MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2013

This management's discussion and analysis has been prepared as of May 29, 2013 and should be read in conjunction with the financial statements of iCo Therapeutics Inc. ("iCo" or the "Company") for the three month period ending March 31, 2013 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 2013 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 Cash Flows, 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.

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 expired on May 16, 2012. Subsequently, iCo announced the completion of drug product manufacturing activities as part of its Phase II clinical program in February 2011.

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

On September 26, 2011, we announced a research collaboration agreement with the Juvenile Diabetes Research Foundation (JDRF), the worldwide leader for research to cure, treat, and prevent T1D, to support the previously announced Phase 2 investigator sponsored clinical trial investigating iCo-007 in DME and in March 2012, we outlined the clinical trial plan for the iDEAL study which is in the process of recruiting patients. Further to this, on January 3, 2013, we announced that, having reached the midpoint of the Phase 2 iDEAL study, there have been no drug related serious adverse events among patients receiving repeat doses of iCo-007 to date and that we had exceeded the recruitment threshold of patients for statistical analysis of the study. We expect primary endpoint data for all subjects reaching their 8 month milestone in early 2014.

iCo-008 (Bertilimumab)

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

Recent published scientific literature has also indicated that iCo-008 may have utility to potentially treat age related macular degeneration ("AMD"), a severe ophthalmic disease which effects elderly patients and can lead to blindness in just a few years. In light of this new information, we are currently exploring AMD as a possible therapeutic indication for iCo-008. We will only undertake a clinical trial program for iCo-008 in the event we are able to obtain sufficient financial resources to do so.

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

In December 2010, we granted Immune Pharmaceuticals Corp. ("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, 2012). 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 May 30, 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. Further, until such time as IMPH completes a going public transaction, iCo holds anti-dilution protection whereby iCo will receive additional securities in IMPH to maintain its equity ownership position. 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.

On February 21, 2013, IMPH announced the initiation, following authorization from Israeli health authorities, of a Phase II double-blind placebo controlled study with its lead drug, Bertilimumab (iCo-008), in patients with moderate-to-severe ulcerative colitis. The clinical trial is a randomized, double-blind, placebo-controlled parallel group study that will evaluate the safety, clinical efficacy, and pharmacokinetic profile of Bertilimumab in subjects with active moderate-to-severe ulcerative colitis. Ninety patients are expected to be enrolled into the study, sixty of whom will be treated with Bertilimumab 7mg/kg and thirty of whom will be treated with placebo every two weeks, at days 0, 14, and 28. These patients will be evaluated for clinical response after 6 weeks to determine the decrease if any in the full Mayo Clinic Ulcerative Colitis Score. Secondary and exploratory end points will include clinical remission defined as symptom free, fecal calprotectin, a recognized marker of gastro-intestinal inflammation, histopathology improvement and degree of mucosal injury. Patient follow-up will continue up to day 90. Patients will be enrolled initially from up to ten hospitals in Israel and later in other countries pending approval of local health authorities. Completion of patient enrollment and clinical results are anticipated in 2014.

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.

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 AmpB 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 AmpB delivery system in potentially treating patients with latent HIV reservoirs. 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.

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.

2013 First Quarter Corporate Highlights

Corporate

- On January 22, 2013, we announced the granting a total of 1,100,000 stock options to directors, officers and employees of the Company. The stock options are exercisable into common shares of the Company at an exercise price of $0.73 for a period of five years and are subject to vesting requirements.

- On February 5, 2013, we announced it that we were presenting at the 15th Annual BIO CEO & Investor Conference in New York City. iCo Therapeutics management delivered a company presentation to conference attendees on Tuesday, February 12 at 1:30 PM ET in the Park South Room at the Waldorf Astoria Hotel.

- On February 14, 2013, we announced that iCo had been named the top ranked company in its class in the TSX Venture Top 50.

iCo-007

On January 3, 2013, we announced that, having reached the midpoint of the Phase 2 iDEAL study, there have been no drug related serious adverse events among patients receiving repeat doses of iCo-007 to date and that we had exceeded the recruitment threshold of patients for statistical analysis of the study. We expect primary endpoint data for all subjects reaching their 8 month milestone in early 2014.

iCo-008

- On February 12, 2013, IMPH and EpiCept announced that they have executed an amendment to the Merger Agreement and Plan of Reorganization that they signed on November 7, 2012.

- On February 21st, 2013, IMPH announced the initiation, following authorization from Israeli health authorities, of a Phase II double-blind placebo controlled study with its lead drug, Bertilimumab (iCo-008), in patients with moderate-to-severe ulcerative colitis. The clinical trial is a randomized, double-blind, placebo-controlled parallel group study that will evaluate the safety, clinical efficacy, and pharmacokinetic profile of Bertilimumab in subjects with active moderate-to-severe ulcerative colitis. Ninety patients are expected to be enrolled into the study, sixty of whom will be treated with Bertilimumab 7mg/kg and thirty of whom will be treated with placebo every two weeks, at days 0, 14, and 28. These patients will be evaluated for clinical response after 6 weeks to determine the decrease if any in the full Mayo Clinic Ulcerative Colitis Score. Secondary and exploratory end points will include clinical remission defined as symptom free, fecal calprotectin, a recognized marker of gastro-intestinal inflammation, histopathology improvement and degree of mucosal injury. Patient follow-up will continue up to day 90. Patients will be enrolled initially from up to ten hospitals in Israel and later in other countries

pending approval of local health authorities. Completion of patient enrollment and clinical results are anticipated in 2014.

- received a patent issuance for iCo-008 in Japan.

Oral AmpB Delivery System

- received a patent issuance for the oral AmpB delivery system in Russia.

Subsequent Events

- On May 10, 2013, the Company announced that it issued 9,655,771 units ("Units") at a price of $0.35 per unit for aggregate gross proceeds of $3,379,520 (the "Offering"). Each Unit includes one common share and one common share purchase warrant (a "Warrant"). Each Warrant is exercisable at a price of $0.40 for a period of five years from the closing of the Offering. The selling group was paid a cash commission equal to 8% of the gross proceeds of the Offering and received that number of compensation warrants ("Compensation Warrant") equal to 5% of the number of Units sold pursuant to the Offering. The Compensation Warrants have the same terms and conditions as the Warrants included in the Units. The Offering closed on May 21, 2013.

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 audited financial statements for the three months ended March 31, 2013.

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 period ending March 31, 2013.

Selected Statement of Operations Data

	Three Months ended March 31st	
	2013	**2012**
Total comprehensive loss	$(1,790,385)	$(774,661)
Weighted average number of shares basic and diluted	51,380,734	43,348,408
Basic and diluted loss per share	$(0.04)	$(0.02)

The loss from operations increased for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 as a result of increased expenses related to the iDEAL Phase 2 clinical trial and stock based compensation.

Selected Balance Sheet Data

	Three Months	**Year ended**

	ended March 31, 2013	December 31, 2012
Cash, cash equivalents and short term investments	$1,072,390	$ 1,260,196
Net working capital	$(654,023)	$ 375,121
Total assets	$2,869,048	$ 3,013,435
Long term liabilities	-	-
Total shareholders' equity	$1,027,778	$ 2,049,704

Cash, cash equivalents and short term investments decreased by $187,806 from $1,260,196 in December 31, 2012 to $1,072,390 at March 31, 2013 primarily as a result of increase in costs associated with the Phase 2 clinical trial. The negative working capital of $(654,023) includes accrued liabilities of $1,556,478 payable to JDRF over the next twelve months in connection with the Company's iDEAL phase II clinical trial.

Comparison of the Three months period ending March 31 for 2013 and 2012 Financial Years

Results of Operations

	Q1 2013 $	Q1 2012 $	Change $	Change %
Interest income	111	1,726	1,615	-94%
Other income	41,271	-	41,271	100%
Research and development	1,199,044	408,032	791,012	+193%
General and administrative	626,094	384,058	242,036	+63%
Foreign exchange loss	38,021	1,398	36,623	+2620%
Other comprehensive income	31,392	17,100	14,292	84%
Total comprehensive (loss)/ income	(1,790,385)	(774,661)	1,015,724	+131%

We incurred a net and comprehensive loss of $1,790,385 for the three months ended March 31, 2013 compared to a net and comprehensive loss of $774,661 for the three months ended March 31, 2012, representing a increase of $1,015,724. The increase in our net and comprehensive loss was principally caused by costs associated with the Phase 2 clinical trial 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, 2012 and 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 March 31, 2013 was $111, compared to $1,726 for the three months ended March 31, 2012, resulting in a decrease of $1,615.

The lower interest income earned in the three months ending March 31, 2013, as compared to the same period in 2012 was a result of lower cash balances.

Other Income

Other income is the contribution from the National Research Council of Canada's Industrial Research Assistance Program ("IRAP") to support iCo's Oral Amphotericin B ("Amp B") delivery system as novel treatment for patients with Human Immunodeficiency Virus ("HIV"). For the three month period ended March 31, 2013, the Company recognized $41,271. Amount in the future quarters will vary depending on the timing of the costs incurred and subsequently claimed under the IRAP program.

Research and Development

Our research and development expenses consist primarily of Phase 2 clinical trial expenses, employee compensation, related stock based compensation and fees paid to consultants.

Research and development expenses were $1,199,044 for the three months ended March 31, 2013 compared to $408,032 for the three months ended March 31, 2012, representing an increase of $791,012. For the three months ending March 31, 2013 expenses were higher due to the iDEAL Phase 2 clinical trial.

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. For the three months ended March 31, 2013 general and administrative expenses were $626,094 compared to $384,058 for the three months ending March 31, 2012, representing an increase of $242,036. The increase in the three months ended March 31, 2013 compared to March 31, 2012 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 March 31, 2013 was $ 38,021 compared to foreign exchange loss of $1,398 for the same period in 2012, representing an increase of $36,623. The changes for the three month period reflect fluctuations in the exchange rate for U.S. dollars.

The U.S. dollar working capital balances for March 31, 2013 were $(1,487,390) compared to $19,849 at March 31, 2012. The negative working capital balance includes accrued liabilities of $1,556,478 payable to JDRF over the next twelve months in connection with the Company's iDEAL phase II clinical trial.

Selected Quarterly Information

The table below sets forth unaudited quarterly results prepared by management for the eight quarters up to March 31, 2013.

(unaudited)	**2013 Q1**	**2012 Q4**	**2012 Q3**	**2012 Q2**
Interest and other income	(41,382)	(5,792)	(3,603)	(586)
Total expenses	1,863,159	1,313,968	913,376	633,558
Loss (gain) for the period	1,821,777	1,308,176	909,773	632,972
Comprehensive loss for the period	1,790,385	1,063,642	935,152	656,972
Basic and diluted loss (earnings) per share	0.04	0.02	0.02	0.01
(unaudited)	**2012 Q1**	**2011 Q4**	**2011 Q3**	**2011 Q2**
Interest and other income	(1,726)	(13,771)	(3,232)	(1,346,283)
Total expenses	793,487	640,344	639,373	599,104
Loss (gain) for the period	791,762	654,115	636,141	(747,179)
Comprehensive loss (gain) for the period	774,661	615,595	636,141	(747,179)
Basic and diluted loss (earnings) per share	0.02	0.01	0.01	(0.02)

The fluctuation in expenses throughout the previous eight quarters primarily relates to variations in clinical trial expenses and research and development activities along with fluctuations in general and administrative activities such as stock based compensation, professional fees. The income fluctuations are a result of the interest on cash balances and government grant associated with research and development costs.

Liquidity, Capital Resources and Outlook

	Q1 2013 $	**YE 2012 $**	**Change $**	**Change %**
Current assets	1,187,247	1,338,852	(151,605)	-11%
Current liabilities	1,841,270	963,731	877,539	91%
Working capital	(654,023)	375,121	(1,029,144)	-274%
Accumulated deficit	(22,964,104)	(21,142,327)	1,821,777	9%

As at March 31, 2013, we had cash and cash equivalents and short-term investments of $1,072,390 compared to $1,260,196 as at December 31, 2012. 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 March 31, 2013, the Company had negative working capital of $(654,023) compared to $375,121 as at December 31, 2012. The negative working capital of $(654,023) includes accrued liabilities of $1,556,478 payable to JDRF over the next twelve months in connection with the Company's iDEAL phase II clinical trial. Subsequently, on May 21, 2013, we closed a financing for gross proceeds of $3,379,520. We anticipate that the combination of cash on hand plus the cash raised in May 2013 (note 8) is sufficient to fund operations into Q1 2014. Additionally, we have 20,038,118 warrants outstanding at exercise prices ranging from $0.30 to $0.60 which, if all exercised, could contribute potentially up to approximately

$8,720,000 in proceeds. Further, our $10 million ELF may also be available to also fund operations. 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 $88,581 for the three months ended March 31, 2013 reflecting overall operating costs for the Company for the quarter of $573,663 plus $99,226 of investing related activities, less $385,400 of cash inflows coming from the exercise of warrants and options. This compares to a net cash decrease of $90,920 for the three months ended March 31, 2012, reflecting a cash inflow from investing activities of $669,753 plus $1,500 of financing activity related to the exercise of warrants, less overall operating costs of $610,333 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
The Company's operating lease expires on May 31, 2014. The lease and operating payments totalled $53,027 for the year 2012. Future estimated annual lease payments are as follows:

	$
2013	56,488
2014	23,230

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 March 31, 2013 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.

Clinical Trial

The Company entered into an agreement with JDRF for work related to the iCo-007 clinical trial. The agreement involves incremental holdbacks as well as other milestone expenses associated with the clinical trial. The total amount of those expenses is not yet measureable and is dependent on a number of criteria and deliverables from JDRF before the Company will incur the full expense.

On May 31, 2012, the Company was awarded a $1.1 million three-year, non-repayable financial contribution from the National Research Council of Canada's Industrial Research Assistance Program ("IRAP") 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. Under the grant, up to 75% of the costs of the project may be claimed subject to the $1.1 million maximum. The Company submits monthly expenditure claims that are subject to IRAP approval and subsequent reimbursement.

Transactions with Related parties

For the three months ending March 31, 2013, the Company incurred fees totaling $15,250 (March 31, 2012 - $6,250) 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 three month ending March 31, 2013 totaled $15,250 (March 31, 2012 -

$nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.

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

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. The Company regularly reviews its estimates; however, actual amounts could differ from the estimates used and, accordingly, materially affect the results of operations. Areas requiring management to make significant estimates and judgments include the impairment of intangible assets, clinical trial accruals, and valuation of investment in IMMUNE.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 and critical judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include: the impairment of intangible assets, clinical trial accruals, and fair value of other investments.

a) Impairment of intangible assets

   The Company assesses at least on every reporting period whether there are indicators of impairment in accordance with the accounting policy stated in the note referenced in these financial statements. There were no indicators of impairment identified by management at year-end.

b) Clinical trial accruals

   Management examines the accruals in relation to clinical trials on a monthly basis based on the number of patients enrolled in the trials and the stage in the trials. Accruals are based on information obtained from various clinics and estimated costs based on the stage of treatment.

c) Fair value of other investments

   The fair value of the other investments is determined by using valuation techniques. The Company uses its estimates and judgment to select a variety of methods as prescribed under the accounting standards. At year-end management utilized a recent financing transaction as a metric in determining the fair value of the other investments.

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 March 31, 2013:

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 51% of the Company's operating expenses are in US dollars. As we are now in a Phase II clinical trial which is being run in the US, we anticipate that our operating expenses will continue to be at that level, increasing our exposure to fluctuations in USD.

	March 31, 2013 US balance $	December 31, 2012 US balance $
Cash and cash equivalents	151,633	93,350
Accounts payable and accrued liabilities	(1,639,023)	(808,975)
	(1,487,390)	(715,625)

Based on the US dollar balance sheet exposure at March 31, 2013, with other variables unchanged, a 10% change in exchange rates on the net current monetary (liabilities)/assets would be $148,739 (December 31, 2012 - $71,563).

b) Interest rate risk

The Company is subject to interest rate risk on its cash and cash equivalents and short-term investments and believes that the results of operations, financial position and cash flows would not be significantly affected by a sudden change in market interest rates relative to the investment interest rates due to the short-term nature of the investments. 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 recent problems in the global

credit markets have resulted in a drastic reduction in the ability of companies to raise capital through the public markets.

The Company continues to manage its liquidity risk based on the outflows experienced for the year ended December 31, 2012 and is undertaking efforts to conserve cash resources wherever possible.

d) Credit risk

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

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

	Cash and cash equivalents $	**Insured amount $**	**Non-insured amount $**
CIBC	592,141	100,000	492,141
Raymond James	311,447	311,447	
Manulife	168,802	168,802	--
	1,072,390	580,249	492,141

Risks and Uncertainties

Details of the primary risk factors affecting the Company are set forth in our AIF for 2013. A copy of our AIF is available on SEDAR at www.sedar.com.

Outstanding Share Capital

As at May 29, 2013, we had an unlimited number of authorized common shares with 64,514,230 common shares issued and outstanding.

As at May 29, 2013, we had 20,038,118 warrants outstanding with exercise prices ranging between $0.30 and $0.60 and expiry dates ranging from November 2, 2013 to May 17, 2018.

As at May 29, 2013, we had 2,925,000 options outstanding. Each option entitles the holder to purchase one additional common share at exercise prices ranging from $0.18 to $0.73 and expiry dates ranging from February 14, 2014 to January 21, 2018.

For a detailed summary of all outstanding securities convertible or exercisable into equity securities of the Company refer to note 5 of the Financial Statements for the three months ended March 31, 2013.