



2013 Third Quarter
Management Discussion and Analysis and Financial Statements

**MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED AUGUST 31, 2013**

The following Management Discussion and Analysis (“MD&A”) should be read in conjunction with the August 31, 2013 condensed unaudited interim consolidated financial statements of Intellipharmaceuticals International Inc. (“IPC”). The condensed unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. 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 condensed unaudited interim 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. The information contained in this document is current in all material respects as of October 1, 2013, unless otherwise noted.

Unless the context otherwise requires, the terms “we”, “us”, “Intellipharmaceuticals”, “IPC” and the “Company” refer to Intellipharmaceuticals International Inc. and its subsidiaries. Any reference in this document to our “products” includes a reference to our product candidates and future products we may develop. 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 expressed or implied regarding our plans, goals and milestones, status of developments 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 sales, revenues and profitability, projected costs and market penetration. In some cases, you can identify forward-looking statements 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 our forward-looking statements. You should not place undue reliance on our forward-looking statements, which are subject to a multitude of known and unknown risks and uncertainties that could cause actual results, future circumstances or events to differ materially from those stated in or implied by the forward-looking statements.

Risks, uncertainties and other factors that could affect our actual results include, but are not limited to, the effects of general economic conditions, securing and maintaining corporate alliances, our estimates regarding our capital requirements, and the effect of capital market conditions and other factors, including the current status of our product development programs, on capital availability, the potential dilutive effects of any future financing, our programs regarding research, development and commercialization of our product candidates and the timing of such programs, the timing, costs and uncertainties regarding obtaining regulatory approvals to market our product candidates, and the timing and amount of any available investment tax credits. Other factors that could cause actual results to differ materially include but are not limited to:

- the actual or perceived benefits to users of our drug delivery technologies and product candidates as compared to others;
- our ability to establish and maintain valid and enforceable intellectual property rights in our drug delivery technologies and product candidates;
- the scope of protection provided by intellectual property for our drug delivery technologies and product candidates;
- the actual size of the potential markets for any of our product candidates compared to our market estimates;
- our selection and licensing of product candidates;

- our ability to attract distributors and collaborators with the ability to fund patent litigation and 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 insurance 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 regulatory status and compliance of third-party contract research organizations, suppliers and manufacturers that we may use for our products; and
- the manufacturing capacity of third-party manufacturers that we may use for our products.

Additional risks and uncertainties relating to the Company and our business can be found in our reports, public disclosure documents and other filings with the securities commissions and other regulatory bodies in Canada and the U.S. 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.

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.

QUARTERLY CORPORATE HIGHLIGHTS

- In July 2013, Intellipharma announced an update on its Rexista™ oxycodone development program. The results from physico-chemical tests to assess abuse-deterrent properties of its Rexista™ oxycodone suggested that intact, pulverized or microwaved product with or without various solvents and temperatures, will be difficult to extract through inhalation, injection, chewing or licking. Results of a successful Phase I clinical trial suggested that the technology in the Company's formulation of Rexista™ oxycodone does not interfere with the bioavailability of oxycodone as compared to OxyContin®.
- In July 2013, Intellipharma announced the closing of an underwritten public offering for gross proceeds of approximately \$3.1 million at a price of \$2.05 per unit. The Company sold units comprised of an aggregate of 1,500,000 common shares and warrants to purchase an additional 375,000 common shares. The warrants are exercisable for a term of five years and have an exercise price of \$2.55 per common share. After placement agent fees and estimated offering expenses, the Company received net proceeds from the offering of approximately \$2.5 million. Intellipharma intends to use the net proceeds for expenses related to bioequivalence studies and clinical trials for the advancement of product development, and for working capital, research and development and general corporate purposes.

BUSINESS OVERVIEW

On October 22, 2009, IntelliPharmaCeutics Ltd. (“IPC Ltd.”) and Vasogen Inc. (“Vasogen”) completed a plan of arrangement and merger (the “IPC Arrangement Agreement”), resulting in a publicly-traded company, Intellipharmaceuticals International Inc., which is incorporated under the laws of Canada and whose shares are traded on the Toronto Stock Exchange and NASDAQ.

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 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 platform, Intellipharmaceuticals has developed several drug delivery systems and a pipeline of product candidates in various stages of development, including filings with the United States Food and Drug Administration (“FDA”) in therapeutic areas that include neurology, cardiovascular, gastrointestinal tract, diabetes and pain.

GOAL

Our goal is to leverage our proprietary technologies and know-how in order to build a diversified portfolio of commercialized products that generate revenue. We intend to do this by advancing our products from the formulation stage through product development, regulatory approval and manufacturing. We believe that 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, when it makes economic sense to do so, should maximize revenues from our products while allowing us to focus on our core competencies. The goals for 2013, which the Company is actively endeavouring to accomplish, include the following:

- Obtain FDA approval of our generic version of Focalin XR®
- Obtain FDA approval of one or more additional Abbreviated New Drug Applications (“ANDAs”)
- File up to two additional ANDAs with the FDA
- Establish one or more additional development/marketing alliances
- Complete Phase I studies of Rexista™ oxycodone
- Conduct additional Phase I studies of controlled-release pregabalin

STRATEGY

We believe that our Hypermatrix™ technologies are a multidimensional controlled-release drug delivery platform that can be applied to the efficient development of a wide range of existing and new pharmaceuticals. We believe that the flexibility of these technologies allow us to develop complex drug delivery solutions within a rapid timeframe. Based on our technologies, we have a pipeline of product candidates in various stages of development, including eight ANDAs filed with the FDA, seven of which are under review, in therapeutic areas that include neurology, cardiovascular, gastrointestinal tract, diabetes and pain. Certain, but not all, of the products in our pipeline may be developed from time to time for third parties pursuant to drug development agreements with those third parties, under which our development partner generally pays certain of the expenses of development, sometimes makes certain milestone payments to us and receives a share of revenues or profits if the drug is developed successfully to completion, the control of which is generally in the discretion of our drug development partner. At this time, there is one such product in multiple strengths being developed in cooperation with a development partner.

The Hypermatrix™ technologies are applied to the development of both existing and new pharmaceuticals across a range of therapeutic classes. The competitive advantages of these technologies allow us to focus our development activities in two areas; difficult-to-develop 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 we believe represent

substantial opportunities for us to commercialize on our own or develop products or out-license our technologies and products:

- For existing controlled-release (once-a-day) products whose active pharmaceutical ingredients (“APIs”) are covered by drug molecule patents about to expire or already expired, or whose formulations are covered by patents about to expire, already expired or which we believe we do not infringe, we can seek to formulate generic products which are bioequivalent to the branded products. Our scientists have demonstrated a successful track record with such products, having previously developed several drug products which have been commercialized in the United States by their former employer/clients. The regulatory pathway for this approach requires ANDAs for the United States and corresponding pathways for other jurisdictions.
- 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. Among other out-licensing opportunities, these drugs can be licensed to and sold by the pharmaceutical company that made the original immediate-release product. This can potentially protect 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 for the U.S. or corresponding pathways for other jurisdictions where applicable. The 505(b)(2) pathway (which relies in part upon the approving agency’s findings for a previously approved drug) both accelerates development timelines and reduces costs in comparison to NDAs for new chemical entities.
- Some of 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 aptly suited to developing abuse-deterrent pain medications. The regulatory pathway for this approach requires NDAs via a 505(b)(2) application for the U.S. or corresponding pathways for other jurisdictions where applicable.

We believe that we are well-positioned, subject to continuing cash requirements, to execute our strategic plan due to, among other things, our expertise in drug delivery, product development, regulatory affairs and manufacturing.

TECHNOLOGY

Our scientists have developed drug delivery technology systems, based on the Hypermatrix™ platform, that facilitate controlled-release delivery of a wide range of pharmaceuticals. These systems include several core technologies, which enable us to flexibly respond to a wide range of drug attributes and patient requirements, producing a desired controlled-release effect. Our technologies have been incorporated in drugs manufactured and sold by major pharmaceutical companies.

This group of drug delivery technology systems are based upon the drug active ingredient (“drug active”) being imbedded in, and an integral part of, a homogeneous (uniform), core and/or coatings consisting of one or more polymers which affect the release rates of drugs, other excipients (compounds other than the drug active), such as for instance lubricants which control handling properties of the matrix during fabrication, and the drug active itself. The Hypermatrix™ technologies are the core of our current marketing efforts and the technologies underlying our existing development agreements.

PRODUCTS

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

Generic name	Brand	Indication	Stage of Development	Regulatory Pathway	Rights
Dexamethylphenidate hydrochloride extended-release capsules	Focalin XR®	Attention deficit hyperactivity disorder	ANDA application for commercialization approval for 6 strengths under review by FDA	ANDA	Intellipharmaceutics and Par Pharmaceutical, Inc.
Venlafaxine hydrochloride extended-release capsules	Effexor XR®	Depression	ANDA application for commercialization approval for 3 strengths under review by FDA	ANDA	Intellipharmaceutics
Pantoprazole sodium delayed- release tablets	Protonix®	Conditions associated with gastroesophageal reflux disease	ANDA application for commercialization approval for 2 strengths under review by FDA	ANDA	Intellipharmaceutics
Metformin hydrochloride extended-release tablets	Glucophage® XR	Management of type 2 diabetes	ANDA application for commercialization approval for 2 strengths under review by FDA	ANDA	Intellipharmaceutics
Quetiapine fumarate extended-release tablets	Seroquel XR®	Schizophrenia, bipolar disorder & major depressive disorder	ANDA application for commercialization approval for 5 strengths under review by FDA	ANDA	Intellipharmaceutics
Lamotrigine extended-release tablets	Lamictal® XR™	Anti-convulsant for epilepsy	ANDA application for commercialization approval for 4 strengths under review by FDA	ANDA	Intellipharmaceutics
Levetiracetam extended-release tablets	Keppra XR®	Partial onset seizures for epilepsy	ANDA application for commercialization for 2 strengths under review by FDA	ANDA	Intellipharmaceutics
Desvenlafaxine extended-release tablets	Pristiq®	Depression	ANDA application for commercialization approval for 2 strengths filed with the FDA	ANDA	Intellipharmaceutics
Carvedilol phosphate extended- release capsules	Coreg CR®	Heart failure, hypertension	Late-stage development	ANDA	Intellipharmaceutics
Oxycodone hydrochloride controlled-release capsules	OxyContin®	Pain	Phase I clinical trial	NDA 505(b)(2)	Intellipharmaceutics
Pregabalin extended-release capsules	Lyrica®	Neuropathic pain	Phase I clinical trial	NDA 505(b)(2)	Intellipharmaceutics

We typically select products for development that we anticipate could achieve FDA approval for commercial sales several years in the future. However, the length of time necessary to bring a product to the point where the product can be commercialized 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 Inc. (“Par”), as amended from time to time, for the development of generic versions of Focalin XR® in the various strengths in which it is marketed.

Dexmethylphenidate hydrochloride, a Schedule II restricted product in the United States, is indicated for the treatment of ADHD. According to Source Healthcare Analytics, sales for the 12 months ended August 2013 of Focalin XR® in the U.S. were approximately \$702 million (TRx MBS Dollars, which represents projected new and refilled prescriptions representing a standardized dollar metric based on manufacturer’s published catalog or list prices to wholesalers, and does not represent actual transaction prices and does not include prompt pay or other discounts, rebates or reductions in price).

Effective May 2007, we filed an ANDA for our generic version of Focalin XR® with the FDA in the 5, 10, 15 and 20 mg strengths. In the time since that filing, we have filed a number of amendments to the application, some of which were in the ordinary course at the request of the FDA, and others of which were to file for additional strengths of the product, including 30 mg and 40 mg.

The FDA filings for approval to market generic versions of Focalin XR in various strengths gave rise in the usual course to Paragraph IV patent litigation against the Company and Par by Novartis Pharmaceuticals Corporation, Novartis Pharma AG, Celgene Corporation, Elan Corporation, plc and Elan Pharma International Ltd. and Alkermes Pharma Ireland Limited (successor in title to Elan Pharma International Ltd) in the United States District Courts for New Jersey and Delaware. In each case, such litigation was settled by stipulations of dismissal together with settlement and license agreements among the parties. By these agreements, Par and the Company may market these generic versions of the product in the U.S., subject to agreed market entry dates and FDA approvals. We have a ten year profit-sharing agreement with Par for the sale of dexmethylphenidate hydrochloride extended-release capsules in the U.S., which commences with the commercial launch of each strength of the product by Par.

Our ANDA application for all of the above strengths remains under review, and there can be no assurance when, or if at all, the FDA will approve the various dosages of the product for sale in the U.S. market.

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

Our venlafaxine hydrochloride extended-release capsules are a generic version of the marketed drug Effexor XR®. Venlafaxine hydrochloride is indicated for the treatment of symptoms of depressive disorders. According to Source Healthcare Analytics, sales of venlafaxine hydrochloride extended-release capsules in the U.S. were approximately \$713 million (TRx MBS Dollars) for the 12 months ended August 2013.

Our ANDA in respect of this product 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., had filed a Complaint 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® capsules. On June 21, 2011, the Company announced that the patent infringement litigation was settled, granting the Company a non-exclusive license to the patents in suit that will permit the Company to launch a generic version of Effexor XR® in the U.S. following FDA approval of this product. There can be no assurance that such approval will be granted.

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® *(a registered trademark of the brand manufacturer)*

Our pantoprazole sodium delayed-release tablets are a generic version of the marketed drug Protonix®. Pantoprazole sodium inhibits gastric acid secretion and is indicated 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. According to Source Healthcare Analytics, sales of pantoprazole sodium

delayed-release tablets in the United States were approximately \$476 million (TRx MBS Dollars) for the 12 months ended August 2013.

An ANDA has been filed with the FDA, and the application is under review. The brand owner did not initiate patent infringement litigation. There are no unexpired patents associated with this product. 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. 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.

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

Our metformin hydrochloride extended-release tablets are a generic version of the marketed drug Glucophage® XR. Metformin hydrochloride is an oral antihyperglycemia drug indicated for the management of type 2 diabetes. According to Source Healthcare Analytics, sales of metformin hydrochloride extended-release tablets in the United States were approximately \$463 million (TRx MBS Dollars) for the 12 months ended August 2013.

An ANDA has been filed with the FDA, and the application is under review. The brand owner did not initiate patent infringement litigation. 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. 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.

Quetiapine Fumarate – Generic Seroquel XR® *(a registered trademark of the brand manufacturer)*

Our quetiapine fumarate extended-release tablets are a generic version of the marketed drug Seroquel XR®. Quetiapine fumarate is an oral psychotropic agent indicated for the treatment of schizophrenia, bipolar disorder, and major depressive disorder. According to Source Healthcare Analytics, sales of Seroquel XR® in the United States were approximately \$1.1 billion (TRx MBS Dollars) for the 12 months ended August 2013.

Effective February 2011, we filed an ANDA for our generic version of Seroquel XR® with the FDA in the 50, 150, 200, 300 and 400 mg strengths.

The FDA filing for approval to market generic versions of Seroquel XR in the noted strengths gave rise in the usual course to Paragraph IV patent litigation against the Company by AstraZeneca Pharmaceuticals LP and AstraZeneca UK Limited (together “AstraZeneca”) in the United States District Courts for New Jersey and the Southern District of New York. Such litigation was settled by stipulations of dismissal together with settlement and license agreements among the parties. By these agreements, the Company may market these generic versions of the product in the U.S., subject to agreed market entry dates and FDA approvals.

The ANDA 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.

Lamotrigine – Generic Lamictal® XR™ *(a registered trademark of the brand manufacturer)*

Our lamotrigine extended-release tablets are a generic version of the marketed drug Lamictal®XR™. Lamotrigine is an oral anticonvulsant drug used in the treatment of epilepsy. According to Source Healthcare Analytics, sales of lamotrigine extended-release tablets in the United States were approximately \$244 million (TRx MBS Dollars) for the 12 months ended August 2013.

An ANDA has been filed with the FDA, and the application is under review. The brand owner did not initiate patent infringement litigation. There are no unexpired patents associated with this product. 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. 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.

Levetiracetam – Generic Keppra XR® *(a registered trademark of the brand manufacturer)*

Our levetiracetam extended-release tablets are a generic version of the marketed drug Keppra XR®. Levetiracetam is an oral antiepileptic drug used in the treatment of partial onset seizures in patients with epilepsy. According to Source Healthcare Analytics, sales of levetiracetam extended-release tablets in the United States were approximately \$155 million (TRx MBS Dollars) for the 12 months ended August 2013.

An ANDA has been filed with the FDA, and the application is under review. The brand owner did not initiate patent infringement litigation, although it was given statutory notice of the ANDA, and although there is one unexpired patent pertaining to the branded product. 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. Intellipharmaceuticals remains confident that its generic version of Keppra XR® does not in any event infringe the unexpired patent. 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.

Desvenlafaxine – Generic Pristiq® *(a registered trademark of the brand manufacturer)*

Our desvenlafaxine extended-release tablets are a generic version of the marketed drug Pristiq®. Desvenlafaxine is a selective serotonin and norepinephrine reuptake inhibitor indicated for the treatment of major depressive disorder. According to Source Healthcare Analytics, sales of Pristiq® in the United States were approximately \$694 million (TRx MBS Dollars) for the 12 months ended August 2013.

An ANDA has been filed with the FDA. Based on the FDA's preliminary review and comments on the Company's ANDA filing for generic Pristiq®, the Company has repeated one of three bioequivalence studies for the product candidate. The Company will amend its existing application for generic Pristiq® to include the new study. 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)*

Our carvedilol phosphate controlled-release capsules, in development, are intended to be a generic version of the marketed drug Coreg CR®. Carvedilol phosphate is indicated for the treatment of hypertension and heart failure. According to Source Healthcare Analytics, sales of Coreg CR® in the United States were approximately \$277 million (TRx MBS Dollars) for the 12 months ended August 2013.

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

Rexista™ Oxycodone (Oxycodone Hydrochloride)

One of our non-generic products under development is Rexista™ oxycodone hydrochloride, intended as an abuse- and alcohol-deterrent controlled-release oral formulation of oxycodone hydrochloride for the relief of pain. Rexista™ oxycodone is an investigational drug, with a unique long acting oral formulation of oxycodone intended to treat moderate-to-severe pain when a continuous, around the clock opioid analgesic is needed for an extended period of time. Rexista™ oxycodone is designed to discourage common methods of tampering associated with misuse and abuse of such prescription opioid analgesic. According to Source Healthcare Analytics, sales of OxyContin® in the United States were approximately \$2.3 billion (TRx MBS Dollars) for the 12 months ended August 2013.

Rexista™ is intended to provide deterrence against intentional drug abuse and unintentional dose dumping. Dose dumping is the rapid release of active ingredient from a controlled-release drug into the blood stream that can result in increased toxicity, side effects, and a loss of efficacy. Dose dumping can result by consuming the drug, crushing, taking with alcohol, extracting with other beverages, vaporizing, or injecting.

Recently we conducted a randomized, cross-over, comparative bioavailability, Phase I clinical trial on 12 subjects in a fasted state comparing a single dose of 40 mg Rexista™ oxycodone with a single dose of 40 mg OxyContin®. In this study, the bioavailability of a single dose of Rexista™ oxycodone was equivalent to that of OxyContin®, as measured by the respective areas under the curve ("AUC"). The value for AUC essentially provides an estimation of total drug exposure by comparing ratios between Rexista™ oxycodone and OxyContin®. The ratios obtained were within 80% - 125% at the 90% confidence interval. This indicates that the technology platform in our formulation of Rexista™ oxycodone, the Point of Divergence Drug Delivery System ("nPODDDS™"), does not interfere with the bioavailability of oxycodone. We intend to apply the Rexista™ technology platform to other opioid drug candidates (e.g., oxymorphone, hydrocodone, and morphine).

The FDA is actively developing a regulatory program for this class of product. In January 2013, the Agency issued a draft guidance document, "Guidance for Industry: Abuse-Deterrent Opioids – Evaluation and Labeling", to assist the industry in developing new formulations of opioid drugs with abuse-deterrent properties. Subsequently, in April 2013, the FDA approved updated labeling for reformulated OxyContin® tablets. The new labeling indicates that the physical and chemical properties of reformulated OxyContin® are expected to make abuse via injection difficult and to reduce abuse via the intranasal route. The original OxyContin® was withdrawn for reasons of safety or effectiveness, resulting in the FDA refusing to accept or approve any ANDA of original OxyContin®.

In July 2012, the FDA approved a new Risk Evaluation and Mitigation Strategy ("REMS") requirement for all extended-release and long-acting opioid medications. The new safety measures require companies to make education programs available to prescribers based on an FDA Blueprint, make available FDA-approved patient education materials on the safe use of these drugs, and perform periodic assessments of the implementation of the REMS and the success of the program in meeting its goals. Education programs are currently offered to prescribers. Also in April 2011, a mandatory training program on responsible opioid prescribing practices was endorsed by the U.S. Government. 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 opioid REMS should benefit tamper-deterrent products.

We believe that we can leverage our core competencies 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, if approved for sale, enjoy a sales exclusivity period. Furthermore, it may be possible to establish and defend the intellectual property surrounding our tamper-deterrent opioid analgesic products.

There can be no assurance as to whether or when the FDA will approve any Intellipharma's application.

Regabatin™ XR (Pregabalin Extended-Release)

Another Intellipharma's non-generic controlled-release product is Regabatin™ XR, pregabalin extended-release capsules. Pregabalin is indicated for the management of neuropathic pain associated with diabetic peripheral neuropathy, postherpetic neuralgia, spinal cord injury and fibromyalgia. There is no controlled-release formulation on the market at this

time. A controlled-release version of pregabalin should reduce the number of doses patients take, potentially improving patient compliance, and therefore potentially improving clinical outcomes. According to Source Healthcare Analytics, U.S. sales for the 12 months ended August 2013 for Lyrica® (pregabalin capsules) were approximately \$2.3 billion (TRx MBS Dollars).

The company successfully completed an initial Phase I clinical trial of a controlled-release pregabalin formulation. This was the first bioavailability study of our controlled-release pregabalin versus Lyrica® (immediate release pregabalin). The study was carried out in 14 subjects. The results showed that our 150 mg pregabalin once-a-day dosage was comparable in bioavailability to Lyrica® 50 mg three-times-a-day dosage. We plan to initiate additional Phase I clinical trials in 2013. There can be no assurance that additional clinical trials will meet our expectations, that we will be successful in submitting a NDA 505(b)(2) filing with the FDA, that the FDA will approve this product candidate for sale in the U.S. market, or that it will ever be successfully commercialized.

There can be no assurance as to whether or when the FDA will approve any Intellipharmaceuticals' application.

SELECTED FINANCIAL INFORMATION

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 lower in the three months ended August 31, 2013 when compared to the three months ended August 31, 2012 was due to our weaker financial position during the 2013 period.

	For the three months ended		For the nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
	\$	\$	\$	\$
Revenue:	-	-	-	107,091
Expenses:	1,703,902	2,140,906	5,754,698	7,352,999
Loss from operations	(1,703,902)	(2,140,906)	(5,754,698)	(7,245,908)
Loss per share, basic and diluted	(0.10)	(0.08)	(0.27)	(0.28)
	As at			
	August 31	November 30		
	2013	2012		
Cash and cash equivalents	2,384,630	497,016		
Total Assets	4,113,293	2,474,878		
Convertible debenture	1,393,574	-		
Warrant liabilities	1,649,675	1,960,893		
Total liabilities	5,491,712	4,242,755		
Shareholders' deficiency	(1,378,419)	(1,767,877)		
Total liabilities and shareholders equity	4,113,293	2,474,878		

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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.

Disclosure regarding our ability to continue as a going concern is included in Note 1 to our condensed unaudited interim consolidated financial statements for the nine months ended August 31, 2013.

Use of Estimates

The preparation of the condensed unaudited interim consolidated financial statements in conformity with U.S. 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; the fair value of conversion option embedded derivatives; evaluation of income tax positions; the determination of valuation allowances; the determination of investment tax credits; accrued liabilities; deferred revenue; forecasting future cash flows for assessing whether there are any impairments of long-lived assets; and the going concern assumption.

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.

Convertible debenture

The conversion option in the convertible debenture (the "Debenture") is bifurcated from its host contract and the fair value of the conversion option is characterized as an embedded derivative upon issuance as it meets the criteria of Accounting Standard Codification ("ASC") topic ASC 815-15-25-1 Embedded Derivatives. Subsequent changes in the fair value of the embedded derivative are recorded in the condensed unaudited interim consolidated statements of operations and comprehensive loss.

Financial instruments

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are classified as liabilities, the derivative instrument is initially recorded at its fair value using the appropriate valuation methodology and is then re-valued at each reporting date, with changes in the fair value reported in the condensed unaudited interim consolidated statements of operations and comprehensive loss.

Investment tax credits

The investment tax credits ("ITC") receivable are amounts considered recoverable from the Canadian federal and provincial governments under the Scientific Research & Experimental Development ("SR&ED") 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, 2012 and the nine months ended August 31, 2013.

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.

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 internal or external appraisals.

Revenue recognition

The Company accounts for revenue in accordance with the provision of ASC topic 605 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.

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 accounts in accordance with 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. The cumulative effects of the application of the provisions of ASC topic 740-10 are described in Note 10 of the condensed unaudited interim consolidated financial statements.

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

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.

Stock-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 stock-based compensation expense is recorded in the statement of comprehensive loss under research and development expense and under selling, general and administration expense. Note 7 of the condensed unaudited interim consolidated financial statements provides supplemental disclosure of the Company's stock options.

Recently adopted accounting pronouncements

In February 2013, the FASB provided amendments to Accounting Standards Update ("ASU") 2013-02 "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The amendments are effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company adopted the amendments on March 1, 2013. The adoption did not have an impact on the Company's financial position, results of operations or cash flow.

Future Accounting pronouncements

In March 2013, the FASB provided amendments to Accounting Standards Update No. 2013-05 "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force)". The amendments are effective prospectively for reporting periods beginning after December 15, 2013. The Company does not expect the adoption of the amendments to have a material impact on the Company's financial position, results of operations or cash flow.

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 our product candidates in various jurisdictions and any 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 three and nine months ended August 31, 2013 and 2012.

	For the three months ended				For the nine months ended			
	August 31, 2013	August 31, 2012	Change		August 31, 2013	August 31, 2012	Change	
	\$	\$	\$	%	\$	\$	\$	%
Revenue:								
Research and development	-	-	-		-	107,091	(107,091)	-100%
Expenses:								
Research and development	1,004,966	1,279,401	(274,435)	-21%	3,276,788	4,381,249	(1,104,461)	-25%
Selling, general and admin.	590,679	732,615	(141,936)	-19%	2,176,567	2,705,425	(528,858)	-20%
Depreciation	108,257	128,890	(20,633)	-16%	301,343	266,325	35,018	13%
	<u>1,703,902</u>	<u>2,140,906</u>	<u>(437,004)</u>	<u>-20%</u>	<u>5,754,698</u>	<u>7,352,999</u>	<u>(1,598,301)</u>	<u>-22%</u>
Loss from operations	(1,703,902)	(2,140,906)	437,004	-20%	(5,754,698)	(7,245,908)	1,491,210	-21%
Fair value adjustment of derivative liabilities	(162,062)	488,459	(650,521)	-133%	1,245,012	2,303,107	(1,058,095)	-46%
Financing expense	(54,789)	-	(54,789)	N/A	(111,615)	-	(111,615)	N/A
Net foreign exchange (loss) gain	(43,336)	207,644	(250,980)	-121%	(312,492)	218,459	(530,951)	-243%
Interest income	2,462	1,937	525	27%	2,550	19,480	(16,930)	-87%
Interest expense	(86,156)	(15,372)	(70,784)	460%	(238,334)	(47,738)	(190,596)	399%
Net loss for the period	<u>(2,047,783)</u>	<u>(1,458,238)</u>	<u>(589,545)</u>	<u>40%</u>	<u>(5,169,577)</u>	<u>(4,752,600)</u>	<u>(416,977)</u>	<u>9%</u>

Three Months Ended August 31, 2013 Compared to the Three Months Ended August 31, 2012

Revenue

The Company recorded revenues of \$Nil for the three months ended August 31, 2013 and \$Nil for the three months ended August 31, 2012.

Research and Development

Total expenditures for research and development ("R&D") for the three months ended August 31, 2013 were lower by \$274,435 compared to the three months ended August 31, 2012.

In the three months ended August 31, 2013, we recorded \$56,816 as expenses for stock options for executive and non-executive R&D employees. Included in the three months ended August 31, 2012, was an expense of \$152,875 of stock options issued to non-executive employees involved in R&D activities. There were no expenses for performance-based stock options in the two periods.

After adjusting for the stock options expenses discussed above, expenditures for R&D for the three months ended August 31, 2013 were lower by \$178,376 compared to the prior period. This is primarily attributed to the fact that during the three months ended August 31, 2012, there were more ongoing biostudies compared to the three months ended August 31, 2013.

Selling, General and Administrative

Selling, general and administrative expenses were \$590,679 for the three months ended August 31, 2013 in comparison to \$732,615 for the three months ended August 31, 2012, a decrease of \$141,936. The decrease is due to lower expenses related to wages and benefits and administrative costs which are discussed in greater detail below.

Expenditures for wages and benefits for the three months ended August 31, 2013 were \$304,763 in comparison to \$366,111 for the prior period. Part of this decrease is attributable to the issuance of stock options. In the three months ended August 31, 2013, we recorded \$71,278 as expenses for stock options compared to \$107,566 in the three months ended August 31, 2012. After adjusting for the stock options expenses discussed above, expenditures for wages and benefits for the three month ended August 31, 2013 were lower by \$25,060 compared to the prior period. The remaining decrease is attributed to the resignation of an executive of IPC Ltd.

Administrative costs for the three months ended August 31, 2013 were \$158,601 in comparison to \$267,959 for the prior period. The decrease is primarily due to business development consulting expenses in the prior period as well as higher expenditures in patents prosecution.

Marketing costs for the three months ended August 31, 2013 were \$104,961 in comparison to \$69,811 for the prior period. This increase is primarily the result of an increase in travel expenditures for business development activities.

Occupancy costs for the three months ended August 31, 2013 were \$22,354 in comparison to \$28,734 for the prior period. The decrease is due to the termination of the leased office for IPC Ltd.

Depreciation

Depreciation for the three months ended August 31, 2013 was \$108,257 in comparison to \$128,890 for the three months ended August 31, 2012. The decrease is primarily due to the additional investment in production, laboratory and computer equipment in the prior period compared to the current period.

Fair Value Adjustment of Derivative Liabilities

In July 2013, the Company completed an underwritten public offering for gross proceeds of approximately \$3.1 million at a price of \$2.05 per unit. The Company sold an aggregate of 1,500,000 units of common shares and warrants to purchase an additional 375,000 common shares. The warrants are exercisable for a term of five years and an exercise price of \$2.55 per common share. In March 2013, the Company completed a registered direct unit offering for gross proceeds of approximately \$3.1 million at a price of \$1.72 per unit. The Company sold an aggregate of 1,815,000 common shares and warrants to purchase an additional 453,750 common shares. The warrants are exercisable for a term of five years and an exercise price of \$2.10 per common share. In February 2011, the Company completed a private offering for the sale and issuance of 4,800,000 units of the Company, each unit consisting of one share of common stock, a five year Series A common share purchase 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 Series B common share purchase warrant to purchase one half of a share of common stock at an exercise price of \$2.50 per whole share. In February 2011, the Company also issued to the placement agents 96,000 warrants to purchase a whole share of common stock at an exercise price of \$3.125 per whole share.

Under U.S. GAAP, when the strike price of warrants is denominated in a currency other than an entity's functional currency, the warrants would not be considered indexed to the entity's own stock. As a result, the Company determined that these warrants are not considered indexed to the Company's own stock and therefore would consequently be considered to be derivative liability. Also under U.S. GAAP, warrants with the cashless exercise option satisfying the explicit net settlement criteria are considered a derivative liability.

In January 2013, the Company completed the private placement financing of an unsecured Debenture in the principal amount of \$1.5 million. The Debenture will mature January 1, 2015, bears interest at a rate of 12% per annum, payable monthly, is pre-payable at any time at the option of the Company, and is convertible at any time into 500,000 common shares at a conversion price of \$3.00 per common share at the option of the holder. The conversion price of the Debenture is in U.S. dollars and IPC's functional currency is Canadian dollars. Under U.S. GAAP, when the conversion price of the Debenture is denominated in a currency other than an entity's functional currency, the conversion option meets the definition of an embedded derivative. The conversion option is bifurcated from its host contract and the fair value of the conversion option characterized as an embedded derivative upon issuance. The embedded derivative is presented on a combined basis with the host contract. The derivative is re-measured at the end of every reporting period with the change in value reported in the statement of operations and comprehensive loss.

U.S. GAAP requires the fair value of these liabilities be re-valued at the end of every reporting period with the change in value reported in the statement of operations and comprehensive loss. Accordingly, the fair values of the warrant derivative liabilities from the Series A, Placement Agent, March 2013 and July 2013 Warrants, and conversion option embedded derivative from the Debenture have been re-valued at August 31, 2013 using the Black-Scholes Option Pricing Model, resulting in a fair value adjustment of the derivative liabilities for \$162,062.

Financing Expense

Financing expense for the three month period ended August 31, 2013 was \$54,789 related to the July 2013 underwritten public offering for gross proceeds of \$3.1 million. Financing expense is comprised of the portion of the direct costs of the financing attributable to warrant.

Foreign Exchange Loss

Net foreign exchange loss was \$43,336 for the three months ended August 31, 2013 in comparison to a gain of \$207,644 in the prior period. The foreign exchange loss was due to the significant weakening of the Canadian dollar against the U.S. dollar during the three months ended August 31, 2013 as the exchange rates changed to \$1.00 for C\$1.0530 at August 31, 2013 from \$1.00 for C\$1.0368 at May 31, 2013. The gain for the three months ended August 31, 2012 was due to the significant strengthening of the Canadian dollar against the U.S. dollar as the exchange rates changed to \$1.00 for C\$0.9857 at August 31, 2012 from \$1.00 for C\$1.0329 at May 31, 2012.

During the third quarter of 2013 the exchange rate averaged \$1.00 for C\$1.0375 compared to \$1.00 for C\$1.0109 for the third quarter of 2012.

Interest Income

Interest income for three months ended August 31, 2013 was higher by \$525 in comparison to the prior period. There was no significant change in this income.

Interest Expense

Interest expense for the three months ended August 31, 2013 was higher compared with the prior period, primarily because on January 10, 2013 we entered into the \$1,500,000 Debenture agreement which accrues interest payable at 12% annually. Also, the Debenture proceeds of \$1.5 million less the initial fair value of the conversion option embedded derivative of \$220,100, amounts to \$1,279,900 and is accreted at an annual imputed interest rate of 8%, over the life of the Debenture. We also continue to have another related party loan outstanding which accrues interest at 6% annually.

Nine Months Ended August 31, 2013 Compared to the Nine Month Ended August 31, 2012

Revenue

The Company recorded revenues of \$Nil for the nine months ended August 31, 2013 versus \$107,091 for the nine months ended August 31, 2012. In the prior year additional strengths of generic Focalin XR® were added to the existing development and commercialization agreement between the Company and Par. Under the terms of the expanded

agreement, the Company received a cash payment from Par, a portion of which was received in prior periods. During the nine months ended August 31, 2012 the remaining deferred revenue was recognized as revenue mainly related to completed development of the 40mg strength.

Research and Development

Expenditures for research and development for the nine months ended August 31, 2013 were lower by \$1,104,461 compared to the nine months ended August 31, 2012. These included spending for R&D activities as well as expenses on stock options as detailed below.

In the 2013 period, we recorded \$340,736 as expenses for stock options for R&D employees. In the prior period, we recorded \$1,353,413 as expenses for stock options for R&D employees.

After adjusting for the stock options expenses discussed above, expenditures for research and development for the nine months ended August 31, 2013 were lower by \$91,784 compared to the nine months ended August 31, 2012. This is primarily attributed to the fact that during the nine months ended August 31, 2012, there were more ongoing biostudies compared to the nine months ended August 31, 2013.

Selling, General and Administrative

Selling, general and administrative expenses were \$2,176,567 for the nine months ended August 31, 2013 in comparison to \$2,705,425 for the nine months ended August 31, 2012, a decrease of \$528,858. The decrease is due to lower expenses for stock-based compensation discussed in greater detail below.

Expenditure for wages and benefits for the nine months ended August 31, 2013 were \$1,016,439 in comparison to \$1,530,006 in the prior period. This decrease is attributable to the issuance of options. In the nine months ended August 31, 2013, we recorded \$291,425 as expenses for stock options compared to an expense of \$751,012 for the nine months ended August 31, 2012. After adjusting for the stock options expenses, expenditures for wages and benefits for the nine months ended August 31, 2013 were lower by \$53,980 compared to the prior period, which is primarily attributed to the resignation of an executive in IPC Ltd.

Administrative costs for the nine months ended August 31, 2013 were \$824,957 in comparison to \$846,005 in the prior period. The decrease is primarily due to business development expenses in the prior period as well as higher expenditures in patents prosecution.

Marketing costs for the nine months ended August 31, 2013 were \$264,025 in comparison to \$264,098 in the prior period. There was no significant change in these expenses.

Occupancy costs for the nine months ended August 31, 2013 were \$71,146 in comparison to \$65,316 in the prior period. The increase is due to higher utilities cost and a leased office for IPC Ltd during part of the current period.

Depreciation

Depreciation expenses for the nine months ended August 31, 2013 were \$301,343 in comparison to \$266,325 in the prior period. The increase is primarily due to the additional investment in production, laboratory and computer equipment.

Fair Value Adjustment of Derivative Liabilities

In July 2013, the Company completed an underwritten public offering for gross proceeds of approximately \$3.1 million at a price of \$2.05 per unit. The Company sold an aggregate of 1,500,000 units of common shares and warrants to purchase an additional 375,000 common shares. The warrants are exercisable for a term of five years and have an exercise price of \$2.55 per common share. In March 2013, the Company completed a registered direct unit offering for gross proceeds of approximately \$3.1 million at a price of \$1.72 per unit. The Company sold an aggregate of 1,815,000 common shares and warrants to purchase an additional 453,750 common shares. The warrants are exercisable for a term of five years and have an exercise price of \$2.10 per common share. In February 2011, the Company completed a private offering for the sale and issuance of 4,800,000 units of the Company, each unit consisting of one share of common stock, a five year Series A common share purchase 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 Series B common share purchase warrant to purchase one half of a share of common stock at an exercise price of \$2.50 per whole share. In February 2011, the Company also issued to the placement agents 96,000 warrants to purchase a whole share of common stock at an exercise price of \$3.125 per whole share.

Under U.S. GAAP, when the strike price of warrants is denominated in a currency other than an entity's functional currency, the warrants would not be considered indexed to the entity's own stock. As a result, the Company determined that these warrants are not considered indexed to the Company's own stock and therefore would consequently be considered to be derivative liability. Also under U.S. GAAP, warrants with the cashless exercise option satisfying the explicit net settlement criteria are considered a derivative liability.

In January 2013, the Company completed the private placement financing of an unsecured Debenture in the principal amount of \$1.5 million. The Debenture will mature January 1, 2015, bears interest at a rate of 12% per annum, payable monthly, is pre-payable at any time at the option of the Company, and is convertible at any time into 500,000 common shares at a conversion price of \$3.00 per common share at the option of the holder. The conversion price of the Debenture is in U.S. dollars and IPC's functional currency is Canadian dollars. Under U.S. GAAP, when the conversion price of the Debenture is denominated in a currency other than an entity's functional currency, the conversion option meets the definition of an embedded derivative. The conversion option is bifurcated from its host contract and the fair value of the conversion option characterized as an embedded derivative upon issuance. The embedded derivative is presented on a combined basis with the host contract. The derivative is re-measured at the end of every reporting period with the change in value reported in the statement of operations and comprehensive loss.

U.S. GAAP requires the fair value of these liabilities be re-valued at the end of every reporting period with the change in value reported in the statement of operations. Accordingly, the fair values of the warrant derivative liability from the Series A, Placement Agents, March 2013 and July 2013 Warrants, and conversion option embedded derivative from the Debenture have been re-valued at August 31, 2013 using the Black-Scholes Option Pricing Model, resulting in a fair value adjustment of the derivative liabilities for \$1,245,012.

Financing Expense

Financing expense for the nine month period ended August 31, 2013 was \$111,615 related to the March 2013 registered direct unit offering for gross proceeds of \$3.1 million and the July 2013 underwritten public offering for gross proceeds of \$3.1 million. Financing expense is comprised of a portion of the direct costs of the financing attributable to the warrant.

Foreign Exchange Loss

Foreign exchange loss was \$312,492 for the nine months ended August 31, 2013 in comparison to a gain of \$218,459 for the prior period. The foreign exchange loss for the period ended in August 31, 2013 was due to the significant weakening of the Canadian dollar against the U.S. dollar as the exchange rates changed to \$1.00 for C\$1.0530 at August 31, 2013 from \$1.00 for C\$1.0064 at November 30, 2012. The gain for the period ended August 31, 2012, was due to the strengthening of the Canadian dollar against the U.S. dollar as the exchange rates changed to \$1.00 for C\$0.9857 at August 31, 2012 from \$1.00 for C\$1.0203 at November 30, 2011.

During the nine months ended August 31, 2013 the exchange rate averaged \$1.00 for C\$1.0188 compared to \$1.00 for C\$1.0070 for the nine months ended August 31, 2012.

Interest Income

Interest income for the nine months ended August 31, 2013 was lower by \$16,930 in comparison to the prior period. The 2013 period interest was lower largely due to a lower average amount of cash equivalents on hand during 2013.

Interest Expense

Interest expense for the nine months ended August 31, 2013 was higher compared with the prior period, primarily because on January 10, 2013 we entered into the \$1,500,000 Debenture agreement which accrues interest payable at 12% annually. Also, the initial Debenture proceeds of \$1.5 million less the initial fair value of the conversion option embedded derivative of \$220,100, amounts to \$1,279,900 and is accreted at an annual imputed interest rate of 8%, over the life of the Debenture. We also continue to have another related party loan outstanding which accrues interest at 6% annually during 2013 and 2012.

SUMMARY OF QUARTERLY RESULTS

The following selected financial information is derived from our condensed unaudited interim consolidated financial statements for the three and nine months ended August 31, 2013, and years ended November 30, 2012 and 2011.

Quarter Ended	Revenues	Net loss	Loss per share	
			Basic	Diluted
	\$	\$	\$	\$
August 31, 2013	-	(2,047,783)	(0.10)	(0.10)
May 31, 2013	-	(1,781,662)	(0.09)	(0.09)
February 28, 2013	-	(1,340,133)	(0.07)	(0.07)
November 30, 2012	-	(1,384,265)	(0.08)	(0.08)
August 31, 2012	-	(1,458,238)	(0.08)	(0.08)
May 31, 2012	-	(1,357,843)	(0.08)	(0.08)
February 29, 2012	107,091	(1,936,519)	(0.12)	(0.12)
November 30, 2011	-	(1,285,132)	(0.09)	(0.09)

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. Net loss has been variable over the last eight quarters, and is impacted primarily by the availability of funding, the level of our R&D spending, and the fair value adjustment of derivative liabilities. The Company's increased net loss in the first quarter ended February 29, 2012, can be attributed to an increase in options expense for options issued during the period. The Company's increased net loss in the second quarter ended May 31, 2013, can be attributed to a reduction in the fair value adjustment of the derivative liability.

Analysis of Third Quarter 2013 Results

The higher loss during the third quarter of 2013 when compared to the loss in the second quarter of 2013 can be mainly attributed to the increase in fair value adjustment of derivative liability of \$0.2 million in the third quarter of 2013 versus a decrease in fair value adjustment of derivative liability of \$0.2 million in the second quarter of 2013.

LIQUIDITY AND CAPITAL RESOURCES

	For the three months ended				For the nine months ended			
	August 31, 2013		August 31, 2012		August 31, 2013		August 31, 2012	
			Change			Change		Change
	\$	\$	\$	\$	\$	\$	\$	\$
Cash flows used in operating activities	(1,793,845)	(1,575,661)	(218,184)	14%	(4,977,648)	(5,625,771)	648,123	-12%
Cash flows from (used in) financing activities	2,619,291	(112,932)	2,732,223	-2419%	6,994,344	4,417,925	2,576,419	58%
Cash flows used in investing activities	(17,935)	(369,590)	351,655	-95%	(119,122)	(746,167)	627,045	-84%
Effect of foreign exchange on cash	415	(4,955)	5,370	-108%	(9,960)	8,732	(18,692)	-214%
Increase (decrease) in cash	807,926	(2,063,138)	2,871,064	-139%	1,887,614	(1,945,281)	3,832,895	-197%
Cash, beginning of period	1,576,704	4,934,945	(3,358,241)	-68%	497,016	4,817,088	(4,320,072)	-90%
Cash, end of period	<u>2,384,630</u>	<u>2,871,807</u>	(487,177)	-17%	<u>2,384,630</u>	<u>2,871,807</u>	(487,177)	-17%

The Company had cash and cash equivalents of \$2,384,630 as at August 31, 2013 compared to \$1,576,704 as at May 31, 2013. The increase in cash during the three and nine months ended August 31, 2013 is mainly a result of cash flows provided from the financings completed in the second and third quarters of 2013, partially offset by R&D activities, as noted below.

For the three months ended August 31, 2013, net cash flows used in operating activities increased to \$1,793,845 as compared to net cash flows used in operating activities for the three months ended August 31, 2012 of \$1,575,661. The increase was largely due to the foreign facility finished dosage form fee of \$190,389 that was paid in the quarter for the

FDA's fiscal year 2013, based on the Generic Drug User Fee Amendments of 2012 ("GDUFA"). We were required to pay the fee, as our facility is identified in at least one pending application to market one or more generic drugs in the U.S.

For the nine months ended August 31, 2013, net cash flows used in operating activities decreased to \$4,977,648 as compared to net cash flows used in operating activities for the nine months ended August 31, 2012 of \$5,625,771. During the nine month period in 2013, the Company implemented active cash and expense management.

Research and development costs, which are a significant portion of the cash flows used in operating activities, related to continued internal research and development programs, are expensed as incurred. However, equipment and supplies are capitalized and amortized over their useful lives if they have alternative future uses. For the three months ended August 31, 2013 and August 31, 2012, R&D expense was \$1,004,966 and \$1,279,401, respectively. For the three months ended August 31, 2013 and August 31, 2012, R&D expense before stock option expense was \$948,150 and \$1,126,526, respectively. For the nine months ended August 31, 2013 and August 31, 2012, R&D expense was \$3,276,788 and \$4,381,249, respectively. For the nine months ended August 31, 2013 and August 31, 2012, R&D expense before stock option expense was \$2,936,052 and \$3,027,836, respectively.

For the three months ended August 31, 2013, net cash flows from financing activities of \$2,619,291 relate to the July 2013 underwritten public offering for gross proceeds of \$3.1 million at a price of \$2.05 per unit. The Company sold an aggregate of 1,500,000 common shares and warrants to purchase an additional 375,000 common shares. The warrants are exercisable immediately, have a term of five years and an exercise price of \$2.55 per common share. After placement agent fees and estimated offering expenses, the Company received net proceeds from the offering of approximately \$2.5 million. For the nine months ended August 31, 2013, net cash flows provided from financing activities of \$6,994,344 relate to the July 2013 underwritten public offering discussed above, the March 2013 registered direct financing for gross proceeds of approximately \$3.1 million and the Debenture financing for gross proceeds of \$1.5 million completed on January 10, 2013.

For the three months ended August 31, 2012 net cash flows used in financing activities of \$112,932 related to payment of additional share issuance costs related to the March 2012 registered direct common share offering, partially offset by a warrant exercise. For the nine months ended August 31, 2012 net cash flows from financing activities of \$4,417,925 related to the March 2012 registered direct common share offering for gross proceeds of \$5 million, warrant exercises, and partially offset by share issuance costs from the financing.

Repayment of the existing 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, other than the securities offerings completed on February 2011, March 2012 and March 2013; 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 Agreement completed with Vasogen in October 2009. As at August 31, 2013, interest payable on this loan was accrued in the amount of \$32,781 (C\$34,106). During the three months ended August 31, 2013, there was no interest paid and no repayment of principal. During the nine months ended August 31, 2013, \$18,322 (C\$17,671) in interest was paid and there was no repayment of principal. During the three and nine months ended August 31, 2012, there was no principal repayment but there was an interest payment of \$33,715 (C\$34,083).

For the three and nine months ended August 31, 2013, net cash flows used in investing activities of \$17,935 and \$119,122, respectively, related mainly to production and laboratory equipment. For the three and nine months ended August 31, 2012 net cash flows used in investing activities relate mainly to the purchase of production, laboratory and computer equipment due to the acceleration of product development activities.

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

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 securities, loans from related parties, funds from the IPC Arrangement Agreement 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 NDA 505(b)(2) 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.

In July 2013, the Company completed an underwritten public offering for gross proceeds of approximately \$3.1 million as described above. In March 2013, the Company completed a registered direct unit offering for gross proceeds of approximately \$3.1 million as described above. In January 2013, the Company completed the Debenture financing in the principal amount of \$1.5 million described elsewhere herein. In March 2012, the Company completed a registered direct common share offering for gross proceeds of \$5 million as described above.

We currently expect to satisfy our operating cash requirements through the end of our current fiscal year from cash on hand. In order for us to continue operations at existing levels, thereafter, we will require significant additional capital. Potential sources of any such capital may include collection of anticipated revenues resulting from future commercialization activities, development agreements or marketing license agreements, managing operating expense levels, equity and/or debt financings, and/or new strategic partnership agreements funding some or all costs of development, although there can be no assurance that we will be able to obtain any such capital on terms or in amounts sufficient to meet our needs or at all. The availability of equity or debt financing will be affected by, among other things, 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. In addition, if we raise additional funds by issuing equity securities, our then existing security holders will likely experience dilution, and the incurring of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. In the event that we do not obtain additional capital, there may be substantial doubt about our ability to continue as a going concern and realize our assets and pay our liabilities as they become due. Any failure by the Company to raise additional funds on terms favorable to the Company, or at all, may require the Company to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in our not taking advantage of business opportunities, in the termination or delay of clinical trials for one or more of our product candidates, in curtailment of our product development programs designed to identify new product candidates, in the sale or assignment of rights to our technologies, products or product candidates, and/or our inability to file ANDAs or NDAs at all or in time to competitively market our products or product candidates.

OUTSTANDING SHARE INFORMATION

The number of shares outstanding as of August 31, 2013 is 21,221,936, an increase of 3,314,999 from November 30, 2012, as a result of the July 2013 underwritten public offering and the March 2013 registered direct offering discussed above. The number of options outstanding as of August 31, 2013 is 4,459,572, an increase of 320,513 from November 30, 2012 (391,000 options were granted and 4,487 options expired and 66,000 options were forfeited during the nine months ended August 31, 2013). The warrants outstanding as of August 31, 2013 represent 2,784,750 common shares issuable upon the exercise of outstanding common share purchase warrants, a decrease of 906,250 from November 30, 2012, due to the expiration of Series B Warrants, offset by the issuance of warrants in the July 2013 underwritten public offering and the March 2013 registered direct offering. The number of deferred share units outstanding as of August 31, 2013 is 38,012, an increase of 15,563 from November 30, 2012.

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.

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.

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 August 31, 2013. The Company did not enter into financial instruments for trading or speculative purposes and does not currently utilize derivative financial instruments.

CAPITAL RESOURCES

At August 31, 2013, our cash and cash equivalents totalled \$2,384,630 compared to \$497,016 as at November 30, 2012. The increase in cash and cash equivalents during the nine months ended August 31, 2013 is mainly a result of cash provided from financing activities largely offset by cash used in operating activities. In January 2013, the Company completed the Debenture financing in the principal amount of \$1.5 million. The Debenture will mature January 1, 2015. In March 2013, the Company completed a registered direct unit offering for gross proceeds of approximately \$3.1 million at a price of \$1.72 per unit. In July 2013, the Company completed an underwritten public offering for gross proceeds of approximately \$3.1 million at a price of \$2.05 per unit. At August 31, 2013, the amount due to related parties totalled \$755,114 compared with \$783,717 at November 30, 2012. The decrease was due to the conversion of the Canadian dollar denominated related party loan into U.S. dollars, given the weaker Canadian dollar. At August 31, 2013, shareholders' deficiency was \$1,378,419 compared to shareholders' deficiency of \$1,767,877 at November 30, 2012. The decrease was due to the loss from operations during the period partially offset by the U.S. GAAP accounting of the derivative liabilities.

WORKING CAPITAL

Working capital deficiency (defined as current assets minus current liabilities) has improved by approximately \$1.6 million at August 31, 2013 from November 30, 2012, mainly as a result of cash used in operating activities offset by cash from financing activities. We currently expect to satisfy our operating cash requirements through the end of our current fiscal year from cash on hand. In order for us to continue operations at existing levels, thereafter, we will require significant additional capital. Potential sources of any such capital may include collection of anticipated revenues resulting from future commercialization activities, development agreements or marketing license agreements, managing operating expense levels, equity and/or debt financings, and/or new strategic partnership agreements funding some or all costs of development, although there can be no assurance that we will be able to obtain any such capital on terms or in amounts sufficient to meet our needs or at all. The availability of equity or debt financing will be affected by, among other things, 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. In addition, if we raise additional funds by issuing equity securities, our then existing security holders will likely experience dilution, and the incurring of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. In the event that we do not obtain additional capital over, there may be substantial doubt about our ability to continue as a going concern and realize our assets and pay our liabilities as they become due. Any failure by the Company to raise additional funds on terms favorable to the Company or at all, may require the Company to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in our not taking advantage of business opportunities, in the termination or delay of clinical trials for one or more of our product candidates, in curtailment of our product development programs designed to identify new product candidates, in the sale or assignment of rights to our technologies, products or product candidates, and/or our inability to file ANDAs or NDAs at all or in time to competitively market our products or product candidates.

CAPITAL EXPENDITURES

Total capital expenditures in the three and nine months ended August 31, 2013 were \$17,935 and \$119,122, respectively, compared to \$369,590 and \$746,167 for the three and nine months ended August 31, 2011, respectively. Capital expenditures in 2013 and 2012 relate to the purchase of production and laboratory equipment. Total capital expenditures for 2013 are anticipated to be lower than 2012 levels as significant expenditures occurred in 2012. We intend to fund 2013 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 lease 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 laboratory equipment where the lease obligation will end in fiscal 2014. Operating lease obligations related to the lease of premises will expire in November 2014, with an option to extend the lease on comparable terms for five additional years.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 years
	\$	\$	\$	\$	\$
Capital Lease Obligations	64,447	62,079	2,368	-	-
Operating Lease Obligations	106,350	85,080	21,270	-	-
Total Contractual Obligations	170,797	147,159	23,638	-	-

CONTINGENCIES AND LITIGATION

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 August 31, 2013, there were no pending or threatened litigation claims outstanding.

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 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 C\$1,455,000 with a threshold amount of C\$50,000 before there is an obligation to make a compensation payment. The Company does not presently expect to have to pay any amount under this indemnity agreement.

RELATED PARTY TRANSACTIONS

As at August 31, 2013, we had an outstanding related party payable to Dr. Isa Odidi and Dr. Amina Odidi, principal stockholders, directors and executive officers of the Company, in the amount of approximately \$755,114. 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 ("effective date"), and/or proceeds received by any IPC Company from any offering of its securities, (other than the proceeds from the transactions completed in February 2011, March 2012, March 2013 and July 2013) following the effective date and/or amounts received by IPC Corp for SR&ED 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 of the Net Cash from the Vasogen transaction (as defined in the IPC Arrangement Agreement). During the nine months ended August 31, 2013 shareholder loan interest of \$18,322 was paid in accordance with the terms of the IPC Arrangement Agreement. During the nine months ended August 31, 2012 there was no payments made towards the related party loan.

In addition on January 10, 2013, the Company completed a financing of a Debenture in the principal amount of \$1.5 million. The Debenture will mature January 1, 2015, bears interest at a rate of 12% per annum, payable monthly, is pre-payable at any time at the option of the Company, and is convertible at any time into 500,000 common shares at a conversion price of \$3.00 per common share at the option of the holder. Drs. Isa and Amina Odidi, principal stockholders, directors and executive officers of the Company provided the Company with the \$1.5 million of the proceeds for the Debenture.

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 August 31, 2013. 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 are effective as at August 31, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of our Company is responsible for establishing and maintaining adequate internal control 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 August 31, 2013. Management has not identified any material weaknesses or changes in the Company's internal control over financial reporting as of August 31, 2013.

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 August 31, 2013, 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 accumulated losses through August 31, 2013. As we engage in the development of products in our pipeline, we will continue to incur further losses. There can be no assurance that we will ever be able to achieve or sustain profitability or positive cash flow. Our ultimate success will depend on whether our drug formulations receive the approval of the FDA or other applicable regulatory agencies and whether we are able to successfully market approved products. There is no certainty we will be able to receive FDA approval for any of our drug formulations, or that we will reach the level of sales and revenues necessary to achieve and sustain profitability.

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 currently expect to satisfy our operating cash requirements through the end of our current fiscal year from cash on hand. In order for us to continue operations at existing levels, thereafter, we will require significant additional capital. Potential sources of any such capital may include collection of anticipated revenues resulting from future commercialization activities, development agreements or marketing license agreements, managing operating expense levels, equity and/or debt financings, and/or new strategic partnership agreements funding some or all costs of development, although there can be no assurance that we will be able to obtain any such capital on terms or in amounts sufficient to meet our needs or at all. The availability of equity or debt financing will be affected by, among other things, 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. In addition, if we raise additional funds by issuing equity securities, our then existing security holders will likely experience dilution, and the incurring of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. In the event that we do not obtain additional capital, there may be substantial doubt about our ability to continue as a going concern and realize our assets and pay our liabilities as they become due. Any failure by the Company to raise additional funds on terms favorable to the Company or at all, may require the Company to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in our not taking advantage of business opportunities, in the termination or delay of clinical trials for one or more of our product candidates, in curtailment of our product development programs designed to identify new product candidates, in the sale or assignment of rights to our technologies, products or product candidates, and/or our inability to file ANDAs or NDAs at all or in time to competitively market our products or product candidates.

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

Further risks and uncertainties affecting us can be found elsewhere in this document, in our latest Annual Information Form, our latest Form F-3 (including any documents forming a part thereof or incorporated by reference therein), and our latest Form 20-F, as amended, 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 collection of anticipated revenues resulting from future commercialization activities, development agreements or market license agreements, managing operating expense levels, equity and/or debt financings, and/or new strategic partnership agreements funding some or all costs of development, although, there can be no assurance that we will be able to obtain any such capital on terms or in amounts sufficient meet our needs or at all. The availability of equity or debt financing will be affected by, among other things, 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 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, reduce certain projects, or commence new ones. Any failure by the Company to raise additional funds on terms favorable to the Company, or at all, may require the Company to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in our not taking advantage of business opportunities, in the termination or delay of clinical trials for one or more of our product candidates, in curtailment of our product development programs designed to identify new product candidates, in the sale or assignment of rights to our technologies, products or product candidates, and/or our inability to file ANDAs or NDAs at all or in time to competitively market our products or product candidates.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's latest Annual Information Form, our latest Form F-3 (including any documents forming a part thereof or incorporated by reference therein), and latest Form 20-F, as amended, can be located under the Company's profile on the SEDAR website at www.sedar.com and on the EDGAR section of the SEC's website at www.sec.gov

Condensed unaudited interim consolidated financial statements of

Intellipharma
International Inc.

August 31, 2013

Intellipharmaceuticals International Inc.

August 31, 2013

Table of contents

Condensed unaudited interim consolidated balance sheets	2
Condensed unaudited interim consolidated statements of operations and comprehensive loss	3
Condensed unaudited interim consolidated statements of shareholders' deficiency	4
Condensed unaudited interim consolidated statements of cash flows.....	5
Notes to the condensed unaudited interim consolidated financial statements.....	6-19

Intellipharmaceuticals International Inc.

Condensed unaudited interim consolidated balance sheets

As at

(Stated in U.S. dollars)

	August 31, 2013	November 30, 2012
	\$	\$
Assets		
Current		
Cash and cash equivalents (Note 12)	2,384,630	497,016
Accounts receivable	10,566	2,778
Investment tax credits	246,179	301,932
Prepaid expenses, sundry and other assets	141,560	137,449
	<u>2,782,935</u>	<u>939,175</u>
Property and equipment, net	1,330,358	1,535,703
	<u>4,113,293</u>	<u>2,474,878</u>
Liabilities		
Current		
Accounts payable	1,016,436	512,360
Accrued liabilities	120,936	224,797
Employee costs payable (Note 5)	499,519	663,222
Current portion of capital lease obligations	54,237	51,524
Due to related parties (Note 4)	755,114	783,717
	<u>2,446,242</u>	<u>2,235,620</u>
Convertible debenture (Note 4)	1,393,574	-
Capital lease obligations	2,221	46,242
Warrant liabilities (Note 9)	1,649,675	1,960,893
	<u>5,491,712</u>	<u>4,242,755</u>
Shareholders' deficiency		
Capital stock (Notes 6 and 7)		
Authorized		
Unlimited common shares without par value		
Unlimited preference shares		
Issued and outstanding		
21,221,936 common shares (2012 - 17,906,937)	147,152	147,152
Additional paid-in capital	33,661,081	28,409,665
Accumulated other comprehensive income (loss)	67,609	(240,010)
Accumulated deficit	(35,254,261)	(30,084,684)
	<u>(1,378,419)</u>	<u>(1,767,877)</u>
Contingencies (Note 11)		
	<u>4,113,293</u>	<u>2,474,878</u>

See accompanying notes to condensed unaudited interim consolidated financial statements

Intellipharmaceuticals International Inc.

Condensed unaudited interim consolidated statements of operations and comprehensive loss

(Stated in U.S. dollars)

	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
	\$	\$	\$	\$
Revenue				
Research and development	-	-	-	107,091
	-	-	-	107,091
Expenses				
Research and development	1,004,966	1,279,401	3,276,788	4,381,249
Selling, general and administrative	590,679	732,615	2,176,567	2,705,425
Depreciation	108,257	128,890	301,343	266,325
	1,703,902	2,140,906	5,754,698	7,352,999
Loss from operations	(1,703,902)	(2,140,906)	(5,754,698)	(7,245,908)
Fair value adjustment of derivative liabilities (Notes 4 & 9)	(162,062)	488,459	1,245,012	2,303,107
Financing expense (Note 6)	(54,789)	-	(111,615)	-
Net foreign exchange (loss) gain	(43,336)	207,644	(312,492)	218,459
Interest income	2,462	1,937	2,550	19,480
Interest expense	(86,156)	(15,372)	(238,334)	(47,738)
Net loss	(2,047,783)	(1,458,238)	(5,169,577)	(4,752,600)
Other comprehensive income (loss)				
Foreign exchange translation adjustment	33,523	(198,096)	307,619	(315,300)
Comprehensive loss	(2,014,260)	(1,656,334)	(4,861,958)	(5,067,900)
Loss per common share, basic and diluted	(0.10)	(0.08)	(0.27)	(0.28)
Weighted average number of common shares outstanding, basic and diluted				
	20,227,371	17,786,409	19,149,747	17,061,071

See accompanying notes to condensed unaudited interim consolidated financial statements

Intellipharma International Inc.

Condensed unaudited interim consolidated statements of shareholders' deficiency
for the nine months ended August 31, 2013 and 2012

(Stated in U.S. dollars)

	Common stock		Additional	Accumulated	Accumulated	Total
	Number	Amount	paid-in	other	deficit	shareholders'
		\$	capital	(loss) income	\$	deficiency
		\$	\$	\$	\$	\$
Balance, November 30, 2011	15,908,444	147,152	20,822,672	(115,035)	(23,947,819)	(3,093,030)
Issuance of common shares (Note 6)	1,818,182	-	5,000,000	-	-	5,000,000
Share issuance cost (Note 6)	-	-	(779,271)	-	-	(779,271)
Stock options to employees	-	-	2,022,335	-	-	2,022,335
Stock options to non-management board members	-	-	55,176	-	-	55,176
DSU's to non-management board members (Note 8)	-	-	26,914	-	-	26,914
Issuance of shares on exercise of warrants (Note 9)	75,000	-	263,188	-	-	263,188
Other comprehensive loss (net of tax - \$Nil)	-	-	-	(315,300)	-	(315,300)
Net loss	-	-	-	-	(4,752,600)	(4,752,600)
Cancellation on shares exchanged	(3)	-	-	-	-	-
Balance, August 31, 2012	17,801,623	147,152	27,411,014	(430,335)	(28,700,419)	(1,572,588)
Balance, November 30, 2012	17,906,937	147,152	28,409,665	(240,010)	(30,084,684)	(1,767,877)
Issuance of common shares (Note 6)	3,315,000	-	5,460,892	-	-	5,460,892
Share issuance cost (Note 6)	-	-	(841,637)	-	-	(841,637)
Stock options to employees	-	-	493,840	-	-	493,840
Stock options to non-management board members	-	-	108,896	-	-	108,896
DSU's to non-management board members (Note 8)	-	-	29,425	-	-	29,425
Other comprehensive loss (net of tax - \$Nil)	-	-	-	307,619	-	307,619
Net Loss	-	-	-	-	(5,169,577)	(5,169,577)
Cancellation on shares exchanged	(1)	-	-	-	-	-
Balance, August 31, 2013	21,221,936	147,152	33,661,081	67,609	(35,254,261)	(1,378,419)

Intellipharmaceuticals International Inc.

Condensed unaudited interim consolidated statements of cash flows

(Stated in U.S. dollars)

	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
	\$	\$	\$	\$
Net loss	(2,047,783)	(1,458,238)	(5,169,577)	(4,752,600)
Items not affecting cash				
Depreciation	108,257	128,890	301,343	266,325
Stock-based compensation (Note 7)	117,885	249,535	602,736	2,077,512
Deferred shared units (Note 8)	10,209	10,906	29,425	26,914
Interest accrual (Note 4)	26,175	11,637	48,058	34,048
Fair value adjustment of derivative liabilities	162,062	(488,459)	(1,245,012)	(2,303,107)
Unrealized foreign exchange loss	64,152	(119,622)	436,480	(129,077)
Changes operating assets & liabilities				
Accounts receivable	(7,905)	(8,672)	(7,789)	(7,695)
Investment tax credits	205,008	204,908	40,022	41,673
Prepaid expenses, sundry assets and other assets	(2,909)	(76,946)	(9,463)	(221,633)
Accounts payable and accrued liabilities	(428,996)	(29,600)	(3,871)	(551,040)
Deferred revenue	-	-	-	(107,091)
Cash flows used in operating activities	(1,793,845)	(1,575,661)	(4,977,648)	(5,625,771)
Financing activities				
Payments due to related party	-	(33,715)	-	(33,715)
Repayment of capital lease obligations	(12,555)	(11,013)	(36,994)	(32,235)
Proceeds from convertible debenture (Note 4)	-	-	1,500,000	-
Proceeds from issuance of shares on exercise of warrants (Note 9)	-	125,000	-	187,500
Proceeds from issuance of shares and warrants (Note 6)	3,075,000	-	6,196,800	5,000,000
Share issuance cost	(443,154)	(193,204)	(665,462)	(703,625)
Cash flows provided from (used in) financing activities	2,619,291	(112,932)	6,994,344	4,417,925
Investing activity				
Purchase of property and equipment	(17,935)	(369,590)	(119,122)	(746,167)
Cash flows used in investing activities	(17,935)	(369,590)	(119,122)	(746,167)
Effect of foreign exchange loss on cash held in foreign currency	415	(4,955)	(9,960)	8,732
Increase (decrease) in cash and cash equivalents	807,926	(2,063,138)	1,887,614	(1,945,281)
Cash and cash equivalents, beginning of period	1,576,704	4,934,945	497,016	4,817,088
Cash and cash equivalents, end of period	2,384,630	2,871,807	2,384,630	2,871,807
Supplemental cash flow information				
Interest paid	30,062	33,715	116,593	33,715

See accompanying notes to condensed unaudited interim consolidated financial statements

Intellipharma International Inc.

Notes to the condensed unaudited interim consolidated financial statements

For the three and nine months ended August 31, 2013 and 2012

(Stated in U.S. dollars)

1. Nature of operations

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

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

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 \$35,254,261 as at August 31, 2013 (November 30, 2012-\$30,084,684). Previously, the Company 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. On January 10, 2013, the Company completed a private placement financing of an unsecured convertible debenture (the "Debenture") in the principal amount of \$1.5 million, which will mature January 1, 2015. The Debenture bears interest at a rate of 12% per annum, payable monthly, is pre-payable at any time at the option of the Company, and is convertible at any time into 500,000 common shares at a conversion price of \$3.00 per common share at the option of the holder. In March 2013, the Company completed a registered direct unit offering and received net proceeds of approximately \$2.7 million. In July 2013, the Company completed an underwritten public offering and received net proceeds of approximately \$2.5 million, as described in Note 6. There is no certainty that any funding will be available going forward.

The condensed unaudited interim consolidated financial statements are prepared on a going concern basis and substantial doubt exists on the appropriateness of this. The Company currently expects to satisfy the operating cash requirements through the end of the current fiscal year from cash on hand. In order for the Company to continue operations at existing levels thereafter, the Company will require significant additional capital. Potential sources of any such capital may include collection of anticipated revenues resulting from future commercialization activities, development agreements or marketing license agreements, managing operating expense levels, equity and/or debt financings, and/or new strategic partnership agreements funding some or all costs of development, although there can be no assurance that the Company will be able to obtain any such capital on terms or in amounts sufficient to meet its needs or at all. The availability of equity or debt financing will be affected by, among other things, the results of the Company's research and development, its ability to obtain regulatory approvals, the market acceptance of its products, the state of the capital markets generally, strategic alliance agreements, and other relevant commercial considerations. In addition, if the Company raises additional funds by issuing equity securities, its then existing security holders will likely experience dilution, and the incurring of indebtedness would result in increased debt service obligations and could require the Company to agree to operating and financial covenants that would restrict its operations. In the event that the Company does not obtain additional capital, there may be substantial doubt about its ability to continue as a going concern and realize its assets and pay its liabilities as they become due. Any failure by the Company to raise additional funds on terms favorable to the Company, or at all, may require the Company to significantly change or curtail its current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in its not taking advantage of business opportunities, in the termination or delay of clinical trials for one or more of its product candidates, in curtailment of its product development programs designed to identify new product candidates, in the sale or assignment of rights to its technologies, products or product candidates, and/or its inability to file abbreviated new drug applications ("ANDAs") or New Drug Applications ("NDAs") at all or in time to competitively market its products or product candidates.

The condensed unaudited interim consolidated financial statements do not include any adjustments that might result from the outcome of uncertainties described above.

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements For the three and nine months ended August 31, 2013 and 2012

(Stated in U.S. dollars)

2. Basis of presentation

(a) Basis of consolidation

These condensed unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned operating subsidiaries, IPC Ltd., Intellipharmaceuticals Corp. ("IPC Corp"), and Vasogen Corp.

These condensed unaudited interim consolidated financial statements have been prepared using the same accounting policies, and methods as those used by the Company in the annual audited consolidated financial statements for the year ended November 30, 2012, and accordingly, these condensed unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended November 30, 2012. The condensed unaudited interim consolidated financial statements reflect all adjustments necessary for the fair presentation of the Company's financial position and results of operation for the interim periods presented. All such adjustments are normal and recurring in nature.

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

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. 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 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; the fair value of conversion option embedded derivative; the determination of valuation allowances; the determination of investment tax credits; forecasting future cash flows for assessing whether there are any impairments of long-lived assets; and the going concern assumption.

3. Significant accounting policies

(a) Convertible Debenture

The Company issued a convertible debenture as described in Note 4. The conversion option is bifurcated from its host contract and the fair value of the conversion option characterized as an embedded derivative upon issuance as it meets the criteria of Accounting Standard Codification ("ASC") Topic ASC815-15-25-1 Embedded Derivatives. Subsequent changes in the fair value of the embedded derivative are recorded in the consolidated statements of operations and comprehensive loss.

(b) Recently adopted Accounting pronouncements

In February 2013, the FASB provided amendments to Accounting Standards Update ("ASU") 2013-02 "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The amendments are effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company adopted the amendments on March 1, 2013. The adoption did not have an impact on the Company's financial position, results of operations or cash flow.

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended August 31, 2013 and 2012
(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(c) Future Accounting pronouncements

In March 2013, the FASB provided amendments to Accounting Standards Update No. 2013-05 "Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force)". The amendments are effective prospectively for reporting periods beginning after December 15, 2013. The Company does not expect the adoption of the amendments to have a material impact on IPC's financial position, results of operations or cash flow.

On July 18, 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for an net operating loss (NOL) carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) the entity intends to use the deferred tax asset for that purpose. The ASU does not require new recurring disclosures. It is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption and retrospective application are permitted. The Company does not expect the adoption of the amendments to have a material impact on IPC's financial position, results of operations or cash flow.

4. 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.

	August 31, 2013	November 30, 2012
	\$	\$
Promissory note payable to two directors and officers of the Company, unsecured 6% annual interest rate on the outstanding loan balance ⁽ⁱ⁾ (August 31, 2013 - C\$766,968 ; November 30, 2012 - C\$750,534)	728,365	755,368
Note payable to an entity controlled by shareholders, officers and directors of the Company, unsecured, non-interest bearing with no fixed repayment terms. (August 31, 2013 - C\$28,167; November 30,2012 - C\$28,167)	26,749	28,349
	<u>755,114</u>	<u>783,717</u>
Convertible debenture payable to two directors and officers of the Company, unsecured 12% annual interest rate payable monthly ⁽ⁱⁱ⁾	1,393,574	-

(i) Promissory note payable

The promissory note dated September 10, 2004 issued by IPC Corp to Dr. Isa Odidi and Dr. Amina Odidi (the "Promissory Note"), principal shareholders, directors and executive officers of the Company was amended effective October 22, 2009 ("effective date"), 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

Intellipharma International Inc.

Notes to the condensed unaudited interim consolidated financial statements

For the three and nine months ended August 31, 2013 and 2012

(Stated in U.S. dollars)

4. Due to related parties (continued)

(i) *Promissory note payable (continued)*

IPC Company from any offering of its securities following the effective date, other than the securities offerings completed in February 2011, March 2012, March 2013 and July 2013 (Note 6) 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 Agreement).

Interest expense on the promissory note payable to related parties for the three and nine months ended August 31, 2013 is \$10,898 and \$32,781 (three and nine months ended August 31, 2012 - \$11,110 and \$22,411) and has been included in the consolidated statements of operations and comprehensive loss.

(ii) *Convertible debenture*

On January 10, 2013, the Company completed a private placement financing (the "Financing") of an unsecured convertible debenture in the principal amount of \$1.5 million (the "Debenture"), which will mature January 1, 2015.

The Debenture bears interest at a rate of 12% per annum, payable monthly, is pre-payable at any time at the option of the Company, and is convertible at any time into 500,000 common shares at a conversion price of \$3.00 per common share at the option of the holder. Dr. Isa Odidi and Dr. Amina Odidi, principal shareholders, directors and executive officers of the Company purchased the debenture and provided the Company with the \$1.5 million of the proceeds for the Debenture.

The conversion price of the Debenture is in U.S. dollars and IPC's functional currency is Canadian dollars. Under U.S. GAAP where the conversion price of the Debenture is denominated in a currency other than an entity's functional currency, the conversion option meets the definition of an embedded derivative. The conversion option is bifurcated from its host contract and the fair value of the conversion option characterized as an embedded derivative upon issuance.

The embedded derivative is presented together on a combined basis with the host contract. The derivative is re-measured at the end of every reporting period with the change in value reported in the statement of operations and comprehensive loss.

The initial proceeds received from the Debenture less the initial amount allocated to the embedded derivative were allocated to the liability and accreted over the life of the Debenture using the imputed rate of interest.

The fair value of the conversion option at January 10, 2013 using the Black-Scholes Option Pricing Model were initially estimated to be \$220,100, using volatility of 46.6%, risk-free interest rate of 0.26%, expected life of two years, and dividend yield of Nil. The fair value of the conversion option at August 31, 2013 using the Black-Scholes Option Pricing Model was estimated to be \$35,200, using volatility of 36.4%, risk-free interest rate of 0.12%, expected life of 1.4 years, and dividend yield of Nil. This amount has been recorded in the convertible debenture line on the condensed unaudited interim consolidated balance sheet. The change in fair value of the conversion option from the previously recorded amount to the three and nine months ended August 31, 2013 is a loss of \$8,168 and a gain of \$187,244, respectively, and has been recorded as a fair value adjustment of derivative liabilities in the condensed unaudited interim consolidated statement of operations and comprehensive loss.

The initial proceeds of \$1.5 million less the initial fair value of the conversion option embedded derivative of \$220,100, amount to \$1,279,900 and is accreted at an annual imputed interest rate of 8%, over the life of the Debenture.

Intellipharma International Inc.

Notes to the condensed unaudited interim consolidated financial statements For the three and nine months ended August 31, 2013 and 2012 (Stated in U.S. dollars)

4. Due to related parties (continued)

(ii) Convertible debenture (continued)

Accreted interest expense during the three and nine months ended August 31, 2013 is \$26,678 and \$78,474, respectively, and has been included in the consolidated statement of operations and comprehensive loss. In addition, the coupon interest on the Debenture for the three and nine months ended August 31, 2013 is \$45,339 and \$114,825, respectively, and has also been included in the condensed unaudited interim consolidated statement of operations and comprehensive loss.

As described in Note 5, the Company had salaries payable to the two principal shareholders.

5. Employee costs payable

As at August 31, 2013, the Company had \$336,327 (November 30, 2012 - \$472,619) salaries payable to Dr. Isa Odidi and Dr. Amina Odidi, principal shareholders, directors and executive officers of the Company and \$163,192 (November 30, 2012 - \$190,603) for other amounts payable to certain employees. These balances are due on demand and therefore presented as current liability.

6. 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 August 31, 2013, the Company has 21,221,936 (November 30, 2012 – 17,906,937) common shares issued and outstanding, and no preference shares issued and outstanding.
- (b) In March 2012, the Company completed a registered direct common share offering for gross proceeds of \$5,000,000. The Company sold an aggregate of 1,818,182 shares to U.S. institutional investors at a price of \$2.75 per share. Professional, regulatory and other costs in the amount of \$779,271 directly attributable to the common share offering have been recorded as share issuance costs in shareholders' deficiency.
- (c) In March 2013, the Company completed a registered direct unit offering for gross proceeds of \$3,121,800 at a price of \$1.72 per unit. The Company sold units comprised of an aggregate of 1,815,000 common shares and warrants to purchase an additional 453,750 common shares. The warrants are exercisable for a term of five years and an exercise price of \$2.10 per common share. After placement agent fees and offering expenses, the Company received net proceeds from the offering of approximately \$2.7 million. The Company determined the fair value of the warrant liability at issuance to be \$407,558 using the Black-Scholes Option Pricing Model (Note 9). The direct costs related to the issuance of the common shares were recorded as an offset against shareholders' deficiency and the direct costs related to the issuance of the warrants were recorded in the consolidated statements of operations and comprehensive loss.
- (d) In July 2013, the Company completed an underwritten public offering for gross proceeds of \$3,075,000 at a price of \$2.05 per unit. The Company sold units comprised of an aggregate of 1,500,000 common shares and warrants to purchase an additional 375,000 common shares. The warrants are exercisable for a term of five years and have an exercise price of \$2.55 per common share. After placement agent fees and estimated offering expenses, the Company received net proceeds from the offering of approximately \$2.5 million. The Company determined the fair value of the warrant liability at issuance to be \$328,250 using the Black-Scholes Option Pricing Model (Note 9). The direct costs related to the issuance of the common shares were recorded as an offset against shareholders' deficiency and the direct costs related to the issuance of the warrants were recorded in the consolidated statements of operations and comprehensive loss.

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements

For the three and nine months ended August 31, 2013 and 2012

(Stated in U.S. dollars)

7. Options

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 2,122,194 based on the number of issued and outstanding common shares as at August 31, 2013. As at August 31, 2013, 1,695,632 options are outstanding and there were 426,562 options available for grant 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.

In August 2004, the Board of Directors of IPC Ltd. approved a grant of 2,763,940 performance-based 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. A total of 1,381,970 performance-based stock options have been vested as of August 31, 2013. These options were still outstanding as at August 31, 2013 and will expire in September 10, 2014.

In the three and nine months ended August 31, 2013, Nil and 391,000, respectively, (three and nine months ended August 31, 2012 – Nil and 955,000) stock options to management, directors and employees were granted.

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 ASC Topic ASC 718.

Option pricing models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options.

The Company calculates expected volatility based on historical volatility of the Company's peer group that is publicly traded for options that have an expected life that is more than three years. For options that have an expected life of less than three years the Company uses its own volatility.

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.

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended August 31, 2013 and 2012
(Stated in U.S. dollars)

7. Options (continued)

Details of stock option transactions are as follows:

	August 31, 2013			August 31, 2012		
	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 fiscal year	4,139,059	4.86	2.76	3,216,954	5.33	2.82
Granted	391,000	1.81	1.06	955,000	3.27	2.51
Exercised	-	-	-	-	-	-
Expired	(4,487)	654.48	403.93	(33)	69.74	53.82
Forfeited	(66,000)	-	-	(32,862)	-	-
Balance at end of period	4,459,572	3.97	2.21	4,139,059	4.86	2.76
Options exercisable, end of period	2,456,270	7.82	2.63	2,198,922	6.05	3.61

Total unrecognized compensation cost relating to the unvested performance-based stock options at August 31, 2013 is approximately \$2,214,000 (August 31, 2012 - \$2,214,000). For the three and nine months ended August 31, 2013, no **compensation** cost has been recognized for the remaining unvested performance-based options (three and nine months ended August 31, 2012 - \$Nil).

No options were exercised in the three and nine months ended August 31, 2013 or in the three and nine months ended August 31, 2012.

The following table summarizes the components of stock-based compensation expense, including DSU's.

Stock-based compensation related to:	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
	\$	\$	\$	\$
Research and development	56,816	152,875	340,736	1,353,413
Selling, general and administrative	71,278	107,566	291,425	751,012
	128,094	260,441	632,161	2,104,425

The Company has estimated its stock option forfeitures to be \$Nil for the three and nine months ended August 31, 2013 (three and nine months ended August 31, 2012 - \$Nil).

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements For the three and nine months ended August 31, 2013 and 2012

(Stated in U.S. dollars)

8. Deferred share units

During the three and nine months ended August 31, 2013, one non-management board member elected to receive director fees in the form of DSUs under the Company's DSU Plan. As at August 31, 2013, 38,012 DSUs are outstanding.

	Three months ended				Nine months ended			
	August 31, 2013		August 31, 2012		August 31, 2013		August 31, 2012	
	\$	shares	\$	shares	\$	shares	\$	shares
Additional paid in capital	10,209	5,821	10,906	3,533	29,425	15,562	26,914	8,778
Accrued liability	11,320	5,029	9,611	3,421	11,320	5,029	9,611	3,421

9. Warrants

The warrants are denominated in U.S. dollars and IPC's functional currency is Canadian dollars. Under U.S. GAAP, where the strike price of warrants is denominated in a currency other than an entity's functional currency the warrants would not be considered indexed to the entity's own stock and would consequently be considered to be a derivative liability. The warrants, in specified situations, provide for certain compensation remedies to a holder if the Company fails to timely deliver the shares underlying the warrants in accordance with the warrant terms.

In connection with the February 1, 2011 private offering, the Company issued 4,800,000 five year Series A common shares purchase warrants to purchase one half of a share of common stock at an exercise price of \$2.50 per whole share and 4,800,000 two year Series B common shares purchase warrants to purchase one half of a share of common stock at an exercise price of \$2.50 per whole share. The Company also issued to the placement agents 96,000 warrants to purchase a share of common stock at an exercise price of \$3.125 per share.

The fair value of the Series A warrants of \$7,214,366 and Series B warrants of \$5,441,216 have been initially estimated at February 1, 2011 using the Black-Scholes Option Pricing Model, using volatilities of 70% and 59%, risk free interest rates of 0.99% and 0.29%, expected lives of 5 and 2 years, and dividend yields in each case of Nil, respectively. The fair value of the placement agents' warrants were initially estimated at February 1, 2011 as \$229,005 using the Black-Scholes Option Pricing Model, using volatility of 67%, a risk free interest rate of 0.99%, an expected life of 3 years, and a dividend yield of Nil. These placement agent warrants were expensed and are included in financing expense.

The holders of Series A common share purchase warrants and placement agents warrants are entitled to a cashless exercise under which the number of shares to be issued will be based on the number of shares for which warrants are exercised times the difference between market price of common share and the exercise price divided by the market price. Also under U.S. GAAP, warrants with the cashless exercise option satisfying the explicit net settlement criteria are considered a derivative liability.

In the registered direct unit offering completed in March 2013, gross proceeds of \$3,121,800 were received through the sale of the Company's units comprised of common stock and warrants. The offering was the sale of 1,815,000 units at a price of \$1.72 per unit, each unit consisting of one share of common stock and a five year warrant to purchase 0.25 of a share of common stock at an exercise price of \$2.10 per share ("March 2013 Warrants").

The fair value of the March 2013 Warrants of \$407,558 were initially estimated at closing using the Black-Scholes Option Pricing Model, using volatilities of 63%, risk free interest rates of 0.40%, expected life of 5 years, and dividend yield of Nil.

In the underwritten public offering completed in July 2013, gross proceeds of \$3,075,000 were received through the sale of the Company's units comprised of common stock and warrants. The offering was the sale of 1,500,000 units at a price of \$2.05 per unit, each unit consisting of one share of common stock and a five year warrant to purchase 0.25 of a share of common stock at an exercise price of \$2.55 per share ("July 2013 Warrants").

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements For the three and nine months ended August 31, 2013 and 2012

(Stated in U.S. dollars)

9. Warrants (continued)

The fair value of the July 2013 Warrants of \$328,350 were initially estimated at closing using the Black-Scholes Option Pricing Model, using volatilities of 62.4%, risk free interest rates of 0.58%, expected life of 5 years, and dividend yield of Nil.

The following table provides information on the 7,131,000 warrants outstanding and exercisable as of August 31, 2013:

Warrant	Exercise price	Number outstanding	Expiry	Shares issuable upon exercise
Placement Agent Warrants	3.125	96,000	March 30, 2014	96,000
Series A Warrants	2.50	3,720,000	February 1, 2016	1,860,000
March 2013 Warrants	2.10	1,815,000	March 22, 2018	453,750
July 2013 Warrants	2.55	1,500,000	July 31, 2018	375,000
		<u>7,131,000</u>		<u>2,784,750</u>

During the three and nine months ended August 31, 2013, there were no exercises of warrants. During the three and nine months ended August 31, 2012, there were exercises in respect of 100,000 and 150,000 warrants resulting in the issuance of 50,000 and 75,000 common shares, respectively. During the nine months ended August 31, 2013, 3,470,000 Series B Warrants issued under the February 1, 2011 private placement offering expired.

Details of warrant transactions for the nine months ended August 31, 2013, are as follows:

	Series A Warrants	Series B Warrants	Placement Agent Warrants	March 2013 Warrants	July 2013 Warrants	Total
Outstanding, December 1, 2012	3,720,000	3,470,000	96,000	-	-	7,286,000
Issued	-	-	-	1,815,000	1,500,000	3,315,000
Exercised	-	-	-	-	-	-
Expired	-	(3,470,000)	-	-	-	(3,470,000)
Outstanding, end of period	3,720,000	-	96,000	1,815,000	1,500,000	7,131,000

U.S. GAAP requires the fair value of these liabilities be re-measured at the end of every reporting period with the change in value reported in the statement of operations and comprehensive loss.

Accordingly, using the Black-Scholes Option Pricing Model, the fair market value of the warrants are as follows:

Warrant	August 31, 2013	November 30, 2012
	\$	\$
Placement Agent Warrants	2,429	25,363
Series A Warrants	940,044	1,659,492
March 2013 Warrants	388,002	-
July 2013 Warrants	319,200	-
	<u>1,649,675</u>	<u>1,684,855</u>

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended August 31, 2013 and 2012
(Stated in U.S. dollars)

9. Warrants (continued)

Using the following assumptions as of August 31, 2013:

Warrant	Number outstanding	Volatility %	Risk-free rate %	Expected life years
Placement Agent Warrants	96,000	51.94	0.12	0.4
Series A Warrants	3,720,000	58.44	0.12	2.4
March 2013 Warrants	1,815,000	58.67	0.64	4.6
July 2013 Warrants	1,500,000	62.60	0.64	4.9

The change in the fair value of the Series A, Series B, Placement Agent, the March 2013, and the July 2013 Warrants from the previously recorded amount to the three and nine months ended August 31, 2013 is an increase of \$153,894 and a decrease of \$1,057,768 respectively, (three and nine months ended August 31, 2012 amounted to a gain of \$488,459 and \$2,303,107 respectively) has been recorded as a fair value adjustment of derivative liabilities in the statement of operations and comprehensive loss.

10. Income taxes

The Company has had no taxable income under the Federal and Provincial tax laws of Canada for the nine months ended August 31, 2013 and August 31, 2012. The Company has non-capital loss carry-forwards at August 31, 2013, totaling \$28,330,767 in Canada and \$76,999 in United States federal income tax losses that must be offset against future taxable income. If not utilized, the loss carry-forwards will expire between 2014 - 2032.

For the nine months ended August 31, 2013, the Company has a cumulative carry-forward pool of Scientific Research & Experimental Development ("SR&ED") expenditures in the amount of \$8,620,387 Federal, which can be carried forward indefinitely.

At August 31, 2013, the Company had approximately \$447,125 of Ontario harmonization credits, which will expire in the November 30, 2017 taxation year. These credits are subject to a full valuation allowance as they are not more likely than not to be realized.

At August 31, 2013, the Company had approximately \$2,575,534 of unclaimed Canadian investment tax credits which expire from 2024 to 2032.

These losses and credits are subject to a full valuation allowance as they are not more likely than not to be realized.

11. 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. There were no pending or threatened litigation claims outstanding.

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 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 C\$1,455,000 with a threshold amount of C\$50,000 before there is an obligation to make a compensation payment. The Company does not presently expect to have to pay any amount under this indemnity agreement.

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended August 31, 2013 and 2012
(Stated in U.S. dollars)

12. Financial instruments

(a) Fair values

The Company follows 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. There were no transfers in or out of level 3 instruments during the three and nine month period ended August 31, 2013.

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

The following table presents for each of the fair value hierarchies, the assets and liabilities that are measured at fair value on a recurring basis as of August 31, 2013 and November 30, 2012:

	August 31, 2013			
	Fair value	Level 1	Level 2	Level 3
	\$	\$	\$	\$
(a) Cash and cash equivalents	2,384,630	2,384,630	-	-
(b) Convertible debt ¹	1,285,588	-	-	1,285,588
(c) Warrant liability ²	1,649,675	-	-	1,649,675
(d) Related Party Loan	512,112	-	-	512,112
	5,832,005	2,384,630	-	3,447,375

	November 30, 2012			
	Fair value	Level 1	Level 2	Level 3
	\$	\$	\$	\$
(a) Warrant liability ²	1,960,893	-	-	1,960,893

(1) Conversion options are included in convertible debenture on the condensed unaudited interim consolidated balance sheet.

(2) Warrant liabilities are included on the condensed unaudited interim consolidated balance sheet.

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended August 31, 2013 and 2012
(Stated in U.S. dollars)

12. Financial instruments (continued)

(a) Fair values (continued)

The key unobservable inputs related to valuing the conversion option and warrant liabilities are as follows:

Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at 31-Aug-13	Valuation Techniques	Unobservable Input	Range
	\$			
Convertible Debt	1,285,588	Black-Scholes Discounted cash flow	Discount Rate Volatility Interest Rate ⁽ⁱⁱ⁾	0.12% 36% 27%
Warrant Liability	1,649,675	Black-Scholes	Discount Rate Comparable Annualized Volatility ⁽ⁱ⁾	0.12% 51% - 63%
Related Party Loan	512,112	Discounted cash flow	Interest Rate ⁽ⁱⁱ⁾	27%

- (i) The Company calculates expected volatility based on historical volatility of the Company's peer group that is publicly traded for options that have an expected life that is more than three years.
- (ii) The Company calculates the interest rate for the convertible debt and related party loan based on the Company's estimated cost of raising capital.

An increase/decrease in the volatility and/or an increase/decrease in the discount rate would result in an increase/decrease in the fair value of the conversion options and warrant liabilities.

The change in fair value of the conversion option and the warrant liabilities has been recorded as a fair value adjustment of derivative liabilities in the statement of operations and comprehensive loss.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, employee costs payable, capital lease obligations and due to related parties approximates their fair values because of the short-term nature of these instruments.

(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 and cash equivalents, 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:

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended August 31, 2013 and 2012
(Stated in U.S. dollars)

12. Financial instruments (continued)

(b) Interest rate and credit risk (continued)

	August 31, 2013	November 30, 2012
	\$	\$
Total accounts receivable	10,566	2,778
Less allowance for doubtful accounts	-	-
<u>Total accounts receivable, net</u>	<u>10,566</u>	<u>2,778</u>
Not past due	5,289	2,778
Past due for more than 31 days but no more than 60 days	2,615	-
Past due for more than 61 days but no more than 90 days	2,662	-
Less allowance for doubtful accounts	-	-
<u>Total accounts receivable, net</u>	<u>10,566</u>	<u>2,778</u>

The following table sets forth details of the cash and cash equivalents:

	August 31, 2013	November 30, 2012
	\$	\$
Cash	2,384,630	447,016
Bankers acceptance (30 days maturity, interest 0.10%)	-	50,000
<u>Total cash and cash equivalents</u>	<u>2,384,630</u>	<u>497,016</u>

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 three and nine months ended August 31, 2013, one customer accounted for 100% of accounts receivable of the Company. For the three and nine months ended August 31, 2012, one customer accounted for 100% of net revenue of the Company and the same customer accounted for 100% of accounts receivable of the Company.

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.

(c) Foreign exchange risk

The Company has balances in U.S. dollars that give rise to exposure to foreign exchange ("FX") risk relating to the impact of translating certain non-Canadian dollar balance sheet accounts as the Company's functional currency is Canadian 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 U.S. dollar balance of \$1.0 million a +/- 10% movement in the U.S. currency held by the Company versus the Canadian dollar would affect the Company's loss and other comprehensive loss by \$0.1 million.

Intellipharmaceuticals International Inc.

Notes to the condensed unaudited interim consolidated financial statements
For the three and nine months ended August 31, 2013 and 2012
(Stated in U.S. dollars)

12. Financial instruments (continued)

(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:

	August 31, 2013					Total
	Less than 3 months	3 to 6 months	6 to 9 months	9 months 1 year	Greater than 1 year	
	\$	\$	\$	\$	\$	\$
Third parties						
Accounts payable	1,016,436	-	-	-	-	1,016,436
Accrued liabilities	120,936	-	-	-	-	120,936
Capital lease	12,825	13,301	13,793	14,318	2,221	56,458
Related parties						
Employee costs payable (Note 5)	499,519	-	-	-	-	499,519
Due to related parties (Note 4)	755,114	-	-	-	-	755,114
Convertible debenture (Note 4)	44,846	44,353	45,339	45,339	1,560,616	1,740,493
	2,449,676	57,654	59,132	59,657	1,562,837	4,188,956

13. Segment information

The Company's operations comprise a single reporting segment engaged in the research, development and manufacture of novel and 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, depreciation and total assets also represent segmented amounts. In addition, all of the Company's long-lived assets are in Canada.

	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
	\$	\$	\$	\$
Revenue				
Canada	-	-	-	107,091
United States	-	-	-	-
	-	-	-	107,091
			August 31, 2013	November 30, 2012
			\$	\$
Total assets				
Canada			4,113,293	2,474,878
Total property and equipment				
Canada			1,330,358	1,535,703