

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2012**

This management's discussion and analysis has been prepared as of April 25, 2013 and should be read in conjunction with the financial statements of iCo Therapeutics Inc. ("iCo" or the "Company") for the year ended December 31, 2012 and the related notes thereto. Our financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are expressed in Canadian dollars unless otherwise noted. In this discussion, unless the context requires otherwise, references to "we" or "our" are references to iCo Therapeutics Inc. Additional information relating to our Company, including our annual information form, is available by accessing the SEDAR website at [www.sedar.com](http://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 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 Cashflows, Long term Obligations and Commitments, Critical Accounting Estimates, Financial Instruments and Risks and Uncertainties.

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

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

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Risks that could cause actual results to differ from current expectations include: reliance on collaborative partners; changes in government and government agency policies and regulations; general economic and financial market conditions; failure to

retain key employees; performance failure of third parties and/or sub-contractors; potential for clinical trial delays and/or adverse events leading to clinical trial liability; inadequate protection of intellectual property rights; the impact of US/Canadian exchange rates; inability to raise sufficient capital to fund research and development activities, in particular the iDEAL Phase II clinical trial; the development and adoption of competitive technologies; and general risks inherent to the biotechnology industry.

Except as may be required by applicable law or stock exchange regulation, we undertake no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events. Accordingly, readers should not place undue reliance on forward-looking statements. If we do update one or more forward-looking statements, no inference should be drawn that additional updates will be made with respect to those or other forward-looking statements. Additional information relating to our Company, including our annual information form, is available by accessing the SEDAR website at [www.sedar.com](http://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 AmpB Delivery System 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. Currently we have treated 174 subjects with iCo-007 and expect primary endpoint data for all subjects reaching their 8 month milestone in late 2013.

#### ***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 AmpB 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.

## **2012 Corporate Highlights**

In 2012, we accomplished the following milestones:

### Corporate

- Appointment of Douglas G. Janzen, President, Chief Executive Officer and a Director of Cardiome Pharma Corp. (NASDAQ:CRME, TSX:COM), Director of NEOVASC Inc. and director of various industry trade associations, including Chairman of the board of directors of Life Sciences British Columbia, to iCo's Board of Directors.
- At the iCo's AGM held on May 11, 2012, shareholders re-elected the following members to board of directors: William Jarosz, Andrew Rae, Noel Hall, Richard Barker and Douglas Janzen. Shareholders also voted to re-instate Pricewaterhouse Coopers LLP as the Company's auditors and approved an amendment to the Company's stock option plan to increase the number of shares reserved for issuance from 3,200,000 shares to 4,000,000 shares.
- On July 13, 2012, we announced the closing of a prospectus offering of 5,675,332 units ("Units") at a price of \$0.45 per Unit for aggregate gross proceeds of \$2,553,899. Each Unit is comprised of one common share of the Company (a "Common Share") and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one Common Share at a price of \$0.60 per share for a period of 2 years following closing of the Offering.

### iCo-007

- On March 28, 2012, we announced in collaboration with JDRF, (the largest charitable funder of T1D research the clinical trial design for the iDEAL study. The study will include up to 30 clinical sites in the US. The iDEAL study, which is in the process of recruiting participants, follows patients for a 12 month period. During the trial, patients are randomized into one of the following four groups: either one of two mono-therapy arms using repeated intravitreal dosing of two different concentrations of iCo-007; or one of two combination arms using iCo-007 with laser photocoagulation or iCo-007 and ranibizumab (Lucentis). To be eligible for the trial, participants must have T1D or T2D, baseline visual acuity between 20/32 and 20/320 on the Early Treatment Diabetic Retinopathy Study (ETDRS) chart, and DME with central subfoveal thickness greater than 250 microns as measured by optical coherence tomography (OCT).
- On March 28, 2012, Andrew Rae iCo's President and CEO, was a speaker and panel member at the Drug Development Forum at the Retinal Physician Symposium 2012 (RPS) held in Miami Florida.
- On July 3, 2012, we announced that iCo had been featured in a JDRF newsletter entitled *Top Research Highlights*. JDRF is the largest charitable supporter of type 1 diabetes (T1D) and as previously mentioned, has joined forces with iCo on the iDEAL study. *Top Research Highlights* is a quarterly newsletter published by JDRF to highlight new treatments and research for T1D and related complications.

## iCo-008

- On January 25, 2012, IMPH (sub-licencee for iCo-008) announced that it had been awarded a grant of US \$1 million (NIS 3.8 M) by the Office of the Chief Scientist in Israel to support its two lead candidate programs including Bertilimumab (iCo-008).
- On November 8<sup>th</sup>, 2012, IMPH announced that it had entered into a definitive agreement with EpiCept Corporation (“EpiCept”), a US public company (OTCQX: EPCT) to merge. The transaction is anticipated to close during the first calendar quarter of 2013. We currently hold 600,000 shares of IMPH plus an additional 200,000 warrants. 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.

## Oral AmpB Delivery System

- On February 22, 2012, we received notification that our first generation patent: “Formulations for the Oral Administration of Therapeutic Agents and Related Methods”, had been allowed by the New Zealand Patent office. This marks the first patent allowance for the Oral Amp B Delivery System.
- 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 Amp B 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.
- On July 6, 2012, our oral AmpB delivery system was featured in a paper entitled: Efficacy and Toxicity of a Tropically Stable Lipid-Based Formulation of Amphotericin B (iCo-010) in a Rat Model of Invasive Candidiasis, published in the International Journal of Pharmaceutics.
- On October 24, 2012, iCo announced that the oral AmpB delivery system was the subject of three poster presentations at the 2011 AAPS Annual Meeting and Exposition and highlighted in an AAPS press release titled, “A Novel Oral Treatment for Leishmaniasis Has Potential to Save Thousands of Lives”.
- During 2012, we received patent issuances for the Oral AmpB system in New Zealand and Singapore.

## **Subsequent Events**

- 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. Currently we have treated 174 subjects with iCo-007 and expect primary endpoint data for all subjects reaching their 8 month milestone in late 2013.
- 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 15<sup>th</sup> 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 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 21<sup>st</sup>, 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.
- Subsequent to our 2012 year end, we received a patent issuances for iCo-008 in Japan and the oral AmpB delivery system in Russia.
- On February 14, 2013, we announced that iCo had been named the top ranked company in its class in the TSX Venture Top 50.
- For the period January 1, 2013 up to April 25, 2013, 1019,000 warrants plus 100,000 stock options have been exercised resulting in \$415,400 of additional capital.

### **Selected Annual Information**

The financial information reported here in has been prepared in accordance with IFRS. The Company uses the Canadian dollar (“CDN”) as its presentation currency. The following table represents selected financial information for the Company’s fiscal years 2012, 2011, and 2010:

*Selected Statement of Operations Data*

	Year the year ended December 31,		
	2012	2011	2010
Total comprehensive loss	\$ (3,430,427)	\$ (993,491)	\$ (3,104,641)
Weighted average number of shares basic and diluted	49,499,654	41,958,476	40,855,713
Basic and diluted loss per share	\$ (0.07)	\$ (0.02)	\$ (0.08)

The loss from operations for the year increased in 2012 mainly as a result of the clinical trial associated with iCo-007. In comparing the 2012 loss with the 2011 loss, the 2011 loss was offset with the gain in the sale of the rights to IMMUNE.

*Selected Balance Sheet Data*

	As at December 31,		
	2012	2011	2010
Cash and cash equivalents and short term investments	\$1,260,196	\$1,326,399	\$2,040,707
Net working capital	\$375,121	\$1,143,629	\$1,823,278
Total assets	\$3,013,435	\$2,945,929	\$2,679,322
Long term liabilities	-	-	-
Total shareholders' equity	\$2,049,704	\$2,690,790	\$2,387,620

Cash and cash equivalents and short term investments decreased by \$66,203 from \$1,260,196 in 2012 compared to \$1,326,399 in 2011. As a result of this decrease in cash and cash equivalents and increase in accruals and accounts payables, working capital decreased by \$768,508 to \$375,121 in 2012 from \$1,143,629 in 2011. This decrease in net working capital was primarily a result of increased accrued liabilities in the amount of \$764,865 payable to JDRF related to our phase II clinical trial. These accruals are due over the next twelve month period. Currently we have treated 174 subjects with iCo-007 and expect primary endpoint data for all subjects reaching their 8 month milestone in late 2013.

The Company experienced an increase in total assets from \$2,945,929 in 2011 to \$3,013,435 in 2012 primarily as a result of the fair value adjustment to the investment in IMMUNE. See Note 4 to the Company's audited financial statements for the year ended December 31, 2012.

**Comparison of the 2012 and 2011 Financial Years**

*Results of Operations*

	2012 \$	2011 \$	Change \$	Change %
Interest income	7,831	14,305	(6,474)	45%
Other income	3,876	203,076	(199,200)	98%
Research and development	2,287,148	1,126,378	1,160,770	103%

General and administrative	1,374,710	1,347,515	27,195	2%
Foreign exchange (gain)/loss	(7,468)	(765)	(6,703)	876%
Other comprehensive income	212,256	38,520	173,736	451%
Total comprehensive loss	3,430,427	993,491	2,436,936	245%

We incurred a net and comprehensive loss of \$3,430,427 for the year ended December 31, 2012 compared to a net and comprehensive loss of \$993,491 for the year ended 2011, representing an increase of \$2,453,861. The increase in our net and comprehensive loss was principally caused by clinical trial costs associated with iCo-007 in 2012, somewhat offset by the gain on the sale of the rights to IMPH in 2011.

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 year ended December 31, 2012 was \$7,831, compared to \$14,305 for the year ended December 31, 2011, resulting in a decrease of \$6,474. The lower interest income earned in the year ending December 31, 2012, as compared to the same periods in 2011 was a result of lower cash balances due to expenditures associated with iCo-007 clinical trial.

#### *Gain on Sub-licence of rights*

On June 24, 2011, the option held by IMPH to the systemic rights of iCo-008 was converted to the IMPH Licence Agreement. In consideration for the conversion, iCo received a payment of US\$200,000 (total aggregate cash payments of US\$500,000 since December 2010) plus 600,000 IMPH ordinary shares (valued at \$2.00 per share) and 200,000 IMPH warrants. The warrants are exercisable at a discount to the Initial public offering price if as and when IMPH undertakes a going public transaction. IMPH will also share in funding 50% of the patent prosecution and maintenance costs of the iCo-008 patent family. The transaction was recorded as a gain on the sale of the sub-licence rights on the Statement of Loss and Comprehensive Loss for the year ended December 31, 2011 and the consideration the Company received for the IMPH Licence Agreement is reflected on the Company's Balance Sheet for the year ended December 31, 2012 as "Other Investments". The value of the IMPH ordinary shares and the IMPH warrants are assessed at each reporting period to determine whether an adjustment of the carrying value of this investment is required. As at the year ended December 31, 2012, it was determined that the value of the IMPH ordinary shares had increased in value by \$212,256 from \$1,220,401 as at December 31, 2011 to \$1,432,657 as at December 31, 2012. Please see Note 4 to the Company's audited Financial Statements for the year ended December 31, 2012 for further details.

#### *Research and Development*

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

Research and development expenses were \$2,287,148 for the year ended December 31, 2012 compared to \$1,126,378 for the year ended December 31, 2011, representing an increase of \$1,160,770. Research and development expenses for the year ending December 31, 2012 were higher than the same period for the previous year primarily due to the research and development costs associated with iCo-007. Research and development expenses for year ended December 31, 2012 primarily consisted of salaries, consultants' fees, contract research organization expenses related to the Phase II clinical trial for iCo-007 and research expenses related to pre-clinical studies for an Oral Amphotericin B Delivery System.

#### *General and Administrative*

General and administrative expenses primarily comprise salaries, share based payments and benefits for Company employees not involved in research and development, professional fees such as legal and accounting expenses, and expenses related to office overheads including associated amortization. For the year ended December 31, 2012 general and administrative expenses were \$1,374,710 compared to \$1,347,515 for the year ending December 31, 2011, representing an increase of \$27,195. This increase in the year ended December 31, 2012 compared to the year ended December 31, 2011 was attributable to increased professional fees.

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

#### *Foreign Exchange*

As the Company deals with a number of contract research organizations, consultants and suppliers in other countries (primarily the United States), our financial results are subject to fluctuations between the Canadian dollar and other international currencies, in particular the U.S. dollar. Foreign exchange gain for the year ended December 31, 2012 was \$7,468 compared to foreign exchange gain of \$765 for the same period in 2011, representing an increase of \$6,703. The changes for the period reflect fluctuations in the exchange rate for U.S. dollars.

The U.S. dollar cash and accounts payable balance for December 31, 2012 were \$93,350 (2011 – \$148,668) and \$808,975 (2011 – \$125,507) respectively.

#### **Selected Quarterly Information**

The table below sets forth unaudited quarterly results prepared by management for the eight previous quarters to December 31, 2012.

(unaudited)	<b>2012 Q4</b>	<b>2012 Q3</b>	<b>2012 Q2</b>	<b>2012 Q1</b>
Income	(5,792)	(3,603)	(586)	(1,726)
Total expenses	1,313,968	913,376	633,558	793,487
Loss (gain) for the period	1,308,176	909,773	632,972	791,762
Comprehensive loss (gain) for the period	1,063,642	935,152	656,972	774,661
Basic and diluted loss (earnings) per share	0.02	0.02	0.01	0.02
(unaudited)	<b>2011 Q4</b>	<b>2011 Q3</b>	<b>2011 Q2</b>	<b>2011 Q1</b>
Income	13,771	(3,232)	(1,346,283)	(105,373)

Total expenses	640,344	639,373	599,104	594,307
Loss (gain) for the period	654,115	636,141	(747,179)	488,934
Comprehensive loss (gain) for the period	615,595	636,141	(747,179)	488,934
Basic and diluted loss (earnings) per share	0.01	0.01	(0.02)	0.01

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

#### *Fourth Quarter Results*

The net loss in the fourth quarter of 2012 increased by 100% to \$1,308,176 from \$654,115 in the fourth quarter of 2011. The increase in net loss was principally caused by research and development expenses associated with our research projects.

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

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

#### **Liquidity, Capital Resources and Outlook**

	<b>2012</b>	<b>2011</b>	<b>Change</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
Current assets	1,338,852	1,398,768	(59,916)	4%
Current liabilities	963,731	255,139	708,592	277%
Working capital	375,121	1,143,629	(768,508)	67%
Accumulated deficit	(21,142,327)	(17,499,644)	3,642,683	21%

As at December 31, 2012, we had cash and cash equivalents and short-term investments of \$1,260,196 compared to \$1,326,399 as at December 31, 2011. All cash not required for immediate use in operations is invested in redeemable, short-term money market investments. (The aggregate amount of these short term investments is recorded on the Statement of Cash Flows as purchase of short-term investments.) As at December 31, 2012, the Company had working capital of \$375,121 compared to \$1,143,629 as at December 31, 2011. Working capital is calculated by subtracting Current Liabilities from Current Assets. Current Liabilities include accrued liabilities in the amount of \$764,865 payable to JDRF related to our phase II clinical trial. These accruals are due over the next twelve month period. Currently we have treated 174 subjects with iCo-007 and expect primary endpoint data for all subjects reaching their 8 month milestone in late 2013.

We anticipate that the combination of year-end cash on hand will be sufficient to fund operations into July of 2013. Additionally, the \$10 million Equity Line of Financing may be available to further fund operations through 2013 as well as the potential for further warrant exercises. For the period January 1, 2013 up to April 25, 2013, 1,019,000 warrants plus 100,000 stock options have been exercised resulting in \$415,400 of additional capital.

Further, we continue to pursue additional opportunities to raise equity capital and/or secure additional funding through non-dilutive sources such as government grants and additional license agreements. However, it is possible that our cash and working capital position may not be sufficient enough to meet our business objectives in the event of unforeseen circumstances or a change in our strategic direction (see our Annual Information Form for a description of various risk factors which may affect our future outlook).

### **Comparison of Cash Flow**

We realized a net cash inflow of \$343,909 for the year ended December 31, 2012 reflecting overall operating costs for the Company for the year of \$2,760,968, plus \$407,137 of investing related activities related to the purchase of short-term investments, less \$2,695,103 of cash inflows from the private placement in the third quarter of 2012 and from the exercise of warrants. This compares to a net cash outflow of \$376,764 for the year ended December 31, 2011 reflecting overall operating costs for the Company for the year of \$1,932,630, plus \$514,693 of investing related activities related to the purchase of short-term investments and the proceeds from the sub-licence of iCo-008, less \$1,043,858 of cash inflows coming from the private placement in the fourth quarter of 2011. We expect that overall cash outflows for the ensuing year will increase, primarily as a result of the ongoing Phase II 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 December 31, 2012 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 licencing 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 licencing agreement between Medimmune and the Company, the Company was required to make up-front payments totalling US\$400,000, of which the last payment was made in December, 2007. The Company may be required to make additional contingent payments of up to US\$7 million upon the achievement of certain development and commercialization milestones. In addition, the Company may be required to pay royalties on future revenues. The Company may also be required to make additional contingent payments upon the achievement of certain development and commercialization milestones for products developed outside the ocular field.

### ***University of British Columbia (“UBC”)***

On May 6, 2008, the Company signed an agreement with UBC for the exclusive worldwide licence to an Oral Amphotericin B Delivery System (the “UBC Licence”). In consideration for the UBC Licence, the Company paid UBC an initial licence fee of \$20,000 and is required to pay annual fees to UBC for maintaining the licence until such time as a New Drug Application (“NDA”) for an Oral Amphotericin B Delivery System is approved. The Company is required to make additional contingent payments of up to \$1,900,000 in aggregate upon the achievement of certain development and commercialization milestones and is also required to pay royalties on future revenues. The UBC Licence additionally obligated the Company to contribute research funding (which may be in the form of direct payments from the Company or indirect payments, such as securing research grants) to UBC for the an Oral Amphotericin B Delivery System program.

### ***Clinical Trial***

The Company entered into an agreement with Juvenile Diabetes Research Foundation (“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**

During the year ended December 31, 2012:

- a) the Company incurred consulting fees totalling US\$25,000 (2011 - US\$25,000). The amounts outstanding as at December 31, 2012 totalled \$6,250 (2011 - \$nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.
- b) the Company incurred director's fees totalling \$33,000 (2011 - \$24,000). The amounts outstanding as at December 31, 2012 totalled \$18,000(2011 - \$nil). All transactions were recorded at their exchange amounts. The amounts bear no interest and are unsecured with no terms of repayment.
- c) the Company issued 50,000 options to a director of the Company to purchase common shares of the Company (2011 – 700,000).

### **Off Balance Sheet Arrangements**

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

### **Critical Accounting Policies and Estimates**

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

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

#### *Stock based compensation*

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

#### *Intangible assets*

Intangible assets include patent rights and technology rights which have been acquired by third parties. The Company's intangible assets are shown separately at historical costs. The Company's intangible assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight line method to allocate the cost of the licence over their estimated useful lives of 9 to 11 years.

#### *Impairment of non-financial assets*

The Company periodically reviews the useful lives and the carrying value of its long-lived assets. Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGU). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flow of the relevant asset or CGU). Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

### *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**

Cash and cash equivalents, short-term investments, accounts payable and other receivables are financial instruments whose fair value approximates their carrying value due to their short-term maturity. The input level used by the Company to measure fair value of its cash and cash equivalents is a Level 2 input as they are valued using observable market data.

The common shares of IMMUNE have been recorded at their fair value on the date there were acquired. Management has classified these shares as available for sale. The Company uses Level 3 inputs to value these instruments. There is currently no public market for these shares however iCo was able to benchmark the value of IMMUNE common shares previous financing rounds completed by IMMUNE in recent months.

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at December 31, 2012:

#### **a) Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company has expenditures in foreign currency and therefore is exposed to foreign exchange risk arising from transactions denominated in USD. A significant change in the currency rates could have an effect on the Company's results of operations. The Company has not hedged its exposure to currency fluctuations. Based on the US dollar balance sheet exposure at December 31, 2012, with other variables unchanged, a 10% change in exchange rates on the net current monetary liabilities would be \$71,563 (2011 – \$2,316).

**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:

	<b>Cash and cash equivalents</b>	<b>Insured amount</b>	<b>Non-insured amount</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
CIBC	781,291	100,000	681,291
Raymond James	310,673	310,673	-
Manulife	168,232	168,232	-
	<hr/>	<hr/>	<hr/>
	1,260,196	578,905	681,291

**Risks and Uncertainties**

The primary risk factors affecting the Company are set forth in our Annual Information Form for 2013. A copy of our annual information form is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Outstanding Share Capital**

As at April 25, 2013, we had an unlimited number of authorized common shares with 54,727,627 common shares issued and outstanding.

As at April 25, 2015, we had 9,859,358 warrants outstanding. The company issued an additional 7,037,410 warrants as a result of the July 2012 financing (see note 9 in the audited financial statements). During the year ended December 31, 2012 1,300,994 warrants were exercised for total proceeds of \$467,697. For the period January 1, 2013 up to April 25, 2013, 1,019,000 warrants have been exercised resulting in \$386,400 additional capital.

As at April 25, 2013, we had 2,960,000 options outstanding. Each option entitles the holder to purchase one additional common share at exercise prices ranging from \$0.18 to \$0.98 and expiry dates ranging from January 3, 2013 to January 22, 2018. Subsequent to December 31, 2012 and as of April 25, 2013, 100,000 options have been exercised for proceeds of \$29,000.

For a detailed summary of all outstanding securities convertible or exercisable into equity securities of the Company refer to Note 9 of the Financial Statements for the year December 31, 2012.