**iCo THERAPEUTICS INC.**

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

**NINE MONTHS ENDED SEPTEMBER 30, 2011**

This management's discussion and analysis has been prepared as of November 18, 2011 and should be read in conjunction with the unaudited financial statements of iCo Therapeutics Inc. ("iCo" or the "Company") for the quarter ended September 30, 2011 and the related notes thereto. Our financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). 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. Some of these financial assumptions include: prevailing interest rate trends, currency trends between the United States and Canadian dollar and the conditions for both the credit and equity capital markets. 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. Several of the major business risks include: obtaining regulatory approvals, clinical trial safety and efficacy risks and intellectual property risks. In addition there are several financial risks including: insufficient revenue in the short and medium term to offset ongoing expenses; our dependence on raising equity capital to support operations; and potential significant dilution to investors. A comprehensive discussion of the risk factors affecting the Company is set forth in our Annual Information Form for 2011. A copy of our annual information form is available on SEDAR at www.sedar.com.

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 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 diabetic macular edema 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 have in-licensed three product candidates (iCo-007, iCo-008 and an Oral Amphotericin B Delivery System (formerly known as iCo-009 and other derivatives) 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 diabetic 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 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 diabetic macular edema. 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.

On August 15, 2011, 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 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 type 1 diabetes (T1D), to support the previously announced Phase 2 investigator sponsored clinical trial investigating iCo-007 in Diabetic Macular Edema (DME).

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

On February 2, 2011, the Company received an additional payment of US$100,000 as an option extension fee from IMMUNE, in consideration for extending the option period until March 31, 2011. The option extension fee was non refundable and not creditable against the upfront license fee payment of US $1 million. Accordingly, it was recognized as income from sale of licensing rights. On March 31, 2011, the agreement with IMMUNE was further amended to permit IMMUNE to extend the option period for up to three additional months beyond March 31, 2011. For each month extension, IMMUNE paid to the Company US$50,000. These payments were non-refundable and creditable against the upfront licence fee payment of $ 1 million. On April 6, 2011, the Company received a payment of US$50,000 to extend the option period to April 30, 2011, and on May 2, 2011, the Company received a payment of US$50,000 to extend the option period to May 30, 2011.

Subsequently on June 24, 2011, the Option was converted to an exclusive licence agreement (the IMMUNE Licence Agreement"). In consideration for the conversion, iCo received a further payment of US$200,000 (total aggregate cash payments of US$500,000 since December 2010) plus 600,000 IMMUNE ordinary shares and 200,000 IMMUNE warrants. IMMUNE will also share in funding 50% of the patent prosecution and maintenance costs of the iCo-008 patent family.

On July 19, 2011, a third party manufacturer announced an exclusive contract for the production of IMMUNE Pharmaceutical'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. 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 Q3 Corporate Highlights**

The third quarter of 2011 was marked by the following highlights:

iCo- 007

- On August 15, 2011, 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 26, 2011, iCo announced a research collaboration agreement with JDRF, the worldwide leader for research to cure, treat, and prevent type 1 diabetes (T1D), to support the previously announced Phase 2 investigator sponsored clinical trial investigating iCo-007 in Diabetic Macular Edema (DME).

Corporate

- iCo management presented at the Drug Repositioning and Pipeline Enhancement Conference.
- On September 27, 2011, the Company granted a total of 1,050,000 stock options to directors, officers and employees of the Company.
- John Clement, a co-founder of iCo Therapeutics Inc., resigned from his positions as Chief Technology & Development Officer and Director in order to pursue other personal and un-related business interests. The Company has no plans to replace this position.
- The Company engaged The Equicom Group to provide iCo with strategic investor relations services.

## Subsequent Events

- On November 2, 2011, 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.
- iCo management presented at the Ophthalmology Innovation Summit.
- iCo's oral Amphotericin B delivery system was the subject of three poster presentations at the 2011 AAPS Annual Meeting and Exposition, October 23 - 27, 2011, in Washington, DC USA.
- The oral Amphotericin B delivery system was also highlighted in an AAPS press release titled, "A Novel Oral Treatment for Leishmaniasis Has Potential to Save Thousands of Lives".
- On November 18, 2011, iCo and Dutchess Opportunity Cayman Fund Limited completed the definitive agreement for the Equity Line Facility previously announced on April 14, 2011.

### Selected Financial Information

The interim financial information reported here 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 nine month periods ending September 30, 2011 and September 30, 2010:

*Selected Statement of Operations Data*

| | Three Months ended September 30 | | Nine Months ended September 30 | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Gain (loss) from operations | $(636,141) | $ (517,044) | $(372,577) | $(2,149,864) |
| Weighted average number of shares outstanding, basic and diluted | 41,057,301 | 31,418,629 | 41,057,301 | 39,296,829 |
| Net gain (loss) per share, basic and diluted | $(0.02) | $(0.01) | $(0.01) | $(0.05) |

The loss from operations decreased for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 as a result of higher revenues associated with the IMMUNE licensing agreement.

*Selected Balance Sheet Data*

| | Nine Months ended September 30, 2011 | Year ended December 31, 2010 |
|---|---|---|
| Cash and cash equivalents . . . . . | $ 862,250 | $ 2,040,707 |
| Net working capital . . . . . | $ 1,837,451 | $ 1,823,278 |
| Total assets . . . . . | $ 2,417,902 | $ 2,679,322 |
| Long term liabilities . . . . . | - | - |
| Total shareholders' equity . . . . . | $ 2,178,159 | $ 2,387,620 |

Cash and cash equivalents decreased by $1,178,457 from $2,040,707 in December 31, 2010 to $862,250 as at September 30, 2011.

**Comparison of the Quarters ending September 30, 2011 and September 30, 2010**

*Results of Operations*

We incurred a net and comprehensive loss in income of $636,141 for the three months ended September 30, 2011 compared to a net and comprehensive loss of $517,044 for the three months ended September 30 2010, representing an increase of approximately $119,097. The increase in our net and comprehensive loss in income was caused by a number of factors including research and development expenses and stock based compensation for options granted in September 2011.

We incurred a net and comprehensive loss in income of $372,577 for the nine months ended September 30, 2011 compared to a net and comprehensive loss of $2,149,864 for the nine months ended September 30, 2010, representing an decrease of approximately $1,777,287. The decrease in our net and comprehensive loss in income was principally caused by the gain incurred on the sale of commercialization rights to iCo-008 under the IMMUNE licensing agreement.

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 nine months ended September 30, 2011 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 September 30, 2011 was $3,232, compared to $5,750 for the three month period ending September 30, 2010, resulting in a decrease of $2,518. Interest income for the nine months ended September 30, 2011 was $14,937, compared to $19,595 for the nine month period ending September 30, 2010, resulting in a decrease of $4,658. The lower interest income earned in the three month period ending September 30, 2011, as compared to the three month period in 2010, was a result of lower cash and short term investments balances held in our treasury in 2011.

*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 for clinical testing.

Research and development expenses were $199,843 for the three months ended September 30, 2011 compared to $144,525 for the three months ended September 30, 2010, representing a increase of $55,318. This increase in the three months ending September 30, 2011 compared to the three months ending September 30, 2010 were attributable to higher research and development costs associated with clinical trials. Research and development expenses were $776,830 for the nine months ended September 30, 2011 compared to $984,580 for the nine months ended September 30, 2010, representing a decrease of $207,750. This decrease in the nine months ending September 30, 2011 compared to the nine months ending September 30, 2010 were attributable to lower research costs and business development expenses. Research and development expenses for the nine months ended September 30, 2011 primarily consisted of salaries, consultants' fees, research and intellectual property expenses. As we have recently initiated a Phase II clinical trial for iCo-007, we anticipate our research and development expenses will increase over the upcoming 12 months.

*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 office overheads. For the three months ended September 30, 2011 general and administrative expenses were $271,557 compared to $318,379 for the three months ending September 30, 2010, representing a decrease of $46,822. This decrease in the three months ending September 30, 2011 compared to the three months ending September 30, 2010 were attributable to decreases in professional fees. For the nine months ended September 30, 2011 general and administrative expenses were $806,956 compared to $836,506 a for the nine months ending September 30, 2010, representing a decrease of $29,550. The decrease in the nine months ending September 30, 2011 compared to the nine months ending September 30, 2010 were attributable to lower personnel costs.

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.

*Amortization*

Amortization is comprised primarily of technology licenses that are recorded at cost and then amortized on a straight-line basis over the term of related licenses, which range from 9 to 11 years. We also amortize certain office and computer equipment on a straight-line basis over the estimated useful lives of the equipment, ranging from 2 to 5 years. The majority of the amortization recorded during the nine months ended September 30, 2011 is in connection to the in-licensing of iCo-007 and iCo-008.

Amortization for the three months ended September 30, 2011 was $28,636 compared to amortization of $29,385 for the three months ended September 30, 2010, a decrease of $749. Amortization for the nine months ended September, 2011was $86,234 compared to amortization of $88,272 for the nine months ended September 30, 2010, a decrease of $2,038.

*Foreign Exchange*

Because our licenses 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, in particular the U.S. dollar. Foreign exchange gain for the three months ended September 30, 2011 was $5,430 compared to foreign exchange loss of $7,986 for the same period in 2010, representing an increase of $13,416. Foreign exchange gain for the nine months ended September 30, 2011 was $5,671 compared to foreign exchange loss of $20,806 for the same period in 2010, representing an increase of $26,477. The change for the nine month period reflects fluctuations in the exchange rate for U.S. dollars.

*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. Stock based compensation for the three months ended September 30, 2011 was $144,767 compared to $22,519 for the three months ended September 30, 2010, an increase of $122,248. Stock based compensation for the nine months ended September 30, 2011was $163,116 compared to $239,295 for the nine months ended September, 2010, a decrease of $76,179.

**Selected Quarterly Information**

The table below sets forth unaudited quarterly results prepared by management for the eight quarters to September 30, 2011.

| (unaudited) | **2011 Q3†** | **2011 Q2†** | **2011 Q1†** | **2010 Q4*** |
|---|---|---|---|---|
| Income | 3,232 | 1,346,283 | 105,373 | 106,948 |
| Total expenses | 639,373 | 593,786 | 586,206 | 1,061,725 |
| Gain (loss) and comprehensive gain (loss) | (636,141) | 752,497 | (480,833) | (954,777) |
| Basic and diluted gain (loss) per share | (0.02) | 0.02 | (0.01) | (0.03) |
| (unaudited) | **2010 Q3*** | **2010 Q2*** | **2010 Q1*** | **2009 Q4*** |

| | | | | |
|---|---|---|---|---|
| Interest income | 5,750 | 6,975 | 6,870 | 3,479 |
| Total expenses | 584,394 | 810,907 | 835,758 | 612,484 |
| Gain (loss) and comprehensive gain (loss) | (578,644) | (803,932) | (828,888) | (609,005) |
| Basic and diluted gain (loss) per share | (0.01) | (0.02) | (0.02) | (0.02) |

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

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 license option with Immune Pharmaceuticals 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 pursed; 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 Financial Outlook**

As at September 30, 2011, we had cash and cash equivalents of $862,250 compared to $2,040,707 as at December 31, 2010. As at September 30, 2011, the Company had working capital of $1,837,451 compared to $1,823,278 as at December 31, 2010.

We anticipate that the combination of cash on hand as at September 30, 2011, the private placement announced on November 2, 2011 for gross proceeds of $1,115,000 (see Note 17, Subsequent Events in the financial statements for the Three and Nine Months Ended September 30, 2011) and potential licensing revenue from our agreement with Immune Pharmaceuticals will be sufficient to fund operations through the second quarter of 2012. Additionally, a $10 million Equity Line Facility (ELF) may be available to further fund operations through the remainder of 2012 and beyond. Further, we will also 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 $188,749 for the nine months ended September 30, 2011, reflecting a cash inflow from investing activities of $1,286,090 for the nine month period ending September 30, 2011, less overall operating costs of $1,474,839 for the same period. This compares to a net cash outflow of $752,845 for the nine months ended September 30, 2010 reflecting overall operating costs of $2,057,552,

less $821,063 of cash inflows coming from financing proceeds and cash inflow from investing activities of $483,644 received in the same period. The primary reason for the net cash outflows is due to a combination of additional consulting, personnel costs and professional fees.

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

**Long-Term Obligations and Other Contractual Commitments**

On January 30, 2009, the Company extended its operating lease agreement for office space (originally expiring May 31, 2009) for an additional three year extension extending the expiration date to May 31, 2012. We will need to negotiate an extension to use our 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.

**Transactions with Related parties**

During the nine months ended September 30, 2011 we recorded an expense of $36,750 to three outside directors for board and consulting fees (for the nine months ended September 30, 2010 - $36,900).

**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.

**Use of Estimates and Significant Judgments**

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

*Share based compensation*

The Company grants stock options to officers, directors, employees and consultants pursuant to the Company's stock option plan. The Company accounts for the stock-based compensation using the fair-value method as at the grant date. Under this method, compensation expense related to option grants is recorded in earnings over the vesting period of the options or, for consultants, as the work is performed. The compensation expense amount is based on the fair value of the option as estimated using the Black-Scholes option pricing model. The assumptions used in calculating the value of the stock options issued include management's best estimate, as of the date of grant, of the risk free rate, expected share price volatility over the term of the stock option, expected option life and an estimated forfeiture rate. As such, the amounts reported as compensation expense are subject to measurement uncertainty as the expense amount may vary significantly based on the assumptions used.

*Impairment and recovery of intangible*

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 9 to 11 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 September 30, 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.

Balances in foreign currencies at September 30, 2011and December 31, 2010 are as follows:

| | **September 30, 2011 US balances $** | **December 31, 2010 US balances $** |
|---|---|---|
| Cash and cash equivalent | 200,558 | 93,951 |
| Other investments | 1,181,881 | - |
| Accounts payable | (115,251) | (168,266) |
| | 1,1,267,188 | (74,315) |

Based on the US dollar balance sheet exposure at September 30, 2011, with other variables unchanged, a 10% change in the US dollar compared to the CDN dollar would not have a material impact on the statement of operations, comprehensive gain (loss) and deficit.

**b) Interest rate risk**

The only financial instruments that expose the Company to interest rate risk are its cash and cash equivalents and short term investments. Cash and cash equivalents in excess of day-to-day requirements are placed in short-term deposits with high quality credit financial institutions and earn interest at rates available at that time.

**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. The continued uncertainties in the global credit markets have resulted in a drastic reduction in the ability of companies to raise capital through the public markets.

The Company continues to manage its liquidity risk by responsibly conserving capital as can be seen by the consistency of outflows for the nine month ended September 30, 2011. The company will continue to prudently conserve cash resources as practicable and be opportunistic to raise additional capital through further equity financings or strategic partnership arrangements .

**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 | 328,160 | 100,000 | 228,160 |
| Raymond James | 417,775 | 417,775 | - |
| Manulife | 116,315 | 116,315 | - |
| | 862,250 | 634,090 | 228,160 |

**Changes in Accounting Policies**

Considering the first year of adoption of International Financial Reporting Standards ("IFRS"), no changes in accounting policies were introduced. However, upcoming changes to IFRS standards that may potentially impact the Company are discussed further below.

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The quarter ended March 31, 2011, was our first interim period reported under IFRS. All comparative figures have been restated to be in accordance with IFRS unless specifically noted otherwise. Our IFRS accounting policies are described in note 2 of the interim financial statements.

The adoption of IFRS resulted in no changes to the balance sheet and income statements of the Company that were previously reported under Canadian GAAP.

**Accounting standards issued and not yet applied**

In November 2009, the IASB issued IFRS 9 – Financial Instruments as the first step in its project to replace IAS 39 – Financial Instruments: Recognition and Measurement with a new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 addressed the classification and measurement of financial assets and financial liabilities and is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

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

**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.

**Outstanding Share Capital**

As at November 18, 2011, we had an unlimited number of authorized common shares with 46,632,301 common shares issued and outstanding.

As at November 18, 2011, 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 is consideration of the technology transfer was $93,038. The Warrant expires on May 16, 2012 and has to date not been exercised.

As at November 18, 2011, we had 2,311,429 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 November 20, 2011 to September 26, 2016.