus offering of 5,675,332 units ("Units") at a price of $0.45 per Unit for aggregate gross proceeds of $2,553,899. We anticipate that the combination of cash on hand as at June 30, 2012 plus the proceeds from our prospectus offering will be sufficient to fund operations through the first quarter of 2013.

On July 13th, 2012, the Company announced the closing of a prospectus offering of 5,675,332 units ("Units") at a price of $0.45 per Unit for aggregate gross proceeds of $2,553,899. Each Unit is comprised of one common share of the Company (a "Common Share") and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one Common Share at a price of $0.60 per share for a period of 2 years following closing of the Offering. In addition, as part of the offering, the Company issued 454,026 compensation options. The compensation options are exercisable at $0.45 or 454,026 compensation units. Each compensation unit consists of one common share plus a common share purchase warrant exercisable at $0.60 into one common share for a period of two years from closing of the offering.

Additionally, the $10 million ELF may be available to also fund operations through the remainder of 2012 and beyond. Post our prospectus offering in July, 2012, we also have 11,430,332 warrants plus 454,026 compensation options outstanding, which if fully exercised, could contribute an additional $5,608,426. 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 $91,401 for the six months ended June 30, 2012 reflecting overall operating costs for the Company for the quarter of $1,300,430, plus $959,663 of investing related activities related to the purchase of short-term investments, less $3,000 of cash inflows coming from the exercise of warrants. This compares to a net cash increase of $56,370 for the six months ended June 30, 2011, reflecting a cash inflow from investing activities of $1,097,206 for the six month period ending June 30, 2011, less overall operating costs of $1,000,440 for the same period.

We expect that overall cash outflows for the ensuing year will increase primarily as a result of increased costs for our Phase II iDEAL 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 Amp 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 Amp B Delivery System program.

In February 2009, the Company was successful in securing research funding for the Oral Amp 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 has met all its financial obligations to UBC and the Research Chair.

Transactions with Related parties

For the six months ending June 30, 2012, the Company incurred fees totaling $24,500 (June 30, 2011 - $24,500) payable to independent directors of the company. Independent directors include: Bill Jarosz, Richard Barker, Douglas Janzen and Noel Hall. The nature of the independent directors' services is to attend board of directors meetings and to provide strategic direction and guidance to the Company. The amounts outstanding for the six month ending June 30, 2012 totaled $nil (June 30, 2011 - $nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment. For the three months ending June 30, 2012, the Company incurred director's fees totaling $6,250 (June 30, 2011 - $12,250). The amounts outstanding for the three months ending June 30, 2012 totaled $nil.

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 IFRS. 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 June 30, 2012:

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 20% of the Company's operating expenses are in US dollars, a 10% increase/decrease in the foreign exchange rate would result in a 2% increase/decrease in costs. As we are now in a Phase II clinical trial which is being run in the US, we anticipate that a significantly greater portion of our operating expenses will be in US dollars, increasing our exposure to fluctuations in USD.

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. Given the current poor economic climate and volatile capital markets, 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	197,888	100,000	97,888
Raymond James	10,350	10,350	-

Manulife	67,097	67,097	-
	275,335	177,447	97,888

Risks and Uncertainties

Details of the primary risk factors affecting the Company are set forth in our AIF for 2012. A copy of our AIF is available on SEDAR at www.sedar.com.

Outstanding Share Capital

As at August 29, 2012, we had an unlimited number of authorized common shares with 52,319,633common shares issued and outstanding.

As at August 29, 2012, we had 11,430,332 warrants and 454, 026 compensation options outstanding.

5,767,000 Warrants were issued pursuant to a private placement announced on November 2, 2011 of which 12,000 have been exercised to date leaving 5,755,000. 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.

An additional 5,675,332 warrants and 454,026 Compensation Options were issued pursuant to our financing which closed on July 13th, 2012. Each Warrant entitles the holder to acquire one common share at a price of $0.60 per share for a period of 2 years following closing of the Offering. The Compensation Options are exercisable at $0.45 into Units consisting of one common share and one warrant exercisable for two years from closing at an exercise price of $0.60.

As at August 29, 2012, we had 2,010,000 options outstanding. Each option entitles the holder to purchase one additional common share at exercise prices ranging from $0.29 to $0.98 and expiry dates ranging from January 3, 2013 to March 8, 2017.

For a detailed summary of all outstanding securities convertible or exercisable into equity securities of the Company refer to Note 4 of the Financial Statements for the six months ended June 30, 2012.