2010 Annual
Financial Statements and Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE YEAR ENDED NOVEMBER 30, 2010

The following Management Discussion and Analysis ("MD&A) should be read in conjunction with the November 30, 2010 consolidated financial statements of Intellipharmaceutics International Inc. ("IPC"). The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as outlined in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Our accounting policies have the potential to have a significant impact on our consolidated financial statements, either due to the significance of the financial statement item to which they relate or because they require judgment and/or estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature. This document is current in all material respects as of February 28, 2011.

Unless the context otherwise requires, the terms "we", "our", "us" and the "Company", refer to Intellipharmaceutics International Inc. and its subsidiaries. Unless stated otherwise, all references to "$" are to the lawful currency of the United States and all references to "C$" are to the lawful currency of Canada.

FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and/or "forward-looking information" under the Securities Act (Ontario). These statements include, without limitation, statements regarding the status of development or expenditures relating to our business, plans to fund our current activities, statements concerning our partnering activities, health regulatory submissions, strategy, future operations, future financial position, future revenues and projected costs. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential", "continue", "intends", "could", or the negative of such terms or other comparable terminology. We made a number of assumptions in the preparation of these forward-looking statements. Undue reliance should not be placed on our forward-looking statements, which are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances or events to differ materially from those projected in the forward-looking statements. These risks include, but are not limited to, securing and maintaining corporate alliances, the need for additional capital, the effect of capital market conditions and other factors, including the current status of our programs, on capital availability, the potential dilutive effects of any financing and other risks detailed from time to time in our public disclosure documents or other filings with the securities commissions or other securities regulatory bodies in Canada and the U.S. Additional risks and uncertainties relating to IPC and our business can be found in the "Risk Factors" section of our Annual Information Form for the year ended November 30, 2010 and our latest Form 20-F, as well as in our other public filings. The forward-looking statements are made as of the date hereof, and we disclaim any intention, and have no obligation or responsibility except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause actual results to differ materially include but are not limited to:

- our plans to research, develop and commercialize products and the timing of these development programs;
- whether we will receive, and the timing and costs of obtaining, regulatory approvals;
- development of our product candidates, including the results of current and future clinical trials or bioequivalence studies;
- the benefits of our drug delivery technologies and product candidates as compared to others;
- our ability to maintain and establish intellectual property rights in our drug delivery technologies and product candidates;
- our need for additional financing and our estimates regarding capital requirements and future revenues and profitability;
- our estimates of the size of the potential markets for product candidates;
- our selection and licensing of product candidates;
- our ability to attract distributors and collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;
- sources of revenues and anticipated revenues, including contributions from distributors and collaborators, product sales, license agreements and other collaborative efforts for the development and commercialization of product candidates;
- our ability to create an effective direct sales and marketing infrastructure for products we elect to market and sell directly;
- the rate and degree of market acceptance of our products;
- the timing and amount of reimbursement for our products;

- the success and pricing of other competing therapies that may become available;
- our ability to retain and hire qualified employees;
- the manufacturing capacity of third-party manufacturers that we may use for our products; and
- other risk factors discussed from time to time in our reports, public disclosure documents and other filings with the securities commissions in Canada and the United States.

The forward-looking statements we make in this MD&A reflect our current views with respect to future events and are based upon what we believe are reasonable assumptions as of the date of this document. We undertake no obligation and do not intend to update or revise these forward-looking statements, unless required by law.

This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results of the Company.

CORPORATE UPDATE

- In October 2010, we announced that the FDA accepted for filing our abbreviated new drug application ("ANDA") for a generic version of Protonix® (delayed release pantoprazole sodium). On December 22, 2010 we informed the FDA that we had not received notification, as provided for under the Hatch-Waxman Act, of any patent infringement proceeding by the brand owner, Wyeth Pharmaceuticals, Inc., a wholly-owned subsidiary of Pfizer, Inc., for our application to market a generic of Protonix®. As a result, we will not be subject to the automatic 30-month stay of FDA approval to market the product and we will be in a position to market our product in the United States upon FDA approval. Brand sales of Protonix® in the United States were approximately $1.8 billion in 2009.

- On December 7, 2010 we announced the filing of an ANDA with the FDA for a generic of the 30 mg strength of Focalin XR® (dexmethylphenidate hydrochloride). The application is filed as an amendment to the ANDA previously filed for other strengths of the drug.

- The appointment of Shameze Rampertab, CA, as Chief Financial Officer and Vice-President, Finance, was announced on November 10, 2010. Mr. Rampertab most recently was a Partner, Healthcare Investment Banking at Loewen, Ondaatje, McCutcheon Ltd., where he specialized in raising equity funds for life-science companies. He also served as health sciences and biotechnology analyst at several investment banks including Canaccord Capital. Previous to this he was Director, Finance and Secretary-Treasurer at Drug Royalty Corp.

- On February 1, 2011 we completed a sale of common stock and warrants for gross proceeds of $12,000,000. Investors included H&Q Healthcare Investors, H&Q Life Sciences Investors and other institutional healthcare investors.

- On January 26, 2011 we were informed by NASDAQ that we had regained compliance with their continued listing Rule 5550(b). On October 29, 2010 a letter was received from NASDAQ, stating that we were not in compliance with NASDAQ's continued listing requirements.

BUSINESS OVERVIEW

We are a pharmaceutical company specializing in the research, development and manufacture of novel and generic controlled release and targeted release oral solid dosage drugs. Our patented Hypermatrix™ technology is a unique and validated multidimensional controlled-release drug delivery platform that can be applied to the efficient development of a wide range of existing and new pharmaceuticals. Based on this technology, we have a pipeline of products in various stages of development in therapeutic areas that include neurology, cardiovascular, gastrointestinal tract, pain and infection.

IntelliPharmaCeutics Ltd. ("IPC Ltd.") and Vasogen Inc. ("Vasogen") completed a plan of arrangement and merger ("the IPC Arrangement Transaction") on October 22, 2009, resulting in a new publicly-traded company, Intellipharmaceutics International Inc. which is incorporated under the laws of Canada and traded on the Toronto Stock Exchange and NASDAQ.

GOAL

Our goal is to leverage the proprietary technologies and know-how in order to build a diversified portfolio of commercialized products that generate revenue for us. We will do this by advancing our products from the formulation stage through product development, regulatory approval and manufacturing. Our strategy is to out-license marketing and sales to established organizations. Full integration of development and manufacturing should maximize the value inherent in our technology and product candidates and will create long term growth and value. Out-licensing sales and marketing to established organizations should maximize revenues from our products while allowing us to focus on our core competence. We will endeavour to achieve or expect the following potential milestones in calendar year 2011:

- Obtain FDA approval of our generic version of Focalin XR®
- Two additional ANDA applications accepted for filing by FDA
- Establish at least one additional development/marketing alliance
- Complete manufacturing of clinical batches of Rexista™ oxycodone
- Initiate Phase 1 studies using clinical batches of Rexista™oxycodone
- Schedule a pre-IND meeting with FDA to discuss Rexista™ oxycodone clinical development plan

STRATEGY

Our Hypermatrix™ technology is a unique and validated multidimensional controlled-release drug delivery platform that can be applied to the efficient development of a wide range of existing and new pharmaceuticals. The flexibility of this technology allows us to develop complex drug delivery solutions within a rapid timeframe.

The technologies are applied to the development of both existing and new pharmaceuticals across a range of therapeutic classes. The competitive advantages of the Hypermatrix™ technology allow us to focus our development activities in two areas; difficult-to-produce controlled-release generic drugs, which follow an ANDA regulatory path; and improved current therapies through controlled release, which follow a New Drug Application ("NDA") / 505(b)(2) regulatory path.

The market we operate in is created by the expiration of drug product patents, challengeable patents and drug product exclusivity periods. There are three ways that we employ our controlled-release technologies, which represent substantial opportunities for us to license our technologies and products:

For existing controlled-release (once-a-day) products covered by patents about to expire or already expired, we can formulate generic products, which are bioequivalent to the branded products. Such products can be licensed to and sold by distributors of generic products. Our scientists have demonstrated a successful track record with such products, having previously developed several drugs which have been commercialized in the United States by their former employer/clients. The regulatory pathway for this approach requires ANDAs.

For branded immediate-release (multiple-times-per-day) drugs, we can formulate improved replacement products, typically by developing new, potentially patentable, controlled-release once-a-day drugs. These drugs can be licensed to and sold by the pharmaceutical company that made the original immediate-release product. This protects against revenue erosion in the brand by providing a clinically attractive patented product that competes favorably with the generic immediate-release competition that arises on expiry of the original patent(s). The regulatory pathway for this approach requires NDAs via a 505(b)(2) application which both accelerates development timelines and reduces costs in comparison to NDAs for new chemical entities.

Our technologies are also focused on the development of abuse-deterrent pain medications. The growing abuse and diversion of prescription "painkillers", specifically opioid analgesics, is well documented and is a major health and social concern. We believe that our technologies and know-how are uniquely suited to developing abuse-deterrent pain medications.

The Company is well-positioned to execute its strategic plan due to our current financial position and expertise in drug delivery, product development, regulatory affairs and manufacturing.

TECHNOLOGY

The Hypermatrix™ technology platform is at the core of a family of drug delivery technologies that underlie our development and marketing programs. Hypermatrix™ technologies are based upon the drug active being imbedded in, and an integral part of, a homogeneous (uniform) core and/or coatings consisting of one or more polymers that affect the release rates of drugs. Our technology allows for the intelligent and efficient design of drugs through the precise manipulation of a number of key variables. This allows us to respond to varying drug attributes and patient requirements, producing a desired drug release profile in a time and cost effective manner.

PRODUCTS

The table below shows the present status of our ANDA and NDA product candidates that have been disclosed publicly.

Generic name	Brand	Indication	Stage of Development	Regulatory Pathway	Rights
Dexmethylphenidate hydrochloride extended release capsules	**Focalin XR®**	Attention-deficit hyperactivity disorder	Application under review by the FDA ANDA for 30 mg dosage strength filed as an amendment	ANDA	Intellipharmaceutics and Par Pharmaceutical
Venlafaxine hydrochloride extended release capsules	**Effexor XR®**	Depression	Application under review by the FDA	ANDA	Intellipharmaceutics
Pantoprazole sodium delayed release capsules	**Protonix® DR**	Conditions associated with gastroesophageal reflux disease	Application under review by the FDA	ANDA	Intellipharmaceutics
Metformin hydrochloride extended release capsules	**Glucophage® XR**	Management of type 2 diabetes	Application under review by the FDA	ANDA	Intellipharmaceutics
Carvedilol phosphate extended release capsules	**Coreg CR®**	Heart failure	Late-stage development	ANDA	Intellipharmaceutics
Oxycodone hydrochloride controlled release capsules	**N/A**	Pain	Early-stage development	NDA 505(b)(2)	Intellipharmaceutics

We typically select products for development that we intend to license several years in the future. However, the length of time necessary to bring a product to the point where we can license the product can vary significantly and depends on, among other things, the availability of funding, design and formulation challenges, safety or efficacy, patent issues associated with the product, and FDA review times.

Dexmethylphenidate hydrochloride – Generic Focalin XR® *(a registered trademark of the brand manufacturer)*

In 2005, we entered into a license and commercialization arrangement with Par Pharmaceutical of New Jersey ("Par") for the development of a generic version of Focalin XR®. Under the arrangement, we are responsible for all laboratory development costs and Par is responsible for bioequivalence costs, API costs, scale up / stability costs and marketing. Par is also responsible for costs associated with litigation. Focalin XR contains dexmethylphenidate hydrochloride and is used for the treatment of Attention Deficit Hyperactivity Disorder (ADHD). In 2009, Focalin®, including Focalin XR®, had U.S. sales of approximately U.S. $355 million.

Effective May 2007, we filed an ANDA for our generic, Dexmethylphenidate XR, with the FDA. In the period since our filing, we have filed a number of amendments to the application at the request of the FDA. Our ANDA application remains

under review, and there can be no assurance when, or if at all, the FDA will approve the product for sale in the U.S market.

We had announced that we and our licensee and development partner Par received confirmation that the previously announced stays of the patent litigation concerning our generic of Focalin XR® expired without regulatory intervention, and that the parties have stipulated to a dismissal of the litigation. The parties, Intellipharmaceutics, Par, Novartis Pharmaceuticals Corporation, Novartis Pharma AG, Celgene Corporation, Elan Corporation, PLC and Elan Pharma International Ltd. have also entered into license agreements in conjunction with the settlements of the litigation concerning the Company's generic drug application in the FDA for 5, 10, 15 and 20 mg strengths of dexmethylphenidate hydrochloride.

We expect that marketing of generic versions of the products will commence no sooner than the fourth quarter of 2012. We have a ten year profit-sharing agreement with Par for the sale of dexmethylphenidate hydrochloride XR capsules in the U.S., which commences with the commercial launch of the product by Par.

In December 2010, we filed an ANDA for the 30 mg strength of dexmethylphenidate hydrochloride. The application was filed as an amendment to the ANDA previously filed for the other strengths of the drug. In November 2009, the FDA had approved the higher 30 mg dose of Focalin XR® extended-release capsules for the treatment of ADHD.

Venlafaxine hydrochloride – Generic Effexor XR® *(a registered trademark of the brand manufacturer)*

Another product in our generics pipeline is venlafaxine hydrochloride, a generic version of the marketed drug Effexor XR®. Effexor XR®, an extended-release capsule for oral administration, is indicated for the treatment of symptoms of depressive disorders. Effexor and Effexor XR® branded products had estimated U.S. sales of approximately $3.0 billion in 2009.

We filed an ANDA for our generic, venlafaxine hydrochloride, with the FDA. The application is under review; there can be no assurance when, or if at all, the FDA will approve the product for sale in the U.S market.

Wyeth LLC, a wholly owned subsidiary of Pfizer Inc., filed a lawsuit for patent infringement against the Company in the United States District Court for the District of Delaware and for the Southern District of New York, relating to our generic version of Effexor XR® capsules. Wyeth served the Company with the Complaint in the Southern District of New York on August 31, 2010, and the Company filed its Answer and Counterclaim in response to the Complaint on or about September 20, 2010. Wyeth did not proceed with the Complaint in Delaware. In or about December 2010, both parties began and continue to explore other alternatives.

Lawsuits such as these are an ordinary and expected part of the process of obtaining approval to commercialize a generic drug product in the United States. The Company remains confident that our generic versions of Effexor XR® do not in any event infringe the patents asserted in the above-noted lawsuit. There is no likelihood that the Company will be required to pay any damages or other penalty to Wyeth in connection with the resolution of this litigation in its reasonably anticipated course.

We are exploring licensing agreement opportunities or other possibilities for this product. While we believe that a licensing agreement is possible, there can be no assurance that one can be secured.

Pantoprazole sodium – Generic Protonix® DR *(a registered trademark of the brand manufacturer)*

A third product in our generics pipeline is delayed release pantoprazole sodium, a generic version of the marketed drug Protonix®. Protonix® inhibits gastric acid secretion and is prescribed for the short-term treatment of conditions such as stomach ulcers associated with gastroesophageal reflux disease, as well as the long term treatment of pathological hypersecretory conditions including Zollinger-Ellison syndrome. Sales of pantoprazole sodium delayed-release tablets in the United States were approximately $1.8 billion in 2009.

We filed an ANDA for our generic pantoprazole sodium, with the FDA. The application is under review; there can be no assurance when, or if at all, the FDA will approve the product for commercial launch in the U.S market.

We are exploring licensing agreement opportunities or other possibilities for this product. While we believe that a licensing agreement is possible, there can be no assurance that one can be secured.

Metformin hydrochloride – Generic Glucophage ® *(a registered trademark of the brand manufacturer)*

A fourth product in our generics pipeline is Metformin hydrochloride extended-release capsules. It is a generic version of the marketed drug Glucophage® XR. Glucophage is an oral antihyperglycemia drug used in the management of type 2 diabetes.

We filed an ANDA for our generic Metformin hydrochloride, with the FDA. The application has been accepted by the FDA as being complete and in condition for further review. The application is under review, and there can be no assurance when, or if at all, the FDA will approve the product for sale in the U.S market.

We are exploring licensing agreement opportunities or other possibilities for this product. While we believe that a licensing agreement is possible, there can be no assurance that one can be secured.

Carvedilol phosphate – Generic Coreg CR® *(a registered trademark of the brand manufacturer)*

Another product in our generics pipeline is carvedilol phosphate controlled release capsules. It is a generic version of the marketed drug Coreg CR®. Coreg CR is available for once-a-day administration as controlled-release oral capsules. It is used for the treatment of hypertension and heart failure.

This product is currently in late-stage development. We are exploring licensing agreement opportunities or other possibilities for this product. There is no assurance that an ANDA will be filed, or if filed, that a licensing agreement can be secured.

Rexista™ oxycodone (oxycodone hydrochloride)

Our lead non-generic product under development is Rexista™ oxycodone; an abuse- and alcohol-deterrent controlled-release oral formulation of oxycodone hydrochloride for the relief of pain. Rexista™ oxycodone is a unique dosage form designed to be deterrent to some of the well-documented abuses associated with some currently marketed controlled-release oxycodone products. This includes abuse of these drugs by nasal inhalation when crushed or powdered, and, by injection when combined with solvents. Rexista™ oxycodone is also designed to resist release of the entire dose when consumed with alcohol, a significant problem with some opioid drugs. In 2009, OxyContin® (oxycodone hydrochloride controlled-release tablets) had estimated U.S. sales of approximately $2.6 billion. OxyContin® currently represents 89% of the $3 billion oxycodone delayed release market.

In February 2009, the FDA announced that it plans to implement a Risk Evaluation and Mitigation Strategy ("REMS") requirement for all extended-release opioid analgesics. We believe that the REMS will ultimately drive prescribing of newer tamper-deterrent extended release opioids. Several "tamper-deterrent" formulations of oral opioid analgesics are being developed by other companies. We believe that the FDA's move to restrict prescribing of extended-release opioid analgesics should benefit tamper-deterrent products.

We believe that we can leverage our core competence in drug delivery and formulation for the development of products targeted towards tamper-deterrent opioid analgesics used in pain management. The advantage of our strategy for development of NDA drugs is that our products can enjoy a sales exclusivity period. Furthermore, we believe it is possible to establish and defend the intellectual property surrounding our tamper-deterrent opioid analgesic products.

We have completed proof of concept pilot clinical studies of Rexista™ oxycodone and plan to complete manufacture of clinical batches of Rexista™ oxycodone for use in phase I clinical trials that will be initiated in fiscal 2011. We also plan to initiate discussions with the FDA on the clinical development plan for Rexista™ oxycodone. There can be no assurance that the clinical trials will meet the expected outcomes or that we will be able to successfully produce scaled up batches for use in clinical trials or that we will be successful in submitting an NDA 505(b)(2) filing.

SELECTED FINANCIAL INFORMATION

As a result of the October 22, 2009 IPC Arrangement Transaction we selected a November 30 year end which resulted in the Company having an eleven month fiscal period in 2009. All comparable information for the 2008 year end is that of our predecessor company IPC Ltd. Accordingly, the Company's consolidated statement of operations and comprehensive loss, shareholders' equity and cash flows have been presented for the year ended November 30, 2010 with the comparative eleven month period November 30, 2009 and the year ended December 31, 2008. It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of

expenditures and availability of capital resources vary substantially from period to period, depending on the level of research and development activity being undertaken at any one time and the availability of funding. In general, the fact that expenditures were higher in the 2010 when compared to 2009 and 2008 was due to our stronger financial position during 2010 when compared to 2009 and 2008.

	For the Periods ended		
	November 30 2010 (12 months)	November 30 2009 (11 months)	December 31 2008 (12 months)
	$	$	$
Revenue:	1,459,385	630,179	1,277,704
Expenses:	7,475,292	3,257,421	4,245,289
Loss for the period	(5,761,091)	(1,838,735)	(3,765,174)
Loss per share, Basic and Diluted	(0.53)	(0.19)	(0.40)
Cash	789,136	8,014,492	902,213
Total Assets	3,267,706	11,081,332	3,026,024
Deferred revenue	8,905	1,449,326	1,967,338
Total liabilties	3,174,750	6,449,318	3,609,099
Shareholders equity	92,956	4,632,014	(583,075)
Total liabilties and shareholders equity	3,267,706	11,081,332	3,026,024

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of Estimates

The Company's consolidated financial statements have been prepared in accordance with GAAP as outlined in the ASC. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. We have identified the following accounting policies that we believe require application of management's most significant judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Actual results could differ from those estimates.

Significant estimates required for the preparation of the consolidated financial statements including those related to the determination of estimated useful lives of property and equipment; the fair values of financial assets and liabilities; the determination of units of accounting for revenue recognition; the expected term of the Company's continued involvement in the research and development of each contract; the fair value of stock options and the determination of performance criteria for expensing share-based payments; the fair value of warrants; evaluation of income tax positions; the determination of valuation allowances; determination of investment tax credits; accrued liabilities; deferred revenue; and forecasting future cash flows for assessing whether there are any impairments of long-lived assets. These estimates are considered significant because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events that are continuous in nature. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances.

Revenue recognition

The Company earns revenue from non-refundable upfront fees and milestone payments upon achievement of specified research or development events under development agreements, from payments for research and development services such as analytical chemistry, scale-up, stability studies and testing, and potentially from royalty payments or share of net profits on sales of products. Revenue is realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collectability is reasonably assured. From time to time, the Company enters into transactions that represent multiple-element arrangements. Management evaluates arrangements with multiple deliverables to determine whether the deliverables represent one or more units of accounting for the purpose of revenue recognition. A delivered item is considered a separate unit of accounting if the delivered item has stand-alone value to the customer, the fair value of any undelivered items can be reliably determined, and the delivery of undelivered items is probable and substantially in the Company's control.

Investment tax credits
The investment tax credits ("ITC") receivable are our estimates of eligible amounts recoverable from the Canadian federal and provincial governments under the Scientific Research & Experimental Development incentive program. The amounts claimed under the program represent the amounts submitted by management based on research and development costs incurred during the period, and calculated using a specific formula set by the government agencies administering the program. Realization is subject to government approval. These amounts are subject to Canada Revenue Agency audit. Any adjustment to the amounts claimed will be recognized in the period in which the adjustment occurs.

Impairment of long-lived assets
Long-lived assets are reviewed for impairment when events or circumstances indicate that the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized where the sum of estimated undiscounted cash flows associated with the asset or group of assets is less than its carrying value. This requires us to make significant estimates on expected revenues from the commercialization of our products and services and the related expenses. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on discounted cash flows or internal/external appraisals, as applicable.

Share-based compensation
All share-based compensation, including grants of employee stock options, is recognized as an expense in the financial statements and such cost is measured at the fair value of the award. The Company recognizes compensation expense based on the estimated grant date fair value using the Black-Scholes option-pricing model. Assumptions that affect our application of the fair value method include the determination of the volatility of our share price, risk free interest rate, potential dividends and the expected life of the options issued.

Share-based compensation expense recognized during the period is based on the value of share-based payment awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The share-based compensation expense is recorded in the statement of operations under research and development expense and under selling, general and administration expense. *Note 11 of the 2010 consolidated financial statements provides detailed disclosure of the Company's stock options.*

Income taxes
In July 2006, FASB issued ASC topic 740-10.This ASC topic clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements, and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Company periodically assesses the value of its deferred tax asset, which has been generated by a history of net operating losses, and which has been recognized in accordance with ASC topic 740-10, and determines the necessity for a valuation allowance. The Company evaluates which portion of the deferred tax asset, if any, will more likely than not be realized by offsetting future taxable income, taking into consideration any limitations that may exist on the use of its net operating loss carry-forwards.

Significant management judgment is required in determining our uncertain tax positions, value of deferred tax assets, and valuation allowances. Actual results could differ from those estimates.

FUTURE ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition ("ASU 2009-13"). ASU 2009-13 amends the criteria for separating consideration in multiple-deliverable revenue arrangements, and establishes a hierarchy of selling prices to determine the selling price of each specific deliverable. As part of this, ASU 2009-13 eliminates the residual method for allocating revenue among the elements of an arrangement and requires that consideration be allocated at the inception of an arrangement. As well, it expands disclosure requirements. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The Company has adopted this standard on December 1, 2010. The adoption did not have an impact on the Company's 2010 financial statements.

On April 29, 2010, the FASB issued ASU 2010-17, which establishes a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. The scope of the ASU is limited to research or development arrangements and requires an entity to record the milestone payment in its entirety in the period received if the milestone meets all the necessary criteria to be considered substantive. However, entities would not be precluded from making an accounting policy election to apply another appropriate accounting policy

that results in the deferral of some portion of the arrangement consideration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning on or after June 15, 2010. Early application is permitted. Entities can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is also permitted. The Company has adopted this standard on December 1, 2010. The adoption did not have an impact on the Company's 2010 financial statements.

Currently, the Company does not plan to adopt the International Financial Reporting Standards to prepare its financial statements.

RESULTS OF OPERATIONS

Our results of operations have fluctuated significantly from period to period in the past and are likely to do so in the future. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the timing of approvals to market of our products in various jurisdictions and the resulting product sales, the timing and amount of payments received pursuant to our current and future collaborations with third-parties, and the progress and timing of expenditures related to our research, development and commercialization efforts. Due to these fluctuations, we presently believe that the period-to-period comparisons of our operating results are not a reliable indication of our future performance.

The following are selected financial data for the year ended November 30, 2010 and the eleven month period ended November 30, 2009 and the year ended December 31, 2008.

	For the periods ended						
	November 30 2010 (12 months)	November 30 2009 (11 months)	December 31 2008 (12 months)	Change 2010 vs 2009		Change 2009 vs 2008	
	$	$	$	$	%	$	%
Revenue:							
Research and development	1,459,385	630,179	1,277,704	829,206	132%	(647,525)	-51%
Expenses:							
Cost of revenue	-	382,597	1,885,790	(382,597)	-100%	(1,503,193)	-80%
Research and development	4,533,310	1,554,859	419,187	2,978,451	192%	1,135,672	271%
Selling, general and administrative	2,699,204	975,197	1,365,461	1,724,007	177%	(390,264)	-29%
Depreciation	242,778	344,768	574,851	(101,990)	-30%	(230,083)	-40%
Write-down of long-lived asset	36,481	-	-	36,481	-	-	-
	7,511,773	3,257,421	4,245,289	4,254,352	131%	(987,868)	-23%
Loss before the undernoted	(6,052,388)	(2,627,242)	(2,967,585)	(3,425,146)	130%	340,343	-11%
Fair value adjustment of warrants	223,782	286,983	-	(63,201)	-22%	286,983	-
Net foreign exchange gain (loss)	138,949	587,642	(817,407)	(448,693)	-76%	1,405,049	-172%
Interest income	27,001	1,822	95,282	25,179	1382%	(93,460)	-98%
Interest expense	(98,435)	(87,940)	(75,464)	(10,495)	12%	(12,476)	17%
Loss for the period	(5,761,091)	(1,838,735)	(3,765,174)	(3,922,356)	213%	1,926,439	-51%

Year Ended November 30, 2010 Compared to the eleven Month Period Ended November 30, 2009

Revenue

The Company recorded revenues of $1,459,385 for the year ended November 30, 2010 versus $630,179 for the eleven month period ended November 30, 2009. Revenue in 2010 was comprised of recognition of upfront fee of $1,449,624 and cost reimbursements in the amount of $9,761. Included in revenue in the eleven month period ended November 30, 2009

was recognition of upfront fees of $480,655, research and development service fees of $144,295 and cost reimbursements in the amount of $5,229. The increase in revenue can be primarily attributed to a drug development agreement that has been mutually terminated by us and another party as a result of which unearned revenue of approximately $1,439,000 was brought into income. Revenue from research and development service fees decreased during the period primarily because the Company had no late stage development activity on partnered projects in 2010, compared to 2009 when the Company was more actively involved in such activities on partnered projects. As discussed above it is our current strategy to advance our products from the formulation stage through product development, regulatory approval and manufacturing before we out-license the marketing and sales to established organizations. We believe that this full integration of development and manufacturing should maximize the value inherent in our technology and product candidates and will create long term growth and value. As a result we had minimal revenue from partnered projects as our focus was on advancing our own pipeline. The Company currently does not have any significant customers.

Cost of Revenue

We had no cost of revenue for the year ended November 30, 2010 in comparison to $382,597 for the eleven month period ended November 30, 2009 because we performed no activity on partnered projects during the year ended November 30, 2010, unlike the eleven month period ended November 30, 2009 when we were working on some partnered projects and had incurred expenditures. This is in line with our current strategy to advance our products from the formulation stage through product development, regulatory approval and manufacturing before we out-license the marketing and sales to established organizations, as such our focus was on advancing our own products.

Research and Development

Expenditures for research and development for the year ended November 30, 2010 were higher by $2,978,451 compared to the eleven month period ended November 30, 2009. This is primarily attributed to the fact that during the year ended November 30, 2010 we incurred additional expenses, due to our stronger financial position in 2010 when compared with 2009, on research and development activities for our own internal projects when compared with the eleven month period ended November 30, 2009. The company completed the research and development related to four ANDA filings during the year. In addition during the year ended November 30, 2010 we recorded an expense of $885,600 related to 552,788 performance-based stock options issued to Dr. Isa Odidi and Dr. Amina Odidi, the principal shareholders, officers and directors of the Company. These performance-based stock options related to services provided by research and development activities. No such expense was recorded during the eleven month period ended November 30, 2009.

Selling, General* and *Administrative

Selling, general and administrative expenses were $2,699,204 for the year ended November 30, 2010 in comparison to $975,197 for the eleven month period ended November 30, 2009, an increase of $1,724,007. The increase is due to an increase in expenses related to legal fees, wages, marketing costs and occupancy costs which are discussed in greater detail below.

Expenditures for wages and benefits for the year ended November 30, 2010 were $835,184 in comparison to $338,110 for the eleven month period ended November 30, 2009. This increase is attributable to an increase in administrative staffing levels during the year ending November 30, 2010 when compared to the prior period. The number of employees included in administrative costs was ten for the year ended November 30, 2010 in comparison to seven for the eleven month period ended November 30, 2009. The increase is mainly related to additional employees that are required in our role as a publicly traded company.

Administrative costs for the year ended November 30, 2010 were $1,556,087 in comparison to $498,241 for the eleven month period ended November 30, 2009. This increase is primarily the result of an increase in filing costs expensed when compared with the eleven month period ended November 30, 2009, due to certain public company related obligations and filing requirements which we did not incur in the comparable period, as we were not then a publicly traded company.

Marketing costs for the year ended November 30, 2010 were $239,638 in comparison to $90,780 for the eleven month period ended November 30, 2009. This increase is primarily the result of an increase in travel expenditures during the year ended November 30, 2010 due to investor relations activities which we did not incur in the comparable period, as we were not then a publicly traded company until October 22, 2009.

Occupancy costs for the year ended November 30, 2010 were $68,295 in comparison to $48,066 for the eleven month period ended November 30, 2009. This increase is partially a result of an eleven month fiscal period ending November 30, 2009 being compared with a twelve month fiscal period ending November 30, 2010.

Depreciation
Depreciation for the year ended November 30, 2010 was $242,778 in comparison to $344,768 for the eleven month period ended November 30, 2009 primarily as a result of the declining balance method of depreciation with limited additions in the year, and the effect of fully depreciated property and equipment.

Fair Value Adjustment of Warrants
As part of the IPC Arrangement Transaction we have 357,237 warrants outstanding as at November 30, 2010. These warrants are measured at fair market value at each reporting date, and changes in fair market value are recognized in the statements of operations and comprehensive loss. During the year ended November 30, 2010, 19,462 warrants expired.

Foreign Exchange Gain
Gain on foreign exchange was $138,949 for the year ended November 30, 2010 in comparison to a gain of $587,642 for the eleven month period ended November 30, 2009. The decrease for the year ended November 30, 2010 was due to the reduced strengthening of the US dollar against the Canadian dollar as the rates changed from $1.00 (US) for $1.0266 (Cdn) at November 30, 2010, from $1.00 (US) for $1.0556 (Cdn) at November 30, 2009, and from $1.00(US) for $1.2180 (Cdn) at December 31, 2008. During the year ended November 30, 2010 the exchange rate averaged $1.00 (US) for $1.0345 (Cdn) compared to $1.00 (US) for $1.1493 (Cdn) for the eleven months ended November 30, 2009.

Interest Income
Interest income for the year ended November 30, 2010 was higher in comparison to the eleven month period ended November 30, 2009. This is primarily as a result of a higher average amount of cash on hand during fiscal 2010.

Interest Expense
Interest expense for the year ended November 30, 2010 was higher when compared with the eleven month period ended November 30, 2009, primarily because the average amount outstanding due to related party loan which accrues interest at 6% annually was higher during the year ended November 30, 2010 in comparison to the eleven month period ended September 30, 2009.

Eleven Month Period Ended November 30, 2009 Compared to the Year Ended December 31, 2008

Revenue
The Company recorded revenues of $630,179 for the eleven month period ended November 30, 2009 versus $1,277,704 for the year ended December 31, 2008. Revenue in 2009 was comprised of recognition of upfront fees of $480,655 received in a prior year, research and development service fees of $144,295 and cost reimbursements in the amount of $5,229 compared to upfront fees of $620,282, research and development service fees of $544,051 and cost reimbursements in the amount of $113,371 in the year ended December 31, 2008. The decrease in revenue can be primarily attributed to the Company having more late stage development activity with its partnered projects in 2008, compared to 2009 when the Company was not as actively involved in such activities for its partnered projects. Also, 2009 revenue reflects activities for eleven months in comparison to the twelve month period in 2008.

Cost of Revenue
Cost of revenue for the eleven month period ended November 30, 2009 was lower when compared with the year ended December 31, 2008 primarily as the Company performed less activity on partnered projects during the year ended November 30, 2009, when compared to the twelve month period in 2008.

Research and Development
Expenditures for research and development for the eleven month period ended November 30, 2009 were higher when compared with the year ended December 31, 2008 primarily as the Company performed more activity on its own projects during the year ended November 30, 2009, when compared to the twelve month period in 2008.

Selling, General* and *Administrative
Selling, general and administrative expenses were $975,197 for the eleven month period ended November 30, 2009 as compared to $1,365,461 for the year ended December 31, 2008, a reduction of $390,264 or 29%. The decrease is due to a reduction in expenses related to legal fees, wages, marketing cost and occupancy costs which are discussed in greater detail below.

Expenditure for wages and benefits for the eleven month period ended November 30, 2009 were $338,110 compared with $373,717 for the year ended December 31, 2008. This reduction is attributable to a decrease in administrative staffing levels and salary reductions during the eleven month period ending November 30, 2009 when compared to the prior period.

Administrative costs for the eleven month period ended November 30, 2009 were $498,241 compared with $798,724 for the year ended December 31, 2008. The decrease is primarily due to a reduction in accounting and legal costs expensed when compared with the period in 2008. For the eleven month period ended November 30, 2009, Accounting and legal expenses incurred in connection with the transaction whereby IPC Ltd combined with Vasogen under a plan of arrangement and merger were charged to shareholders' equity as share issuance costs. In the prior period these fees were expensed as incurred.

Marketing costs for the eleven month period ended November 30, 2009 were $90,780 compared with $131,021 for the year ended December 31, 2008. This decrease is mainly a result of a reduction primarily in travel and advertising expenditures during these periods. Also 2009 marketing costs reflect activities for eleven months in comparison to twelve months in 2008.

Occupancy costs for the eleven month period ended November 30, 2009 were $48,066 compared with $61,999 for the year ended December 31, 2008. This decrease is mainly a result of an eleven month fiscal period for November 30, 2009 being compared with a twelve month fiscal period for December 31, 2008.

Depreciation
Depreciation expense for the eleven month period ended November 30, 2009 was lower when compared with the year ended December 31, 2008 primarily as a result of reduced investment in property and equipment and leasehold improvements as the Company cut down on investments until additional financing could be secured. Also 2009 depreciation reflects charges for eleven months in comparison to twelve months in 2008.

Foreign Exchange Gain (Loss)
Gain on foreign exchange was $587,642 for the eleven month period ended November 30, 2009 compared to a loss of $817,407 for the same period in 2008. The gain for the year ended November 30, 2009 in comparison to a loss in the period in 2008 was due to the weakening of the US dollar against the Canadian dollar as the rates changed from ($1.00 (US) for $1.2180 (Cdn) at December 31, 2008 to $1.00 (US) for $1.0556 (Cdn) at November 30, 2009. Over the course of the year ended November 30, 2009 the exchange rate averaged $1.00 (US) for $1.1493 (Cdn) compared to $1.00 (US) for $1.0671 (Cdn) for the year ended December 31, 2008.

Interest Income
Interest income for the eleven month period ended November 30, 2009 was lower when compared with December 31, 2008 primarily as a result of a lower average amount of cash on hand and lower rates of returns on our investments.

Interest Expense
Interest expense for 2009 was higher when compared with 2008 primarily as a result of a higher average amount outstanding on the related party loan. The amount outstanding on the related party loan which accrues interest at 6% annually was higher in 2009 as a result of additional funds advanced by the related party during 2009 to support operations until the transaction with Vasogen was completed on October 22, 2009.

SUMMARY OF QUARTERLY RESULTS

The following selected financial information is derived from our unaudited consolidated financial statements for the year ended November 30, 2010 and for the eleven months ended November 30, 2009.

Quarter Ended		Revenues	Loss	Loss per share
		$	$	$
November 30, 2010		7,164	(1,903,629)	(0.18)
August 31, 2010		-	(2,113,462)	(0.19)
May 31, 2010		1,449,624	(316,447)	(0.03)
February 28, 2010		2,597	(1,427,553)	(0.13)
November 30, 2009	(2 Months)	161,757	(875,322)	(0.09)
September 30, 2009		125,590	(165,739)	(0.02)
June 30, 2009		118,460	(224,662)	(0.02)
March 31, 2009		224,372	(573,012)	(0.06)

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. Loss has been variable over the last eight quarters, and is impacted primarily by the availability of funding and the level of our research and development spending. In general expenditures were higher for the last five quarters when compared to the first three quarters of fiscal 2009 due to the capital resources that were available in the fourth quarter of 2009. The significant decrease in the Company's loss during the second quarter ended May 31, 2010, can be mainly attributed to a drug development agreement that was mutually terminated by Intellipharmaceutics and another party and as a result, unearned revenue of approximately $1.4 million was brought into income.

Analysis of Fourth Quarter Results

The significant decrease in our loss during the fourth quarter of 2010 when compared to the prior quarter can be mainly attributed to the fact that during the three month period ended November 30, 2010 the Company had reduced its research and development activities.

LIQUIDITY AND CAPITAL RESOURCES

	November 30 2010 (12 months)	November 30 2009 (11 months)	December 31 2008 (12 months)	Change (2010 vs 2009)		Change (2009 vs 2008)	
	$	$	$	$	%	$	%
Cash flows used in operating activities	(6,194,195)	(4,857,983)	(1,735,727)	(1,336,212)	28%	(3,122,256)	180%
Cash flows from (used in) financing activities	(907,001)	798,496	(354,797)	(1,705,497)	-214%	1,153,293	-325%
Cash flows from (used in) investing activities	(133,878)	11,241,443	(91,542)	(11,375,321)	-101%	11,332,985	-12380%
Effect of foreign exchange on cash	9,718	(69,677)	(118,015)	79,395	-114%	48,338	-41%
Decrease in cash	(7,225,356)	7,112,279	(2,300,081)	(14,337,635)	-202%	9,412,360	-409%
Cash, beginning of period	8,014,492	902,213	3,202,294	7,112,279	788%	(2,300,081)	-72%
Cash, end of period	789,136	8,014,492	902,213	(7,225,356)	-90%	7,112,279	788%
						-	

The Company had cash of $789,136 as at November 30, 2010 compared to $8,014,492 as at November 30, 2009, and compared to $902,213 at December 31, 2008. The decrease in cash during the year ended November 30, 2010 is mainly a result of cash used in operating activities and the repayment of C$910,000 out of an amount due to a related party. The increase in cash during the period ended November 30, 2009 is a result of the transactions, as described in the “Business Overview”, effective October 22, 2009 which resulted in us receiving $11.0 million in cash and an additional $0.5million in receivables from tax credits recoverable that were earned by Vasogen from the Ontario Innovation Tax Credit, the Goods and Services Tax Credits and other recoverable tax amounts.

For the year ended November 30, 2010 net cash flows used in operating activities increased, as compared to net cash flows used in operating activities for the eleven month period ended November 30, 2009 and the year ended December 31, 2008. This increase is a result of higher expenditures in research and development, and selling, general and administrative during the year ended November 30, 2010 as described in greater detail in the Results of Operations. In addition, the payment of accounts payable and accrued liabilities related to the IPC Arrangement Transaction that were outstanding as at November 30, 2009 were paid in fiscal 2010. During the year ended November 30, 2010 net cash flows used in operating activities has been partially offset by approximately C$931,000 that was received from the Canada Revenue Agency and the Ontario Ministry of Finance being payments of claims for scientific research & experimental development tax credit and an Ontario Innovation tax credit in respect of research and development activities carried out by IPC Ltd. during the fiscal year 2008. The fluctuations in cash flows from operations are influenced by our net loss. We had net losses of $5,761,091 in 2010, as compared to net losses of $1,838,735 and $3,765,154 in 2009 and 2008 respectively.

For the year ended November 30, 2010 net cash flows used in financing activities related mainly to the repayment of a related party loan payable to Dr. Isa Odidi and Dr. Amina Odidi, our principal stockholders, directors and executive officers for cash advances made by them to the Company. This is a shareholder loan to support ongoing operations in 2010. In addition, during the year ended November 30, 2010 net cash flows used in financing activities also included the repayment of capital lease obligations. For the eleven months ended November 30, 2009 net cash flows from financing activities related mainly to receipts from the related parties loan discussed above. For the year ended December 31, 2008, net cash flows used in financing activities related mainly to the repayment of the related party loan, and included repayment of capital lease obligations.

Repayment of the related party loan is restricted under the terms of the loan such that repayment can only be made from revenues received or proceeds from the issuance of securities received by us, scientific research tax credits received in cash by us and up to a maximum of C$800,000 from proceeds received by us in the IPC Arrangement Transaction completed with Vasogen in October 2009. During the year ended November 30, 2010 the related party loan was repaid by C$800,000 from proceeds received by us from the IPC Arrangement Transaction. Interest payable on this loan was accrued in the amount of C$110,452 as at November 30, 2009. During the year ended November 30, 2010 this amount was also repaid. Interest payable on this loan was accrued in the amount of C$98,392 as at November 30, 2010.

For the year ended November 30, 2010 net cash flows used in investing activities related mainly to the delivery and qualification of our primary manufacturing equipment for the manufacture of an abuse-deterrent formulation of controlled-release oxycodone hydrochloride.

All non-cash items have been eliminated from the consolidated statements of cash flows.

As a research and development company, IPC Corp is eligible to receive investment tax credits ("ITC") from various levels of government under the Scientific Research & Experimental Development incentive programs. Depending on the financial condition of IPC Corp, research and development expenses in any fiscal year could be claimed. Eligible research and development expenses included salaries for employees involved in research and development, cost of materials, equipment purchase as well as third party contract services. This amount was not a reduction in income taxes but a form of government refundable credits based on the level of research and development that the Company carries out.

The Company received C$640,081 from the Canada Revenue Agency and the Ontario Ministry of Finance during the first quarter of fiscal 2011 comprised of research and development investment tax credits for research and development activities carried out to the period ended October 21, 2009. During the first half of fiscal 2011, the Company expects to receive a substantial portion of approximately C$380,000 in other tax credits receivable that were acquired in the October 22, 2009 IPC Arrangement Transaction. In addition, based on management's best estimate, the Company expects to file a refundable claim of approximately C$226,000 for the investment tax credit with the Ontario Ministry of Finance in the second quarter of fiscal 2011 for research and development activities carried out during the fiscal year 2010. Realization of these credits is subject to government approval.

The Company has not been profitable and has incurred losses from operations since inception. The Company has funded its research and development activities through the issuance of capital stock, loans from related parties, funds from the IPC Arrangement Transaction and funds received under development agreements. Currently, the Company does not anticipate generating sufficient cash flows from operations as it pursues the development of a portfolio of ANDA and 505(b)(2) NDA products. Our future operations are highly dependent upon our ability to raise additional capital to support advancing our product pipeline through continued research and development activities. On February 1, 2011 the Company completed a private placement financing to institutional investors for gross proceeds of $12,000,000 through the sale of its common stock and warrants to support product pipeline development. Share issue costs are estimated at C$1,500,000. The Company expects to raise additional capital from commercialization activities, payments received based on development agreements, marketing license agreements, and strategic partners funding directly some or all costs of development. However, there can be no assurance that future financing efforts will be successful or that we will continue to be able to meet our ongoing cash requirements. The availability of financing will be affected by the results of our research and development, our ability to obtain regulatory approvals, the market acceptance of our products, the state of the capital markets, strategic alliance agreements, and other relevant commercial considerations.

Depending upon the results of our research and development programs and the availability of financial resources, we could decide to accelerate, terminate, or reduce certain areas of research and development, or commence new areas of research and development. These are complex decisions with the goal of optimizing investment returns and managing the cash burn rate.

OUTSTANDING SHARE INFORMATION

The number of shares outstanding as of February 28, 2011 is 15,732,055, an increase of 4,825,001 million from November 30, 2010 largely from the completion of an equity financing for gross proceeds of $12,000,000. The number of options outstanding as of February 28, 2011 is 3,013,698, a decrease of 25,000 options since November 30, 2010 due to the exercise of 25,000 options. During the year ended November 30, 2010 we granted 152,722 stock options, forfeited 25,000 stock options and 28,212 stock options expired. The number of warrants outstanding as of February 28, 2011 is 5,253,237 common shares issuable upon the exercise of outstanding common share purchase warrants, an increase of

4,896,000 million from the completion of the equity financing discussed above. The number of deferred share units outstanding as of February 28, 2011 is 5,041, as the plan was approved and implemented during the year.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT LIQUIDITY AND MARKET RISK

Liquidity risk is the risk that the Company will encounter difficulty raising funds to meet its commitments as they become due. In meeting its liquidity requirements, the Company closely monitors its cash requirements in the forecasted period.

We are exposed to interest rate risk, which is affected by changes in the general level of interest rates. Due to the fact that the Company's cash is deposited with major financial institutions in an interest savings account, we do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates given their relative short-term nature.

We are exposed to changes in foreign exchange rates between the Canadian and United States dollar which could affect the value of our cash. The Company had no foreign currency hedges or other derivative financial instruments as of November 30, 2010. The Company did not enter into financial instruments for trading or speculative purposes and does not currently utilize derivative financial instruments.

CAPITAL RESOURCES

At November 30, 2010, our cash totalled $789,136 compared with $8,014,492 at November 30, 2009. The decrease in cash during the year ended November 30, 2010 is mainly a result of cash used in operating activities. At November 30, 2010, the due to related party totalled $1,635,842 compared with $2,360,181 at November 30, 2009. The decrease was due to the repayment of C$910,452 net of interest accrual of C$110,452. At November 30, 2010, shareholders' equity was $92,956 compared with $4,632,014 at November 30, 2009.The decrease was due to loss from activities discussed in Results of Operations.

WORKING CAPITAL

Working capital (defined as current assets minus current liabilities) has decreased by $6.3 million at November 30, 2010 from November 30, 2009 mainly as a result of cash used in operating activities and financing activities. Management expects working capital to be strengthened significantly in 2011 from the $12,000,000 equity financing. The Company also expects to raise additional capital from commercialization activities, payments received based on development agreements, marketing license agreements, and strategic partners funding directly some or all costs of development. However, there can be no assurance that future financing efforts will be successful or that we will continue to be able to meet our ongoing cash requirements.

CAPITAL EXPENDITURES

Total capital expenditures in 2010 were comparable to 2009. Capital expenditures in 2010 relate to the delivery and qualification of our primary manufacturing equipment for the manufacture of an abuse-deterrent formulation of controlled-release oxycodone hydrochloride. Total capital expenditures for 2011 are anticipated to be near 2010 levels. We will fund 2011 capital expenditures from our working capital.

CONTRACTUAL OBLIGATIONS

In the table below, we set forth our enforceable and legally binding obligations and future commitments and obligations related to all contracts. Some of the figures we include in this table are based on management's estimate and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties, and other factors. The Company has entered into capital lease agreements for lab equipment and computer equipment where the lease obligation will end in fiscal 2011. Operating lease obligations related to the lease of premises expired on November 2010. The Company is currently in discussion for the extension of the lease for its premises.

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 years**
Capital Lease Obligations	$ 13,230	$ 13,230	$ ---	$ ---	$ ---
Total Contractual Obligations	13,230	13,230	---	---	---

CONTINGENCIES AND LITIGATION

From time to time, the Company may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Company. As at November 30, 2010, there was no pending litigation or threatened claims outstanding other than that described in the following paragraph.

Wyeth LLC, a wholly owned subsidiary of Pfizer Inc., filed suit for patent infringement against us in the United States District Court for the District of Delaware and for the Southern District of New York, relating to our generic version of Effexor XR® (venlafaxine hydrochloride extended release) capsules. Wyeth served the Company with the Complaint in the Southern District of New York on August 31, 2010, and the Company filed its Answer and Counterclaim in response to the Complaint on or about September 20, 2010. Wyeth did not proceed with the Complaint in Delaware. In or about December 2010,both parties began and continue to explore other alternatives. Lawsuits such as these are an ordinary and expected part of the process of obtaining approval to commercialize a generic drug product in the United States. The Company remains confident that Intellipharmaceutics' generic versions of Effexor XR® do not in any event infringe the patents asserted in the above-noted lawsuit. There is no likelihood that the Company will be required to pay any damages or other penalty to Wyeth in connection with the resolution of this litigation in its reasonably anticipated course.

Pursuant to an arrangement agreement between Vasogen and Cervus LP ("Cervus") dated August 14, 2009 (the "Cervus Agreement"), Vasogen and a Vasogen subsidiary ("New Vasogen") entered into an indemnity agreement (the "Indemnity Agreement") which became our obligation as of October 22, 2009. The Indemnity Agreement is designed to provide Cervus, with indemnification from claims relating to Vasogen's and New Vasogen's business that are brought against Cervus in the future, subject to certain conditions and limitations. Our obligations under the Indemnity Agreement relating to the Tax Pools as defined in the Indemnity Agreement, are limited to an aggregate of C$1,455,000 with a threshold amount of C$50,000 before there is an obligation to make a compensation payment.

RELATED PARTY TRANSACTIONS

As at November 30, 2010, we had an outstanding related party payable to Dr. Isa Odidi and Dr. Amina Odidi, principal stockholders, directors and executive officers, in the amount of approximately $1.6 million. Repayments of the related party loan are restricted under the terms of the loan such that the principal amount thereof shall be payable when payment is required solely out of (i) revenues earned by IPC Corp following the effective date of October 22, 2009, and/or proceeds received by any IPC Company from any offering of its securities, other than the securities filing completed in February 2011, following the effective date and/or amounts received by IPC Corp for the scientific research tax credits received after the effective date for research expenses of IPC Corp incurred before the effective date and (ii) up to C$800,000 from the Net Cash (as defined in the IPC Arrangement Transaction). During the year ended November 30, 2010 the related party loan was decreased by C$800,000 repaid from the IPC Arrangement Transaction. In the period subsequent to November 30, 2010 an additional repayment of C$350,000 for interest and principal on the related party loan was made from scientific research tax credits received by IPC Corp.

DISCLOSURE CONTROL AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Vice President Finance and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as at November 30, 2010. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the Company's Chief Executive Officer and Vice President Finance and Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective as at November 30, 2010.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Management of our Company is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting using the Internal Control-Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of November 30, 2010. Management has not identified any material weaknesses in the Company's internal control over financial reporting as of November 30, 2010.

OFF BALANCE SHEET ARRANGEMENTS

The Company, as part of its ongoing business, does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPE"), which would have been established for the purpose of facilitating off balance sheet arrangements or other contractually narrow or limited purposes. As of November 30, 2010, the Company was not involved in any material unconsolidated SPE transactions.

RISKS AND UNCERTAINTIES

We are a research and development company that has no commercialized products at this time, with all projects being in the research and development stage. Because of these characteristics, the Company is subject to certain risks and uncertainties, or risk factors. The Company cannot predict or identify all such risk factors nor can it predict the impact, if any, of the risk factors on its business operations or the extent to which a factor, event or any such combination may materially change future results of financial position from those reported or projected in any forward looking statements. Accordingly the Company cautions the reader not to rely on reported financial information and forward looking statements to predict actual future results. This report and the accompanying financial information should be read in conjunction with this statement concerning risks and uncertainties. Some of the risks, uncertainties and events that may affect the Company, its business, operations and results of operations are given in this section. However, the factors and uncertainties are not limited to those stated.

Since we commenced operations we have incurred losses through November 30, 2010. These historical financial losses and financial condition could make it more difficult for the Company to obtain financing in the future. Since the products in our pipeline are still under development, we will continue to incur losses. There can be no assurance that we will ever be able to achieve or sustain profitability or positive cash flow. The ultimate success will depend on whether our drug formulations receive the approval of the FDA or of other applicable regulatory agencies and whether we are able to successfully market the approved products. There is no certainty that such FDA approval for any of the drug formulations can be received or that levels of sales and revenues necessary to achieve and sustain profitability can be attained.

Based on our current plans, the $12,000,000 financing, net of share issue costs of approximately C$1,500,000, should provide capital to commercialization of our first product. However, our planned cash requirements may vary materially in response to a number of factors, including research and development activities, preclinical studies, clinical trial results, increases in our manufacturing capabilities, changes in any aspect of the regulatory process, and delays in obtaining regulatory approvals. Depending on the overall structure of current and future strategic alliances, we may have additional capital requirements related to the further development of existing or future products. We may endeavor to secure additional financing, as required, through strategic alliance arrangements, the exercise of options and warrants, the issuance of new share capital, as well as through other financing opportunities. However, there can be no assurance that these financing efforts will be successful or that we will continue to be able to meet our ongoing cash requirements. It is

possible that financing may not be available or, if available, will not be on acceptable terms. The availability of financing will be affected by the results of our research and development, our ability to obtain regulatory approvals, the market acceptance of our products, the state of the capital markets generally, strategic alliance agreements, and other relevant commercial considerations.

We set goals for and make public statements regarding timing for the completion of objectives material to our success. If we fail to achieve one or more of these planned milestones, the price of our common shares could decline.

Further risks and uncertainties affecting us can be found elsewhere in this document, in our Annual Information Form for the year ended November 30, 2010 and our latest Form 20-F and other public documents filed on SEDAR and EDGAR.

OUTLOOK

Our future operations are highly dependent upon our ability to raise additional capital to support advancing our product pipeline through continued research and development activities. Our research and development efforts are dependent upon our ability to raise additional capital through a combination of equity or debt financing and/or from commercialization activities, payments received based on development and/or marketing license agreements, upon strategic partners funding directly some or all of the costs of development or the receipt of outstanding investment tax credits and other receivables. However, there can be no assurance that these financing efforts will be successful or that we will continue to be able to meet our ongoing cash requirements. It is possible that financing may not be available or, if available, will not be on acceptable terms. The availability of financing will be affected by the results of our research and development, our ability to obtain regulatory approvals, the market acceptance of our products, the state of the capital markets generally, strategic alliance agreements, and other relevant commercial considerations. Our cash outflows are expected to consist primarily of internal and external research and development expenditures to advance our product pipeline in addition to general and administrative expenditures to support our corporate infrastructure.
Depending upon the results of our research and development programs and the availability of financial resources, we could decide to accelerate, terminate, or reduce certain areas of research and development, or commence new areas of research and development. These are complex decisions with the goal of optimizing investment returns and managing the cash burn rate.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form and Form 20-F, can be located on the SEDAR website at www.sedar.com and on the EDGAR section of the SEC's website at www.sec.gov

Consolidated financial statements of

Intellipharmaceutics International Inc.

November 30, 2010 and 2009, and December 31, 2008

Intellipharmaceutics International Inc.

November 30, 2010 and 2009, and December 31, 2008

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Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of
Intellipharmaceutics International Inc.

We have audited the accompanying consolidated balance sheets of Intellipharmaceutics International Inc. and subsidiaries (the "Company") as at November 30, 2010 and 2009, and the related consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency), and cash flows for the year ended November 30, 2010, the 11 month period ended November 30, 2009 and the year ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements presently fairly, in all material respects, the financial position of the Company as at November 30, 2010 and 2009, and the results of its operations and its cash flows for the year ended November 30, 2010, the 11 month period ended November 30, 2009 and the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
February 28, 2011

Intellipharmaceutics International Inc.

Consolidated balance sheets
as at November 30, 2010 and 2009
(Stated in U.S. dollars)

	2010	2009 (Notes 1 and 2)
	$	$
Assets		
Current		
Cash	789,136	8,014,492
Accounts receivable	1,619	5,427
Investment tax credits	1,184,345	1,840,044
Prepaid expenses, sundry and other assets	142,379	175,248
	2,117,479	10,035,211
Deferred offering cost (Note 21)	224,673	-
Property and equipment, net (Note 5)	925,554	1,046,121
	3,267,706	11,081,332
Liabilities		
Current		
Accounts payable	612,957	1,323,368
Accrued liabilities (Note 6)	321,030	540,604
Employee cost payable (Note 8)	575,625	501,114
Current portion of capital lease obligations (Note 9)	13,230	35,595
Due to related parties (Note 7)	1,635,842	2,360,181
	3,158,684	4,760,862
Warrant liability (Note 14)	7,161	226,268
Capital lease obligations	-	12,862
Deferred revenue (Note 19)	8,905	1,449,326
	3,174,750	6,449,318
Shareholders' equity		
Capital stock (Note 10 and 11)		
Authorized		
Unlimited common shares without par value		
Unlimited preference shares		
Issued and outstanding		
10,907,054 common shares (2009 - 10,907,054)	16,969	16,969
Additional paid-in capital	19,369,005	18,263,340
Accumulated other comprehensive loss	(225,476)	(341,844)
Deficit	(19,067,542)	(13,306,451)
	92,956	4,632,014
Contingencies (Note 16)		
	3,267,706	11,081,332

On behalf of the Board:

Dr. Isa Odidi, Chairman of the Board

Bahadur Madhani, Director

See accompnaying notes to consolidated financial statements

Intellipharmaceutics International Inc.

Consolidated statements of operations and comprehensive loss
for the year ended November 30, 2010, 11 month period ended
November 30, 2009 and year ended December 31, 2008
(Stated in U.S. dollars)

	2010 (12 Months) (Notes 1 and 2)	2009 (11 Months) (Notes 1 and 2)	2008 (12 Months) (Notes 1 and 2)
	$	$	$
Revenue			
Research and development (Note 19)	1,459,385	630,179	733,653
Other services	-	-	544,051
	1,459,385	630,179	1,277,704
Expenses			
Cost of revenue	-	382,597	1,885,790
Research and development	4,533,310	1,554,859	419,187
Selling, general and administrative	2,699,204	975,197	1,365,461
Depreciation	242,778	344,768	574,851
Write-down of long-lived assets	36,481	-	-
	7,511,773	3,257,421	4,245,289
Loss before the undernoted	(6,052,388)	(2,627,242)	(2,967,585)
Fair value adjustment of warrants	223,782	286,983	-
Net foreign exchange gain (loss)	138,949	587,642	(817,407)
Interest income	27,001	1,822	95,282
Interest expense	(98,435)	(87,940)	(75,464)
Loss	(5,761,091)	(1,838,735)	(3,765,174)
Other comprehensive (loss) income			
Foreign exchange translation adjustment	116,368	(727,491)	417,743
Comprehensive loss	(5,644,723)	(2,566,226)	(3,347,431)
Loss per common share, basic and diluted	(0.53)	(0.19)	(0.40)
Weighted average number of common shares outstanding, basic and diluted	10,907,054	9,512,131	9,327,716

See accompnaying notes to consolidated financial statements

Intellipharmaceutics International Inc.

Consolidated statements of shareholders' equity (deficiency)
for the year ended November 30, 2010, 11 month period ended
November 30, 2009 and year ended December 31, 2008
(Stated in U.S. dollars - Notes 1 and 2)

	Special voting shares		Common shares		Additional paid-in capital	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity (deficiency)
	Number	Amount	Number	Amount				
	-	$		$	$	$	$	$
Balance, December 31, 2007	5,997,751	10,850	3,329,965	6,024	10,039,320	(32,096)	(7,702,542)	2,321,556
Other comprehensive income	-	-	-	-	-	417,743	-	417,743
Stock-based compensation (net of tax - $Nil)	-	-	-	-	442,800	-	-	442,800
Loss	-	-	-	-	-	-	(3,765,174)	(3,765,174)
	-	-	-	-	442,800	417,743	(3,765,174)	(2,904,631)
Balance, December 31, 2008	5,997,751	10,850	3,329,965	6,024	10,482,120	385,647	(11,467,716)	(583,075)
Shares issued as compensation	-	-	52,356	95	394,764	-	-	394,859
Share cancellation	(5,997,751)	(10,850)	(3,382,321)	(6,119)	(10,876,884)	-	-	(10,893,853)
Shares issued	-	-	10,907,057	16,969	10,876,884	-	-	10,893,853
Broker options issued in connection with acquisition	-	-	-	-	161,833	-	-	161,833
Share issuance cost	-	-	-	-	(1,767,935)	-	-	(1,767,935)
Excess of assets over liabilities assumed on acquisition (Note 4)	-	-	-	-	8,992,558	-	-	8,992,558
Other comprehensive loss (net of tax - $Nil)	-	-	-	-	-	(727,491)	-	(727,491)
Loss	-	-	-	-	-	-	(1,838,735)	(1,838,735)
	(5,997,751)	(10,850)	7,577,092	10,945	7,781,220	(727,491)	(1,838,735)	5,215,089
Balance, November 30, 2009	-	-	10,907,057	16,969	18,263,340	(341,844)	(13,306,451)	4,632,014
Adjustment for rounding of shares exchanged under the transaction described in Note 1	-	-	(3)	-	-	-	-	-
	-	-	10,907,054	16,969	18,263,340	(341,844)	(13,306,451)	4,632,014
Adjustment of share issuance cost	-	-	-	-	68,328	-	-	68,328
Granting of Stock options to broker (Note 11)	-	-	-	-	13,711	-	-	13,711
Granting of Stock options to employees (Note 11)	-	-	-	-	964,016	-	-	964,016
Granting of Stock options to non-management board memebers (Note 11)					59,610			59,610
Other comprehensive gain (net of tax - $Nil)	-	-	-	-	-	116,368	-	116,368
Loss	-	-	-	-	-	-	(5,761,091)	(5,761,091)
	-	-	-	-	1,105,665	116,368	(5,761,091)	(4,539,058)
Balance, November 30, 2010	-	-	10,907,054	16,969	19,369,005	(225,476)	(19,067,542)	92,956

See accompnaying notes to consolidated financial statements

Intellipharmaceutics International Inc.

Consolidated statements of cash flows
for the year ended November 30, 2010, 11 month period ended November 30, 2009 and year ended December 31, 2008
(Stated in U.S. dollars - Notes 1 and 2)

	2010 (12 months)	2009 (11 months)	2008 (12 months)
	$	$	$
Loss	(5,761,091)	(1,838,735)	(3,765,174)
Items not affecting cash			
Depreciation	242,778	344,768	574,851
Stock-based compensation (Note 11)	1,023,626	18,529	442,800
Deferred share units (Note 12)	12,426	-	-
Interest accrual	95,113	82,381	-
Investment tax credit written off (Note 20)	26,832	-	-
Fair value adjustment of warrants	(223,783)	(286,983)	-
Write-down of long-lived assets	36,481	-	-
Unrealized foreign exchange loss (gain)	195,362	(669,379)	662,766
Change in non-cash operating assets and liabilities			
Accounts receivable	3,808	12,042	454,638
Investment tax credits	675,461	(411,228)	130,595
Prepaid expenses and sundry assets	36,776	43,969	(37,946)
Accounts payable and accrued liabilities	(1,117,563)	(1,631,804)	277,336
Deferred revenue	(1,440,421)	(521,543)	(475,593)
Cash flows used in operating activities	(6,194,195)	(4,857,983)	(1,735,727)
Financing activities			
Payments to due to related parties	(860,703)	-	(316,392)
Receipts from due to related parties	-	1,164,367	-
Repayment of capital lease obligations	(36,317)	(31,363)	(38,405)
Deferred offering cost	(9,981)	-	-
Share issuance costs	-	(334,508)	-
Cash flows from (used) in financing activities	(907,001)	798,496	(354,797)
Investing activities			
Purchase of property and equipment	(133,878)	(93,412)	(91,542)
Cash received on acquisition of Vasogen (Note 4)	-	11,334,855	-
Cash flows from (used) in investing activities	(133,878)	11,241,443	(91,542)
Effect of foreign exchange gain (loss) on cash held in foreign currency	9,718	(69,677)	(118,015)
(Decrease) increase in cash	(7,225,356)	7,112,279	(2,300,081)
Cash, beginning of period	8,014,492	902,213	3,202,294
Cash, end of period	789,136	8,014,492	902,213
Supplemental cash flow information			
Interest paid	104,943	-	141,822
Taxes paid	-	-	-

See accompnaying notes to consolidated financial statements

1. Nature of operations

Intellipharmaceutics International Inc. ("IPC" or the "Company") is a pharmaceutical company specializing in the research, development and manufacture of novel or generic controlled release and targeted release oral solid dosage drugs.

The shareholders of IntelliPharmaCeutics Ltd. ("IPC Ltd."), and Vasogen Inc. ("Vasogen") approved a plan of arrangement and merger whereby IPC Ltd. combined with Vasogen to continue as a newly incorporated publicly traded entity to be called Intellipharmaceutics International Inc. ("the IPC Arrangement Agreement") at their respective shareholder meetings on October 19, 2009. All court and regulatory approvals required to effect the arrangement were received. The arrangement resulted in IPC Ltd. combining with 7231971 Canada Inc. ("New Vasogen"), a new Vasogen company that acquired substantially all of the assets of Vasogen, including the proceeds from its non-dilutive financing transaction with Cervus LP as described further below.

Separately, Vasogen entered into an arrangement agreement with Cervus LP ("Cervus"), an Alberta based limited partnership that reorganized Vasogen prior to completion of the transaction with the Company and provided gross proceeds to Vasogen of approximately Cdn $7.5 million in non-dilutive capital.

The completion of the arrangement on October 22, 2009 resulted in a new publicly traded company, Intellipharmaceutics International Inc. incorporated under the laws of Canada and traded on the TSX and NASDAQ. As a result of the arrangement transaction, IPC Ltd. shareholders owned approximately 86% of the outstanding common shares of the Company and Vasogen's shareholders owned approximately 14% of the outstanding common shares of the Company.

As a result of the transaction the Company selected a November 30 year end which resulted in the Company having an eleven month fiscal period in 2009. All comparable information for the 2008 year end is that of the predecessor company IPC Ltd. which had a December 31 year end. Accordingly, the Company's consolidated statement of operations and comprehensive loss, shareholders' equity and cash flows have been presented for the year ended November 30, 2010 with the comparative eleven month period November 30, 2009 and year ended December 31, 2008.

The Company's principal business activities are focused on the research, development and manufacture of novel or generic controlled release and targeted release oral, solid dosage drugs. The Company earns revenues from development contracts which provide upfront fees, milestone payments, reimbursement of certain expenditures and royalty income upon commercialization of its products. The Company has incurred losses from operations since inception, and has an accumulated deficit of $19,067,542 as at November 30, 2010 (November 30, 2009 - $13,306,451). Previously, the Company has funded its research and development activities through the issuance of capital stock, loans from related parties, funds from the IPC Arrangement Agreement and funds received under development agreements. There is no certainty that such funding will be available going forward.

As the Company has several projects in the research and development stage, it expects to incur additional losses and require additional financial resources to support its operating activities for the foreseeable future. The continuation of the Company's research and development activities and the commercialization of its products are dependent upon the Company's ability to successfully complete its research programs, protect its intellectual property, obtain regulatory approvals and finance its cash requirements on an ongoing basis.

Subsequent to November 30, 2010, the Company completed a financing for approximately $12,000,000 as described in Note 21.

2. Basis of presentation

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned operating subsidiaries, IPC Ltd., Intellipharmaceutics Corp. ("IPC Corp"), Vasogen Ireland Ltd. ("VIL") and Vasogen Corp. ("VUS").

On October 22, 2009, the Company, formerly IPC Ltd., as part of the acquisition discussed in Note 1, issued 1,526,987 shares of stock in exchange for all the outstanding shares of Vasogen and 9,380,070 shares of stock in exchange for all the outstanding shares of IPC Ltd. Under accounting principles generally accepted in the United States of America (GAAP), this transaction is considered to be a continuity of interest transaction followed by the acquisition of assets and assumption of certain liabilities of Vasogen. On acquisition, the difference between the fair value of assets acquired and liabilities assumed was recorded as a credit to additional paid in capital, as described in Note 4.

The comparative number of shares issued and outstanding, options, warrants, basic and diluted loss per common share have been amended to give effect to reflect the merger.

All significant inter-company accounts and transactions have been eliminated on consolidation.

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Areas where significant judgment is involved in making estimates are: the determination of estimated useful lives of property and equipment; the fair values of financial assets and liabilities; the determination of units of accounting for revenue recognition; the expected term of the Company's continued involvement in the research and development of each contract; the fair value of stock options and the determination of performance criteria for expensing share-based payments; the fair value of warrants; evaluation of income tax positions; the determination of valuation allowances; the determination of investment tax credits: accrued liabilities; deferred revenue; and forecasting future cash flows for assessing whether there are any impairments of long-lived assets.

3. Significant accounting policies

(a) Investment tax credits

The investment tax credits ("ITC") receivable are amounts recoverable from the Canadian federal and provincial governments under the Scientific Research & Experimental Development incentive program. The amounts claimed under the program represent the amounts submitted by management based on research and development costs incurred during the year up to November 30, 2010. Realization is subject to government approval. Any adjustment to the amounts claimed will be recognized in the year in which the adjustment occurs. Refundable ITCs claimed relating to capital expenditures are credited to property and equipment. Refundable ITCs claimed relating to current expenditures are netted against research and development expenditures.

(b) Property and equipment

Property and equipment are recorded at cost. Equipment acquired under capital leases are recorded net of imputed interest, based upon the net present value of future payments. Assets under capital leases are pledged as collateral for the related lease obligation. Repairs and maintenance expenditures are charged to operations; major betterments and replacements are capitalized. Depreciation bases and rates are as follows:

Assets	Basis	Rate
Computer equipment	Declining balance	30%
Computer software	Declining balance	50%
Furniture and fixtures	Declining balance	20%
Laboratory equipment	Declining balance	20%
Leasehold improvements	Straight line	Over term of lease

Leasehold improvements and assets acquired under capital leases are depreciated over the term of their useful lives or the lease period, whichever is shorter. The charge to operations resulting from depreciation of assets acquired under capital leases is included with depreciation expense.

(c) Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events or circumstances indicate that the carrying value of an asset may not be recoverable. For assets that are to be held and used, impairment is recognized when the sum of estimated undiscounted cash flows associated with the asset or group of assets is less than its carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on discounted cash flows or internal/external appraisals, as applicable.

(d) Warrants

As a result of the transaction described in Note 1, the Company acquired certain assets and assumed liabilities including warrants. The warrants are presented as a liability because they do not meet the criteria of ASC topic 480 for equity classification. Subsequent changes in the fair value of the warrants are recorded in the consolidated statements of operations.

3. Significant accounting policies (continued)

(e) Revenue recognition

The Company earns revenue from non-refundable upfront fees, milestone payments upon achievement of specified research or development, research and development support payments, scale-up services and royalty payments on sales of resulting products. Revenue is realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collectability is reasonably assured. From time to time, the Company enters into transactions that represent multiple-element arrangements. Management evaluates arrangements with multiple deliverables to determine whether the deliverables represent one or more units of accounting for the purpose of revenue recognition. A delivered item is considered a separate unit of accounting if the delivered item has stand alone value to the customer, the fair value of any undelivered items can be reliably determined, and the delivery of undelivered items is probable and substantially in the Company's control.

The relevant revenue recognition accounting policy is applied to each separate unit of accounting.

Research and development

Under arrangements where the license fees and research and development activities can be accounted for as a separate unit of accounting, non-refundable upfront license fees are deferred and recognized as revenue on a straight-line basis over the expected term of the Company's continued involvement in the research and development process.

Deferred revenue represents the funds received from clients, for which the revenues have not yet been earned, as the milestones have not been achieved, or in the case of upfront fees for drug development, where the work remains to be completed.

For contracts that have been put on hold, the Company does not recognize any upfront fees from the period in which the product was on hold. For contracts that are terminated or abandoned, the Company recognizes all of the remaining unrecognized upfront fees in the period in which the contract was terminated, and net of amounts that are reimbursable, if any.

Revenue from the achievement of research and development milestones, if deemed substantive, is recognized as revenue when the milestones are achieved, and the milestone payments are due and collectible, Milestones are considered substantive if all of the following conditions are met: (i) the milestone is non-refundable; (ii) achievement of the milestone was not reasonably assured at the inception of the arrangement; (iii) substantive effort is involved to achieve the milestone; and (iv) the amount of the milestone appears reasonable in relation to the effort expended, the other milestones in the arrangement and the related risk associated with achievement of the milestone. If any of these conditions are not met, the Company recognizes a proportionate amount of the milestone payment upon receipt as revenue that correlates to work already performed and the remaining portion of the milestone payment would be deferred and recognized as revenue as the Company completes its performance obligations.

Pursuant to the guidance in ASC topic 605, the Company analyzes whether to categorize reimbursed expenses from customers as a) the gross amount billed or b) the net amount retained, the Company will analyze the relevant facts and circumstances related to these expenses and considered the factors, as specified in the ASC topic noted above.

3. Significant accounting policies (continued)

(e) Revenue recognition (continued)

Other services

Scale-up is the process of translating a laboratory batch to a much larger (manufacturing scale) batch. Revenue generated from any scale-up activities is recorded under ASC topic 605. Costs and profit margin related to these services that are in excess of amounts billed are recorded in accounts receivable, and amounts billed related to these services that are in excess of costs and profit margin are recorded in deferred revenue.

Royalties

The Company will recognize revenue from royalties based on licensees' sales of the Company's products or technologies. Royalties are recognized as earned in accordance with the contract terms when royalties from licenses can be reasonably estimated and collectability is reasonably assured. To date, the Company has not yet recognized any royalty revenue.

(f) Research and development cost

Research and development costs related to continued research and development programs are expensed as incurred in accordance with ASC topic 730. However, materials and equipment are capitalized and amortized over their useful lives if they have alternative future uses.

(g) Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for losses and tax credit carry forwards. Significant judgment is required in determining whether deferred tax assets will be realized in full or in part. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactments. A valuation allowance is provided for the portion of deferred tax assets that is more likely than not to remain unrealized.

The Company adopted ASC topic 740-10. This ASC topic requires that uncertain tax positions are evaluated in a two-step process, whereby (i) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (ii) those tax positions that meet the more likely than not recognition threshold, the Company would recognize the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the related tax authority. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of ASC topic 740-10, the Company recognized the effect of income tax positions only if such positions were probable of being sustained. The cumulative effects of the application of the provisions of ASC topic 740-10 are described in Note 15.

The Company records any interest related to income taxes in interest expense and penalties in selling, general and administrative expense.

3. Significant accounting policies (continued)

(h) Share issue costs

Share issue costs are recorded as a reduction of the proceeds from the issuance of capital stock. Share issue costs incurred in respect of issuing capital stock subsequent to the period have been deferred and are recorded as a deferred offering cost.

(i) Translation of foreign currencies

The financial statements of Intellipharmaceutics International Inc. are measured using the Canadian dollar as the functional currency. The Company's reporting currency is the U.S. dollar. The financial results of the Canadian operations are measured using the Canadian dollar as the functional currency. Assets and liabilities of the Canadian operations have been translated at year end exchange rates and related revenue and expenses have been translated at average exchange rates for the year. Accumulated gains and losses resulting from the translation of the financial statements of the Canadian operations are included as part of accumulated other comprehensive (loss) income, a separate component of shareholders' equity.

In respect of other transactions denominated in currencies other than the respective entities' functional currencies, the monetary assets and liabilities are translated at the year end rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. Non-monetary balance sheet and related income statement accounts are remeasured into U.S. dollar using historical exchange rates. All of the exchange gains or losses resulting from these other transactions are recognized in the statement of operations.

(j) Stock-based compensation

The Company calculates stock-based compensation using the fair value method, under which the fair value of the options at the grant date is calculated using the Black-Scholes Option Pricing Model, and subsequently expensed over the appropriate term. The provisions of the Company's stock-based compensation plans do not require the Company to settle any options by transferring cash or other assets, and therefore the Company classifies the awards as equity.

Share-based compensation expense recognized during the period is based on the value of share-based payment awards that are ultimately expected to vest. The Company estimates forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The share based compensation expense is recorded in the statement of operations under research and development expense and under selling, general and administration expense. Note 11 provides supplemental disclosure of the Company's stock options.

(k) Loss per share

Basic loss per share ("EPS") is computed by dividing the loss attributable to common shares' shareholders by the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur from common shares issuable through the exercise or conversion of stock options, restricted stock awards, warrants and convertible securities. In certain circumstances, the conversion of options, warrants and convertible securities are excluded from diluted EPS if the effect of such inclusion would be anti-dilutive. The dilutive effect of stock options is determined using the treasury stock method. Stock options and warrants to purchase 1,687,914, 828,341, and 312,652 common shares of the Company during fiscal 2010, 2009, and 2008, respectively, were not included in the computation of diluted EPS because the Company has incurred a loss for the year ended November 30, 2010, eleven month period ended November 30, 2009 and the year ended December 31, 2008 as the effect would be anti-dilutive.

3. Significant accounting policies (continued)

(l) Comprehensive (loss) income

The Company follows ASC topic 810-10. This statement establishes standards for reporting and display of comprehensive (loss) income and its components. Comprehensive (loss) income is net (loss) income plus certain items that are recorded directly to shareholders' equity. Other than foreign exchange gains and losses arising from cumulative translation adjustments, the Company has no other comprehensive (loss) income items.

(m) Fair value measurement

Under ASC topic 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). ASC topic 820 establishes a hierarchy for inputs to valuation techniques used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that reflect assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. There are three levels to the hierarchy based on the reliability of inputs, as follows:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets and liabilities in markets that are not active.
- Level 3 - Unobservable inputs for the asset or liability.

The degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. The adoption of ASC topic 820 for financial assets and liabilities did not have a material effect on the Company's consolidated financial statements, or result in any significant changes to its valuation techniques or key considerations used in valuations.

(n) Future accounting pronouncements

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (“ASU 2009-13”). ASU 2009-13 amends the criteria for separating consideration in multiple-deliverable revenue arrangements, and establishes a hierarchy of selling prices to determine the selling price of each specific deliverable. As part of this, ASU 2009-13 eliminates the residual method for allocating revenue among the elements of an arrangement and requires that consideration be allocated at the inception of an arrangement. As well, it expands disclosure requirements. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The Company has adopted this standard on December 1, 2010. The adoption did not have an impact on the Company’s 2010 financial statements.

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

On April 29, 2010, the FASB issued ASU 2010-17, which establishes a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. The scope of the ASU is limited to research or development arrangements and requires an entity to record the milestone payment in its entirety in the period received if the milestone meets all the necessary criteria to be considered substantive. However, entities would not be precluded from making an accounting policy election to apply another appropriate accounting policy that results in the deferral of some portion of the arrangement consideration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning on or after June 15, 2010. Early application is permitted. Entities can apply this guidance prospectively to milestones achieved after adoption. However, retrospective application to all prior periods is also permitted. The Company has adopted this standard on December 1, 2010. The adoption did not have an impact on the Company's 2010 financial statements.

4. Acquisition

As disclosed in Note 1, in October 2009 the Company entered into an acquisition transaction acquiring certain assets and assumed liabilities from Vasogen. As Vasogen did not meet the definition of business under ASC paragraphs 805-10-55-4 through 55-9, the transaction was accounted as an asset acquisition recorded at carrying value which approximates fair value. The excess of Vasogen assets acquired over liabilities assumed on the acquisition is recorded as a credit to the additional paid in capital of the Company as follows:

	$
Assets	
Cash	11,334,855
Investment tax credits and prepaid expenses and sundry assets	489,255
Fixed assets	11,406
	11,835,516
Liabilities assumed	
Accounts payable and accrued liabilities	2,299,289
Warrant liability	543,669
	2,842,958
Additional paid in capital	8,992,558

(Stated in U.S. dollars)

5. Property and equipment

	November 30, 2010		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer equipment	176,068	129,050	47,018
Computer software	31,664	20,415	11,249
Furniture and fixtures	103,140	68,066	35,074
Laboratory equipment	1,867,965	1,096,161	771,804
Leasehold improvements	920,808	920,808	-
Lab equipment under capital lease	63,455	31,501	31,954
Computer under capital lease	79,093	50,638	28,455
	3,242,193	2,316,639	925,554

	November 30, 2009		
	Cost	Accumulated amortization	Carrying value
	$	$	$
Computer equipment	149,969	109,353	40,616
Computer software	17,050	14,087	2,963
Furniture and fixtures	85,149	59,301	25,848
Laboratory equipment	1,929,392	1,031,075	898,317
Leasehold improvements	895,511	895,511	-
Lab equipment under capital lease	61,712	22,868	38,844
Computer under capital lease	76,920	37,387	39,533
	3,215,703	2,169,582	1,046,121

Depreciation for the year ended November 30, 2010 was $242,778 (November 30, 2009 - $344,768; December 31, 2008 - $574,851).

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with the sum of the undiscounted cash flows expected from its use and disposal, and as such requires the Company to make significant estimates on expected revenues from the commercialization of our products and services and the related expenses. The Company records a write-down for long-lived assets which have been abandoned and do not have any residual value. For the year ended November 30, 2010, the Company recorded a write-down of long-lived assets of $36,481 (2009 – $Nil).

6. Accrued liabilities

	November 30, 2010	November 30, 2009
	$	$
Professional fees	242,107	482,624
Other	78,923	57,980
	321,030	540,604

(Stated in U.S. dollars)

7. Due to related parties

Amounts due to the related parties are payable to entities controlled by two shareholders who are also officers and directors of the Company.

	November 30, 2010	November 30, 2009
	$	$
Promissory note payable to two directors and officers of the Company, unsecured 6% annual interest rate on the outstanding loan balance [(i)] (2010 - Cdn $1,651,188; 2009 - Cdn $2,463,240)	1,608,405	2,333,498
Note payable to an entity controlled by shareholders, officers and directors of the Company, unsecured, non-interest bearing with no fixed repayment terms. (2010 - Cdn $28,167; 2009 - Cdn $28,167)	27,437	26,683
	1,635,842	2,360,181

Interest expense on the promissory note payable to related parties for the year ended November 30, 2010 is $94,055 (November 30, 2009 (11 months) - $85,113; December 31, 2008 - $65,750) and has been included in the consolidated statement of operations.

(i) As a result of the transactions, as described in Note 1, effective October 22, 2009, the promissory note dated September 10, 2004 issued by IPC Corp to Dr. Isa Odidi and Dr. Amina Odidi (the "Promissory Note") was amended to provide that the principal amount thereof shall be payable when payment is required solely out of (i) revenues earned by IPC Corp following the effective date, and/or proceeds received by any IPC Company from any offering of its securities following the effective date, other than the securities offering described in Note 21, and/or amounts received by IPC Corp for the scientific research tax credits received after the effective date for research expenses of IPC Corp incurred before the effective date and (ii) up to Cdn$800,000 from the Net Cash (as defined in the IPC Arrangement Agreement). During the year ended November 30, 2010 Cdn $800,000 (US $755,760) and an interest payment of Cdn $110,452 ($104,943) of the shareholder note was repaid by the Company in accordance with the terms of the IPC Arrangement Agreement.

8. Employee costs payable

As at November 30, 2010, the Company had $472,619 (November 30, 2009 - $462,986) in unpaid salary payable to Dr. Isa Odidi and Dr. Amina Odidi, principal shareholders, directors and executive officers of the Company and $103,006 (November 30, 2009 - $38,128) for other amounts payable to certain employees.

9. Lease obligations

The Company leases various computers and equipment under capital leases. Future minimum lease payments under these leases expiring in 2011 are as follows:

	$
Balance	13,750
Less: amounts representing interest at 11%	(520)
Balance, current portion	13,230

The Company is currently in discussion for the extension of the lease for its premises.

10. Capital stock

Authorized, issued and outstanding

(a) The Company is authorized to issue an unlimited number of common shares, all without nominal or par value and an unlimited number of preference shares. As at November 30, 2010 and November 30, 2009 the Company has 10,907,054 common shares issued and outstanding, respectively, and no preference shares issued and outstanding. The previously reported 10,907,057 issued and outstanding shares have been adjusted for a rounding adjustment.

A company ("Odidi Holdco") owned by two officers and directors of IPC owns 5,997,751 common shares or approximately 55% of IPC.

Each common share of the Company entitles the holder thereof to one vote at any meeting of shareholders of the Company, except meetings at which only holders of a specified class of shares are entitled to vote. Common shares of the Company are entitled to receive, as and when declared by the board of the Company, dividends in such amounts as shall be determined by the board of the Company. The holders of common shares of the Company have the right to receive the remaining property of the Company in the event of liquidation, dissolution, or winding-up of the Company, whether voluntary or involuntary.

The preference shares may at any time and from time to time be issued in one or more series. The board of directors will, by resolution, from time to time, before the issue thereof, fix the rights, privileges, restrictions and conditions attaching to the preference shares of each series. Except as required by law, the holders of any series of preference shares will not as such be entitled to receive notice of, attend or vote at any meeting of the shareholders of the Company. Holders of preference shares will be entitled to preference with respect to payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, on such shares over the common shares of the Company and over any other shares ranking junior to the preference shares.

The Company was able to negotiate certain reduced stock issuance costs in connection with becoming a publicly traded company in 2009. The estimate used in preparation of the November 30, 2009 financial statements was higher than the amount eventually paid during the second quarter of fiscal 2010, which resulted in an adjustment of $54,454 in the statement of shareholders' equity (deficiency) for the year ended November 30, 2010. In addition as described in Note 10, the Company issued an additional 32,722 broker options related to this transaction. The fair value of these stock options using the Black-Scholes options pricing model was less than the estimated fair value of these stock options recorded in the 2009 year end financial statements which resulted in a further adjustment of $13,874 for the year ended November 30, 2010. These adjustments have been recorded as credits to additional paid in capital.

As described in Note 2(a) the comparative share information have been amended to give effect of the transaction described in Note 1.

(b) As a result of the transactions, as described in Note 1, effective October 22, 2009 former shareholders of IPC Ltd. owned approximately 86% of the outstanding common shares of IPC and former shareholders of Vasogen owned approximately 14% of the outstanding common shares of IPC. Each former Vasogen Inc. shareholder received 0.065963061 common shares of IPC, and each former equity shareholder of IPC Ltd. and its operating affiliate IPC Corp. received 0.552788117 common shares of IPC, for each share they exchanged in the transaction.

10. Capital stock (continued)

Authorized, issued and outstanding (continued)

(b) (continued)

As at December 31, 2008, IPC Ltd. had 3,329,965 common shares issued and outstanding (6,023,944 prior to exchange as described above). In connection with the October 2009 transaction IPC Ltd. issued an additional 52,356 common shares to a broker before all of the common shares outstanding of IPC Ltd. were converted to common shares in the Company. As a result of the transactions, as described in Note 1, effective October 22, 2009 these shares were cancelled and the holders of these shares received shares in the Company.

As at December 31, 2008, IPC Ltd. had 5,997,751 Special Voting Shares issued and outstanding (10,850,000 prior to exchange as described above). The Special Voting Shares outstanding in IPC Ltd. gave their holders voting rights on a one vote per share basis. The Special Voting Shares had no right to dividends or distributions from IPC Ltd. and had no equity interest in IPC Ltd. These Special Voting Shares were all owned by a company controlled by two officers and directors of the Company ("Odidi Holdco"). As a result of the transactions, as described in Note 1, effective October 22, 2009 these non-equity shares were cancelled and the holders of these shares received no shares in the Company. As a result of the transactions described in Note 1 effective October 22, 2009 the 5,997,751 (10,850,000 prior to exchange described above) equity shares owned by Odidi Holdco, were exchanged for common shares in the Company.

11. Options

As a result of the transactions, as described in Note 1, effective October 22, 2009, the Company adopted a new stock option plan (the “Employee Stock Option Plan”). All grants of options to employees after October 22, 2009 are made from the Employee Stock Option Plan (the “Employee Stock Option Plan”). The maximum number of common shares issuable under the Employee Stock Option Plan is limited to 10% of the issued and outstanding common shares of the Company from time to time, or 1,090,706 based on the number of issued and outstanding common shares as at November 30, 2010. As at November 30, 2010, 154,780 options are outstanding under the employee stock option plan. Each option granted allows the holder to purchase one common share at an exercise price not less than the closing price of the Company's common shares on the Toronto Stock Exchange on the last trading day prior to the grant of the option. Options granted under these plans generally have a maximum term of 10 years and generally vest over a period of up to three years. As at November 30, 2010, there were 935,926 options available for grant under the Employee Stock Option Plan.

In August 2004, the Board of Directors of IPC Ltd. approved a grant of 2,763,940 stock options, to two executives who were also the principal shareholders of IPC Ltd. The vesting of these options is contingent upon the achievement of certain performance milestones. These options were still outstanding as at November 30, 2010 and will expire in 2014.

In addition to the Employee Stock Option Plan, in connection with the October 2009 transaction IPC Ltd. issued 87,256 broker options to purchase common shares of IPC that were still outstanding as at November 30, 2010. The fair value of these broker options $161,833 were recorded as a charge to additional paid in capital and a charge to share issuance costs in additional paid in capital.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, consistent with the provisions of Accounting Standards Codification topic ASC 718.

(Stated in U.S. dollars)

11. Options (continued)

Option pricing models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. The assumptions presented in the table below represent the weighted average of the applicable assumption used to value stock options at their grant date. The Company calculates expected volatility based on historical volatility of the Company's peer group that is publicly traded. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on an average of the term of the options. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. The expected dividend yield percentage at the date of grant is Nil as the Company is not expected to pay dividends in the foreseeable future. The weighted average fair value of employee stock options granted in 2010 and the fair value of broker options granted in 2010 and 2009 was estimated using the following assumptions.

	Broker options		Employee stock options	
	2010	2009	2010	2009
Volatility	142.3%	142.3%	90.4%	-
Risk-free interest rate	1.5%	1.5%	3.38%	-
Expected life (in years)	0.33	1	6.49	-
Dividend yield	-	-	-	-
The weighted average grant date fair value per options granted	$ 1.46	$ 1.85	$ 2.03	-

Details of stock option transactions are as follows:

	November 30, 2010			November 30, 2009			December 31, 2008		
	Number of options	Weighted average exercise price per share	Weighted average grant date fair value	Number of options	Weighted average exercise price per share	Weighted average grant date fair value	Number of options	Weighted average exercise price per share	Weighted average grant date fair value
		$	$		$	$		$	$
Outstanding, beginning of period,	2,939,188	6.48	3.46	2,800,199	3.64	1.59	2,837,970	3.65	1.59
Granted	152,722	3.36	1.59	87,256	6.26	1.85	-	-	-
Vasogen options exchanged for IPC options	-	-	-	72,386	116.40	78.82	-	-	-
Forfeiture	(25,000)	-	-	-	-	-	-	-	-
Expired	(28,212)	51.47	25.29	(20,653)	5.90	1.80	(37,771)	5.83	0.85
Balance at end of period	3,038,698	5.53	2.87	2,939,188	6.48	3.46	2,800,199	3.64	1.59
Options exercisable, end of year	1,328,667	8.00	4.45	451,642	22.22	13.67	312,652	3.80	1.57

(Stated in U.S. dollars)

11. Options (continued)

As of November 30, 2010, the exercise prices, weighted average remaining contractual life of outstanding options and weighted average grant date fair values were as follows:

	Options outstanding				Options exercisable		
	Number outstanding	Weighted average exercise price per share	Weighted average remaining contract life (years)	Weighted average grant due fair value	Number exercisable	Weighted average exercise price per share	Weighted average grant date fair value
		$		$		$	$
Under 10.00	2,994,340	3.63	3.6	1.57	1,284,309	3.83	1.57
10.00 - 100.00	36,065	39.52	6.8	31.02	36,065	39.52	31.02
300.00 - 500.00	4,070	331.92	5.2	224.06	4,070	331.92	224.06
500.00 - 1,000.00	4,190	705.65	2.3	435.50	4,190	705.65	435.50
1,000 - 1,500.00	33	1,149.13	3.4	709.18	33	1,149.13	709.18
	3,038,698	5.53			1,328,667	8.00	

Total unrecognized compensation cost relating to the unvested performance based stock options at November 30, 2010 is approximately $2,656,800 (November 30, 2009 - $3,542,400). A total of 2,763,940 performance-based stock options granted to date will vest upon the achievement of certain performance conditions. During the year ended November 30, 2010, the Company had a second Abbreviated new Drug Application (“ANDA”) filing accepted by the U.S. Food and Drug Administration (“FDA”) to satisfy the actual performance condition of these options. Furthermore, a performance condition was met as the FDA accepted the two ANDAs for certain drugs, resulting in the vesting of 552,788 performance-based stock options. Accordingly the Company recorded an additional stock-based compensation expense of $885,600. As at November 30, 2010, 1,658,364 performance-based stock options remain unvested. No other compensation cost has been recognized for the remaining unvested performance based options. If all performance conditions are achieved prior to the expiry of the term of these options in 2014, an additional stock-based compensation expense of approximately $2,656,800 will be recognized.

No options were exercised in the year ended November 30, 2010 the eleven month period ended November 30, 2009, and the year ended December 31, 2008.

During the year ended November 30, 2010 the Company granted 120,000 stock options to employees. In addition, during the year ended November 30, 2010 the Company issued 32,722 broker options to purchase common shares of IPC, in connection with the October 2009 transaction. In fiscal 2009 the Company recorded a stock-based compensation expense of $18,529 related to 12,500 stock options. This accrued amount was recognized in additional paid in capital upon issuance of these options during the year ended November 30, 2010.

In fiscal 2010, the Company recorded $13,711 as a charge to additional paid in capital and a charge to share issuance costs in additional paid in capital,and expensed a stock-based compensation expense of $78,416 related to 45,138 stock options issued under its employee stock option plan. In addition, in accordance with ASC topic 718-10, the Company has recorded a stock-based compensation of $59,610 related to 45,000 stock options issuable to non-management board members in accordance with the board approved remuneration plan. The fair value of these options has been estimated as at November 30, 2010 using the Black-Scholes Options Pricing Model, using volatility of 98%, risk free interest rate of 2.25%, expected life of 8.3 years, dividend yield of Nil.

The Company's total stock-based compensation for the year ended November 30, 2010 and 2009 and year ended December 31, 2008 was $1,023,626, $18,529, $442,800 respectively.

(Stated in U.S. dollars)

11. Options (continued)

The Company recorded stock-based compensation relating to option grants amounting to $137,573 recorded in selling, general and administration for the year ended November 30, 2010 and $18,529 for the eleven month period ended November 30, 2009, and $Nil for the year ended December 31, 2008.

The Company recorded stock-based compensation expense relating to option grants amounting $885,600 recorded in research and development expenses for the year ended November 30, 2010, 2009 - $Nil, and $442,800 in the year ended December 31, 2008.

The Company has estimated its stock option forfeitures to be $Nil at November 30, 2010.

12. Deferred share units

Effective May 28, 2010, the Company shareholders approved a Deferred Share Unit ("DSU") Plan to grant DSUs to its non-management directors and reserved a maximum of 110,000 common shares for issuance under the plan. The DSU plan permits certain non-management directors to defer receipt of all or a portion of their board fees until termination of the board service and to receive such fees in the form of common shares at that time. A DSU is a unit equivalent in value to one common share of the Company based on the trading price of the Company's common shares on the Toronto Stock Exchange. Upon termination of board service, the director will be able to redeem DSUs based upon the then market price of the Company's common shares on the date of redemption in exchange for any combination of cash or common shares as the Company may determine. During the year ended November 30, 2010, one non-management board member elected to receive director fees in the form of DSUs under the Company's DSU plan. Accordingly, the Company has recorded an accrual of $12,426 for 5,041 DSUs that will be issued. The value of DSUs issued has been recorded as a charge to selling, general and administration expense and accrued liabilities.

13. Restricted share units

Effective May 28, 2010, the Company shareholders approved a Restricted Share Unit ("RSU") Plan for officers and employees of the Company and reserved a maximum of 330,000 common shares for issuance under the plan. The RSU plan will form part of the incentive compensation arrangements available to officers and employees of the Company and its designated affiliates. A RSU is a unit equivalent in value to one common share of the Company. Upon vesting of the RSUs and the corresponding issuance of common shares to the participant, or on the forfeiture and cancellation of the RSUs, the RSUs credited to the participant's account will be cancelled. No RSUs have been issued under the plan.

14. Warrants

Under GAAP, these warrants are considered to be a liability as they are indexed to both the fair value of the Company's stock and foreign exchange rates. Any changes in the fair value of warrants are recorded on the statement of operations in the period of change.

The following table provides information on the 357,237 warrants outstanding and exercisable as of November 30, 2010:

Exercise price	Number outstanding	Expiry	Shares issuable upon exercise
$			
95.51	113,962	November 14, 2011	113,962
47.91	243,275	May 24, 2012	243,275
	357,237		357,237

(Stated in U.S. dollars)

14. Warrants (continued)

Details of warrant transactions are as follows:

	November 30, 2010
Outstanding in beginning of year	376,699
Expired	(19,462)
	357,237

The fair value of the warrants outstanding at November 30, 2010 using the Black-Scholes Options Pricing Model was estimated to be $7,161 (November 30, 2009 - $226,268), using the following assumptions as of November 30, 2010:

Warrants outstanding	Dividend	Volatility	Risk free rate	Expected life
		%	%	
113,962	-	100.7	1.57	1.0 yrs
243,275	-	97.1	1.57	1.5 yrs

15. Income taxes

The Company files Canadian income tax returns for its Canadian operations. Separate income tax returns are filed as locally required.

The total provision for income taxes differs from the amount which would be computed by applying the Canadian income tax rate to loss before income taxes. The reasons for these differences are as follows:

	November 30, 2010	November 30, 2009	December 31, 2008
	%	%	%
Statutory income tax rate	31	33	35
	$	$	$
Statutory income tax recovery	(1,785,938)	(606,782)	(1,317,811)
Increase (decrease) in income taxes			
Non-deductible expenses/ non-taxable income	323,643	(30,210)	244,412
Change in valuation allowance	1,782,583	1,177,092	653,572
Change in substantively enacted rates, other changes in tax rates applied, changes in foreign exchange rates and other	(320,288)	(540,100)	419,827
	-	-	-

(Stated in U.S. dollars)

15. Income taxes (continued)

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities and certain carry-forward balances. Significant temporary differences and carry-forwards are as follows:

	November 30, 2010	November 30, 2009	December 31, 2008
	$	$	$
Deferred tax assets			
Non-capital loss carry-forwards	2,813,049	2,343,338	1,533,384
Book and tax basis differences on assets and liabilities	632,422	628,859	141,252
Other	10,380	21,060	63,694
Ontario harmonization tax credit	431,601	-	-
Investment tax credit	740,213	-	-
Undeducted research and development expenditures	1,220,998	1,072,822	1,150,657
	5,848,663	4,066,079	2,888,987
Valuation allowances for deferred tax assets	(5,848,663)	(4,066,079)	(2,888,987)
Net deferred tax assets	-	-	-

At November 30, 2010, the Company had cumulative operating losses available to reduce future years' income for income tax purposes:

Canadian income tax losses expiring in the year ended November 30,	Federal
	$
2013	1,729,906
2014	2,203,290
2025	531,182
2026	-
2027	1,419,956
2028	1,454,297
2030	3,720,421
	11,059,052

United States Federal income tax losses expiring in the year ended November 30,	
	$
2024	86,864
2025	16,234
2026	34,523
	137,621

(Stated in U.S. dollars)

15. Income taxes (continued)

At November 30, 2010 the Company had a cumulative carry-forward pool of SR&ED expenditures in the amount of approximately $5,518,500 Federal, which can be carried forward indefinitely.

At November 30, 2010, the Company had approximately $431,600 of Ontario harmonization credits, which will expire on the November 30, 2014 taxation year. These credits are subject to a full valuation allowance as they are not more likely than not to be realized.

At November 30, 2010, the Company had approximately $740,200 (November 30, 2009 - 239,000; December 31, 2008 - $163,800) of unclaimed ITCs which expire from 2025 to 2030. These credits are subject to a full valuation allowance as they are not more likely than not to be realized.

The net deferred tax assets have been fully offset by a valuation allowance because it is not more likely than not the Company will realize the benefit of these deferred tax assets. The Company does not have any unrecognized tax benefits as of November 30, 2010, November 30, 2009 and December 31, 2008.

The Company files unconsolidated federal income tax returns domestically and in foreign jurisdictions. The Company has open tax years from 2004 to 2010 with tax jurisdictions including Canada and the U.S. These open years contain certain matters that could be subject to differing interpretations of applicable tax laws and regulations, as they relate to amount, timing, or inclusion of revenues and expenses.

The Company did not incur any interest expense related to uncertain tax positions in 2010, 2009 and 2008 or any penalties in those years. The Company had no accrued interest and penalties as of November 30, 2010 and 2009.

The Company had no unrecognized tax benefits in 2010, 2009 and 2008, and the Company does not expect that the unrecognized tax benefit will increase within the next twelve months.

	2010	2009	2008
	$	$	$
Unrecognized tax benefit - beginning	-	-	-
Adjustment	-	-	-
Unrecognized tax benefit - ending	-	-	-

16. Contingencies

From time to time, the Company may be exposed to claims and legal actions in the normal course of business, which may be initiated by the Company. As at November 30, 2010, there were no pending litigation or threatened claims outstanding other than the one described in the following paragraph.

Wyeth LLC, a wholly owned subsidiary of Pfizer Inc., filed a lawsuit for patent infringement against the Company in the United States District Court for the District of Delaware and for the Southern District of New York, relating to Intellipharmaceutics' generic version of Effexor XR® (venlafaxine hydrochloride extended release) capsules.

Wyeth served the Company with the Complaint in the Southern District of New York on August 31, 2010, and the Company filed its Answer and Counterclaim in response to the Complaint on or about September 20, 2010. Wyeth did not proceed with the Complaint in Delaware. In or about December 2010,both parties began to and continue to explore other alternatives.

Lawsuits such as these are an ordinary and expected part of the process of obtaining approval to commercialize a generic drug product in the United States. The Company remains confident that Intellipharmaceutics' generic versions of Effexor XR® do not in any event infringe the patents asserted in the above-noted lawsuit.

16. Contingencies (continued)

There is no likelihood that the Company will be required to pay any damages or other penalty to Wyeth in connection with the resolution of this litigation in its reasonably anticipated course.

Pursuant to an arrangement agreement between Vasogen and Cervus dated August 14, 2009 (the "Cervus Agreement"), Vasogen and New Vasogen entered into an indemnity agreement (the "Indemnity Agreement"), which became an obligation of the Company as of October 22, 2009.

The Indemnity Agreement is designed to provide Cervus, with indemnification for claims relating to Vasogen's and New Vasogen's business that are brought against Cervus in the future, subject to certain conditions and limitations.

The Company's obligations under the Indemnity Agreement relating to the Tax pools defined in the Indemnity Agreement are limited to an aggregate of Cdn$1,455,000 with a threshold amount of Cdn$50,000 before there is an obligation to make a compensation payment. The Company does not expect to incur any amount under this indemnity agreement.

17. Financial instruments

(a) Fair values

Effective January 1, 2008, the Company adopted ASC topic 820, “Fair Value Measurements and Disclosures” which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820 apply to other accounting pronouncements that require or permit fair value measurements. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date; and establishes a three level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Inputs refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The three levels of the hierarchy are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly for substantially the full term of the financial instrument.

Level 3 inputs are unobservable inputs for asset or liabilities.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair value of cash is measured based on Level 1 inputs referred to in the three levels of the hierarchy noted above.

The carrying values of cash, accounts receivable, investment tax credits and accounts payable, capital lease obligations ,accrued liabilities approximates their fair values because of the short-term nature of these instruments.

(Stated in U.S. dollars)

17. Financial instruments (continued)

(b) Interest rate and credit risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates, relative to interest rates on cash, due to related parties and capital lease obligations due to the short-term nature of these balances.

Trade accounts receivable potentially subjects the Company to credit risk. The Company provides an allowance for doubtful accounts equal to the estimated losses expected to be incurred in the collection of accounts receivable.

The following table sets forth details of the aged accounts receivable that are not overdue as well as an analysis of overdue amounts and the related allowance for doubtful accounts:

	November 30, 2010	November 30, 2009
	$	$
Total accounts receivable	1,619	5,427
Less allowance for doubtful accounts	-	-
Total accounts receivable, net	1,619	5,427
Not past due	536	521
Past due for more than 31 days but no more than 60 days	539	3,589
Past due for more than 61 days but no more than 90 days	544	-
Past due for more than 91 days but no more than 120 days	-	-
Past due for more than 120 days	-	1,317
Less allowance for doubtful accounts	-	-
Total accounts receivable, net	1,619	5,427

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of uncollateralized accounts receivable. The Company's maximum exposure to credit risk is equal to the potential amount of financial assets. For the year ended November 30, 2010 one customer accounted for 100% of revenue of the Company and 100% of accounts receivable of the Company. In fiscal year 2009, two customers accounted for 90% and 10% of net revenue of the Company and one customer accounted for 100% of accounts receivable of November 30, 2009. In fiscal 2008, one customer accounted for 98% of net revenue of the Company and three customers accounted for 52%, 31% and 11% of accounts receivable at December 31, 2008.

The Company is also exposed to credit risk at period end from the carrying value of its cash. The Company manages this risk by maintaining bank accounts with a Canadian Chartered Bank. The Company's cash is not subject to any external restrictions.

17. Financial instruments (continued)

(c) Foreign exchange risk

The Company has balances in Canadian dollars that give rise to exposure to foreign exchange ("FX") risk relating to the impact of translating certain non-U.S. dollar balance sheet accounts as these statements are presented in U.S. dollars. A strengthening U.S. dollar will lead to a FX loss while a weakening U.S. dollar will lead to a FX gain. For each Canadian dollar balance of $1.0 million a +/- 10% movement in the Canadian currency held by the Company versus the US dollar would affect the Corporation's loss and other comprehensive loss by $0.1 million.

Balances denominated in foreign currencies that are considered financial instruments are as follows:

	November 30, 2010		November 30, 2009	
	U.S.	Canadian	U.S.	Canadian
FX rates used to translate to U.S.		1.0266		1.0266
	$	$	$	$
Assets				
Cash	386,038	396,306	8,014,492	8,460,098
Accounts receivable	-	-	5,427	5,729
Investment tax credits	814,059	835,713	1,840,044	1,942,350
	1,200,097	1,232,019	9,859,963	10,408,177
Liabilities				
Accounts payable	378,660	388,732	1,323,368	1,396,948
Accrued liabilities	301,776	309,803	540,604	570,662
Employee cost payable	103,006	105,746	501,114	528,976
Capital lease	13,229	13,582	48,457	51,151
Due to related party	1,635,842	1,679,355	2,360,181	2,491,407
	2,432,513	2,497,218	4,773,724	5,039,144
Net exposure	(1,232,416)	(1,265,199)	5,086,239	5,369,033

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due. In meeting its liquidity requirements, the Company closely monitors its forecast cash requirements with expected cash drawdown.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at November 30, 2010:

	Less than 3 months	3 to 6 months	6 to 9 months	9 months 1 year	Greater than 1 year
	$	$	$	$	$
Accounts payable	612,957	-	-	-	-
Accrued liabilities	321,030	-	-	-	-
Employee cost payable	575,625	-	-	-	-
Lease obligations	6,622	2,776	2,853	978	-
Due to related parties	1,635,842	-	-	-	-
	3,152,076	2,776	2,853	978	-

(Stated in U.S. dollars)

18. Segmented information

The Company's operations comprise a single reporting segment engaged in the research, development and manufacture of novel or generic controlled release and targeted release oral solid dosage drugs. As the operations comprise a single reporting segment, amounts disclosed in the financial statements for revenue, loss for the year, depreciation and total assets also represent segmented amounts. In addition, all of the Company's long-lived assets are in North America.

	November 30, 2010	November 30, 2009	December 31, 2008
	$	$	$
Revenue			
Canada	-	62,615	21,574
United States	1,459,385	567,564	1,256,130
	1,459,385	630,179	1,277,704
Total assets			
Canada	3,267,706	11,081,332	
Total property and equipment			
Canada	925,554	1,046,121	

19. Deferred revenue

During the year a drug development agreement has been mutually terminated by the Company and the other party. Under the termination agreement the Company is not required to refund any amounts received by the Company under this agreement. As a result, unearned revenue of approximately $1,439,000 was brought into income during fiscal 2010.

20. Non-cash transactions

In fiscal 2010, included in research and development expenses is an amount of $26,832 related to the write-off of previously recorded investment tax credit.

In connection with the acquisition transaction dated October 22, 2009 described in Note 4, the Company acquired certain assets and assumed certain liabilities that were non-cash. There were no non-cash transactions in 2008.

	2009
	$
Investment tax credits and prepaid expenses and sundry as	489,255
Accounts payable and assumed liabilities	2,299,289
Warrant liability	543,669

21. Subsequent events

The Company has evaluated subsequent events through the date of the release of the financial statements. On February 1, 2011 the Company completed a private offering for the sale and issuance of 4,800,000 units for cash consideration of $12,000,000. Each unit consisted of one share of common stock, a five year warrant to purchase one half of a share of common stock at an exercise price of $2.50 per whole share and a two year warrant to purchase one half of a share of common stock at an exercise price of $2.50. Share issue costs are estimated at approximately Cdn$1,500,000. At November 30, 2010 $224,673 of the share issuance costs has been incurred.