2015 Year End
Financial Statements and Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE YEAR ENDED NOVEMBER 30, 2015

The following Management Discussion and Analysis ("MD&A") should be read in conjunction with the November 30, 2015 audited consolidated financial statements of Intellipharmaceutics International Inc. The audited 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 audited 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 February 25, 2016 unless otherwise noted.

Unless the context otherwise requires, the terms "we", "us", "Intellipharmaceutics", and the "Company" refer to Intellipharmaceutics 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. Whenever we refer to any of our current product candidates (including additional product strengths of products we are currently marketing, such as Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules) and future products we may develop, no assurances can be given that we, or any of our strategic partners, will successfully complete the development of any of such product candidates or future products under development or proposed for development, that regulatory approvals will be granted for any such product candidate or future product, or that any approved product will be produced in commercial quantities or sold profitably.

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. We refer in this document to information regarding potential markets for our products, product candidates and other industry data. We believe that all such information has been obtained from reliable sources that are customarily relied upon by companies in our industry. However, we have not independently verified any such information.

Intellipharmaceutics™, Hypermatrix™, Drug Delivery Engine™, IntelliFoam™, IntelliGITransporter™, IntelliMatrix™, IntelliOsmotics™, IntelliPaste™, IntelliPellets™, IntelliShuttle™, Rexista™, nPODDDS™, PODRAS™ and Regabatin™ are our trademarks. These trademarks are important to our business. Although we may have omitted the "TM" trademark designation for such trademarks in this document, all rights to such trademarks are nevertheless reserved. Unless otherwise noted, other trademarks used in this document are the property of their respective holders.

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", "plans to", "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 and the expected use of any proceeds from any offering of our securities, our ability to maintain compliance with the continued listing requirements of the principal markets on which our securities are traded, our programs regarding research, development and commercialization of our product candidates, the timing of such programs, the timing, costs and uncertainties regarding obtaining regulatory approvals to market our product candidates and the difficulty in predicting the timing and results of any product launches, 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, products and product candidates as compared to others;
- our ability to establish and maintain valid and enforceable intellectual property rights in our drug delivery technologies, products and product candidates;
- the scope of protection provided by intellectual property for our drug delivery technologies, products and product candidates;
- the actual size of the potential markets for any of our products and product candidates compared to our market estimates;
- our selection and licensing of products and 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;
- delays that may be caused by changing regulatory requirements;
- the difficulty in predicting the timing of regulatory approval and launch of competitive products;
- the difficulty in predicting the impact of competitive products on volume, pricing, rebates and other allowances;
- the inability to forecast wholesaler demand and/or wholesaler buying patterns;
- the seasonal fluctuation in the numbers of prescriptions written for our Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules, which may produce substantial fluctuations in revenues;
- the timing and amount of insurance reimbursement for our products;
- changes in the laws and regulations, including Medicare and Medicaid, affecting among other things, pricing and reimbursement of pharmaceutical products;
- the success and pricing of other competing therapies that may become available;
- our ability to retain and hire qualified employees;
- the availability and pricing of third-party sourced products and materials;
- difficulties or delays in manufacturing;
- the manufacturing capacity of third-party manufacturers that we may use for our products;

- the successful compliance with United States Food and Drug Administration ("FDA"), Health Canada and other governmental regulations applicable to the Company and its third party manufacturers' facilities, products and/or businesses;
- difficulties, delays, or changes in the FDA approval process or test criteria for Abbreviated New Drug Applications ("ANDAs") and New Drug Applications ("NDAs");
- risks associated with cyber-security and the potential for vulnerability of the digital information of the Company or a current and/or future drug development or commercialization partner of the Company; and
- risks arising from the ability and willingness of our third-party commercialization partners to provide documentation that may be required to support information on revenues earned by us from those commercialization partners.

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. which are available on www.sedar.com and www.sec.gov. The forward-looking statements reflect our current views with respect to future events, and are based on what we believe are reasonable assumptions as of the date of this document. 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.

THIS DISCUSSION SHOULD NOT BE CONSTRUED TO IMPLY THAT THE RESULTS DISCUSSED HEREIN WILL NECESSARILY CONTINUE INTO THE FUTURE, OR THAT ANY CONCLUSION REACHED HEREIN WILL NECESSARILY BE INDICATIVE OF ACTUAL OPERATING RESULTS OF THE COMPANY.

CORPORATE DEVELOPMENTS

- In February 2016, the Company announced that the FDA granted final approval of its ANDA for levetiracetam extended release tablets for the 500 mg and 750 mg strengths. The Company's newly approved product is the generic equivalent of the branded product Keppra XR ® sold in the United States by UCB, Inc. Keppra XR®, and the drug active levetiracetam, are indicated for use in the treatment of partial onset seizures associated with epilepsy. According to Symphony Health Solutions, sales in the United States for the 12 months ended December 2015 of the 500 mg and 750 mg strengths of Keppra XR® and all generic equivalents were approximately $168 million (in TRx MBS Dollars—see "Products and Product Candidates" below). The Company is actively exploring the best approach to maximize its commercial returns from the new approval.
- In June 2015, the FDA indicated that we would have to meet newly-imposed conditions for bioequivalency for the tentatively-approved strengths of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules prior to receiving final approval. The only strengths affected were 5 mg, 10 mg, 20 mg and 40 mg, not the already-approved 15 mg and 30 mg strengths now in the market. In July 2015, the FDA indicated to us that it had rescinded its previous requirement that we meet the newly-imposed conditions for bioequivalence prior to receiving final approval for the tentatively-approved strengths of our generic Focalin XR®. In August 2015, the FDA reinstated its previously-imposed (and subsequently rescinded) requirement that the tentatively-approved strengths of our generic Focalin XR® capsules would have to meet new conditions for bioequivalence prior to receiving final approval. We will be required to demonstrate bio-equivalence with Focalin XR® for the 40 mg strength under fed conditions as the basis for approval of each of the 5 mg, 10 mg, 20 mg and 40 mg affected strengths. The already-approved 15 mg and 30 mg strengths of our generic Focalin XR® capsules now in the market are not affected. We, along with our commercialization partner, Par Pharmaceutical, Inc. ("Par"), are cooperating to obtain FDA approval for the 5 mg, 10 mg, 20 mg and 40 mg affected strengths at the earliest opportunity. If approved, we believe that Par will commercialize the approved strengths as soon as possible after approval.

- We previously reported that the FDA had accepted a Pre-Investigational New Drug ("Pre-IND") meeting request for our once-a-day Regabatin™ XR non-generic controlled release version of pregabalin under the NDA 505(b)(2) regulatory pathway, with a view to possible commercialization in the U.S. at some time following the December 30, 2018 expiry of the patent covering the pregabalin molecule. We submitted an Investigational New Drug ("IND") application for RegabatinTM XR in August 2015. The FDA completed its review of the IND application and provided constructive input that we will use towards further development of the program.

- In May 2015, the FDA provided us with notification regarding our IND submission for Rexista™ Oxycodone XR (abuse deterrent oxycodone hydrochloride) extended release tablets indicating that we would not be required to conduct Phase III studies if bioequivalence to Oxycontin® was demonstrated based on pivotal bioequivalence studies. In January 2016, we announced that pivotal bioequivalence trials of our Rexista™ Oxycodone XR extended release tablets, dosed under fasted and fed conditions, had demonstrated bioequivalence to Oxycontin® extended release tablets as manufactured and sold in the U.S. by Purdue Pharma LP. We believe that we will not be required to conduct Phase III studies. We are continuing to work towards satisfying the requirements to file an NDA for RexistaTM Oxycodone XR with the FDA and plan to complete this filing within the next six months. In May 2015, we also announced that the FDA had reviewed our request for Fast Track designation for our Rexista™ Oxycodone XR development program incorporating our Paradoxical OverDose Resistance Activating System ("PODRAS™") and had concluded that we meet the criteria for Fast Track designation. The designation mandates the FDA to facilitate the development and expedite the review of drugs intended to treat serious or life threatening conditions and that demonstrate the potential to address unmet medical needs.

- In February 2015, we announced that we had entered into an agreement with Teva Pharmaceuticals USA, Inc. ("Teva") by which we had granted Teva an exclusive license to market in the United States an extended release drug product candidate for which we have an ANDA pending FDA approval. The agreement contemplated the FDA granting regulatory approval by a date certain, which did not occur, and the agreement has been terminated subsequent to year-end. The Company is in discussions with Teva concerning an alternate product candidate. There can, however, be no assurance that an acceptable alternate product candidate, or any terms relating thereto, will be agreed upon.

There can be no assurances that we will not be required to conduct further studies for Rexista™ Oxycodone XR, that we will be successful in filing an NDA for Rexista™ Oxycodone XR in six months' time, that the Fast Track designation for Rexista™ Oxycodone XR will translate to a faster development and review process with the FDA, that our tentatively-approved strengths of generic Focalin XR® will be granted final FDA approval or sold commercially, that our approved generic of Keppra XR® will be successfully commercialized, that we will be successful in submitting any additional ANDAs, Abbreviated New Drug Submissions ("ANDSs") or NDAs with the FDA or similar applications with Health Canada, that the FDA or Health Canada will approve any of our current or future product candidates for sale in the U.S. market and Canadian market, or that they will ever be successfully commercialized and produce significant revenue for us.

BUSINESS OVERVIEW

On October 22, 2009, IntelliPharmaCeutics Ltd. ("IPC Ltd.") and Vasogen Inc. ("Vasogen") completed a court-approved plan of arrangement and merger (the "IPC Arrangement Agreement"), resulting in the formation of the Company, which is incorporated under the laws of Canada and the common shares of which 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, we have developed several drug delivery systems and a pipeline of products (which have received final FDA approval) and product candidates in various stages of development, including ANDAs filed with the FDA (and one ANDS filed with Health Canada) and a planned NDA filing, in therapeutic areas that include neurology, cardiovascular, gastrointestinal tract ("GIT"), diabetes and pain.

We received final approval from the FDA in November 2013 to launch the 15 mg and 30 mg strengths of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules. Commercial sales of these strengths were launched immediately by our commercialization partner in the United States, Par. As the first-filer for the drug product in the 15 mg strength, we had 180 days (up to May 19, 2014) of exclusivity of sales for the generic product of that strength from the date of launch on November 19, 2013 in the U.S. by our partner, Par. Our 5, 10, 20 and 40 mg strengths were also then tentatively FDA approved, subject to the right of another party or parties to 180 days of generic exclusivity from the date of first launch of such products by such parties. In June 2015, the FDA indicated we would have to meet newly-imposed conditions for bioequivalency for the tentatively-approved strengths of generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules prior to receiving final approval. The only strengths affected were 5 mg, 10 mg, 20 mg and 40 mg, not the already-approved 15 mg and 30 mg strengths now in the market. In July 2015, the FDA indicated to us that it had rescinded its previous requirement that we meet the newly-imposed conditions for bioequivalence prior to receiving final approval for the tentatively-approved strengths of our generic Focalin XR®. In August 2015, the Company announced that the FDA had reinstated its previously-imposed (and subsequently rescinded) requirement that the tentatively-approved strengths of our generic Focalin XR® capsules would have to meet new conditions for bioequivalence prior to receiving final approval. We will be required to demonstrate bio-equivalence with Focalin XR® for the 40 mg strength under fed conditions as the basis for approval of each of the 5 mg, 10 mg, 20 mg and 40 mg affected strengths. The already-approved 15 mg and 30 mg strengths of our generic Focalin XR® capsules now in the market are not affected. We, along with our commercialization partner, Par, are cooperating to obtain FDA approval for the 5 mg, 10 mg, 20 mg and 40 mg affected strengths at the earliest opportunity. If approved, we believe that Par will commercialize the approved strengths as soon as possible after approval. Teva launched its own 5 mg, 10 mg and 20 mg strengths of generic Focalin XR® capsules on November 11, 2014, February 2, 2015 and June 22, 2015, respectively. There can be no assurance as to when or if any launch will occur, or as to when or if final FDA approval will be received for the remaining product strengths we have applied for or that any of these strengths tentatively approved will ever be successfully commercialized.

In February 2015, we announced that we had entered into an agreement with Teva by which we had granted Teva an exclusive license to market in the United States an extended release drug product candidate for which we have an ANDA pending FDA approval. The agreement contemplated the FDA granting regulatory approval by a date certain, which did not occur, and the agreement has been terminated subsequent to year-end. The Company is in discussions with Teva concerning an alternate product candidate. There can, however, be no assurance that an acceptable alternate product candidate, or any terms relating thereto, will be agreed upon.

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 will help maximize the value of our drug delivery

technologies, products and product candidates. We also believe that out-licensing sales and marketing to established organizations, when it makes economic sense to do so, will improve our return from our products while allowing us to focus on our core competencies. We expect expenditures in investing activities for the purchase of production equipment and the expansion of manufacturing and warehousing capability to be higher as we prepare for the commercialization of ANDAs and one ANDS that are pending FDA and Health Canada approval, respectively.

STRATEGY

Our Hypermatrix™ technologies are central to the development and manufacture of novel and generic controlled-release and targeted-release oral solid dosage drugs. The Hypermatrix™ technologies are a multidimensional controlled-release drug delivery platform that we believe can be applied to the efficient development of a wide range of existing and new pharmaceuticals. We believe that the flexibility of these technologies allows us to develop complex drug delivery solutions within an industry-competitive timeframe. Based on this technology platform, we have developed several drug delivery systems and a pipeline of products (which have received final FDA approval) and product candidates in various stages of development, including ANDAs filed with the FDA (and one ANDS filed with Health Canada) and a planned NDA filing. 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.

The principal focus of our development activities previously targeted difficult-to-develop controlled-release generic drugs which follow an ANDA regulatory path. Our current development effort is increasingly directed towards improved difficult-to-develop controlled-release drugs which follow an NDA 505(b)(2) regulatory pathway. The Company has increased its research and development ("R&D") emphasis towards specialty new product development, facilitated by the 505(b)(2) regulatory pathway, by advancing the product development program for both Rexista™ and Regabatin. The technology that is central to our abuse deterrent formulation of Rexista™ Oxycodone XR is the Point of Divergence Drug Delivery System ("nPODDDS™"). nPODDDS™ is designed to provide for certain unique drug delivery features in a product. These include the release of the active substance to show a divergence in a dissolution and/or bioavailability profile. The divergence represents a point or a segment in a release timeline where the release rate, represented by the slope of the curve, changes from an initial rate or set of rates to another rate or set of rates, the former representing the usually higher rate of release shortly after ingesting a dose of the drug, and the latter representing the rate of release over a later and longer period of time, being more in the nature of a controlled-release or sustained action. It is applicable for the delivery of opioid analgesics in which it is desired to discourage common methods of tampering associated with misuse and abuse of a drug, and also dose dumping in the presence of alcohol. It can potentially retard tampering without interfering with the bioavailability of the product. In addition, our PODRAS™ delivery technology was introduced to enhance our Rexista™ Oxycodone XR (abuse deterrent oxycodone hydrochloride) product candidate. The PODRAS™ delivery technology platform was designed to prevent overdose when more pills than prescribed are swallowed intact. Preclinical studies suggest that, unlike other third-party abuse-deterrent oxycodone products in the marketplace, if more tablets than prescribed are deliberately or inadvertently swallowed, the amount of drug active released over 24 hours may be substantially less than expected. However, if the prescribed number of pills is swallowed, the drug release should be as expected.

We intend to apply the nPODDDS™ and PODRAS™ technology platforms to other extended release opioid drug candidates (e.g., oxymorphone, hydrocodone, hydromorphone and morphine) utilizing the 505(b)(2) regulatory pathway.

The NDA 505(b)(2) pathway (which relies in part upon the FDA's findings for a previously approved drug) both accelerates development timelines and reduces costs in comparison to NDAs for new chemical entities. An advantage of our strategy for development of NDA 505(b)(2) drugs is that our product candidates can, if approved for sale by the FDA, potentially enjoy an exclusivity period which may provide for greater commercial opportunity relative to the generic ANDA route.

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 U.S. and ANDSs for Canada.
- 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. These 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.
- 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 intend to collaborate in the development and/or marketing of one or more products with partners, when we believe that such collaboration may enhance the outcome of the project. We also plan to seek additional collaborations as a means of developing additional products. We believe that our business strategy enables us to reduce our risk by (a) having a diverse product portfolio that includes both branded and generic products in various therapeutic categories, and (b) building collaborations and establishing licensing agreements with companies with greater resources thereby allowing us to share costs of development and to improve cash-flow. There can be no assurance that we will be able to enter into additional collaborations or, if we do, that such arrangements will be beneficial.

OUR DRUG DELIVERY TECHNOLOGIES

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 is 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.

In addition to continuing efforts with Hypermatrix™ as a core technology, our scientists continue to pursue novel research activities that address unmet needs. Rexista™ Oxycodone XR (abuse deterrent oxycodone hydrochloride) is an investigational drug, with a unique long acting oral formulation of

oxycodone intended to treat moderate-to-severe pain. The formulation is intended to present a significant barrier to tampering when subjected to various forms of physical and chemical manipulation commonly used by abusers. It is also designed to prevent dose dumping when inadvertently co-administered with alcohol. The technology that supports our abuse deterrent formulation of oxycodone is the nPODDDS™ Point of Divergence Drug Delivery System. The use of nPODDDS™ does not interfere with the bioavailability of oxycodone. Our Rexista™ Oxycodone XR product candidate has been further enhanced with our PODRAS™ delivery technology, designed to prevent overdose when more pills than prescribed are swallowed intact. Preclinical studies of Rexista™ oxycodone with PODRAS technology suggest that, unlike other third-party abuse-deterrent oxycodone products, if more tablets than prescribed are deliberately or inadvertently swallowed, the amount of drug active released over 24 hours may be substantially less than expected. However, if the prescribed number of pills is swallowed, the drug release should be as expected. We intend to apply the nPODDDS™ and PODRAS™ technology platforms to other extended release opioid drug candidates (e.g., oxymorphone, hydrocodone, hydromorphone and morphine) utilizing the 505(b)(2) regulatory pathway.

PRODUCTS AND PRODUCT CANDIDATES

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

Generic name	Brand	Indication	Stage of Development[(1)]	Regulatory Pathway	Market Size (in millions)[(2)]	Rights[(3)]
Dexmethylphenidate hydrochloride extended-release capsules	**Focalin XR®**	Attention deficit hyperactivity disorder	Received final approval for 15 and 30 mg, and tentative approval for 5, 10, 20 and 40 mg, strengths from FDA	ANDA	$768	Intellipharmaceutics and Par
Levetiracetam extended-release tablets	**Keppra XR®**	Partial onset seizures for epilepsy	Received final approval for the 500 mg and 750 mg strengths from FDA	ANDA	$168	Intellipharmaceutics
Venlafaxine hydrochloride extended-release capsules	**Effexor XR®**	Depression	ANDA application for commercialization approval for 3 strengths under review by FDA	ANDA	$794	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	$352	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	$1,346	Intellipharmaceutics
Quetiapine fumarate extended-release tablets	**Seroquel XR®**	Schizophrenia, bipolar disorder & major depressive disorder	ANDA and ANDS applications for commercialization approval for 5 strengths under review by FDA and Health Canada	ANDA ANDS	$1,316	Intellipharmaceutics
Lamotrigine extended-release tablets	**Lamictal® XR™**	Anti-convulsant for epilepsy	ANDA application for commercialization approval for 6 strengths under review by FDA	ANDA	$523	Intellipharmaceutics
Desvenlafaxine extended-release tablets	**Pristiq®**	Depression	ANDA application for commercialization approval for 2 strengths under review by FDA	ANDA	$872	Intellipharmaceutics

Trazodone hydrochloride extended-release tablets	**Oleptro™**	Depression	ANDA application for commercialization approval for 2 strengths under review by FDA	ANDA	$2	Intellipharmaceutics
Carvedilol phosphate extended- release capsules	**Coreg CR®**	Heart failure, hypertension	Late-stage development	ANDA	$283	Intellipharmaceutics
Oxycodone hydrochloride controlled-release capsules	**OxyContin®**	Pain	NDA application expected to be filed within 6 months	NDA 505(b)(2)	$2,315	Intellipharmaceutics
Pregabalin extended-release capsules	**Lyrica®**	Neuropathic pain	IND application submitted in August 2015	NDA 505(b)(2)	$3,923	Intellipharmaceutics

Notes:

(1) There can be no assurance as to when, or if at all, the FDA or Health Canada will approve any product candidate for sale in the U.S. or Canadian markets.

(2) Represents sales for all strengths for the 12 months ended December 2015 in the U.S., including sales of generics in 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. Source: Symphony Health Solutions.

(3) For unpartnered products, we are exploring licensing agreement opportunities or other forms of distribution. While we believe that licensing agreements are possible, there can be no assurance that any can be secured.

We typically select products for development that we anticipate could achieve FDA or Health Canada 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 and Health Canada review times.

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

Dexmethylphenidate hydrochloride, a Schedule II restricted product (drugs with a high potential for abuse) in the United States, is indicated for the treatment of attention deficit hyperactivity disorder. In November 2005, we entered into a license and commercialization agreement with Par (as amended, the "Par agreement") pursuant to which we granted Par an exclusive, royalty-free license to make and distribute in the U.S. all strengths of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules for a period of 10 years from the date of commercial launch (which was November 19, 2013). Under the Par agreement, we own the related ANDA, as approved by the FDA, and we retain the right to make and distribute all strengths of the generic product outside of the U.S. Calendar quarterly payments are payable by Par to us as calculated pursuant to a formula depending on a number of factors applicable to each strength. The Par agreement also provides the potential, in limited circumstances, for certain milestone payments being payable to us by Par, with the amount of such payments dependent upon the number of competitors in the market within the first 180 days of commercialization, on a strength by strength basis. We are responsible under the Par agreement for the development of the product and most related costs which, with the applications to and recent approvals by the FDA, we now consider to be completed.

Our FDA filings for approval to market generic Focalin XR® capsules in various strengths gave rise in the usual course to Paragraph IV patent litigation against us 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 we may market these generic versions of the product in the U.S., subject to agreed market entry dates and FDA approvals.

We received final approval from the FDA in November 2013 to launch the 15 mg and 30 mg strengths of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules. Commercial sales of these strengths were launched immediately by our commercialization partner in the United States, Par. As the first-filer for the drug product in the 15 mg strength, we had 180 days (up to May 19, 2014) of exclusivity of sales for the generic product of that strength from the date of launch on November 19, 2013 in the U.S. by our partner, Par. Our 5, 10, 20 and 40 mg strengths were also tentatively FDA approved, subject to the right of another party or parties to 180 days of generic exclusivity from the date of first launch of such products by such parties. In June 2015, the FDA indicated we would have to meet newly-imposed conditions for bioequivalency for the tentatively-approved strengths of our generic Focalin XR® capsules prior to receiving final approval. In July 2015, the FDA indicated to us that it had rescinded its previous requirement that we meet the newly-imposed conditions for bioequivalence prior to receiving final approval for the tentatively-approved strengths of our generic Focalin XR®. In August 2015, we announced that the FDA had reinstated its previously-imposed (and subsequently rescinded) requirement that our tentatively-approved strengths of generic Focalin XR® capsules would have to meet new conditions for bioequivalence prior to receiving final approval. We will be required to demonstrate bio-equivalence with Focalin XR® for the 40 mg strength under fed conditions as the basis for approval of each of the 5 mg, 10 mg, 20 mg and 40 mg affected strengths. The already-approved 15 mg and 30 mg strengths of our generic Focalin XR® capsules now in the market are not affected. We, along with our commercialization partner, Par, are cooperating to obtain FDA approval for the 5 mg, 10 mg, 20 mg and 40 mg affected strengths at the earliest opportunity. If approved, we believe that Par will commercialize the approved strengths as soon as possible after approval. Teva launched its own 5 mg, 10 mg and 20 mg strengths of generic Focalin XR® capsules on November 11, 2014, February 2, 2015 and June 22, 2015, respectively. There can be no assurance as to when or if any launch will occur, or as to when or if final FDA approval will be received for the remaining product strengths we have applied for or that any of these strengths tentatively approved will ever be successfully commercialized.

Rexista™ Oxycodone XR (Abuse Deterrent Oxycodone Hydrochloride Controlled-Release)

One of our non-generic products under development is our Rexista™ Oxycodone XR (abuse deterrent oxycodone hydrochloride) extended release product candidate, intended as an abuse and alcohol-deterrent controlled-release oral formulation of oxycodone hydrochloride for the relief of pain. Rexista™ Oxycodone XR 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. The formulation is intended to present a significant barrier to tampering when subjected to various forms of physical and chemical manipulation commonly used by abusers. It is also designed to prevent dose dumping when inadvertently co-administered with alcohol. Dose dumping is the rapid release of an 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 through crushing, taking with alcohol, extracting with other beverages, vaporizing or injecting. In addition, when crushed or pulverized and hydrated, the proposed extended release formulation is designed to coagulate instantaneously and entrap the drug in a viscous hydrogel, which is intended to prevent syringing, injecting and snorting. Our Rexista™ Oxycodone XR formulation contains a blue dye that is emitted once the tablet is tampered with or crushed. This stigmatizing blue dye acts as a deterrent if abused orally or via the intra-nasal route.

In March 2015, we announced the results of three definitive open label, blinded, randomized, cross-over, Phase I pharmacokinetic clinical trials in which Rexista™ Oxycodone XR was compared to the existing branded drug Oxycontin® under single dose fasting, single dose steady-state fasting and single dose fed conditions in healthy volunteers. We had reported that the results from all three studies showed that Rexista™ Oxycodone XR met the bioequivalence criteria (90 percent confidence interval of 80 to 125 percent) for all matrices, i.e., on the measure of maximum plasma concentration or Cmax, on the measure of area under the curve time (AUC_t) and on the measure of area under the curve infinity (AUC_{inf}).

In May 2015, the FDA provided us with notification regarding our IND submission for Rexista™ Oxycodone XR (abuse deterrent oxycodone hydrochloride) extended release tablets indicating that we would not be required to conduct Phase III studies if bioequivalence to Oxycontin® was demonstrated based on pivotal bioequivalence studies.

In January 2016, we announced that pivotal bioequivalence trials of our Rexista™ Oxycodone XR (abuse deterrent oxycodone hydrochloride) extended release tablets, dosed under fasted and fed conditions, had demonstrated bioequivalence to Oxycontin® (oxycodone hydrochloride) extended release tablets as manufactured and sold in the United States by Purdue Pharma LP. The study design was based on FDA recommendations and compared the lowest and highest strengths of exhibit batches of our Rexista™ Oxycodone XR to the same strengths of Oxycontin®. The results show that the ratios of the pharmacokinetic metrics, $C_{max,}$ AUC_{0-t} and AUC_{0-f} for Rexista™ vs Oxycontin®, are within the interval of 80% - 125% required by the FDA with a confidence level exceeding 90%. Having now demonstrated such bioequivalence, we believe we will not be required to conduct Phase III studies although no assurance can be given that we will not be required to conduct further studies for Rexista™ Oxycodone XR. The FDA notification is significant as it provides a basis for an accelerated development plan for our Rexista™ Oxycodone XR product candidate, without the need for more costly and time consuming Phase III studies. We are continuing to work towards satisfying the requirements to file an NDA for Rexista™ Oxycodone XR (abuse deterrent oxycodone hydrochloride) extended release tablets with the FDA and plan to complete this filing within the next six months, although there can be no assurances that we will be successful in filing an NDA for Rexista™ Oxycodone XR in six months' time.

The FDA is actively developing a regulatory program for the narcotic analgesic class of products. In April 2015, the FDA issued a guidance document, "Abuse-Deterrent Opioids – Evaluation and Labeling", to assist the industry in developing new formulations of opioid drugs with abuse-deterrent properties. 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®.

Our Rexista™ Oxycodone XR product candidate has been further enhanced with our PODRAS™ delivery technology, designed to prevent overdose when more pills than prescribed are swallowed intact. Preclinical studies of Rexista™ Oxycodone XR suggest that, unlike other third-party abuse-deterrent oxycodone products, if more tablets than prescribed are deliberately or inadvertently swallowed, the amount of drug active released over 24 hours may be substantially less than expected. However, if the prescribed number of pills is swallowed, the drug release should be as expected. The FDA reviewed our request for Fast Track designation for our abuse deterrent Rexista™ Oxycodone XR extended-release tablets development program incorporating PODRAS™, and in May 2015 notified us that the FDA had concluded that we met the criteria for Fast Track designation. Fast Track is a designation assigned by the FDA in response to an applicant's request which meets FDA criteria. The designation mandates the FDA to facilitate the development and expedite the review of drugs intended to treat serious or life threatening conditions and that demonstrate the potential to address unmet medical needs. This could potentially result in accelerated approval for Rexista™ Oxycodone XR incorporating PODRAS™, thereby making it available to patients earlier than would be traditionally possible.

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 may, 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 that we will, as a result of the Fast Track designation for Rexista™ Oxycodone XR, experience a faster development process or review, compared to conventional FDA standards, that our Rexista™ Oxycodone XR product candidate will be approved at all, or that it will ever be successfully commercialized.

Regabatin™ XR (Pregabalin Extended-Release)

Another Intellipharmaceutics non-generic controlled-release product under development 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. A controlled-release version of pregabalin should reduce the number of doses patients take, which could improve patient compliance, and therefore possibly enhance clinical outcomes. Lyrica®

pregabalin, twice-a-day ("BID") dosage and three-times-a-day ("TID") dosage, are drug products marketed in the United States by Pfizer Inc. 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.

In 2014, we conducted and analyzed the results of six Phase I clinical trials involving a twice-a-day formulation and a once-a-day formulation. For formulations directed to certain indications which include fibromyalgia, the results suggested that Regabatin™ XR 82.5 mg BID dosage was comparable in bioavailability to Lyrica® 50 mg (immediate-release pregabalin) TID dosage. For formulations directed to certain other indications which include neuropathic pain associated with diabetic peripheral neuropathy, the results suggested that Regabatin™ XR 165 mg once-a-day dosage was comparable in bioavailability to Lyrica® 75 mg BID dosage.

In March 2015, the FDA accepted a Pre-IND meeting request for our once-a-day Regabatin™ XR non-generic controlled release version of pregabalin under the NDA 505(b)(2) regulatory pathway, with a view to possible commercialization in the U.S. at some time following the December 30, 2018 expiry of the patent covering the pregabalin molecule. Regabatin™ XR is based on our controlled release drug delivery technology platform which utilizes the symptomatology and chronobiology of fibromyalgia in a formulation intended to provide a higher exposure of pregabalin during the first 12 hours of dosing. Based on positive feedback and guidance from the FDA, we submitted an IND application for Regabatin™ XR in August 2015. The FDA completed its review of the IND application and provided constructive input that we will use towards further development of the program.

There can be no assurance that any additional Phase I or other clinical trials we conduct will meet our expectations, that we will have sufficient capital to conduct such trials, that we will be successful in submitting an 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.

SELECTED FINANCIAL INFORMATION

It is important to note that historical patterns of revenue and expenditures cannot be taken as an indication of future revenue and 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 slightly lower in the November 30, 2015 when compared to the year ended November 30, 2014 was due to the positive currency effect of a weaker Canadian dollar during the year ended November 30, 2015 as well as lower stock options expense in fiscal 2014 when compared to fiscal 2015. Effective December 1, 2013, the Company changed its functional currency from Canadian dollars to U.S. dollars, requiring under U.S. GAAP the prospective reclassification of the derivative liabilities to equity, as discussed further below.

	For the years ended		
	November 30, 2015	**November 30, 2014**	**November 30, 2013**
	$	$	$
Revenue:	4,093,781	8,769,693	1,527,474
Expenses:	11,207,235	12,302,389	8,346,141
Loss from operations	(7,113,454)	(3,532,696)	(6,818,667)
Net loss per common share, basic and diluted	(0.31)	(0.17)	(0.58)
Cash & Cash Equivalents	1,755,196	4,233,975	760,586
Total Assets	5,224,299	7,875,036	4,379,501
Convertible debenture	1,518,429	1,377,302	2,105,406
Warrant liabilities	-	-	5,438,022
Total liabilities	5,361,985	2,965,671	10,334,574
Shareholders' equity (deficiency)	(137,686)	4,909,365	(5,955,073)
Total liabilities and shareholders equity	5,224,299	7,875,036	4,379,501

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 audited consolidated financial statements for the year ended November 30, 2015.

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 the functional currency; the fair values of financial assets and liabilities; the determination of units of accounting for revenue recognition; the accrual of licensing and milestone revenue; and forecasting future cash flows for assessing the going concern assumption.

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, exclusivity milestone payments and licensing payments on sales of resulting products and other incidental services.

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.

Licensing

The Company recognizes revenue from the licensing of the Company's drug delivery technologies, products and product candidates. Licensing revenue is recognized as earned in accordance with the contract terms when the amounts can be reasonably estimated and collectability is reasonably assured.

The Company has a license and commercialization agreement with Par. Under the exclusive territorial license rights granted to Par, the Par agreement requires that Par manufacture, promote, market, sell and distribute the product. Licensing revenue amounts receivable by the Company under this agreement are calculated and reported to the Company by Par, with such amounts generally based upon net product sales and net profit which include estimates for chargebacks, rebates, product returns, and other adjustments. Licensing revenue payments received by the Company from Par under this agreement are not subject to deductions for chargebacks, rebates, product returns, and other pricing adjustments. Based on this arrangement and the guidance per ASC topic 605, the Company records licensing revenue as earned in the consolidated statements of operations and comprehensive loss.

Milestones

The milestone method recognizes revenue on substantive milestone payments in the period the milestone is achieved. Milestones are considered substantive if all of the following conditions are met: (i) the milestone is commensurate with either the vendor's performance to achieve the milestone or the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the vendor's performance to achieve the milestone; (ii) the milestone relates solely to past performance; and (iii) the milestone is reasonable relative to all of the deliverables and payment terms within the arrangement. Non-substantive milestone payments that might be paid to the Company based on the passage of time or as a result of a partner's performance are allocated to the units of accounting within the arrangement; they are recognized as revenue in a manner similar to those units of accounting. In connection with the Par agreement, for each day up to a maximum of 180 days from the date of launch if the Company's product is the only generic in the market or if there is only one generic competitor, a milestone payment is earned. For the year ended November 30, 2015, the Company recognized milestone revenue of $Nil (2014 - $354,153; 2013 - $43,209).

Research and development

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

Deferred revenue

Deferred revenue represents the funds received from clients, for which the revenues have not yet been earned, as the milestones have not been achieved, or in the case of upfront fees for drug development, where the work remains to be completed. During the year ended November 30, 2015, the Company received an amount of $150,000 and recorded it as deferred revenue, as it did not meet the criteria for recognition.

Other incidental services

Incidental services which we may provide from time to time include consulting advice provided to other organizations regarding FDA standards. Revenue is earned and realized when all of the following conditions are met: (i) there is persuasive evidence of an arrangement; (ii) service has been rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured.

Translation of Foreign Currencies

Previously, operations of the Company were comprised of only research and development activities conducted in Canada. The Company generated no cash from operations, though funding for the operations (as in previous years) was primarily through U.S. dollar equity financings. The functional currency was assessed to be Canadian dollars. By obtaining the final approval of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules for the 15 and 30 mg strengths with Par in November 2013, the Company generated and collected U.S. dollar revenues in the year ended November 30, 2014 which represents a significant and material change in economic facts and circumstances. Management assessed the functional currency for the fiscal year commencing December 1, 2013 and concluded that the Company and its wholly owned operating subsidiaries should be measured using the U.S. dollar as the functional currency. Effective December 1, 2013, the change in functional currency was applied on a prospective basis. The U.S. dollar translated amounts of nonmonetary assets and liabilities at December 1, 2013 became the historical accounting basis for those assets and liabilities at December 1, 2013. The impact of the change in functional currency on the measurement and reporting of warrants and the convertible debenture is discussed below. The change in functional currency will result in no change in cumulative translation adjustment going forward as the Company and its wholly owned operating subsidiaries have U.S. dollar functional currencies.

In respect of other transactions denominated in currencies other than the Company and its wholly owned operating subsidiaries' functional currencies, the monetary assets and liabilities are translated at the period end rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All of the exchange gains or losses resulting from these other transactions are recognized in the consolidated statements of operations and comprehensive loss.

The Company's reporting currency in the year ended November 30, 2015, 2014 and 2013 was the U.S. dollar.

Warrants

In fiscal 2013, the warrants were presented as a liability because they did not meet the criteria of ASC Topic 480 Distinguishing Liabilities from Equity for equity classification. Subsequent changes in the fair value of the warrants were recorded in the consolidated statements of operations and comprehensive loss. As discussed above, the Company changed its functional currency effective December 1, 2013 such that these warrants met the criteria for prospective equity classification in ASC 480, and the U.S. dollar translated amount of the warrant liability at December 1, 2013 became the amount reclassified to equity.

Convertible debenture

In fiscal 2013, the Company issued an unsecured convertible debenture in the principal amount of $1.5 million (the "Debenture") as described in Note 7 to our audited consolidated financial statements for the year ended November 30, 2015. At issuance the conversion option was bifurcated from its host contract and the fair value of the conversion option was characterized as an embedded derivative upon issuance as it met the criteria of ASC Topic 815 Derivatives and Hedging. Subsequent changes in the fair value of the embedded derivative were recorded in the consolidated statements of operations and comprehensive loss. The proceeds received from the Debenture less the initial amount allocated to the embedded derivative were allocated to the liability and were accreted over the life of the Debenture using the imputed rate of interest. The Company changed its functional currency effective December 1, 2013 such that the conversion option no longer met the criteria for bifurcation and was prospectively reclassified to shareholders equity under ASC Topic 815 at the U.S. dollar translated amount at December 1, 2013. Effective June 29, 2015, the July 1, 2015 maturity date for the Debenture was further extended to January 1, 2016. Under ASC 470-50, the change in the maturity date of the debt instrument resulted in a constructive extinguishment of the original convertible Debenture as the change in the fair value of the embedded conversion option was greater than 10% of the carrying amount of the debt. In accordance with ASC 470-50-40, the Debenture has been recorded at fair value. The difference between the fair value of the Debenture after the extension and the net carrying value of the Debenture prior to the extension was recognized as a loss on the statement of operations and comprehensive loss. The carrying amount of the debt instrument will be accreted down to the face amount of the Debenture over the remaining life of the Debenture using an imputed rate of interest. Effective December 8, 2016, the January 1, 2015 maturity date for the Debenture was further extended to July 1, 2016.

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 incentive program. The amounts claimed under the program represent the amounts based on management estimates of eligible research and development costs incurred during the year. 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.

Future accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace

most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of the FASB's revenue standard, ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. The standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. The Company is in the process of evaluating the impact of adoption on the Company's financial position, results of operations or cash flow.

In June 2014, the FASB issued ASU No. 2014-12 in response to the consensus of the Emerging Issues Task Force on EITF Issue 13-D.2 The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. No new disclosures are required under the ASU. The ASU's guidance is effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015. Early adoption is permitted. 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.

In 2014, the FASB issued ASU No. 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if "conditions or events raise substantial doubt about the entity's ability to continue as a going concern." The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, which applies to any entity that is an issuer of, or invests in, hybrid financial instruments that are issued in the form of a share. The amendments in ASU No. 2014-16 clarify that an entity must take into account all relevant terms and features when reviewing the nature of the host contract. Additionally, the amendments state that no one term or feature would define the host contract's economic characteristics and risks. Instead, the economic characteristics and risks of the hybrid financial instrument as a whole would determine the nature of the host contract. ASU No. 2014-16's amendments will be effective for public business entities for fiscal years, and interim periods within those fiscal years, starting after December 15, 2015, with early adoption permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU No. 2015-02 provides guidance on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). ASU No. 2015-02 is effective for periods beginning after December 15, 2015, with early adoption permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU No. 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 with early adoption permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In November 2015, the FASB issued ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes,” as part of its simplification initiative. Under the ASU, organizations that present a classified balance sheet are required to classify all deferred taxes as noncurrent assets or noncurrent liabilities. ASU No. 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company’s financial position, results of operations or cash flow.

In January 2016, the FASB issued ASU 2016-01, which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The new standard significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. The Company is in the process of evaluating the amendments to determine if they 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 licensing revenue, milestone revenue, product sales, competitive entries, market pricing, wholesaler buying patterns, the timing and amount of payments received pursuant to our current and future collaborations with third parties, the existence of any first-to-file exclusivity periods, 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.

Over the last several years, the FDA, through the Office of Generic Drugs (“OGD”) that approves ANDAs, has experienced a significant deterioration in ANDA approval timelines. The Company believes that the median ANDA approval time is approximately 42 months. The FDA has attributed this backlog principally to:

- significant growth in ANDA submissions, particularly foreign submissions
- an increase in the number of complex products
- an increase in the number of foreign site inspections
- limited resources to handle the growth and complexity of submissions

In order to address the significant backlog, the Generic Drug User Fee Amendments of 2012 (“GDUFA”) was passed. Under GDUFA, the OGD has been collecting new user fees from generic drug companies designed, among other things, to fund the increase in resources required to deal with the approval backlog as well as restructure the OGD to effectively deal with ANDA timelines on a go forward basis. The Company currently has 5 ANDAs that exceed the 42 month median. We believe that the FDA has made positive strides in restructuring the OGD to address the ANDA approval backlog and we remain optimistic that the FDA will be successful in reducing the backlog; however there can be no assurance as to when or if the FDA will approve any of our ANDA product candidates.

The following are selected financial data for the years ended November 30, 2015, 2014 and 2013.

	For the years ended						
	November 30, 2015	November 30, 2014	November 30, 2013	Change 2015 vs 2014		Change 2014 vs 2013	
	$	$	$	$	%	$	%
Revenue:							
Licensing	4,093,781	8,415,540	1,481,719	(4,321,759)	-51%	6,933,821	468%
Milestone	-	354,153	43,209	(354,153)	-100%	310,944	720%
Other incidental services	-	-	2,546	-	N/A	(2,546)	-100%
	4,093,781	8,769,693	1,527,474	(4,675,912)	-53%	7,242,219	474%
Expenses:							
Research and development	7,247,473	8,020,201	5,076,236	(772,728)	-10%	2,943,965	58%
Selling, general and administrative	3,581,913	3,900,803	2,873,091	(318,890)	-8%	1,027,712	36%
Depreciation	377,849	381,385	396,814	(3,536)	-1%	(15,429)	-4%
	11,207,235	12,302,389	8,346,141	(1,095,154)	-9%	3,956,248	47%
Loss from operations	(7,113,454)	(3,532,696)	(6,818,667)	(3,580,758)	101%	3,285,971	-48%
Fair value adjustment of derivative liabilities	-	-	(3,889,683)	-	N/A	3,889,683	-100%
Financing expense	-	-	(115,056)	-	N/A	115,056	-100%
Net foreign exchange gain (loss)	46,211	10,896	(359,554)	35,315	324%	370,450	-103%
Interest income	1,507	4,898	2,839	(3,391)	-69%	2,059	73%
Interest expense	(256,629)	(339,451)	(314,896)	82,822	-24%	(24,555)	8%
Extinguishment loss	(114,023)	-	-	(114,023)	100%	-	N/A
Net loss	(7,436,388)	(3,856,353)	(11,495,017)	(3,580,035)	93%	7,638,664	-66%

Year Ended November 30, 2015 Compared to the year Ended November 30, 2014

Revenue

The Company recorded revenues of $4,093,781 for the year ended November 30, 2015 versus $8,769,693 for the year ended November 30, 2014. As the first-filer for generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules in the 15 mg strength, we had 180 days (up to May 19, 2014) of exclusivity of sales for that strength from the date of launch on November 19, 2013 in the United States by our partner, Par. During the year ended November 30, 2014, we recognized licensing revenue of $8,415,540 from commercial sales of 15 and 30 mg strengths of generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules under the Par agreement. This revenue included the commercial sales occurring in the early stages of the marketing of the generic product in those strengths during an exclusivity period. In the year ended November 30, 2014, we also recorded milestone revenue, tied to the achievement of our product being either the only generic in the market or having only one generic competitor, of $354,153 under the Par agreement. Subsequent to May 19, 2014, we no longer retained generic exclusivity of the 15 mg strength. Consequently, we faced four generic competitors in 2014 through the first half of 2015, and a softening of pricing conditions and market share, consistent with industry post-exclusivity experience. In the second half of 2015 we faced one additional competitor on the 15 mg strength, and while we were able to preserve market share, it came at the expense of price/margin erosion. Revenue under the Par agreement represents the commercial sales of the generic product in those strengths and may not be representative of future sales. We believe sales of dexmethylphenidate hydrochloride extended-release capsules are subject to wholesaler buying patterns, increased generic competition negatively impacting price, margins and market share consistent with industry post-exclusivity experience and, to a lesser extent, seasonality.

Research and Development

Expenditures for R&D for the year ended November 30, 2015 were $7,247,473 in comparison to $8,020,201 in the prior year, a decrease of $772,728. These included reduced spending for R&D activities as well as lower stock options expense as detailed below.

In the year ended November 30, 2015, we recorded $152,231 as an expense for stock based compensation for R&D employees, and there was no expense for performance-based stock options. In the year ended November 30, 2014, we recorded $1,270,307 as an expense for stock-based

compensation. The decrease was due to a total of 1,658,364 previously granted performance-based stock options that vested as of August 31, 2014. Effective March 27, 2014, the Company's shareholders approved a two year extension of the performance-based stock option expiry date of these options to September 10, 2016. As a result of the modification of the performance based stock option expiry date, we recorded additional compensation costs of $1,066,991 related to vested performance options during the year ended November 30, 2014.

After adjusting for the stock-based compensation expenses discussed above, expenditures for R&D for the year ended November 30, 2015 were higher by $345,348 compared to the prior year. This increase over the prior year is primarily due to the fact that during the year ended November 30, 2015 we incurred increased expenses on furthering the development of generic and NDA 505(b)(2) product candidates, compared to the year ended November 30, 2014, as well as a modest increase in the number of non-management employees for the year ended November 30, 2015.

In fiscal 2016, we expect to pursue possible financing alternatives, including potential partnering opportunities, in order to fund clinical trials on NDA 505(b)(2) product candidates. There can be no assurance that we will be able to obtain any such financing on terms or in amounts sufficient to meet our needs or at all.

Selling, General* and *Administrative

Selling, general and administrative expenses were $3,581,913 for the year ended November 30, 2015 in comparison to $3,900,803 for the year ended November 30, 2014, a decrease of $318,890. The decrease is due to lower expenses related to wages, partially offset by an increase in administrative costs and marketing costs which are discussed in greater detail below.

Expenditures for wages and benefits for the year ended November 30, 2015 were $1,305,614 in comparison to $1,749,046 in the prior year. For the year ended November 30, 2015, we recorded $265,587 as an expense for stock-based compensation compared to an expense of $478,300 for the prior year. The decrease is attributable to the issuance of options in the second quarter of 2014 to certain management employees and the non-management directors. After adjusting for the stock option based compensation expenses, expenditures for wages and benefits for the year ended November 30, 2015 were lower by $230,719 compared to the prior period. The decrease was primarily due to the payment of bonuses to certain management and non-management employees, and salary increases for certain non-management employees during the year ended November 30, 2014, and no bonuses paid during the year ended November 30, 2015.

Administrative costs for the year ended November 30, 2015 were $1,751,315 in comparison to $1,651,790 in the year ended November 30, 2014. The increase is primarily due to an increase in expenditures in corporate legal activities and professional fees.

Marketing costs for the year ended November 30, 2015 were $434,902 in comparison to $418,473 in the prior year. This increase is primarily the result of higher travel expenditures related to business development activities.

Depreciation

Depreciation expenses for the year ended November 30, 2015 was $377,849 in comparison to $381,385 in the prior year. The decrease is primarily due to the timing of additional investment in production, laboratory equipment and computer equipment during the year ended November 30, 2015.

Exchange Gain

Foreign exchange gain was $46,211 for the year ended November 30, 2015 in comparison to a gain of $10,896 for the year ended November 30, 2014. The foreign exchange gain for the year ended November 30, 2015 was due to the strengthening of the U.S. dollar against the Canadian dollar throughout the year as the exchange rate averaged $1.00 for C$1.2603 compared to $1.00 for C$1.0973 in the prior year. The Canadian dollar weakened against the U.S. dollar during the year ended November 30, 2015 as the exchange rates changed to $1.00 for C$1.3353 as at November 30, 2015 from $1.00 for C$1.1440 at November 30, 2014.

Interest Income
Interest income was $1,507 for the year ended November 30, 2015 in comparison to $4,898 for the year ended November 30, 2014, a decrease of $3,391. For the year ended November 30, 2015, interest was lower largely due to a lower average amount of cash equivalents on hand during 2015 compared to 2014.

Interest Expense
Interest expense was $256,629 for the year ended November 30, 2015 in comparison to $339,451 for the year ended November 30, 2014, a decrease of $82,822. This results from interest paid in 2015 on the Debenture which accrues interest payable at 12% annually and the related conversion option embedded derivative accreted at an annual imputed interest of approximately 15%, offset by a credit to interest expense at an imputed interest rate of 14% during the second half of fiscal 2015, due to the extinguishment of the debt on an accounting basis, in comparison to fiscal 2014 when the conversion option embedded accreted at an annual imputed interest of approximately 8%.

Year Ended November 30, 2014 Compared to the Year Ended November 30, 2013

Revenue
The Company recorded revenues of $8,769,693 for the year ended November 30, 2014 versus $1,527,474 for the year ended November 30, 2013. In November 2013 the Company received FDA approval of its generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules for the 15 and 30 mg strengths. Commercial sales of these strengths were launched immediately by our commercialization partner for these drugs in the United States, Par. As the first-filer for the drug product in the 15 mg strength, we had 180 days (up to May 19, 2014) of exclusivity of sales for the generic product of that strength from the date of launch on November 19, 2013 in the U.S. by our partner, Par. Subsequent to May 19, 2014 we no longer retained generic exclusivity of the 15 mg strength. This revenue represents the commercial sales of the generic product in those strengths and may not be representative of future sales. We believe sales of dexmethylphenidate hydrochloride extended-release capsules are subject to seasonal fluctuations.

In the first half of 2014, we recognized licensing revenue of $5,805,847 from commercial sales of 15 and 30 mg strengths of generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules under the Par agreement. We also recorded milestone revenue of $354,153 under the Par agreement, which is tied to the achievement of our product being either the only generic in the market or having only one generic competitor. In the second half of 2014 we recognized licensing revenue of $2,609,693 from commercial sales of 15 and 30 mg strengths of generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules under the Par agreement.

Research and Development
Expenditures for R&D for the year ended November 30, 2014 were $8,020,201 in comparison to $5,076,236 in the prior year, an increase of $2,943,965. These included spending for R&D activities as well as expenses on stock options as detailed below.

In the year ended November 30, 2014, we recorded $1,270,307 as expenses for stock options for R&D employees. As a result of the modification of the performance based stock option expiry date, we recorded additional compensation costs of $1,066,991 related to vested performance options during the year ended November 30, 2014. In the prior year we recorded $837,206 as expenses for stock options for R&D employees; this amount includes $442,800 expense for performance-based stock options.

After adjusting for the stock options expenses discussed above, expenditures for R&D for the year ended November 30, 2014 were higher by $2,510,864 compared to the prior year. This increase over the prior year is due to increased expenses on furthering the development of several generic and NDA 505(b)(2) product candidates, an increase in the number of non-management employees, and salary increases for certain non-management employees.

Selling, General* and *Administrative
Selling, general and administrative expenses were $3,900,803 for the year ended November 30, 2014 in comparison to $2,873,091 for the year ended November 30, 2013, an increase of $1,027,712. The

increase is due to an increase in expenses related to wages, marketing cost and occupancy costs which are discussed in greater detail below.

Expenditure for wages and benefits for the year ended November 30, 2014 were $1,749,046 in comparison to $1,313,082 in the prior year. In the year ended November 30, 2014, we recorded $478,300 as expenses for stock options compared to an expense of $316,676 for the prior year. After adjusting for the stock options expenses, expenditures for wages and benefits for the year ended November 30, 2014 were higher by $274,340 compared to the prior period primarily due to an increase in the number of management and non-management employees, and salary increases for certain non-management employees .

Administrative costs for the year ended November 30, 2014 were $1,651,790 in comparison to $1,078,441 in the prior year. The increase was due to higher expenditures in legal and accounting activities.

Marketing costs for the year ended November 30, 2014 were $418,472 in comparison to $388,889 in the prior year. This increase is primarily the result of higher travel expenditures related to business development activities.

Depreciation

Depreciation expenses for the year ended November 30, 2014 were $381,385 in comparison to $396,814 in the prior year. The decrease is primarily due to the timing of additional investment in production, laboratory and computer equipment during the year ended November 30, 2014.

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. At issuance, the Company determined that these warrants were not considered indexed to the Company's own stock and therefore were consequently considered to be a derivative liability. Subsequent changes in the fair value of the warrants were recorded in the consolidated statements of operations and comprehensive loss.

Effective December 1, 2013, the Company changed its functional currency from Canadian dollars to U.S. dollars such that the warrants are now considered indexed to the Company's own stock and meet the criteria for prospective equity classification in ASC 480. The warrant liability value at December 1, 2013 of $5,438,022 was reclassified from warrant liabilities to additional paid-in capital. As a result, for the year ended November 30, 2014, there was no fair value adjustment of derivative liability expense recorded in the statement of operations.

In January 2013, the Company completed the private placement financing of an unsecured Debenture in the aggregate principal amount of $1.5 million. The Debenture was originally due to mature on January 1, 2015, but effective October 1, 2014, the maturity date was extended to July 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. The conversion price of the Debenture is in U.S. dollars and at issuance the Company's functional currency was Canadian dollars. As a result, for the year ended November 30, 2013, the Company recognized a fair value adjustment of derivative liability expense of $8,168 in the statement of operations.

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 was bifurcated from its host contract and the fair value of the conversion option characterized as an embedded derivative at issuance. The embedded derivative was presented on a combined basis with the host contract. The derivative was re-measured at the end of every reporting period with the change in value reported in the consolidated statements of operations and comprehensive loss.

Effective December 1, 2013, the Company changed its functional currency from Canadian dollars to U.S. dollars such that the conversion option no longer meets the criteria for bifurcation and was prospectively reclassified to equity under ASC 815. The conversion option value at December 1, 2013 of $728,950 was reclassified from convertible debenture to additional paid-in capital. Consequently, there was no fair value adjustment of derivative liability expense recorded in the statement of operations.

Prior to the Company's change in its functional currency, U.S. GAAP required the fair values of these liabilities be re-valued at the end of every reporting period with the change in value reported in the consolidated statements of operations and comprehensive loss. Subsequent to the change in functional currency, U.S. GAAP requires the reclassification of the derivative liabilities to equity and there is no further re-valuation at the end of every reporting period.

Foreign Exchange Gain (Loss)

Foreign exchange gain was $10,896 for the year ended November 30, 2014 in comparison to a loss of $359,554 for the prior year. The foreign exchange gain for the year ended November 30, 2014 was due to the weakening of the Canadian dollar against the U.S. dollar throughout the year as the exchange rate averaged $1.00 for C$1.0973 compared to $1.00 for C$1.0241 for prior year. Based on our fiscal year end dates, the Canadian dollar weakened against the U.S. dollar as the exchange rates changed to $1.00 for C$1.1440 at November 30, 2014 from $1.00 for C$1.0620 at November 30, 2013.

Interest Income

Interest income was $4,898 for the year ended November 30, 2014 in comparison to $2,839 for the year ended November 30, 2013, an increase of $2,059. For the year ended November 30, 2014 interest was higher largely due to a higher average amount of cash equivalents on hand during 2014 compared to 2013.

Interest Expense

Interest expense was $339,451 for the year ended November 30, 2014 in comparison to $314,896 for the year ended November 30, 2013, an increase of $24,555. This is primarily because the interest expense paid in 2014, on the Debenture which accrues interest payable at 12% annually and the related conversion option embedded derivative accreted at an annual imputed interest rate of approximately 8%, was over a twelve month period in comparison to 2013 where the Debenture interest was over a ten month period.

SUMMARY OF QUARTERLY RESULTS

The following selected financial information is derived from our unaudited consolidated financial statements for the three years ended November 30, 2015, 2014 and 2013.

Quarter Ended	Revenue	Net (loss) income	(Loss) income per share	
			Basic[i]	Diluted[i]
	$	$	$	$
November 30, 2015	845,103	(3,132,788)	(0.13)	(0.13)
August 31, 2015	840,748	(1,881,670)	(0.08)	(0.08)
May 31, 2015	1,268,245	(1,507,270)	(0.06)	(0.06)
February 28, 2015	1,139,685	(914,660)	(0.04)	(0.04)
November 30, 2014	1,536,990	(1,247,105)	(0.05)	(0.05)
August 31, 2014	1,072,703	(1,670,407)	(0.07)	(0.07)
May 31, 2014	1,478,942	(3,140,275)	(0.14)	(0.14)
February 28, 2014	4,681,058	2,201,435	0.10	0.09
November 30, 2013	1,527,474	(6,325,439)	(0.30)	(0.30)

(i) Quarterly per share amounts may not sum due to rounding

It is important to note that historical patterns of revenue and expenditures cannot be taken as an indication of future revenue and expenditures. Net income and loss has been variable over the last eight quarters, and has been impacted primarily by the FDA approval and commercial sales of generic Focalin XR® capsules for the 15 and 30 mg strengths, availability of funding, the level of our R&D spending, and the fair value adjustment of derivative liabilities. The higher net loss in the fourth quarter of 2015 in comparison to the third quarter of 2015 is attributed to the lower licensing revenue from generic Focalin XR® capsules and ongoing R&D and selling, general and administrative expense, including a significant increase in bio-studies. The net loss in the second quarter of 2015 is attributed to the ongoing R&D and selling, general and administrative expense, including an increase in bio-studies, partially offset by licensing revenue from generic Focalin XR® capsules. The net loss in the first quarter of 2015 was attributed to lower licensing revenues compared to the prior period, partially offset by lower R&D and selling, general and administrative expenses. This is primarily due to the loss of exclusivity on the 15 mg strength of our generic Focalin XR® capsules. In the first quarter of 2015 we faced four generic competitors and a softening of pricing conditions and market share, consistent with industry post-exclusivity experience and to a lesser extent, seasonality. The net loss in the third and fourth quarter of 2014 is attributed to the ongoing R&D and selling, general and administrative expense, as well as the loss of exclusivity period for the 15 mg strength of generic Focalin XR® capsules in the third quarter, allowing more competitors into the market, which negatively impacted our licensing revenue from generic Focalin XR® capsules. The net loss in the second quarter of 2014 is attributed to the ongoing R&D and selling, general and administrative expense, including an increase in stock-based compensation expense, payment of bonuses to certain management employees, increased salaries to certain non-management employees, partially offset by licensing revenue and milestone revenue from our generic Focalin XR® capsules. The net income in the first quarter of 2014 is attributed to the licensing and milestone revenue of $4.7 million from generic Focalin XR® capsules and the change in functional currency eliminating fair value adjustments of derivative liabilities. The higher net income in the first quarter of 2014 is attributed to the licensing revenue from generic Focalin XR® capsules plus milestone revenue received under the Par agreement. As the first-filer for the drug product in the 15 mg strength, we had 180 days (up to May 19, 2014) of exclusivity of sales for that strength from the date of launch on November 19, 2013 in the United States by our partner, Par. The higher net loss during the fourth quarter of 2013 when compared to the net loss in the third quarter of 2013 can be mainly attributed to the fair value adjustment of derivative liabilities for a loss of $5.1 million due to the significant increase in common share price driving the fair market valuation of derivate liabilities. This loss partially offset by the timing of certain R&D activities which have been deferred, and licensing revenue of $1.5 million related to commercial sales of generic Focalin XR® capsules for the 15 and 30 mg strengths under the Par agreement.

LIQUIDITY AND CAPITAL RESOURCES

	For the years ended						
	November 30, 2015	November 30, 2014	November 30, 2013	Change (2015 vs 2014)		Change (2014 vs 2013)	
	$	$	$	$	%	$	%
Cash flows used in operating activities	(3,782,164)	(1,714,913)	(6,926,796)	(2,067,251)	121%	5,211,883	-75%
Cash flows provided from financing activities	1,733,865	5,957,275	7,328,420	(4,223,410)	-71%	(1,371,145)	-19%
Cash flows used in investing activities	(430,480)	(768,973)	(122,017)	338,493	-44%	(646,956)	530%
Effect of foreign exchange on cash held in foreign currency	-	-	(16,037)	-	-	16,037	-100%
Increase (decrease) in cash	(2,478,779)	3,473,389	263,570	(5,952,168)	-171%	3,209,819	1218%
Cash and cash equivalents, beginning of period	4,233,975	760,586	497,016	3,473,389	457%	263,570	53%
Cash and cash equivalents, end of period	1,755,196	4,233,975	760,586	(2,478,779)	-59%	3,473,389	457%

The Company had cash of $1,755,196 as at November 30, 2015 compared to $4,233,975 as at November 30, 2014 and compared to $760,586 as at November 30, 2013. The decrease in cash during the year ended November 30, 2015 was mainly a result of lower cash receipts relating to commercial sales of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules for the 15 mg and 30 mg strengths, an increase in cash flow used in operating activities related to R&D activities, a decrease in cash flows provided from financing activities which were mainly from common share sales under the Company's at-the-market offering program, partially offset by a decrease in purchases of production, laboratory and computer equipment. The increase in cash during the year ended November 30, 2014 was mainly a result of the decrease in cash flows used in operating activities due to payments received from the commercial sales of our generic Focalin XR® capsules for the 15 and 30 mg strengths, cash flows from financing activities which were mainly from our at-the-market financing and several warrant exercise, partially offset by an increase in purchases of production, laboratory and computer equipment. The increase in cash during the year ended November 30, 2013 was mainly a result of an increase in financing activities, partially offset by a decrease in cash flows used in operating activities related to R&D activities, and a decrease in purchases of production, laboratory and computer equipment, as noted below.

For the year ended November 30, 2015, net cash flows used in operating activities increased to $3,782,164 as compared to net cash flows used in operating activities for the year ended November 30, 2014 of $1,714,913, and relative to November 30, 2013 net cash flows used in operating activities increased by $3,144,632. The increase from 2014 was due to the receipt of approximately $4,622,157, as our payment relating to commercial sales of generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules by Par for the 15 and 30 mg strengths of the drug product under the Par agreement for the period December 1, 2014 to November 30, 2015 compared to the payment to us of $8,465,466 for the period December 1, 2013 to November 30, 2014. The increase relative to 2013 was also due to payments related to commercial sales of generic Focalin XR® for which there were no such payments in 2013.

R&D 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 years ended November 30, 2015, 2014, and 2013, R&D expense was $7,247,473, $8,020,201, and $5,076,236, respectively. For the years ended November 30, 2015, 2014, and 2013, R&D expense before stock-based compensation expense was $7,095,242, $6,749,894, and $4,239,030, respectively. The increase in expenses in 2015 and 2014 relative to 2013 was in part as a result of capital expenditures on production and analytical equipment and expenses for the procurement of active raw materials, conducting clinical studies and, to a lesser extent, hiring of additional personnel.

As a research and development company, Intellipharmaceutics Corp., a wholly-owned subsidiary of the Company ("IPC Corp") is eligible to receive investment tax credits from various levels of government under the Scientific Research & Experimental Development incentive programs. Depending on the

financial condition of IPC Corp, research and development expenses in any fiscal year could be claimed. Eligible research and development expenses included salaries for employees involved in research and development, cost of materials, equipment purchase as well as third party contract services. This amount is not a reduction in income taxes but a form of government refundable credits based on the level of research and development that the Company carries out.

In fiscal year 2015, the Company received C$300,000 for the ITCs with the Ontario Ministry of Finance for research and development activities carried out during the fiscal year 2013.

For the year ended November 30, 2015, net cash flows provided from financing activities of $1,733,865 related principally to at-the-market issuances of 471,439 of our common shares sold on NASDAQ for gross proceeds of $1,290,168 and net proceeds of $1,254,178, and to the exercise of 225,000 warrants for net proceeds of $562,500, partially offset by capital lease and financing cost payments. Net cash flows provided from financing activities for the year ended November 30, 2014 of $5,957,275 related principally to our at-the-market issuances of 1,689,500 common shares sold on NASDAQ for gross proceeds of $6,571,673 with net proceeds to us of $6,390,952. For the year ended November 30, 2013, net cash flows provided from financing activities of $7,328,420 related principally to the July 2013 underwritten public offering for gross proceeds of approximately $3.1 million, the March 2013 registered direct unit offering for gross proceeds of approximately $3.1 million, the January 2013 Debenture financing in the principal amount of $1.5 million, and warrant exercises, offset by issuance costs.

During the year ended November 30, 2014, we had repaid the entire outstanding principal amount of a related party loan to Dr. Isa Odidi and Dr. Amina Odidi, our principal stockholders, directors and executive officers, in the amount of $690,049 (C$764,851) out of licensing revenues earned by IPC Corp and made interest payments of $48,504 (C$53,762) in accordance with the IPC Arrangement Agreement.

For the year ended November 30, 2015, net cash flows used in investing activities of $430,480 related mainly to the purchases of production, laboratory and computer equipment due to the acceleration of product development activities. For the year ended November 30, 2014, net cash flows used in investing activities of $768,973 related mainly to the purchases of production, laboratory and computer equipment due to the acceleration of product development activities. For the year ended November 30, 2013, net cash flows used in investing activities of $122,017 related mainly to the purchase of production and laboratory equipment.

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

Other than the net income for the three months ended February 28, 2014, the Company has incurred losses from operations since inception. To date, the Company has funded its research and development activities principally through the issuance of securities, loans from related parties, funds from the IPC Arrangement Agreement and funds received under development agreements. To a lesser extent, since November 2013, research has also been funded from revenues from sales of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules for the 15 and 30 mg strengths. Currently, the Company does not anticipate generating sufficient cash flows from operations as it pursues the development of its portfolio of ANDA, ANDS and NDA 505(b)(2) product candidates. 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. Although there can be no assurances, such capital may come from revenues from the sales of our generic Focalin XR® capsules, from proceeds of the Company's at-the-market offering program and from potential partnering opportunities. Our ultimate success will depend on whether our product candidates receive the approval of the FDA or Health Canada and we are able to successfully market approved products. We cannot be certain that we will be able to receive FDA or Health Canada approval for any of our current or future product candidates, or that we will reach the level of sales and revenues necessary to achieve and sustain profitability.

Subsequent to fiscal 2015, and up to February 25, 2016 the Company repaid $1,793,635 of the outstanding accounts payable balance. As of February 25, 2016, we had a cash balance of $413,046, which we expect will fund our currently projected operations through March 2016. In order for us to

continue operations at currently projected levels thereafter, we will be required to seek significant additional capital. We might also need further additional capital to fund any R&D activities which are at higher-than-currently projected levels and to fund any significant expansion of our operations. Although there can be no assurances, such capital may come from revenues from the sales of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules, from proceeds of the Company's at-the-market offering program and from potential partnering opportunities. In the near term, we expect to utilize our at-the-market offering program to bridge any funding shortfall in the first and second quarters of 2016. Other potential sources of capital may include payments from licensing agreements, cost savings associated with managing operating expense levels, other equity and/or debt financings, and/or new strategic partnership agreements which fund some or all costs of product development. 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.

Our cash requirements for R&D during any period depend on the number and extent of the R&D activities we focus on. At present, we are working principally on our Rexista Oxycodone™ XR and Regabatin™ XR 505(b)(2), and selected generic, product candidate development projects. For our Regabatin™ XR 505(b)(2) product candidate, Phase III clinical trials can be capital intensive, and will only be undertaken consistent with the availability of funds and a prudent cash management strategy. We do not anticipate any material equipment purchases in the next twelve months in the absence of significant additional funding.

On December 1, 2015, the Company entered into a new lease agreement for the combined properties comprising the Company's premises that it currently operates from at 30 Worcester Road, as well as a 40,000 square foot building on the adjoining property located at 22 Worcester Road, which is owned indirectly by the same landlord (collectively, the "combined properties"), for a five-year term with a five-year renewal option. Basic rent over the five year term is C$240,000 per annum, subject to an annual consumer price inflation adjustment and the Company responsible for utilities, municipal taxes and operating expenses for the leased property. With these two leased premises, the Company now has use of 65,000 square feet of commercial space to accommodate its growth objectives over the next several years. The Company also has an option to purchase the combined properties after March 1, 2017 and up to November 30, 2020 based on a fair value purchase formula. The Company uses its facility at 30 Worcester Road as a current Good Laboratory Practices research laboratory, office space, and current Good Manufacturing Practices scale-up and small to medium-scale manufacturing plant for solid oral dosage forms. The facility now consists of approximately 4,900 sq. ft. for administrative space, 4,300 sq. ft. for R&D, 9,200 sq. ft. for manufacturing, and 3,000 sq. ft. for warehousing. The 22 Worcester Road building provides approximately 37,000 square feet of warehouse space and approximately 3,000 square feet of office space. The current lease also provides the Company with a right of first refusal to purchase the combined properties. The landlord is required to provide the Company with prior written notice and the desired sale price for the combined premises prior to offering the premises to a third party or on the open market. The Company has five business days to accept such offer and purchase price for a transaction to close within 60 days of the notice. If the Company declines the offer, the landlord is entitled to offer and sell the properties for a purchase price of not less than the price offered to the Company for a period of 180 days, after which time the landlord is again obliged to offer the properties to the Company before offering them to a third party or on the open market.

Effective December 8, 2015, the January 1, 2016 maturity date for the Debenture in respect of the $1,500,000 loan to the Company by Drs. Isa and Amina Odidi was further extended, to July 1, 2016 The Company currently expects to repay this amount from then available cash on or about July 1, 2016.

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 sufficient additional capital, it will raise substantial doubt about our ability to continue as a going concern and realize our assets and pay our liabilities as they become due. Depending upon the results of our research and development programs

and the availability of financial resources, we could decide to accelerate, terminate, or reduce certain projects, or commence new ones. Any failure on our part to raise additional funds on terms favorable to us or at all, may require us 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 or our not taking any necessary actions required by the FDA or Health Canada 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, ANDSs 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 November 30, 2015 was 24,244,050 an increase of 787,439 from November 30, 2014 as a result of the exercises of options for 91,000 common shares, exercises of warrants for 225,000 common shares and the sale of 471,439 common shares under our at-the-market offering program. In November 2013, we entered into an equity distribution agreement with Roth Capital Partners, LLC ("Roth"), pursuant to which we could from time to time sell up to 5,305,484 of our common shares for up to an aggregate of $16.8 million (or such lesser amount as may be permitted under applicable securities laws and regulations) through at-the-market issuances on the NASDAQ or otherwise. During the three months ended November 30, 2015, an aggregate of 170,439 (2014 – Nil) of our common shares were sold on NASDAQ for gross proceeds of $319,805 (2014 - Nil) and net proceeds of $310,939 (2014 - Nil) under the at-the-market offering program. Roth received aggregate compensation of $8,860 in connection with such sales. During the year ended November 30, 2015, an aggregate of 471,439 (2014 – 1,689,500) of our common shares were sold on NASDAQ for gross proceeds of $1,290,167 (2014 - $6,571,673) and net proceeds of $1,254,178 (2014 - $6,390,670) under the at-the-market offering program. Roth received aggregate compensation of $35,983 in connection with such sales. The Company may in the future offer and sell its common shares with an aggregate purchase price of up to $8,938,160 pursuant to our at-the-market program. There can be no assurance that any additional shares will be sold under the at-the-market program. The number of options outstanding as of November 30, 2015 is 5,062,007, an increase of 203,799 from November 30, 2014, due to 355,000 options issued, 91,000 options exercised, and 39,166 options forfeited during the year ended November 30, 2015. The warrants outstanding as of November 30, 2015 represent 2,066,075 common shares issuable upon the exercise of outstanding common share purchase warrants, a decrease of 225,000 from November 30, 2014, due to their exercise during the year ended November 30, 2015. The number of deferred share units outstanding as of November 30, 2015 is 60,002, an increase of 10,993 from November 30, 2014. As of February 25, 2016 the number of shares outstanding is 24,437,093.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT LIQUIDITY AND MARKET RISK

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

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.

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

	November 30, 2015	November 30, 2014
	$	$
Total accounts receivable	478,674	1,011,133
Less allowance for doubtful accounts	-	-
Total accounts receivable, net	478,674	1,011,133
Not past due	453,662	982,313
Past due for more than 31 days but no more than 60 days	5,003	5,950
Past due for more than 91 days but no more than 120 days	20,009	22,870
Total accounts receivable, net	478,674	1,011,133

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 years ended November 30, 2015 and November 30, 2014, Par accounted for substantially all the revenue and all the 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.

We are exposed to changes in foreign exchange rates between the Canadian and United States dollar which could affect the value of our cash. The Company had no foreign currency hedges or other derivative financial instruments as of November 30, 2015. The Company did not enter into financial instruments for trading or speculative purposes and does not currently utilize derivative financial instruments.

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

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

	November 30, 2015		November 30, 2014	
	Canadian	U.S	Canadian	U.S
FX rates used to translate to U.S.	1.3353		1.1440	
	$	$	$	$
Assets				
Cash	116,096	86,944	510,459	446,205
	116,096	86,944	510,459	446,205
Liabilities				
Accounts payable	1,372,196	1,027,631	379,014	331,306
Employee cost payable	233,906	175,172	207,297	181,204
Capital lease	48,231	36,120	25,538	22,323
	1,654,332	1,238,923	611,849	534,833
Net exposure	(1,538,236)	(1,151,979)	(101,390)	(88,628)

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at November 30, 2015:

	November 30, 2015					
	Less than 3 months	3 to 6 months	6 to 9 months	9 months 1 year	Greater than 1 year	Total
	$	$	$	$	$	$
Third parties						
Accounts payable	3,027,974	-	-	-	-	3,027,974
Accrued liabilities	454,290	-	-	-	-	454,290
Capital lease	4,910	5,045	5,182	5,323	15,660	36,120
Related parties						
Employee costs payable	175,172	-	-	-	-	175,172
Convertible debenture	1,515,770	-	-	-	-	1,515,770
	5,178,116	5,045	5,182	5,323	15,660	5,209,326

Limitations:

The above discussion includes only those exposures that existed as of November 30, 2015 and, as a result, does not consider exposures or positions that could arise after that date. The Company's ultimate realized gain or loss with respect to interest rate and exchange rate fluctuations would depend on the exposures that arise during the period and interest and foreign exchange rates.

CAPITAL RESOURCES

At November 30, 2015, our cash totalled $1,755,196 compared to $4,233,975 as at November 30, 2014. The decrease in cash during the year ended November 30, 2015 was mainly a result of lower cash receipts relating to commercial sales of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules for the 15 and 30 mg strengths, an increase in cash flow used in operating activities related to R&D activities, a decrease in cash flows provided from financing activities which were mainly from common share sales under the Company's at-the-market offering program, partially offset by a decrease in purchases of production, laboratory and computer equipment. In November 2013, we established an at-the-market equity program pursuant to which we could sell up to 5,305,484 of our common shares for up to an aggregate of $16.8 million (or such lesser amount as may be permitted under applicable securities laws and regulations). During the year ended November 30, 2015, an aggregate of 471,439 (2014 – 1,689,500) of our common shares were sold on NASDAQ for gross proceeds of $1,290,167 (2014 - $6,571,673) and net proceeds of $1,254,178 (2014 - $6,390,670) under the at-the-market offering program. We may in the future offer and sell common shares with an aggregate purchase price of up to $8,938,160 pursuant to our at-the-market program. There can be no assurance that any additional shares will be sold under the at-the-market program.

At November 30, 2015, shareholders' deficiency was $137,686 compared to shareholders' equity of $4,909,365 at November 30, 2014. The decrease was due to the loss from operations during the 2015 period.

WORKING CAPITAL

Working capital (defined as current assets minus current liabilities) has decreased by approximately $5.3 million at November 30, 2015 from November 30, 2014, mainly as a result of the decrease in cash for licensing and milestone revenues. As of November 30, 2015, we had a lower cash balance and a decrease in accounts receivable impacted by increased generic competition negatively impacting price and margins consistent with industry post-exclusivity experience. Our accounts payable balance increased as a result of negotiating extended payment terms with certain suppliers, primarily third-party contract research organizations. Subsequent to fiscal 2015, and up to February 25, 2016 the Company repaid $1,793,635 of the outstanding accounts payable balance. As of February 25, 2016, we had a cash balance of $413,046, which we expect will fund our currently projected operations through March 2016. In order for us to continue operations at currently projected levels thereafter, we will be required to seek significant additional capital. We might also need further additional capital to fund any R&D activities which are at higher-than-currently projected levels and to fund any significant expansion of our

operations. Although there can be no assurances, such capital may come from revenues from the sales of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules, from proceeds of our at-the-market offering program and from potential partnering opportunities. In the near term, we expect to utilize our at-the-market offering program to bridge any funding shortfall in the first and second quarters of 2016. Other potential sources of capital may include payments from licensing agreements, cost savings associated with managing operating expense levels, other equity and/or debt financings, and/or new strategic partnership agreements which fund some or all costs of product development. 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 decrease in expenses in 2015 relative to 2014 was a result of reduced capital expenditures on production and analytical equipment and expenses for the procurement of active raw materials, conducting clinical studies, partially offset by the hiring of additional personnel. We do not anticipate any material equipment purchases in the next twelve months in the absence of significant additional funding. Selling, general and administrative expenses were primarily lower due to a positive currency effect given the devaluation of the Canadian dollar, and we expect this weakness to continue into 2016.

Effective December 8, 2015, the January 1, 2016 maturity date for the Debenture in respect of the $1,500,000 loan to the Company by Drs. Isa and Amina Odidi was further extended, to July 1, 2016. The Company currently expects to repay this amount from then available cash on or about July 1, 2016.

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 sufficient additional capital, it will raise substantial doubt about our ability to continue as a going concern and realize our assets and pay our liabilities as they become due. Depending upon the results of our research and development programs and the availability of financial resources, we could decide to accelerate, terminate, or reduce certain projects, or commence new ones. Any failure on our part to raise additional funds on terms favorable to us or at all, may require us 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 or the Company not taking any necessary actions required by the FDA or Health Canada 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, ANDSs or NDAs at all or in time to competitively market our products or product candidates.

CAPITAL EXPENDITURES

Total capital expenditures for the year ended November 30, 2015 were $430,480, compared to $768,973 for the year ended November 30, 2014. Capital expenditures in 2015 and 2014 relate to purchases of production, laboratory and computer equipment. We do not anticipate any material equipment purchases in the next twelve months in the absence of significant additional funding.

CONTRACTUAL OBLIGATIONS

In the table below, we set forth our enforceable and legally binding obligations and future commitments and obligations related to all contracts. Some of the figures we include in this table are based on management's estimate and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties, and other factors. The Company has entered into capital lease agreements for laboratory equipment where the lease obligation will end in fiscal 2017. Operating lease obligations relate to the lease of premises for the combined properties which will expire in November 2020, with a 5 year renewal option. The Company also has an option to purchase the

combined properties after March 1, 2017 and up to November 30, 2020 based on a fair value purchase formula.

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	$	$	$	$	$
Third parties					
Accounts payable	3,027,974	3,027,974	-	-	-
Accrued liabilities	454,290	454,290	-	-	-
Capital lease	36,120	20,460	15,660	-	-
Operating lease	870,971	152,027	539,208	179,736	-
Related parties					
Employee costs payable	175,172	175,172	-	-	-
Convertible debenture	1,515,770	1,515,770	-	-	-
Total contractual obligations	6,080,297	5,345,693	554,868	179,736	-

CONTINGENCIES AND LITIGATION

From time to time, the Company may be exposed to claims and legal actions in the normal course of business. As at November 30, 2015, and continuing as at February 25, 2016, the Company is not aware of any pending or threatened material litigation claims against the Company, other than the ones described in the following paragraphs.

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 as the likelihood of payment is considered to be remote.

On or about August 8, 2014, Pfizer Inc., Wyeth LLC, Wyeth Pharmaceuticals Inc., and PF Prism C.V. filed a complaint against Intellipharmaceutics Corp. and Intellipharmaceutics International Inc. for alleged patent infringement in the United States District Court for the District of Delaware in respect of Intellipharmaceutics’ development of a generic of the branded drug Pristiq® (desvenlafaxine extended release tablets in 50 and 100 mg dosage strengths). A similar complaint for patent infringement was filed on August 11, 2014 by the same parties in the District Court for the Southern District of New York. The above-noted litigation has been settled effective February 2, 2015, and the litigation has been dismissed, without prejudice and without costs. All other terms of the settlement are confidential.

On or about September 26, 2014, Aziende Chimiche Riunite Angelini Francesco A.C.R.A.F. S.p.A. and Angelini Pharma Inc. filed a complaint against Intellipharmaceutics International Inc., Intellipharmaceutics Corp., and Intellipharmaceutics Ltd. for alleged patent infringement in the United States District Court for the District of Delaware in respect of Intellipharmaceutics’ development of a generic of the branded drug Oleptro™ (trazodone hydrochloride extended-release tablets in 150 and 300 mg dosage strengths). The above-noted litigation has been settled effective September 21, 2015, and the litigation has been dismissed, without prejudice and without costs. All other terms of the settlement are confidential.

RELATED PARTY TRANSACTIONS

In January 2013, the Company completed the private placement financing of an unsecured Debenture in the principal amount of $1.5 million. Effective December 8, 2015, the maturity date of the Debenture was

extended to July 1, 2016. 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. Drs. Isa and Amina Odidi, our principal stockholders, directors and executive officers provided us with the $1.5 million of the proceeds for the Debenture. The Company currently expects to repay this amount from then available cash on or about July 1, 2016.

DISCLOSURE CONTROL AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as of November 30, 2015. 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 communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow required disclosures to be made in a timely fashion. Based on that evaluation, management has concluded that these disclosure controls and procedures were effective as of November 30, 2015.

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 1992 Internal Control-Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of November 30, 2015. Management has not identified any material weaknesses or changes in the Company's internal control over financial reporting as of November 30, 2015 that occurred during the year ended November 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In fiscal 2016, we anticipate transitioning from the COSO 1992 Internal Control - Integrated Framework to the COSO 2013 Internal Control - Integrated Framework. Although we do not expect to experience significant changes in internal control over financial reporting as a result of our transition, we may identify significant deficiencies or material weaknesses and incur additional costs in the future.

Changes in Internal Control over Financial Reporting

There were no changes made to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Specifically, there were no changes in accounting functions, board or related committees and charters, or auditors; no functions, controls or financial reporting processes of any constituent entities were adopted as Intellipharmaceutics' functions, controls and financial processes; no other significant business processes were implemented; and no consultants assisting management in the assessment and documentation of internal controls were engaged.

OFF-BALANCE SHEET ARRANGEMENTS

The Company, as part of its ongoing business, does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities ("SPE"), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of November 30, 2015, the Company was not involved in any material unconsolidated SPE transactions.

RISKS AND UNCERTAINTIES

We are a research and development company that received final FDA approval of our once daily generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules for the 15 and 30 mg strengths in November 2013. Our 5, 10, 20 and 40 mg strengths were also then tentatively FDA approved, subject to the right of another party or parties to 180 days of generic exclusivity from the date of first launch of such products by such parties. In June 2015, the FDA indicated the Company's tentatively-approved strengths of generic Focalin XR® would have to meet newly-imposed conditions for bioequivalence prior to receiving final approval. In July 2015, the FDA indicated to the Company that it had rescinded its previous requirement that the Company meet the newly-imposed conditions for bioequivalence prior to receiving final approval for the Company's tentatively-approved strengths of its generic Focalin XR®. In August 2015, the Company announced that the FDA had reinstated its previously-imposed (and subsequently rescinded) requirement that the Company's tentatively-approved strengths of its generic Focalin XR® capsules would have to meet new conditions for bioequivalence prior to receiving final approval. The Company will be required to demonstrate bio-equivalence with Focalin XR ® for the 40 mg strength under fed conditions as the basis for approval of each of the 5 mg, 10 mg, 20 mg and 40 mg affected strengths. The already-approved 15 mg and 30 mg strengths of the Company's generic Focalin XR® capsules now in the market are not affected. We, along with our commercialization partner Par, are cooperating to obtain FDA approval for the 5 mg, 10 mg, 20 mg and 40 mg affected strengths at the earliest opportunity. If approved, we believe that Par will commercialize the approved strengths as soon as possible after approval.Teva launched its own 5 mg, 10 mg and 20 mg strengths of generic Focalin XR® capsules on November 11, 2014, February 2, 2015 and June 22, 2015, respectively. There can be no assurance as to when or if any launch will occur, or as to when or if final FDA approval will be received for the remaining product strengths we have applied for or that any of these strengths tentatively approved will ever be successfully commercialized. We depend significantly on the actions of our development partner Par in the prosecution, regulatory approval and commercialization of our generic Focalin XR® capsules and on their timely payment to us of the contracted quarterly payments as they come due. Our near term ability to generate significant revenue will depend upon successful commercialization of our products in the United States, where the branded Focalin XR® product is in the market. Although we have several other products in our pipeline, and recently received final approval from the FDA for our levetiracetam extended-release tablets for the 500 mg and 750 mg strengths, the products in our pipeline are at earlier stages of development. We will be exploring licensing and commercial alternatives for our levetiracetam product strengths that have been recently approved by the FDA. 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.

We believe that the revenues derived from our generic Focalin XR® capsules are subject to wholesaler buying patterns, increased generic competition negatively impacting price, margins and market share consistent with industry post-exclusivity experience and, to a lesser extent, seasonality (as these products are indicated for conditions including attention deficit hyperactivity disorder which we expect may see

increases in prescription rates during the school term and declines in prescription rates during the summer months). Accordingly, these factors may cause our operating results to fluctuate.

Since we commenced operations we have incurred accumulated losses through November 30, 2015. We had an accumulated deficit of $52,872,442 as of November 30, 2015 and have incurred additional losses since such date. 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 product candidates receive the approval of the FDA or Health Canada and whether we are able to successfully market approved products. We cannot be certain that we will be able to receive FDA or Health Canada approval for any of our current or future product candidates, or that we will reach the level of sales and revenues necessary to achieve and sustain profitability.

Our business requires substantial capital investment in order to conduct the research and development, clinical and regulatory activities necessary to bring our products to market and to establish commercial manufacturing, marketing and sales capabilities. As of February 25, 2016, we had a cash balance of $413,046, which we expect will fund our currently projected operations through March 2016. In order for us to continue operations at currently projected levels thereafter, we will be required to seek significant additional capital. We might also need further additional capital to fund any R&D activities which are at higher-than-currently projected levels and to fund any significant expansion of our operations. Although there can be no assurances, such capital may come from revenues from the sales of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules, from proceeds of the Company's at-the-market offering program and from potential partnering opportunities. Other potential sources of capital may include payments from licensing agreements, cost savings associated with managing operating expense levels, other equity and/or debt financings, and/or new strategic partnership agreements which fund some or all costs of product 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 sufficient additional capital, it will raise substantial doubt about our ability to continue as a going concern and realize our assets and pay our liabilities as they become due.

Depending upon the results of our research and development programs and the availability of financial resources, we could decide to accelerate, terminate, or reduce certain projects, or commence new ones. Any failure on our part to raise additional funds on terms favorable to us, or at all, may require us 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 or our not taking any necessary actions required by the FDA or Health Canada 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, ANDSs or NDAs at all or in time to competitively market our products or product candidates.

We set goals regarding the expected timing of meeting certain corporate objectives, such as the commencement and completion of clinical trials, anticipated regulatory approval and product launch dates. From time to time, we may make certain public statements regarding these goals. The actual timing of these events can vary dramatically due to, among other things, insufficient funding, delays or failures in our clinical trials or bioequivalence studies, the uncertainties inherent in the regulatory approval process, such as requests for additional information, delays in achieving manufacturing or marketing arrangements necessary to commercialize our product candidates and failure by our collaborators, marketing and distribution partners, suppliers and other third parties to fulfill contractual obligations. 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, 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. Although there can be no assurances, such capital may come from revenues from the sales of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules, from proceeds of the Company's at-the-market offering program and from potential partnering opportunities. In the near term, we expect to utilize our at-the-market offering program to bridge any funding shortfall in the first and second quarters of 2016. Other potential sources of capital may include payments from licensing agreements, cost savings associated with managing operating expense levels, other equity and/or debt financings, and/or new strategic partnership agreements which fund some or all costs of product development. 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 sufficient additional capital, it will raise substantial doubt about our ability to continue as a going concern and realize our assets and pay our liabilities as they become due. Our cash outflows are expected to consist primarily of internal and external research and development expenditures to advance our product pipeline in addition to general and administrative expenditures to support our corporate infrastructure.

Depending upon the results of our research and development programs and the availability of financial resources, we could decide to accelerate, terminate, or reduce certain projects, or commence new ones. Any failure on our part to raise additional funds on terms favorable to us or at all, may require us 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 or our not taking any necessary actions required by the FDA or Health Canada 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, ANDSs 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, 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.

Consolidated financial statements of

Intellipharmaceutics International Inc.

November 30, 2015, 2014 and 2013

Intellipharmaceutics International Inc.

November 30, 2015, 2014 and 2013

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Intellipharmaceutics International Inc. and subsidiaries (the "Company") as of November 30, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, cash flows and shareholders' (deficiency) equity for each of the years in the three-year period ended November 30, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended November 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and shareholders' deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 26, 2016

Intellipharmaceutics International Inc.

Consolidated balance sheets

As at November 30, 2015 and 2014

(Stated in U.S. dollars)

	2015	2014
	$	$
Assets		
Current		
Cash	1,755,196	4,233,975
Accounts receivable, net (Note 4)	478,674	1,011,133
Investment tax credits	458,021	324,986
Prepaid expenses, sundry and other assets	229,225	414,663
	2,921,116	5,984,757
Deferred offering costs (Note 10)	543,745	271,381
Property and equipment, net (Note 5)	1,759,438	1,618,897
	5,224,299	7,875,035
Liabilities		
Current		
Accounts payable	3,027,974	668,069
Accrued liabilities (Note 6)	454,290	675,487
Employee costs payable (Note 8)	175,172	181,204
Current portion of capital lease obligations (Note 9)	20,460	21,449
Convertible debenture (Note 7)	1,518,429	1,377,302
	5,196,325	2,923,511
Capital lease obligations (Note 9)	15,660	42,160
Deferred revenue (Note 3)	150,000	-
	5,361,985	2,965,671
Shareholders' equity (deficiency)		
Capital stock (Notes 10 and 11)		
Authorized		
Unlimited common shares without par value		
Unlimited preference shares		
Issued and outstanding		
24,244,050 common shares (2014 - 23,456,611)	21,481,242	18,941,067
Additional paid-in capital	30,969,093	31,119,930
Accumulated other comprehensive income	284,421	284,421
Accumulated deficit	(52,872,442)	#########
	(137,686)	4,909,364
Contingencies (Note 16)		
	5,224,299	7,875,035

On behalf of the Board:

/s/ Dr. Isa Odidi
Dr. Isa Odidi, Chairman of the Board

/s/ Bahadur Madhani
Bahadur Madhani, Director

See accompanying notes to consolidated financial statements

Intellipharmaceutics International Inc.

Consolidated statements of operations and comprehensive loss
for the years ended November 30, 2015, 2014 and 2013

(Stated in U.S. dollars)

	2015	2014	2013
	$	$	$
Revenues			
Licensing (Note 3)	4,093,781	8,415,540	1,481,719
Milestone (Note 3)	-	354,153	43,209
Other incidental services	-	-	2,546
	4,093,781	8,769,693	1,527,474
Expenses			
Research and development	7,247,473	8,020,201	5,076,236
Selling, general and administrative	3,581,913	3,900,803	2,873,091
Depreciation (Note 5)	377,849	381,385	396,814
	11,207,235	12,302,389	8,346,141
Loss from operations	(7,113,454)	(3,532,696)	(6,818,667)
Fair value adjustment of derivative liabilities	-	-	(3,889,683)
Financing expense (Note 10)	-	-	(115,056)
Net foreign exchange gain (loss)	46,211	10,896	(359,554)
Interest income	1,507	4,898	2,839
Interest expense	(256,629)	(339,451)	(314,896)
Extinguishment loss (Note 7)	(114,023)	-	-
Net loss	(7,436,388)	(3,856,353)	(11,495,017)
Other comprehensive income (loss)			
Foreign exchange translation adjustment	-	-	524,431
Comprehensive loss	(7,436,388)	(3,856,353)	(10,970,586)
Loss per common share, basic and diluted	(0.31)	(0.17)	(0.58)
Weighted average number of common shares outstanding, basic and diluted	23,767,677	23,050,618	19,671,093

See accompanying notes to consolidated financial statements

Intellipharmaceutics International Inc.

Consolidated statements of shareholders' equity (deficiency)
for the years ended November 30, 2015, 2014 and 2013

(Stated in U.S. dollars)

	Number	Capital stock amount	Additional paid-in capital	Accumulated other comprehensive (loss) income	Accumulated deficit	Total shareholders' equity (deficiency)
		$	$	$	$	$
Balance, November 30, 2012	17,906,937	6,128,697	22,428,120	(240,010)	(30,084,684)	(1,767,877)
Issuance of common shares (Note 10)	3,315,000	5,460,892	-	-	-	5,460,892
Share issuance cost (Note 10)	-	(857,278)	-	-	-	(857,278)
Stock options to employees (Note 11)	-	-	1,017,908	-	-	1,017,908
Stock options to non-management board members (Note 11)	-	-	135,974	-	-	135,974
DSU's to non-management board members (Note 12)	-	-	39,547	-	-	39,547
Shares issued for options exercised (Note 11)	3,500	8,459	(2,494)	-	-	5,965
Issuance of shares on exercise of warrants (Note 14)	205,175	980,382	-	-	-	980,382
Other comprehensive gain (net of tax - $Nil)	-	-	-	524,431	-	524,431
Net loss	-	-	-	-	(11,495,017)	(11,495,017)
Cancellation on shares exchanged	(1)	-	-	-	-	-
	3,523,674	5,592,455	1,190,935	524,431	(11,495,017)	(4,187,196)
Balance, November 30, 2013	21,430,611	11,721,152	23,619,055	284,421	(41,579,701)	(5,955,073)
Reclass of warrant liabilities (Note 14)	-	-	5,438,022	-	-	5,438,022
Reclass of conversion option in convertible debenture (Note 7)	-	-	728,950	-	-	728,950
DSU's to non-management board members (Note 12)	-	-	20,807	-	-	20,807
Stock options to employees (Note 11)	-	-	1,748,607	-	-	1,748,607
Shares issued for options exercised (Note 11)	48,000	168,693	(51,709)	-	-	116,984
Proceeds from at-the-market financing (Note 10)	1,689,500	6,571,673	-	-	-	6,571,673
Share issuance cost (Note 10)	-	(811,887)	-	-	-	(811,887)
Issuance of shares on exercise of warrants (Note 14)	288,500	1,291,436	(510,216)	-	-	781,220
Adjustment of conversion option in convertible debenture (Note 7)	-	-	126,414			126,414
Net loss	-	-	-	-	(3,856,353)	(3,856,353)
	2,026,000	7,219,915	7,500,875	-	(3,856,353)	10,864,437
Balance, November 30, 2014	23,456,611	18,941,067	31,119,930	284,421	(45,436,054)	4,909,364
DSU's to non-management board members (Note 12)	-	-	29,056	-	-	29,056
Stock options to employees (Note 11)	-	-	417,818	-	-	417,818
Shares issued for options exercised (Note 11)	91,000	300,869	(132,907)	-	-	167,962
Proceeds from at-the-market financing (Note 10)	471,439	1,290,168	-	-	-	1,290,168
Share issuance cost (Note 10)	-	(78,166)	-	-	-	(78,166)
Issuance of shares on exercise of warrants (Note 14)	225,000	1,027,304	(464,804)	-	-	562,500
Net loss	-	-	-	-	(7,436,388)	(7,436,388)
	787,439	2,540,175	(150,837)	-	(7,436,388)	(5,047,050)
Balance, November 30, 2015	24,244,050	21,481,242	30,969,093	284,421	(52,872,442)	(137,686)

See accompanying notes to consolidated financial statements

Intellipharmaceutics International Inc.

Consolidated statements of cash flows
for the years ended November 30, 2015, 2014 and 2013
(Stated in U.S. dollars)

	2015	2014	2013
	$	$	$
Net loss	(7,436,388)	(3,856,353)	(11,495,017)
Items not affecting cash			
Depreciation (Note 5)	377,849	381,385	396,814
Stock-based compensation (Note 11)	417,818	1,748,607	1,153,882
Deferred share units (Note 12)	29,056	20,807	39,547
Fair value adjustment of derivative liabilities	-	-	3,889,683
Accreted interest (Note 7)	27,103	127,261	96,556
Loss on extinguishment (Note 7)	114,023	-	-
Unrealized foreign exchange loss (gain)	(81,063)	3,057	306,625
Change in non-cash operating assets & liabilities			
Accounts receivable	532,459	464,611	(1,472,966)
Investment tax credits	(133,035)	(145,436)	106,744
Prepaid expenses, sundry and other assets	185,438	(102,130)	(181,402)
Accounts payable and accrued liabilities	2,034,576	(356,722)	232,738
Deferred revenue	150,000	-	-
Cash flows used in operating activities	(3,782,164)	(1,714,913)	(6,926,796)
Financing activities			
Repayment of related party loans (Note 7)	-	(739,208)	-
Repayment of capital lease obligations	(27,489)	(53,557)	(49,989)
Issuance of shares on exercise of stock options (Note 11)	167,962	116,984	5,965
Issuance of common shares on at-the-market financing, gross (Note 10)	1,290,168	6,571,673	-
Proceeds from issuance of shares and warrants, gross (Note 10)	-	-	6,196,800
Proceeds from issuance of shares on exercise of warrants (Note 14)	562,500	781,220	511,743
Proceeds from convertible debenture (Note 7)	-	-	1,500,000
Share issuance cost (Note 10)	(259,276)	(719,837)	(836,099)
Cash flows provided from financing activities	1,733,865	5,957,275	7,328,420
Investing activity			
Purchase of property and equipment	(430,480)	(768,973)	(122,017)
Cash flows used in investing activities	(430,480)	(768,973)	(122,017)
Effect of foreign exchange (gain) loss on cash held in foreign currency	-	-	(16,037)
(Decrease) increase in cash and cash equivalents	(2,478,779)	3,473,389	263,570
Cash and cash equivalents, beginning of year	4,233,975	760,586	497,016
Cash and cash equivalents, end of year	1,755,196	4,233,975	760,586
Supplemental cash flow information			
Interest paid	179,878	213,637	176,311
Taxes paid	-	-	-

See accompanying consolidated financial statements

1. Nature of operations

Intellipharmaceutics International Inc. ("IPC" or the "Company") is a pharmaceutical company specializing in the research, development and manufacture of novel 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 court approved plan of arrangement and merger (the "IPC Arrangement Agreement"), resulting in the formation of the Company, which is incorporated under the laws of Canada. The Company's common 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 licensing income upon commercialization of its products. In November 2013, the U.S. Food and Drug Administration ("FDA") granted the Company final approval to market the Company's first product, the 15 mg and 30 mg strengths of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules.

Going concern

The consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. The Company has incurred losses from operations since inception and has reported losses of $7,436,388 for the year ended November 30, 2015 (2014 - $3,856,353; 2013 - $11,495,017), and has an accumulated deficit of $52,872,442 as at November 30, 2015 (November 30, 2014 - $45,436,054). The Company has funded its research and development ("R&D") activities principally through the issuance of securities, loans from related parties, funds from the IPC Arrangement Agreement and funds received under development agreements. There is no certainty that such funding will be available going forward. In the event that the Company does not obtain sufficient additional capital, these conditions raise substantial doubt about its ability to continue as a going concern and realize its assets and pay its liabilities as they become due.

In order for the Company to continue as a going concern and fund any significant expansion of its operation or R&D activities, the Company will likely require significant additional capital. Although there can be no assurances, such funding may come from revenues from the sales of our generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules, from proceeds of the Company's at-the-market offering program and from potential partnering opportunities. Other potential sources of capital may include payments from licensing agreements, cost savings associated with managing operating expense levels, other equity and/or debt financings, and/or new strategic partnership agreements which fund some or all costs of product 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 Company's ultimate success will depend on whether its product candidates receive the approval of FDA or Health Canada and it is able to successfully market approved products. The Company cannot be certain that it will be able to receive FDA or Health Canada approval for any of its current or future product candidates, or that it will reach the level of sales and revenues necessary to achieve and sustain profitability.

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. Any failure on its part 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 the Company not taking advantage of business opportunities, in the termination or delay of clinical trials or the Company not taking any necessary actions required by the FDA or Health Canada for one or more of the Company's

1. Nature of operations (Continued)

Going concern (continued)

product candidates, in curtailment of the Company's 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"), Abbreviated New Drug Submissions ("ANDSs") or New Drug Applications ("NDAs") at all or in time to competitively market its products or product candidates.

The consolidated financial statements do not include any adjustments that might result from the outcome of uncertainties described above. If the going concern assumption no longer becomes appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material.

2. Basis of presentation

(a) Basis of consolidation

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

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 accounting principles generally accepted in the United States of America ("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 the functional currency; the fair values of financial assets and liabilities; the determination of units of accounting for revenue recognition; the accrual of licensing and milestone revenue; and forecasting future cash flows for assessing the going concern assumption.

3. Significant accounting policies

(a) Cash and cash equivalents

The Company considers all highly liquid securities with an original maturity of three months or less to be cash equivalents. Cash equivalent balances consist of bankers' acceptances and bank accounts with variable, market rates of interest.

The financial risks associated with these instruments are minimal and the Company has not experienced any losses from investments in these securities. The carrying amount of cash and cash equivalents approximates its fair value due to its short-term nature.

(b) *Accounts receivable*

The Company reviews its sales and accounts receivable aging and determines whether an allowance for doubtful accounts is required.

(c) 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 consolidated statements of operations and comprehensive loss.

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(d) 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 based on management estimates of eligible research and development costs incurred during the year. 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.

(e) Property and equipment

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

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

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

(f) 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.

(g) Warrants

The Company previously issued warrants as described in Notes 10 and 14. In fiscal 2013 the warrants were presented as a liability because they did not meet the criteria of Accounting Standard Codification ("ASC") topic 480 Distinguishing Liabilities from Equity for equity classification. Subsequent changes in the fair value of the warrants were recorded in the consolidated statements of operations and comprehensive loss. As discussed in Note 3(m) the Company changed its functional currency effective December 1, 2013 such that these warrants met the criteria for prospective equity classification in ASC topic 480, and the U.S. dollar translated amount of the warrant liability at December 1, 2013 became the amount reclassified to equity.

3. Significant accounting policies (continued)

(h) Convertible debenture

In fiscal 2013, the Company issued an unsecured convertible debenture in the principal amount of $1.5 million (the "Debenture") as described in Note 7. At issuance the conversion option was bifurcated from its host contract and the fair value of the conversion option was characterized as an embedded derivative upon issuance as it met the criteria of ASC topic 815 Derivatives and Hedging. Subsequent changes in the fair value of the embedded derivative were recorded in the consolidated statements of operations and comprehensive loss. The proceeds received from the Debenture less the initial amount allocated to the embedded derivative were allocated to the liability and were accreted over the life of the Debenture using the imputed rate of interest. As discussed in Note 3(m) the Company changed its functional currency effective December 1, 2013 such that the conversion option no longer met the criteria for bifurcation and was prospectively reclassified to shareholders equity under ASC Topic 815 at the U.S. dollar translated amount at December 1, 2013.

(i) 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, exclusivity milestone payments and licensing payments on sales of resulting products and other incidental services. 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.

Licensing

The Company recognizes revenue from the licensing of the Company's drug delivery technologies, products and product candidates. Licensing revenue is recognized as earned in accordance with the contract terms when the amounts can be reasonably estimated and collectability is reasonably assured.

The Company has a license and commercialization agreement with Par Pharmaceutical Inc. ("Par"). Under the exclusive territorial license rights granted to Par, the agreement requires that Par manufacture, promote, market, sell and distribute the product. Licensing revenue amounts receivable by the Company under this agreement are calculated and reported to the Company by Par, with such amounts generally based upon net product sales and net profit which include estimates for chargebacks, rebates, product returns, and other adjustments. Licensing revenue payments received by the Company from Par under this agreement are not subject to deductions for chargebacks, rebates, product returns, and other pricing adjustments. Based on this arrangement and the guidance per ASC topic 605, the Company records licensing revenue as earned in the consolidated statements of operations and comprehensive loss.

3. Significant accounting policies (continued)

(i) Revenue recognition (continued)

Milestones

The milestone method recognizes revenue on substantive milestone payments in the period the milestone is achieved. Milestones are considered substantive if all of the following conditions are met: (i) the milestone is commensurate with either the vendor's performance to achieve the milestone or the enhancement of the value of the delivered item or items as a result of a specific outcome resulting from the vendor's performance to achieve the milestone; (ii) the milestone relates solely to past performance; and (iii) the milestone is reasonable relative to all of the deliverables and payment terms within the arrangement. Non-substantive milestone payments that might be paid to the Company based on the passage of time or as a result of a partner's performance are allocated to the units of accounting within the arrangement; they are recognized as revenue in a manner similar to those units of accounting. In connection with the license and commercialization agreement with Par, for each day up to a maximum of 180 days from the date of launch if the Company's product is the only generic in the market or if there is only one generic competitor, a milestone payment is earned. The Company recognized milestone revenue of $Nil (2014 - $354,153; 2013 – $43,209) upon achievement of the milestone.

Research and development

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

Deferred revenue

Deferred revenue represents the funds received from clients, for which the revenues have not yet been earned, as the milestones have not been achieved, or in the case of upfront fees for drug development, where the work remains to be completed. During the year ended November 30, 2015, the Company received an amount of $150,000 (2014 - $Nil), and recorded it as deferred revenue, as it did not meet the criteria for recognition.

Other incidental services

Incidental services which the Company may provide from time to time include, consulting advice provided to other organizations regarding FDA standards. Revenue is earned and realized when all of the following conditions are met: (i) there is persuasive evidence of an arrangement; (ii) service has been rendered; (iii) the sales price is fixed or determinable; and (iv) collectability is reasonably assured.

(j) Research and development costs

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

(k) 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.

3. Significant accounting policies (continued)

(k) Income taxes (continued)

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 15.

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

(l) Share issue costs

Share issue costs are recorded as a reduction of the proceeds from the issuance of capital stock.

(m) Translation of foreign currencies

Previously, operations of the Company were comprised of only research and development activities conducted in Canada. The Company generated no cash from operations, though funding for the operations (as in previous years) was primarily through U.S. dollar equity financings. The functional currency was assessed to be Canadian dollars. By obtaining the final approval of the Company's generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules for the 15 and 30 mg strengths with Par in November 2013, the Company generated and collected U.S. dollar revenues in the year ended November 30, 2014 which represents a significant and material change in economic facts and circumstances. Management had assessed the functional currency for the fiscal year commencing December 1, 2013 and concluded that the Company and its wholly owned operating subsidiaries should be measured using the U.S. dollar as the functional currency. Effective December 1, 2013, the change in functional currency was applied on a prospective basis. The U.S. dollar translated amounts of nonmonetary assets and liabilities at December 1, 2013 became the historical accounting basis for those assets and liabilities at December 1, 2013. The impact of the change in functional currency on the measurement and reporting of warrants and the Debenture is discussed in Note 3(g) and 3(h) above. The change in functional currency resulted in no change in cumulative translation adjustment going forward as the Company and its wholly owned operating subsidiaries have U.S. dollar functional currencies.

In respect of other transactions denominated in currencies other than the Company and its wholly owned operating subsidiaries' functional currencies, the monetary assets and liabilities are translated at the period end rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All of the exchange gains or losses resulting from these other transactions are recognized in the consolidated statements of operations and comprehensive loss.

The Company's reporting currency in the year ended November 30, 2015, 2014 and 2013 was the U.S. dollar.

(n) Stock-based compensation

The Company has a stock-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted share units ("RSU"s). 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 vesting period of the option. 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 stock-based payment awards that are ultimately expected to vest.

3. Significant accounting policies (continued)

(n) Stock-based compensation (continued)

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 consolidated statements of operations and comprehensive loss under research and development expense and under selling, general and administration expense. Note 11 provides supplemental disclosure of the Company's stock options.

(o) Deferred Share Units

Deferred Share Units ("DSU"s) are valued based on the trading price of the Company's common shares on the Toronto Stock Exchange. The Company records the value of the DSU's owing to non-management board members in the consolidated statement of shareholders equity (deficiency).

(p) Loss per share

Basic loss per share ("EPS") is computed by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur from common shares issuable through the exercise or conversion of stock options, restricted stock awards, warrants and convertible securities. In certain circumstances, the conversion of options, warrants and convertible securities are excluded from diluted EPS if the effect of such inclusion would be anti-dilutive.

The dilutive effect of stock options is determined using the treasury stock method. Stock options and warrants to purchase 7,128,082, 7,149,283 and 7,034,647 common shares of the Company during fiscal 2015, 2014, and 2013, respectively, were not included in the computation of diluted EPS because the Company has incurred a loss for the years ended November 30, 2015, 2014 and 2013 as the effect would be anti-dilutive.

(q) Comprehensive loss

The Company follows ASC topic 220. This statement establishes standards for reporting and display of comprehensive (loss) income and its components. Comprehensive loss is net loss plus certain items that are recorded directly to shareholders' equity. Other than foreign exchange gains and losses arising from cumulative translation adjustments, the Company has no other comprehensive loss items.

(r) Fair value measurement

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

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

3. Significant accounting policies (continued)

(r) Fair value measurement (continued)

- Level 3 - Unobservable inputs for the asset or liability.

The degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3.

(s) Future Accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of the FASB's revenue standard, ASU No. 2014-09, by one year for all entities and permits early adoption on a limited basis. The standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. The Company is in the process of evaluating the impact of adoption on the Company's financial position, results of operations or cash flow.

In June 2014, the FASB issued ASU No. 2014-12 in response to the consensus of the Emerging Issues Task Force on EITF Issue 13-D.2 The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. No new disclosures are required under the ASU. The ASU's guidance is effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015. Early adoption is permitted. 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.

In 2014, the FASB issued ASU No. 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if "conditions or events raise substantial doubt about the entity's ability to continue as a going concern." The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity, which applies to any entity that is an issuer of, or invests in, hybrid financial instruments that are issued in the form of a share. The amendments in ASU No. 2014-16 clarify that an entity must take into account all relevant terms and features when reviewing the nature of the host contract. Additionally, the amendments state that no one term or feature would define the host contract's economic characteristics and risks. Instead, the economic characteristics and risks of the hybrid financial instrument as a whole would determine the nature of the host contract. ASU No. 2014-16's amendments will be effective for public business entities for fiscal years, and interim periods within those fiscal years, starting after December 15, 2015, with early adoption permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In February, 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU No. 2015-02 provides guidance on the consolidation evaluation for

(Stated in U.S. dollars)

3. Significant accounting policies (continued)

(s) Future Accounting pronouncements (continued)

reporting organizations that are required to evaluate whether they should consolidate certain legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). ASU No. 2015-02 is effective for periods beginning after December 15, 2015, with early adoption permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU No. 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 with early adoption permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In November 2015 the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes," as part of its simplification initiative. Under the ASU, organizations that present a classified balance sheet are required to classify all deferred taxes as noncurrent assets or noncurrent liabilities. ASU No. 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

In January 2016, the FASB issued ASU 2016-01, which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The new standard significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU No. 2016-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations or cash flow.

4. Accounts receivable

The Company currently has no debt agreements in place whereby any amount of receivables serve as collateral. The Company has no off-balance-sheet credit exposures and has no foreclosed or repossessed assets. The Company has had no impaired loans related to receivables and has identified no loss contingencies related to the receivables at November 30, 2015 and November 30, 2014. Risks and uncertainties and credit quality information related to accounts receivable have been disclosed in Note 17.

5. Property and equipment

	November 30, 2015		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer equipment	293,870	214,525	79,345
Computer software	124,151	110,860	13,291
Furniture and fixtures	129,860	104,089	25,771
Laboratory equipment	3,483,398	1,968,088	1,515,310
Leasehold improvements	1,142,122	1,142,122	-
Laboratory equipment under capital lease	276,300	155,203	121,097
Computer equipment under capital lease	76,458	71,834	4,624
	5,526,159	3,766,721	1,759,438

(Stated in U.S. dollars)

5. Property and equipment (Continued)

	November 30, 2014		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer equipment	247,335	196,237	51,098
Computer software	119,151	99,027	20,124
Furniture and fixtures	126,690	98,406	28,284
Laboratory equipment	3,019,713	1,658,299	1,361,414
Leasehold improvements	1,142,122	1,142,122	-
Laboratory equipment under capital lease	276,300	124,928	151,372
Computer equipment under capital lease	76,458	69,853	6,605
	5,007,769	3,388,872	1,618,897

Depreciation for the year ended November 30, 2015 was $377,849 (2014 -$381,385; 2013 - $396,814).

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with the sum of the undiscounted cash flows expected from its use and disposal, and as such requires the Company to make significant estimates on expected revenues from the commercialization of its products and services and the related expenses. The Company records a write-down for long-lived assets which have been abandoned and do not have any residual value. For the year ended November 30, 2015, the Company recorded a $Nil write-down of long-lived assets (2014 - $Nil; 2013 – $Nil).

6. Accrued liabilities

	November 30, 2015	November 30, 2014
	$	$
Professional fees	163,552	349,957
Other	290,738	325,530
	454,290	675,487

7. Due to related parties

Convertible debenture

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

	November 30, 2015	November 30, 2014
	$	$
Convertible debenture payable to two directors and officers of the Company, unsecured, 12% annual interest rate, payable monthly	1,518,429	1,377,302

On January 10, 2013, the Company completed a private placement financing of the Debenture, which had an original maturity date of 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

7. Due to related parties (continued)

Convertible debenture

the Debenture. The conversion price of the Debenture is in U.S. dollars and at issuance IPC's functional currency at the time of issuance was 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 was 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 consolidated statements of operations and comprehensive loss.

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

Effective December 1, 2013, the Company changed its functional currency such that the conversion option no longer met the criteria for bifurcation and was prospectively reclassified to equity under ASC 815. The conversion option value at December 1, 2013 of $728,950 was reclassified from convertible debenture to additional paid-in capital.

Effective October 1, 2014, the maturity date of the Debenture was extended to July 1, 2015. Under ASC 470-50, the change in the debt instrument was accounted for as a modification of debt. The increase in the fair value of the conversion option at the date of the modification, in the amount of $126,414, was recorded as a reduction in the carrying value of the debt instrument with a corresponding increase to additional paid-in-capital. The carrying amount of the debt instrument is accreted over the remaining life of the Debenture using an imputed rate of interest.

Effective June 29, 2015, the July 1, 2015 maturity date for the Debenture was further extended to January 1, 2016. Under ASC 470-50, the change in the maturity date of the debt instrument resulted in a constructive extinguishment of the original convertible Debenture as the change in the fair value of the embedded conversion option was greater than 10% of the carrying amount of the debt. In accordance with ASC 470-50-40, the convertible Debenture has been recorded at fair value. The difference between the fair value of the convertible Debenture after the extension and the net carrying value of the convertible Debenture prior to the extension of $114,023 was recognized as a loss on the statement of operations and comprehensive loss. The carrying amount of the debt instrument will be accreted down to the face amount of the convertible Debenture over the remaining life of the Debenture using an imputed rate of interest.

Accreted interest expense during the year ended November 30, 2015 is $27,103 (2014 - $127,261; 2013 - $96,556), and has been included in the consolidated statements of operations and comprehensive loss.

In addition, the coupon interest on the Debenture for the year ended November 30, 2015 is $179,878 (2014 - $179,877; 2013 - $159,671), and has also been included in the consolidated statements of operations and comprehensive loss.

Effective December 8, 2015, the January 1, 2016 maturity date for the Debenture was extended to July 1, 2016.

8. Employee costs payable

As at November 30, 2015, the Company had $175,172 (2014 - $181,204) accrued vacation payable to certain employees. These balances are due on demand and therefore presented as current liabilities.

(Stated in U.S. dollars)

9. Lease obligations

On December 1, 2015 the Company entered into a new lease agreement for the premises that it currently operates from, as well the adjoining property which is owned by the same landlord, for a 5 year term with a 5 year renewal option. The Company also has an option to purchase the combined properties after March 1, 2017 and up to November 30, 2020 based on a fair value purchase formula. The Company also leases various computers and equipment under capital leases. Future minimum lease payments under leases with terms of one year or more are as follows at November 30, 2015:

Year ending November 30,	Capital Lease	Operating Lease
	$	$
2016	23,366	152,027
2017	16,322	179,736
2018	-	179,736
2019	-	179,736
2020	-	179,736
	39,688	870,971
Less: amounts representing interest at 14%	3,568	-
	36,120	870,971
Less: current portion	20,460	179,736
Balance, long-term portion	15,660	691,235

10. Capital stock

Authorized, issued and outstanding

(a) The Company is authorized to issue an unlimited number of common shares, all without nominal or par value and an unlimited number of preference shares. As at November 30, 2015 the Company has 24,244,050 (2014 - 23,456,611; 2013 – 21,430,611) common shares issued and outstanding, and no preference shares issued and outstanding.

Two officers and directors of IPC owned directly and through their family holding company (“Odidi Holdco”) 5,781,312 (2014 - 5,997,751) common shares or approximately 24% (2014 – 26%; 2013 – 28%) of IPC.

Each common share of the Company entitles the holder thereof to one vote at any meeting of shareholders of the Company, except meetings at which only holders of a specified class of shares are entitled to vote.

Holders of common shares of the Company are entitled to receive, as and when declared by the board of directors of the Company, dividends in such amounts as shall be determined by the board. The holders of common shares of the Company have the right to receive the remaining property of the Company in the event of liquidation, dissolution, or winding-up of the Company, whether voluntary or involuntary.

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

10. Capital stock (continued)

Authorized, issued and outstanding

(b) 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 14). The direct costs related to the issuance of the common shares were $389,289 and were recorded as an offset against shareholders' deficiency and the direct costs related to the issuance of the warrants were $57,531 and were recorded in the consolidated statements of operations and comprehensive loss.

(c) 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 $328,350 using the Black-Scholes Option Pricing Model (Note 14). The direct costs related to the issuance of the common shares were $467,989 and were recorded as an offset against shareholders' deficiency and the direct costs related to the issuance of the warrants were $57,525 and were recorded in the consolidated statements of operations and comprehensive loss.

(d) In November 2013, the Company entered into an equity distribution agreement with Roth Capital Partners, LLC ("Roth"), pursuant to which the Company may from time to time sell up to 5,305,484 of the Company's common shares for up to an aggregate of $16.8 million (or such lesser amount as may be permitted under applicable securities laws and regulations) through at-the-market issuances on the NASDAQ or otherwise. Under the equity distribution agreement, the Company may at its discretion, from time to time, offer and sell common shares through Roth or directly to Roth for resale. The Company will pay Roth a commission, or allow a discount, of 2.75% of the gross proceeds that the Company receives from any additional sales of common shares under the equity distribution agreement. The Company has also agreed to reimburse Roth for certain expenses relating to the offering. Direct costs related to the facility of $311,640 (2014 - $392,110; 2013 - $419,777) incurred in the year ended November 30, 2015 were recorded as deferred cost of which $78,166 (2014 - $392,110; 2013 - $419,777) were recorded as share issuance costs against the cost of the shares issued and recognized in capital stock as at November 30, 2015. An aggregate of 1,689,500 common shares were sold for net proceeds of $6,390,670 in the year ended November 30, 2014. During the year ended November 30, 2015, an aggregate of 471,439 (2014 – 1,689,500) of our common shares were sold on NASDAQ for gross proceeds of $1,290,168 (2014 - $6,571,673) and net proceeds of $1,254,178 (2014 - $6,390,670) under the at-the-market offering program. The Company may in the future offer and sell its common shares with an aggregate purchase price of up to $8,938,160 pursuant to our at-the-market program. There can be no assurance that any additional shares will be sold under the at-the-market program.

(e) Direct costs in the amount of $271,381 related to the Company's filing of a base shelf prospectus filed in May 2014 and declared effective in June 2014 and certain other on-going costs related to the at the-market facility are recorded as deferred offering costs and are being amortized and recorded as share issuance cost against share offerings.

(Stated in U.S. dollars)

11. 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 2,424,405 based on the number of issued and outstanding common shares as at November 30, 2015. As at November 30, 2015, 2,298,067 options are outstanding and there were 126,338 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 1,658,364 performance-based stock options have vested as of November 30, 2015. Under the terms of the original agreement these options were to expire in September 2014. Effective March 27, 2014, the Company's shareholders approved the two year extension of the performance-based stock option expiry date to September 2016. As a result of the modification of the performance based stock option expiry date, the Company recorded additional compensation costs of $1,066,991 related to vested performance options during the year ended November 30, 2014. These options were outstanding as at November 30, 2015.

In the year ended November 30, 2015, 355,000 (2014 – 479,001; 2013 – 391,000) stock options were granted to management, directors and employees.

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 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 four years. For options that have an expected life of less than four 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.

The weighted average fair value of employee stock options granted was estimated using the following assumptions:

	November 30, 2015	November 30, 2014	November 30, 2013
Volatility	68.6%	55.0%	64.0%
Risk-free interest rate	0.580%	1.45%	1.00%
Expected life (in years)	5.00	5.60	7.00
Dividend yield	-	-	-
The weighted average grant date fair value per options granted	$ 1.66	$ 2.10	$ 1.05

(Stated in U.S. dollars)

11. Options (continued)

Details of stock option transactions are as follows:

	November 30, 2015			November 30, 2014			November 30, 2013		
	Number of options	Weighted average exercise price per share	Weighted average grant date fair value	Number of options	Weighted average exercise price per share	Weighted average grant date fair value	Number of options	Weighted average exercise price per share	Weighted average grant date fair value
		$	$		$	$		$	$
Outstanding, beginning of period,	4,858,208	3.96	2.21	4,455,072	3.97	2.21	4,139,059	4.86	2.76
Granted	355,000	2.52	1.66	479,001	3.86	2.10	391,000	1.81	1.05
Exercised	(91,000)	2.34	1.86	(48,000)	2.45	1.07	(3,500)	1.81	0.09
Forfeiture	(60,168)	-	-	(27,832)	-	-	(67,000)	-	-
Expired	(33)	770.13	493.31	(33)	709.18	709.18	(4,487)	654.48	403.93
Balance at end of period	5,062,007	3.89	2.21	4,858,208	3.96	2.21	4,455,072	3.97	2.21
Options exercisable, end of year	3,812,930	4.01	2.35	3,640,381	4.09	2.40	3,321,830	4.09	2.41

As of November 30, 2015, the exercise prices, weighted average remaining contractual life of outstanding options and weighted average grant date fair values were as follows:

	Options outstanding				Options exercisable		
Exercise price	Number outstanding	Weighted average exercise price per share	Weighted average remaining contract life (years)	Weighted average grant due fair value	Number exercisable	Weighted average exercise price per share	Weighted average grant date fair value
		$		$		$	$
Under 2.50	-	-	-	-	-	-	-
2.51 - 5.00	5,022,335	3.39	1.20	1.79	3,773,258	3.33	1.84
5.01 - 10.00	-	-	-	-	-	-	-
10.01 - 100.00	35,703	39.75	1.87	31.19	35,701	39.75	31.19
300.00 - 500.00	3,971	331.15	0.31	223.52	3,971	331.15	223.52
500.01 - 1,000.00	-	-	-	-	-	-	-
	5,062,009	3.96			3,812,930	4.09	

Total unrecognized compensation cost relating to the unvested performance-based stock options at November 30, 2015 is approximately $2,482,528 (2014 - $2,482,528). During the year ended November 30, 2013, a performance condition was met as the FDA approved an ANDA for a certain drug, resulting in the vesting of 276,394 performance-based stock options. As a result, a stock-based compensation expense of $442,800 relating to these stock options was recognized in research and development expense in the year ended November 30, 2013.

For the year ended November 30, 2015, 91,000 options were exercised for a cash consideration of $167,962. For the year ended November 30, 2014, 48,000 options were exercised for a cash consideration of $116,984. For the year ended November 30, 2013, 3,500 options were exercised for a cash consideration of $5,965.

(Stated in U.S. dollars)

11. Options (continued)

The following table summarizes the components of stock-based compensation expense.

	November 30, 2015	November 30, 2014	November 30, 2013
	$	$	$
Research and development	152,231	1,270,307	837,206
Selling, general and administrative	265,587	478,300	316,676
	417,818	1,748,607	1,153,882

The Company has estimated its stock option forfeitures to be approximately 4% at November 30, 2015 (2014 – 3%; 2013 - Nil).

12. Deferred share units

Effective May 28, 2010, the Company's shareholders approved a Deferred Share Unit ("DSU") Plan to grant DSUs to its non-management directors and reserved a maximum of 110,000 common shares for issuance under the plan. The DSU Plan permits certain non-management directors to defer receipt of all or a portion of their board fees until termination of the board service and to receive such fees in the form of common shares at that time. A DSU is a unit equivalent in value to one common share of the Company based on the trading price of the Company's common shares on the Toronto Stock Exchange.

Upon termination of board service, the director will be able to redeem DSUs based upon the then market price of the Company's common shares on the date of redemption in exchange for any combination of cash or common shares as the Company may determine.

During the year ended November 30, 2015, one non-management board member elected to receive director fees in the form of DSUs under the Company's DSU Plan. As at November 30, 2015, 60,002 DSUs are outstanding and 49,998 DSUs are available for grant under the DSU Plan.

	November 30, 2015		November 30, 2014		November 30, 2013	
	$	shares	$	shares	$	shares
Additional paid in capital	29,056	10,993	20,807	5,968	39,547	20,591
Accrued liability	8,051	4,272	3,759	1,338	9,181	2,325

13. Restricted share units

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

14. Warrants

All the warrants issued to date by the Company are denominated in U.S. dollars and at issuance IPC's functional currency was the Canadian dollar. 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. Subsequent changes in the fair value of the warrants were recorded in the consolidated statements of operations and comprehensive loss.

In connection with the February 1, 2011 private offering, the Company issued 4,800,000 five year Series A common share 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 share 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 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 multiplied by 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, with 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").

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.

Effective December 1, 2013, the Company changed its functional currency to the U.S dollar such that the warrants are considered indexed to the Company's own stock and were prospectively classified as equity under ASC 480. The warrant liability value at December 1, 2013 of $5,438,022 was reclassified from warrant liabilities to additional paid-in capital.

The following table provides information on the 5,429,300 warrants outstanding and exercisable as of November 30, 2015:

Warrant	Exercise price	Number outstanding	Expiry	Shares issuable upon exercise
Series A Warrants	2.50	2,835,000	February 1, 2016	1,417,500
March 2013 Warrants	2.10	1,724,300	March 22, 2018	431,075
July 2013 Warrants	2.55	870,000	July 31, 2018	217,500
		5,429,300		2,066,075

(Stated in U.S. dollars)

14. Warrants (continued)

During the year ended November 30, 2015, there were cash exercises in respect of 450,000 warrants (2014 – 481,000) and no cashless exercise (2014 – Nil) of warrants, resulting in the issuance of 225,000 (2014 – 288,500) and Nil (2014 – Nil) common shares, respectively. For the warrants exercised the Company recorded a charge to capital stock of $1,027,304 (2014 - $1,291,436) comprised of proceeds of $562,500 (2014 - $781,220) and the associated amount of $464,804 (2014 -510,216) previously recorded in additional paid in capital.

Details of warrant transactions are as follows:

	Series A Warrants	March 2013 Warrants	July 2013 Warrants	Total
Outstanding, December 1, 2014	3,285,000	1,724,300	870,000	5,879,300
Exercised	(450,000)	-	-	(450,000)
Outstanding, November 30, 2015	2,835,000	1,724,300	870,000	5,429,300

	Series A Warrants	Placement Agents Warrants	March 2013 Warrants	July 2013 Warrants	Total
Outstanding, December 1, 2013	3,670,000	96,000	1,724,300	870,000	6,360,300
Exercised	(385,000)	(96,000)	-	-	(481,000)
Outstanding, November 30, 2014	3,285,000	-	1,724,300	870,000	5,879,300

15. Income taxes

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

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

	November 30, 2015	November 30, 2014	November 30, 2013
	%	%	%
Statutory income tax rate	26.5	26.5	26.5
	$	$	$
Statutory income tax recovery	(1,970,643)	(1,021,934)	(3,046,180)
Increase (decrease) in income taxes			
Non-deductible expenses/ non-taxable income	164,723	417,879	1,446,008
Change in valuation allowance	1,804,406	(995,957)	1,248,045
Difference in net income before taxes between Canadian and U.S dollar	-	160,316	-
Investment tax credit	(168,591)	(9,114)	(164,308)
Financing costs booked to equity	(23,348)	(208,271)	(307,262)
FCR Election	(253,856)	-	-
Foreign exchange change	-	985,544	746,667
True up of tax returns	(15,991)	82,939	77,030
Tax loss expired, etc	463,300	588,598	-
	-	-	-

(Stated in U.S. dollars)

15. Income taxes (continued)

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

	November 30, 2015	November 30, 2014	November 30, 2013
	$	$	$
Deferred tax assets			
Non-capital loss carry-forwards	6,019,380	6,528,099	6,831,991
Book and tax basis differences on assets and liabilities	2,854,916	1,006,667	992,378
Other	-	47,180	37,136
Ontario harmonization tax credit	-	371,160	399,831
Investment tax credit	-	2,327,722	2,324,856
Undeducted research and development expenditures	5,394,426	2,183,486	2,180,640
	14,268,722	12,464,314	12,766,832
Valuation allowances for deferred tax assets	(14,268,722)	(12,464,314)	(12,766,832)
Net deferred tax assets	-	-	-

At November 30, 2015, the Company had cumulative operating losses available to reduce future years' income for income tax purposes:

Canadian income tax losses expiring in the year ended November 30,	Federal
	$
2028	(82,315)
2029	(555,540)
2030	(3,373,079)
2031	(5,532,739)
2032	(5,750,052)
2033	(4,562,538)
2034	(149,927)
2035	(2,634,824)
	(22,641,014)

United States Federal income tax losses expiring in the year ended November 30,	
	$
2025	(15,911)
2026	(34,523)
2032	(5,312)
	(55,746)

At November 30, 2015, the Company had a cumulative carry-forward pool of Federal SR&ED expenditures in the amount of approximately $12,408,000 (2014 - $10,215,000) which can be carried forward indefinitely.

15. Income taxes (continued)

As at November 30, 2014, the Company had approximately $371,000 of Ontario harmonization credits, which will expire in the November 30, 2015 taxation year.

At November 30, 2015, the Company had approximately $2,710,000 (2014 - 2,328,000) of unclaimed ITCs which expire from 2025 to 2035. These credits are subject to a full valuation allowance as they are not more likely than not to be realized.

The net deferred tax assets have been fully offset by a valuation allowance because it is not more likely than not the Company will realize the benefit of these deferred tax assets. The Company does not have any recognized tax benefits as of November 30, 2015 or November 30, 2014.

The Company files unconsolidated federal income tax returns domestically and in foreign jurisdictions. The Company has open tax years from 2008 to 2015 with tax jurisdictions including Canada and the U.S. These open years contain certain matters that could be subject to differing interpretations of applicable tax laws and regulations, as they relate to amount, timing, or inclusion of revenues and expenses.

The Company did not incur any interest expense related to uncertain tax positions in 2015, 2014 and 2013 or any penalties in those years. The Company had no accrued interest and penalties as of November 30, 2015 and 2014.

The Company had no unrecognized tax benefits in 2015, 2014 and 2013, and the Company does not expect that the unrecognized tax benefit will increase within the next twelve months.

16. Contingencies

From time to time, the Company may be exposed to claims and legal actions in the normal course of business. As at November 30, 2015, and continuing as at February 25, 2016, the Company is not aware of any pending or threatened material litigation claims against the Company, other than the ones described in the following paragraphs.

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 as the likelihood of payment is considered by management to be remote.

On or about August 8, 2014, Pfizer Inc., Wyeth LLC, Wyeth Pharmaceuticals Inc., and PF Prism C.V. filed a complaint against Intellipharmaceutics Corp. and Intellipharmaceutics International Inc. for alleged patent infringement in the United States District Court for the District of Delaware in respect of Intellipharmaceutics’ development of a generic of the branded drug Pristiq® (desvenlafaxine extended release tablets in 50 and 100 mg dosage strengths). A similar complaint for patent infringement was filed on August 11, 2014 by the same parties in the District Court for the Southern District of New York. The above-noted litigation has been settled effective February 2, 2015, and the litigation has been dismissed, without prejudice and without costs. All other terms of the settlement are confidential.

On or about September 26, 2014, Aziende Chimiche Riunite Angelini Francesco A.C.R.A.F. S.p.A. and Angelini Pharma Inc. filed a complaint against Intellipharmaceutics International Inc., Intellipharmaceutics Corp., and Intellipharmaceutics Ltd. for alleged patent infringement in the United States District Court for the District of Delaware in respect of Intellipharmaceutics’ development of a generic of the branded drug Oleptro™ (trazodone hydrochloride extended-release tablets in 150 and 300 mg dosage strengths). The above-noted litigation has been settled effective September 21, 2015, and the litigation has been dismissed, without prejudice and without costs. All other terms of the settlement are confidential.

(Stated in U.S. dollars)

17. Financial instruments

(a) Fair values

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

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

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

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

Level 3 inputs are unobservable inputs for asset or liabilities.

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

(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 four years.

(ii) The Company calculates the interest rate for the conversion option based on the Company's estimated cost of raising capital.

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

The change in fair value of the conversion option and the warrant liabilities was recorded as a fair value adjustment of derivative liabilities in the consolidated statements of operations and comprehensive loss.

Reconciliation of Level 3 fair value measurements:

	November 30, 2014		
	Conversion Option	Warrant liability	Total
	$	$	$
Opening balance	728,950	5,438,022	6,166,972
Transfer out from level 3[(a)]	(728,950)	(5,438,022)	(6,166,972)
Closing balance	-	-	-

(a) As discussed in Note 7 and 14, the conversion option value of $728,950 and the warrant value of $5,438,022 at December 1, 2013 were reclassified to additional paid-in capital due to the change in functional currency.

(Stated in U.S. dollars)

17. Financial instruments (continued)

(a) Fair values (continued)

(b) The total net loss related to the conversion option and warrant liability has been recorded under fair value adjustment derivative liabilities on the consolidated statements of operations and comprehensive loss.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis are as follows:

	November 30, 2015		November 30, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial Liabilities				
Convertible debt[iii]	1,518,429	1,481,663	1,377,302	1,379,808

(iii) The Company calculates the interest rate for the convertible debt and due to related parties based on the Company's estimated cost of raising capital and uses the discounted cash flow model to calculate the fair value of the convertible debt and the amounts due to related parties.

The carrying values of cash, accounts receivable, accounts payable, accrued liabilities and employee cost payable 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:

	November 30, 2015	November 30, 2014
	$	$
Total accounts receivable	478,674	1,011,133
Less allowance for doubtful accounts	-	-
Total accounts receivable, net	478,674	1,011,133
Not past due	453,662	982,313
Past due for more than 31 days but no more than 60 days	5,003	5,950
Past due for more than 91 days but no more than 120 days	20,009	22,870
Total accounts receivable, net	478,674	1,011,133

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 years ended November 30, 2015

17. Financial instruments (continued)

(b) Interest rate and credit risk (continued)

and November 30, 2014, Par accounted for substantially all the revenue and all the 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 Canadian dollars that give rise to exposure to foreign exchange ("FX") risk relating to the impact of translating certain non-U.S. dollar balance sheet accounts as these statements are presented in U.S. dollars. A strengthening U.S. dollar will lead to a FX loss while a weakening U.S. dollar will lead to a FX gain. For each Canadian dollar balance of $1.0 million, a +/- 10% movement in the Canadian currency held by the Company versus the US dollar would affect the Company's loss and other comprehensive loss by $0.1 million.

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

	November 30, 2015		November 30, 2014	
	Canadian	U.S.	Canadian	U.S.
FX rates used to translate to U.S.	1.3353		1.1440	
	$	$	$	$
Assets				
Cash	116,096	86,944	510,459	446,205
	116,096	86,944	510,459	446,205
Liabilities				
Accounts payable	1,372,196	1,027,631	379,014	331,306
Employee cost payable	233,906	175,172	207,297	181,204
Capital lease	48,231	36,120	25,538	22,323
	1,654,332	1,238,923	611,849	534,833
Net exposure	(1,538,236)	(1,151,979)	(101,390)	(88,628)

(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 forecasted cash requirements with expected cash drawdown.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at November 30, 2015:

(Stated in U.S. dollars)

17. Financial instruments (continued)

(d) Liquidity risk (continued)

						November 30, 2015
	Less than 3 months	3 to 6 months	6 to 9 months	9 months 1 year	Greater than 1 year	Total
	$	$	$	$	$	$
Third parties						
Accounts payable	3,027,974	-	-	-	-	3,027,974
Accrued liabilities	454,290	-	-	-	-	454,290
Capital lease (note 9)	4,910	5,045	5,182	5,323	15,660	36,120
Related parties						
Employee costs payable (Note 8)	175,172	-	-	-	-	175,172
Convertible debenture (Note 7)	1,515,770	-	-	-	-	1,515,770
	5,178,116	5,045	5,182	5,323	15,660	5,209,326

18. Segmented information

The Company's operations comprise a single reportable 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 reportable segment, amounts disclosed in the financial statements for revenue, loss for the year, depreciation and total assets also represent segmented amounts. In addition, all of the Company's long-lived assets are in Canada. The Company's license and commercialization agreement with Par accounts for substantially all of the revenue of the Company.

	November 30, 2015	November 30, 2014	November 30, 2013
	$	$	$
Revenue			
United States	4,093,781	8,769,693	1,527,474
	4,093,781	8,769,693	1,527,474
Total assets			
Canada	5,224,299	7,875,035	4,379,501
Total property and equipment			
Canada	1,759,438	1,618,897	1,231,309