2010 Second Quarter Results
Financial Statements and Management Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX MONTH PERIODS ENDED MAY 31, 2010

The following Management's Discussion and Analysis ("MD&A) should be read in conjunction with the May 31, 2010 unaudited interim consolidated financial statements of Intellipharmaceutics International Inc. ("IPC"). The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as outlined in the FASB Accounting Standards Codification ("ASC"). Our accounting policies have the potential to have a significant impact on our unaudited interim consolidated financial statements, either due to the significance of the financial statement item to which they relate or because they require judgment and/or estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature. This document is current in all material respects as of July 13, 2010.

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

FORWARD-LOOKING STATEMENTS

Certain statements in this document constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995 and/or "forward-looking information" under the Securities Act (Ontario). These statements include, without limitation, statements regarding the status of development or expenditures relating to our business, plans to fund our current activities, statements concerning our partnering activities, health regulatory submissions, strategy, future operations, future financial position, future revenues and projected costs. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential", "continue", "intends", "could", or the negative of such terms or other comparable terminology. We made a number of assumptions in the preparation of these forward-looking statements. Undue reliance should not be placed on our forward-looking statements, which are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances or events to differ materially from those projected in the forward-looking statements. These risks include, but are not limited to, securing and maintaining corporate alliances, the need for additional capital, the effect of capital market conditions and other factors, including the current status of our programs, on capital availability, the potential dilutive effects of any financing and other risks detailed from time to time in our public disclosure documents or other filings with the securities commissions or other securities regulatory bodies in Canada and the U.S. Additional risks and uncertainties relating to IPC and our business can be found in the "Risk Factors" section of our Annual Information Form for the year ended November 30, 2009, as well as in our other public filings. The forward-looking statements are made as of the date hereof, and we disclaim any intention, and have no obligation or responsibility except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause actual results to differ materially include but are not limited to:

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

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

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

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

Disclosure regarding our ability to continue as a going concern is included in Note 2 to our unaudited interim consolidated financial statements for the three and six months period ended May 31, 2010.

CORPORATE UPDATE

- On March 11, 2010 we announced that Novartis Pharmaceuticals Corporation and Celgene Corporation had tentatively settled their patent suit in the U.S. District Court for the District of New Jersey, and Elan Pharma International Ltd. had tentatively settled its patent suit in the U.S. District Court for the District of Delaware, with Intellipharmaceutics Corp., a wholly-owned subsidiary of Intellipharmaceutics International Inc., and with its licensee Par Pharmaceutical, Inc., over a generic version of the Attention Deficit Hyperactivity Disorder drug Focalin XR® (dexmethylphenidate hydrochloride), subject to regulatory and court approval. On May 20, 2010 we confirmed that the parties had stipulated to the dismissal of the litigation, and that management expected that marketing of its generic version of Focalin XR® would commence no sooner than the fourth quarter of 2012.
- On May 7, 2010 we announced that the U.S. Food and Drug Administration (FDA) had accepted our filing for an Abbreviated New Drug Application (ANDA) for a generic version of the antidepressant Effexor XR® (venlafaxine hydrochloride)
- On May 20, 2010 we announced that we had taken delivery of and fully qualified our primary manufacturing equipment for the manufacture of an abuse-deterrent formulation of controlled-release oxycodone hydrochloride, and that the manufacture of clinical batches using that equipment has commenced.
- On June 14, 2010 we announced we had filed an ANDA with the FDA for a generic version of Protonix® (delayed release pantoprazole sodium).
- On July 2, 2010 we announced that Wyeth LLC, a wholly owned subsidiary of Pfizer Inc., filed suit against us for patent infringement in the United States District Court for the District of Delaware and for the Southern District of New York, relating to our generic version of Effexor XR® (venlafaxine hydrochloride extended release) capsules. Lawsuits such as these are an ordinary and expected part of the process of obtaining approval to commercialize a generic drug product in the United States. We remain confident that our generic versions of Effexor XR® do not infringe those patents. We intend to vigorously defend against the complaints described above.

BUSINESS OVERVIEW

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

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

As a result of the transaction, we selected a November 30 year-end. All comparable information is that of our predecessor Company, IPC Ltd. Accordingly, our unaudited interim consolidated financials statements have been

presented for the three and six month periods ended May 31, 2010 with comparative three and six month periods ended June 30, 2009.

OUR GOAL

Our goal is to leverage our proprietary technologies and know-how in order to build a diversified portfolio of commercialized products that generate revenue for us. We will do this by advancing our products from the formulation stage through product development, regulatory approval and manufacturing. Our strategy is to out-license marketing and sales to established organizations. We believe that this full integration of development and manufacturing should maximize the value inherent in our technology and product candidates and will create long term growth and value. Out-licensing sales and marketing to established organizations should maximize revenues from our products while allowing us to focus on our core competence. We will endeavour to achieve the following milestones in calendar year 2010:

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

OUR STRATEGY

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

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

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

> **For existing controlled-release (once-a-day) products** covered by patents about to expire or already expired, we can formulate generic products, which are bioequivalent to the branded products. Such products can be licensed to and sold by distributors of generic products. Our scientists have demonstrated a successful track record with such products, having previously developed several drugs which have been commercialized in the United States by their former employer/clients. The regulatory pathway for this approach requires ANDAs.
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> **For branded immediate-release (multiple-times-per-day) drugs**, we can formulate improved replacement products, typically by developing new, patentable, controlled-release once-a-day drugs. These drugs can be licensed to and sold by the pharmaceutical company that made the original immediate-release product. This protects against revenue erosion in the brand by providing a clinically attractive patented product that competes favorably with the generic immediate-release competition that arises on expiry of the original patent(s). The regulatory pathway for this approach requires NDAs via a s.505(b)(2) application which both accelerates development timelines and reduces costs in comparison to NDAs for new chemical entities.

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

We believe we are well-positioned to execute our strategic plan due to our current financial position and expertise in drug delivery, product development, regulatory affairs and manufacturing.

OUR TECHNOLOGY

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

OUR PRODUCTS

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

Generic name	Brand	Indication	Stage of Development	Regulatory Pathway	Rights
Dexmethylphenidate Hydrochloride extended release capsules	**Focalin XR®**	Attention-deficit hyperactivity disorder	Application under review by the FDA	ANDA	Intellipharmaceutics and Par Pharmaceutical
Venlafaxine HCl extended release capsules	**Effexor XR®**	Depression	Application accepted by the FDA for review	ANDA	Intellipharmaceutics
Pantoprazole sodium delayed release capsules	**Protonix® DR**	Conditions associated with gastroesophageal reflux disease	Application filed with the FDA	ANDA	Intellipharmaceutics
Carvedilol Phosphate extended release capsules	**Coreg CR®**	Heart Failure	Late-stage development	ANDA	Intellipharmaceutics
Oxycodone hydrochloride controlled release capsules	**N/A**	Pain	Early-stage development	NDA 505(b)(2)	Intellipharmaceutics

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

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

In 2005, we entered into a license and commercialization arrangement with Par Pharmaceutical of New Jersey ("Par") for the development of a generic version of Focalin XR®. Under the arrangement, we are responsible for all laboratory development costs and Par is responsible for bioequivalence costs, API costs, scale up / stability costs and marketing. Par is also responsible for costs associated with litigation. Focalin XR contains dexmethylphenidate hydrochloride and is used for the treatment of Attention Deficit Hyperactivity Disorder. In 2008, Focalin®, including Focalin XR®, had U.S. sales of approximately U.S. $350 million.

Effective May 2007, we filed an ANDA for our generic, Dexmethylphenidate XR, with the FDA. As at that date, the application was accepted by the FDA as being complete and in condition for further review. In the period since our filing, we have filed a number of amendments to the application at the request of the FDA. Our ANDA application remains

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

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

Intellipharmaceutics' management presently expects that marketing of generic versions of the products will commence no sooner than the fourth quarter of 2012. The Company has a ten year profit-sharing agreement with Par for the sale of dexmethylphenidate hydrochloride XR capsules in the U.S., which commences with the commercial launch of the product by Par.

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

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

We filed an ANDA for our generic, venlafaxine hydrochloride, with the FDA. Effective January 2010, the application was accepted by the FDA as being complete and in condition for further review. The application is under review, and there can be no assurance when, or if at all, the FDA will approve the product for commercial launch in the U.S market.

Subsequent to May 31, 2010, Wyeth LLC, a wholly owned subsidiary of Pfizer Inc., filed suit for patent infringement against us in the United States District Court for the District of Delaware and for the Southern District of New York, relating to our generic version of Effexor XR® capsules. Lawsuits such as these are an ordinary and expected part of the process of obtaining approval to commercialize a generic drug product in the United States. We remain confident that our generic versions of Effexor XR® do not infringe those patents. We intend to vigorously defend against the complaints described above.

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

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

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

Effective June 2010, we filed an ANDA for our generic pantoprazole sodium, with the FDA. There can be no assurance when, or if at all, the FDA will accept our application for further review or approve the product for commercial launch in the U.S market.

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

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

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

This product is currently in late-stage development and we are planning on conducting additional pivotal bioequivalence studies later in fiscal 2010. We are exploring licensing agreement opportunities or other possibilities for this product. There is no assurance that a licensing agreement can be secured.

Rexista™ oxycodone (oxycodone hydrochloride)

Our lead non-generic product under development is Rexista™ oxycodone; an abuse- and alcohol-deterrent controlled-release oral formulation of oxycodone hydrochloride for the relief of pain. Rexista™ oxycodone is a unique dosage form designed to be deterrent to some of the well-documented abuses associated with some currently marketed controlled-release oxycodone products. This includes abuse of these drugs by nasal inhalation when crushed or powdered, and, by injection when combined with solvents. Rexista™ oxycodone is also designed to resist release of the entire dose when consumed with alcohol, a significant problem with some opioid drugs. In 2008, OxyContin® (oxycodone hydrochloride controlled-release tablets) had estimated U.S. sales of approximately U.S. $2 billion. OxyContin® currently holds the leading total prescription share of the U.S. extended-release opioid market, with an estimated 23% total prescription share.

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

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

We have completed proof of concept pilot clinical studies of Rexista™ oxycodone and plan to complete manufacture of clinical batches of Rexista™ oxycodone for use in phase I clinical trials in fiscal 2010. We also plan to initiate discussions with the FDA on the clinical development plan for Rexista™ oxycodone. There can be no assurance that the clinical trials will meet the expected outcomes or that we will be able to successfully produce scaled up batches for use in clinical trials or that we will be successful in submitting an NDA s.505(b)(2) filing.

SELECTED FINANCIAL INFORMATION

As a result of the October 22, 2009 IPC Arrangement Transaction we selected a November 30 year-end. All comparable information is that of our predecessor company Intellipharmaceutics Ltd. which had a December 31 year-end. It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures and availability of capital resources vary substantially from period to period, depending on the level of research and development activity being undertaken at any one time and the availability of funding. In general, the fact that expenditures were higher for the three and six month periods ended May 31, 2010 when compared to the three and six month periods ended June 30, 2009 was due to our stronger financial position during 2010 when compared with 2009.

	For the Period ended May 31 2010 (3 Months)	For the Period ended June 30 2009 (3 Months)	For the Period ended May 31 2010 (6 Months)	For the Period ended June 30 2009 (6 Months)
Revenue:	$ 1,449,624	$ 118,460	$ 1,452,221	$ 342,832
Expenses:	1,918,295	646,503	3,376,967	1,298,009
Loss for the period	(316,447)	(224,662)	(1,744,000)	(797,672)
Loss per share, Basic and Diluted	(0.03)	(0.02)	(0.16)	(0.09)

	As At May 31 2010	As At November 30 2009
Cash	$ 4,068,780	$ 8,014,492
Total Assets	$ 6,391,276	$ 11,081,332
Deferred revenue	$ 8,906	$ 1,449,326
Total liabilties	$ 2,917,860	$ 6,449,318
Shareholders equity	$ 3,473,416	$ 4,632,014
Total liabilties and shareholders equity	$ 6,391,276	$ 11,081,332

CRITICAL ACCOUNTING ESTIMATES

Use of Estimates

The Company's unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") as outlined in the ASC. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Revenue recognition

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

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

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

Share-based compensation
All share-based compensation, including grants of employee stock options, is recognized as an expense in the financial statements and such cost is measured at the fair value of the award. The Company recognizes compensation expense based on the estimated grant date fair value using the Black-Scholes option-pricing model.

Share-based compensation expense recognized during the period is based on the value of share-based payment awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The share-based compensation expense is recorded in the statement of operations under research and development expense and under selling, general and administration expense. *Note 9 of the unaudited interim consolidated financial statements provides detailed disclosure of the Company's stock options.*

Income taxes
In July 2006, the Financial Accounting Standards Board ("FASB") issued ASC topic 740-10, formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, and prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48 effective January 1, 2007. The adoption of FIN 48 had no material effect on the financial position, operations or cash flow of the Company. *See Note 13 in the unaudited interim consolidated financial statements for further discussion of the Company's accounting for income taxes.*

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

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued new guidance on "Accounting for Transfers of Financial Assets". It addresses concerns raised by the SEC, members of Congress, and financial statement users about the accounting and disclosures required by existing guidance in the wake of the subprime mortgage crisis and the global credit market deterioration, and is intended to improve the accounting and disclosure for transfers of financial assets. The new guidance is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009, with early adoption prohibited. The Company has adopted it on December 1, 2009. The adoption did not have a material impact on our unaudited interim consolidated financial position and results of operations.

In June 2009, the FASB updated "Consolidation – Consolidation of Variable Interest Entities" ("Consolidation"). The update amends the consolidation guidance that applies to variable interest entities ("VIEs"), and will significantly affect an entity's overall consolidation analysis. The amendments to the consolidation guidance affect all entities currently within the scope of Consolidation as well as qualifying special-purpose entities that are outside of its scope. An enterprise will need to reconsider its previous conclusions regarding the entities that it consolidates, as the update involves a shift to a

qualitative approach that identifies which entities have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb its losses or the right to receive benefits from it, as compared to the existing quantitative-based risks and rewards calculation. The update also requires ongoing assessment of whether an entity is the primary beneficiary of a VIE, modifies the presentation of consolidated VIE assets and liabilities, and requires additional disclosures. The updated guidance is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009, with early adoption prohibited. The Company has adopted it on December 1, 2009. The adoption did not have a material impact on our unaudited interim consolidated financial position and results of operations.

FUTURE ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition ("ASU 2009-13"). ASU 2009-13 amends the criteria for separating consideration in multiple-deliverable revenue arrangements, and establishes a hierarchy of selling prices to determine the selling price of each specific deliverable. As part of this, ASU 2009-13 eliminates the residual method for allocating revenue among the elements of an arrangement and requires that consideration be allocated at the inception of an arrangement. As well, it expands disclosure requirements. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010, and therefore will be adopted by us on December 1, 2010. We do not expect that the adoption will have a material impact on our consolidated financial position and results of operations.

The FASB, the EITF and the SEC have issued other accounting pronouncements and regulations during 2010 and 2009 that will become effective in subsequent periods. The Company's management does not believe that these pronouncements will have a significant impact on the Company's financial statements at the time they become effective.

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 products in various jurisdictions and resulting product sales, the timing and amount of payments received pursuant to our current and future collaborations with third-parties, and the progress and timing of expenditures related to our research, development and commercialization efforts. Due to these fluctuations, we presently believe that the period-to-period comparisons of our operating results are not a reliable indication of our future performance.

The following are selected financial data for the three and six month periods ended May 31, 2010 and the three and six month periods ended June 30, 2009.

	For the three month periods ended				For the six month periods ended			
	May 31 2010	June 30 2009	Change $	Change %	May 31 2010	June 30 2009	Change $	Change %
Revenue:								
Research and development	$1,449,624	$ 118,460	1,331,164	1123.7%	$ 1,452,221	$ 342,832	1,109,389	323.6%
Expenses:								
Cost of revenue	-	87,077	(87,077)	-100.0%	-	114,196	(114,196)	-100.0%
Research and development	1,174,769	253,226	921,543	363.9%	1,874,427	660,017	1,214,410	184.0%
Selling, general and administrative	682,628	202,261	480,367	237.5%	1,386,657	322,147	1,064,510	330.4%
Depreciation	60,898	103,939	(43,041)	-41.4%	115,883	201,649	(85,766)	-42.5%
	1,918,295	646,503	1,271,792	196.7%	3,376,967	1,298,009	2,078,958	160.2%
Loss before the undernoted	(468,671)	(528,043)	59,372	-11.2%	(1,924,746)	(955,177)	(969,569)	101.5%
FMV on adjustment of warrants	110,157	-	110,157	-	132,021	-	132,021	-
Foreign exchange gain (loss)	46,592	319,106	(272,514)	-85.4%	74,956	186,629	(111,673)	-59.8%
Interest income	20,101	225	19,876	8833.8%	23,734	1,518	22,216	1463.5%
Interest expense	(24,626)	(15,950)	(8,676)	54.4%	(49,965)	(30,642)	(19,323)	63.1%
Loss for the period	(316,447)	(224,662)	(91,785)	40.9%	(1,744,000)	(797,672)	(946,328)	118.6%

Three-Month Period Ended May 31, 2010 Compared to the Three-Month Period Ended June 30, 2009

Revenue

The Company recorded revenues of $1,449,624 for the three-month period ended May 31, 2010 versus $118,460 for the three-month period ended June 30, 2009. Revenue in the three-month period ended May 31, 2010 was as a result of recognition of upfront fees of $1,448,012 and other revenue in the amount of $1,612 compared to recognition of upfront fees of $111,993 and research and development service fees of $6,467 in the three-month period ended June 30, 2009. The increase in revenue can be primarily attributed to a drug development agreement that has been mutually terminated by us and another party as a result of which unearned revenue of approximately $1,439,000 was brought into income. Revenue from research and development service fees decreased during the period primarily due to the Company having much less late stage development activity on partnered projects in 2010, compared to 2009 when the Company was more actively involved in such activities on partnered projects. As discussed above it is our current strategy to advance our products from the formulation stage through product development, regulatory approval and manufacturing before we out-license the marketing and sales to established organizations. We believe that this full integration of development and manufacturing should maximize the value inherent in our technology and product candidates and will create long term growth and value. As a result we had minimal revenue from partnered projects as our focus was on advancing our own pipeline.

Cost of Revenue

We had no cost of revenue for the three month period ended May 31, 2010 in comparison to $87,077 for the three-month period ended June 30, 2009 because we performed no activity on partnered projects during the three-month period ended May 31, 2010, unlike the three-month period ended June 30, 2009 when we were working on some partnered projects

and had incurred expenditures. This is in line with our current strategy to advance our products from the formulation stage through product development, regulatory approval and manufacturing before we out-license the marketing and sales to established organizations as such our focus was on advancing our own products.

Research and Development

Expenditures for research and development for the three-month period ended May 31, 2010 were higher by $921,543 compared to the three-month period ended June 30, 2009. This is primarily attributed to the fact that during the three-month period ended May 31, 2010 we incurred additional expenses on R&D activities for our own internal projects when compared with the three-month period ended June 30, 2009 due to our stronger financial position in 2010 when compared with 2009. In addition during the three-month period ended May 31, 2010 we recorded an additional expense of $442,800 related to 276,394 performance based stock options issued to the principal shareholders, officers and directors of the Company. We recorded this expense as we determined it was probable as at May 31, 2010 we would satisfy the performance criteria that will allow vesting of the options. No such expense was recorded during the three-month period ended June 30, 2009.

Selling, General* and *Administrative

Selling, general and administrative expenses were $682,628 for the three-month period ended May 31, 2010 in comparison to $202,261 for the three-month period ended June 30, 2009, an increase of $480,367. The increase is due to an increase in expenses related to legal fees, wages, marketing cost and occupancy costs which are discussed in greater detail below.

Expenditure for wages and benefits for the three-month period ended May 31, 2010 were $167,509 in comparison to $81,252 for the three-month period ended June 30, 2009. This increase is attributable to an increase in administrative staffing levels during the three-month period ending May 31, 2010 when compared to the prior period. The number of employees included in administrative costs was 9 as at May 31, 2010 in comparison to 6 at June 30, 2009. The increase is related to additional employees that are required in our role as a publicly traded company.

Administrative costs for the three-month period ended May 31, 2010 were $440,798 in comparison to $90,098 for the three-month period ended June 30, 2009. This increase is primarily the result of an increase in accounting and legal costs as expensed when compared with the three month period ended June 30, 2009, due to certain public company related obligations and filing requirements which we did not incur in the comparable period as we were not then a publicly traded company.

Marketing costs for the three-month period ended May 31, 2010 were $55,033 in comparison to $17,058 for the three-month period ended June 30, 2009. This increase is primarily the result of an increase in travel expenditures during the three month period due to investor relations activities which we did not incur in the comparable period, as we were not then a publicly traded company.

Occupancy costs for the three-month period ended May 31, 2010 were $19,288 in comparison to $13,853 for the three-month period ended June 30, 2009. These amounts are comparable as we are located in the same premises.

Depreciation

Depreciation for the three-month period ended May 31, 2010 was $60,898 in comparison to $103,939 for the three-month period ended June 30, 2009 primarily as a result of reduced investment in property and equipment as the Company cut down on investments until additional financing was secured.

Fair Value Adjustment of Warrants

As part of the IPC arrangement we have 357,237 warrants outstanding as at May 31, 2010. These warrants are measured at fair market value at each reporting date and changes in fair market value are recognized in the statements of operations and deficit. During the three month period ended May 31, 2010, 19,462 warrants expired.

Foreign Exchange Gain

Gain on foreign exchange was $46,592 for the three-month period ended May 31, 2010 in comparison to a gain of $319,106 for the three-month period ended June 30, 2009. The gain for the period ended in May 31, 2010 was due to the weakening of the US dollar against the Canadian dollar as the rates changed from ($1.00 (US) for $1.0525 (Cdn) at February 28, 2010 to $1.00 (US) for $1.0435 (Cdn) at May 31, 2010. The gain for the period ended in June 30, 2009 was also due to the weakening of the US dollar against the Canadian dollar as the rates changed from ($1.00 (US) for $1.2613 (Cdn) at March 31, 2009 to $1.00 (US) for $1.1630 (Cdn) at June 30, 2009.

Interest Income
Interest income for the three-month period ended May 31, 2010 was higher by $19,876 in comparison to the three-month period ended June 30, 2009. This is primarily as a result of a higher average amount of cash on hand and interest received from the Canada Revenue Agency and the Ontario Ministry of Finance related to the late payment to us of claims for the scientific research & development tax credit and Ontario Innovation tax credit which is discussed in greater detail below.

Interest Expense
Interest expense for the three month period ended May 31, 2010 was higher when compared with the three month period ended June 30, 2009 primarily because the amount outstanding on a related party loan which accrues interest at 6% annually was higher in the three month period ended May 31, 2010 in comparison to the three month period ended June 30, 2009.

Six-Month Period Ended May 31, 2010 Compared to the Six-Month Period Ended June 30, 2009

Revenue
The Company recorded revenues of $1,452,221 for the six-month period ended May 31, 2010 versus $342,832 for the six-month period ended June 30, 2009. Revenue in the six-month period ended May 31, 2010 was from recognition of upfront fees of $1,449,040 and other revenue in the amount of $3,181 compared to upfront fees of $227,500, research and development service fees of $113,964 and other revenue in the amount of $1,368 in the six- month period ended June 30, 2009. The increase in revenue can be primarily attributed to a drug development agreement that was mutually terminated by us and another party, as a result of which unearned revenue of approximately $1,439,000 was brought into income. Revenue for research and development service fees decreased primarily due to the Company having less late stage development activity on partnered projects in 2010, compared to 2009 when the Company was more actively involved in such activities on partnered projects. It is our current strategy to advance our internal projects from the formulation stage through product development, regulatory approval and manufacturing before out-licensing the marketing and sales to established organizations. We believe that this full integration of development and manufacturing should maximize the value inherent in our technology and product candidates and will create long term growth and value. As a result we had minimal revenue from development of partnered products as the focus was on advancing our own products.

Cost of Revenue
We had no cost of revenue for the six-month period ended May 31, 2010 in comparison to $114,196 for the six-month period ended June 30, 2009 because we performed no activity on partnered projects during the six-month period ended May 31, 2010, unlike the six-month period ended June 30, 2009 when we were working on some partnered projects and hence had incurred expenditures. This is in line with our current strategy to advance our products from the formulation stage through product development, regulatory approval and manufacturing before we out-license the marketing and sales to established organizations, thus our focus was on advancing our own products.

Research and Development
Expenditures for research and development for the six-month period ended May 31, 2010 were higher by $1,214,410 compared to the six-month period ended June 30, 2009. This is primarily attributed to the fact that during the six-month period ended May 31, 2010 we incurred additional expenses on R&D activities for our own internal projects when compared with the six-month period ended June 30, 2009 due to our stronger financial position in 2010 when compared with 2009. In addition during the six-month period ended May 31, 2010 we recorded an additional expense of $442,800 related to 276,394 performance based stock options issued to the principal shareholders, officers and directors of the Company. We recorded this expense as we determined it was probable as at May 31, 2010 we would satisfy the performance criteria that will allow vesting of the options. No such expense was recorded during the six-month period ended June 30, 2009.

Selling, General* and *Administrative
Selling, general and administrative expenses were $1,386,657 for the six-month period ended May 31, 2010 in comparison to $322,147 for the six-month period ended June 30, 2009, an increase of $1,064,510. The increase is due to an increase in expenses related to legal fees, wages, marketing cost and occupancy costs which are discussed in greater detail below.

Expenditure for wages and benefits for the six-month period ended May 31, 2010 were $340,506 in comparison to $165,358 for the six-month period ended June 30, 2009. This increase is attributable to an increase in administrative staffing levels during the six-month period ending May 31, 2010 when compared to the prior period. The number of

employees included in administrative costs was 9 as at May 31, 2010 in comparison to 6 at June 30, 2009. The increase is related to additional employees that are required in our role as a publicly traded company.

Administrative costs for the six-month period ended May 31, 2010 were $907,554 in comparison to $105,700 for the six-month period ended June 30, 2009. This increase is primarily the result of an increase in accounting and legal costs as expensed when compared with the six-month period ended June 30, 2009 due to certain public company related obligations and filing requirements which we did not incur in the comparable period as we were not a publicly traded company.

Marketing costs for the six-month period ended May 31, 2010 were $104,784 in comparison to $23,871 for the six-month period ended June 30, 2009. This increase is primarily the result of an increase in travel expenditures during these periods due to investor relations activities which we did not incur in the comparable period, as we were not then a publicly traded company.

Occupancy costs for the six month period ended May 31, 2010 were $33,813 in comparison to $27,218 for the six month period ended June 30, 2009. These amounts are comparable as we are located in the same premises.

Depreciation
Depreciation expenses for the six-month period ended May 31, 2010 were $115,883 in comparison to $201,649 for the six-month period ended June 30, 2009 primarily as a result of reduced investment in property and equipment as the Company cut down on investments until additional financing was secured.

Fair Value Adjustment of Warrants
As part of the IPC arrangement we have 357,237 warrants outstanding as at May 31, 2010. These warrants are measured at fair market value at each reporting date and changes in fair market value are recognized in the statements of operations and deficit. During the six month period ended May 31, 2010, 19,462 warrants expired.

Foreign Exchange Gain
Gain on foreign exchange was $74,956 for the six month period ended May 31, 2010 in comparison to a gain of $186,629 for the six month period ended June 30, 2009. The gain for the period ended in May 31, 2010 was due to the weakening of the US dollar against the Canadian dollar as the rates changed from ($1.00 (US) for $1.0556 (Cdn) at November 30, 2009 to $1.00 (US) for $1. 1.0435 (Cdn) at May 31, 2010. The gain for the period ended in June 30, 2009 was due to the weakening of the US dollar against the Canadian dollar as the rates changed from ($1.00 (US) for $1.2180 (Cdn) at December 31, 2008 to $1.00 (US) for $1.1630 (Cdn) at June 30, 2009.

Interest Income
Interest income for the six-month period ended May 31, 2010 was higher by $22,216 in comparison to the six-month period ended June 30, 2009. This is primarily as a result of a higher average amount of cash on hand and interest received from the Canada Revenue Agency and the Ontario Ministry of Finance related to the late payment to us of claims for the scientific research & development tax credit and an Ontario Innovation tax credit which is discussed in greater detail below.

Interest Expense
Interest expense for the six-month period ended May 31, 2010 was higher when compared with the six-month period ended June 30, 2009 primarily because the amount outstanding on a related party loan which accrues interest at 6% annually was higher in the six-month period ended May 31, 2010 in comparison to the six-month period ended June 30, 2009.

SUMMARY OF QUARTERLY RESULTS
The following selected financial information is derived from our unaudited interim consolidated financial statements for the last three quarterly periods ended. All comparable information for the previous five quarters is that of our predecessor company, IPC Ltd., which had a December 31 year end. Loss per share has been adjusted to reflect the impact of the transactions, as described in the “Business Overview”.

Quarter Ended		Revenues	Loss	Loss per share
May 31,2010		1,449,624	(316,447)	(0.03)
February 28,2010		2,597	(1,427,553)	(0.13)
November 30,2009	(2 Months)	161,757	(875,322)	(0.09)
September 30,2009		125,590	(165,739)	(0.02)
June 30, 2009		118,460	(224,662)	(0.02)
March 31, 2009		224,372	(573,012)	(0.06)
December 31,2008		117,740	(2,081,991)	(0.22)
September 30,2008		180,388	(915,596)	(0.10)

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures and availability of capital resources vary substantially from period to period, depending on the level of research and development activity being undertaken at any one time and the availability of funding. In general the fact that expenditures were higher for the last three quarters when compared to the first three quarters of fiscal 2009 periods was due to our stronger financial position starting in the fourth quarter of 2009. As well, the quarterly expenditures were generally higher in the last two quarters of fiscal 2008 when compared with the first three quarters of fiscal 2009, because we were in a stronger financial position during 2008 when compared with 2009.

Analysis of Second Quarter Results

The significant decrease in our loss during the second quarter of 2010 when compared to the prior quarter can be mainly attributed to the fact that during the three-month period ending May 31, 2010 a drug development agreement was mutually terminated by us and another party and as a result unearned revenue of approximately $1,439,000 was brought into income.

LIQUIDITY and CAPITAL RESOURCES

	For the three month periods ended				For the six month periods ended			
	May 31 2010 $	June 30 2009 $	Change $	Change %	May 31 2010 $	June 30 2009 $	Change $	Change %
Cash flows used in operating activities	(830,202)	(589,914)	(240,288)	40.7%	(3,042,884)	(1,186,802)	(1,856,082)	156.4%
Cash flows from (used in) financing activities	(113,941)	464,834	(578,775)	-124.5%	(877,995)	321,074	(1,199,069)	-373.5%
Cash flows used in investing activities:	(104,052)	-	(104,052)	N/A	(116,615)	(8,887)	(107,728)	1212.2%
Decrease in cash	(1,048,195)	(125,080)	(923,115)	738.0%	(4,037,494)	(874,615)	(3,162,879)	361.6%
Cash, beginning of period	5,048,100	150,021	4,898,079	3264.9%	8,014,492	902,213	7,112,279	788.3%
Effect of foreign exchange on cash	68,875	577	68,298	11836.7%	91,782	(2,080)	93,862	-4512.6%
Cash, end of period	4,068,780	25,518	4,043,262	15844.7%	4,068,780	25,518	4,043,262	15844.7%

The Company had cash of $4,068,780 as at May 31, 2010 compared to $5,048,100 as at February 28, 2010, compared to $8,014,492 at November 30, 2009. The decrease in cash is mainly a result of cash used in operating activities and the repayment of C$800,000 out of an amount due to a related party.

For the three and six months ended May 31, 2010 net cash flows used in operating activities increased, as compared to net cash flows used in operating activities for the three- and six-month periods ended June 30, 2009. This increase is a result of higher expenditures during the three- and six-month ended periods May 31, 2010 as described in greater detail above in addition to the payment of accounts payable and accrued liabilities that were outstanding as at November 30, 2009. During the three and six months ended May 31, 2010 net cash flows used in operating activities has been partially offset by approximately C$931,000 that was received from the Canada Revenue Agency and the Ontario Ministry of Finance being payments of claims for scientific research & development tax credit and an Ontario Innovation tax credit in respect of research and development activities carried out during the fiscal year 2008.

For the three and six months ended June 30, 2009 net cash flows from financing activities related mainly to advances in the form of a related party loan payable to Dr. Isa Odidi and Dr. Amina Odidi, our principal stockholders, directors and

executive officers for cash advances made by them to us as a shareholder loan to support ongoing operations in 2009. For the three and six months ended May 31, 2010 net cash flows used in financing activities related mainly to the repayment of part of this related party loan for the cash advances made by them to us as a shareholder loan in accordance with the terms of the loan.

For the three and six months ended May 31, 2010 net cash flows used in investing activities related mainly to the delivery and qualification of our primary manufacturing equipment for the manufacture of an abuse-deterrent formulation of controlled-release oxycodone hydrochloride. Net cash flows used in investing activities were nominal for the three and six months ended June 30, 2009.

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

Currently, the Company does not anticipate generating sufficient cash flows from operations as it pursues the development of a portfolio of ANDA and 505 (b) (2) NDA products. The Company's future liquidity and cash requirements will depend on a wide range of factors, including the success of development programs, success in securing licensing contracts as well as procurement of co-development or other collaborations. Therefore, as development of products continues, it will be necessary to raise additional capital. There can be no assurance that such capital or financing would be available in the amounts and on terms acceptable to us.

Repayment of the related party loan is restricted under the terms of the loan such that repayment can only be made from revenues received or proceeds from the issuance of securities received by us, scientific tax credits received in cash by us and up to a maximum of C$800,000 from proceeds received by us in the IPC Arrangement Transaction recently completed with Vasogen Inc. During the six months ended May 31, 2010 the related party loan was repaid by C$800,000 from proceeds received by us from the IPC Arrangement Transaction. Interest payable on this loan was accrued in the amount of $110,000 as at November 30, 2009. During the six months ended May 31, 2010 this amount was also repaid.

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

Based on management's best estimate, the Company expects to receive approximately C$609,300 from the Canada Revenue Agency and the Ontario Ministry of Finance during the second half of fiscal 2010 comprised of research & development tax credits for research and development activities carried out up to the period ended October 21, 2009. Realization of these credits is subject to government approval; however, management expects to receive a substantial amount during the second half of fiscal 2010. The Company has claimed these tax credits for several years, and to date the Company has received government approval for the estimated expenses within the expected timing. In addition we expect to receive approximately C$422,000 in other tax credits receivable that were acquired in the October 22, 2009 IPC Arrangement Transaction, management expects to receive a substantial amount during the second half of fiscal 2010.

OUTSTANDING SHARE INFORMATION

The number of shares outstanding as of July 13, 2010, is 10.9 million and it has not changed since May 31, 2010. The number of options outstanding as of July 13, 2010, is 3,018,246 and has decreased since May 31, 2010 due to the expiry of 363stock options. No stock options were granted or forfeited since May 31, 2010. During the three and six month periods ended May 31, 2010 we granted 92,722 stock options; no stock options were granted during the three and six month periods ended June 30, 2009.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT LIQUIDITY AND MARKET RISK

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

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

We are exposed to changes in foreign exchange rates between the Canadian and United States dollar which could affect the value of our cash. The Company had no foreign currency hedges or other derivative financial instruments as of May 31, 2010. The Company did not enter into financial instruments for trading or speculative purposes and does not currently utilize derivative financial instruments.

CAPITAL RESOURCES

At May 31, 2010, our cash totalled $4,068,780 compared with $5,048,100 at February 28, 2010, compared with $8,014,492 at November 30, 2009. The decrease in cash is mainly a result of cash used in operating activities and the repayment of C$800,000 on the amount due on the related party loan.

WORKING CAPITAL

Working capital (defined as current assets minus current liabilities) has decreased by $2.8 million from November 30, 2009 mainly as a result of cash used in operating activities and financing activities. Management expects working capital to further decrease in 2010 as we continue to incur expenditures to achieve our corporate objectives unless we raise additional financing through a combination of equity or debt financing and/or from commercialization activities, payments received based on development and/or marketing license agreements, and upon strategic partners funding directly some and/or all of the costs of development. However, there can be no assurance that these financing efforts will be successful or that we will continue to be able to meet our ongoing cash requirements.

CAPITAL EXPENDITURES

Total capital expenditures for the three- and six-month periods ended May 31, 2010 were higher when compared to the three and six month periods ended June 30, 2009. Capital expenditures in 2010 relate to the delivery and qualification of our primary manufacturing equipment for the manufacture of an abuse-deterrent formulation of controlled-release oxycodone hydrochloride. Capital expenditure levels for the rest of 2010 are anticipated to be near 2009 levels. We will fund 2010 capital expenditures from our working capital.

CONTRACTUAL OBLIGATIONS

In the table below, we set forth our enforceable and legally binding obligations and future commitments and obligations related to all contracts. Some of the figures we include in this table are based on management's estimate and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties, and other factors. The Company has entered into capital lease agreements for lab equipment and computer equipment where the lease obligation will end by 2012. Operating obligations related to the lease of premises expire on November 2010. However, it is our current intention to renew the lease for our facility before the lease expires in November 2010.

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 years**
Capital Lease Obligations	$ 31,235	$ 9, 598	$ 21,637	$ ---	$ ---
Operating Obligations	57,679	57,679	---	---	---
Total Contractual Obligations	88,914	67,277	21,637	---	---

CONTINGENCIES AND LITIGATION

From time to time, the Company may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Company. As at May 31, 2010, there were no pending litigation or threatened claims outstanding other than the one described in the following paragraph.

Subsequent to May 31, 2010, Wyeth LLC, a wholly owned subsidiary of Pfizer Inc., filed suit for patent infringement against us in the United States District Court for the District of Delaware and for the Southern District of New York, relating to our generic version of Effexor XR® (venlafaxine hydrochloride extended release) capsules. Lawsuits such as these are

an ordinary and expected part of the process of obtaining approval to commercialize a generic drug product in the United States. We remain confident that our generic versions of Effexor XR® do not infringe those patents. We intend to vigorously defend against the complaints described above.

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

RELATED PARTY TRANSACTIONS

As at May 31, 2010, we had an outstanding related party payable to Dr. Isa Odidi and Dr. Amina Odidi, principal stockholders, directors and executive officers, in the amount of approximately $1.6 million. Repayments of the related party loan are restricted under the terms of the loan such that repayment can only be made from revenues received or proceeds from the issuance of securities received by us, scientific tax credits received in cash by us and up to a maximum of C$800,000 from proceeds received by us in the merger and arrangement transaction completed with Vasogen Inc. During the six months ended May 31, 2010 the related party loan was repaid by C$800,000 from the IPC Arrangement transaction.

DISCLOSURE CONTROLS AND PROCEDURES

We have designed disclosure controls and procedures (DC&P) to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Vice-President and Chief Financial Officer, particularly during the period in which the interim filings are being prepared.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

We are working on strengthening our internal controls over financial reporting in order to ensure that we are able to report financial results accurately and on a timely basis. If we fail to maintain effective internal controls, our ability to produce accurate financial statements could be impaired. This could adversely affect our operating results and investors' views of us. Prior to the October 22, 2009 IPC Arrangement Transaction, we operated as a privately held U.S. company; management has identified certain internal controls over financial reporting that will need to strengthen so that we can meet our reporting obligations as a public company in a timely and accurate manner. Our accounting and financial reporting department may not currently have all of the necessary resources to ensure that it will not have significant deficiencies or material weaknesses in its system of internal control over financial reporting. The effectiveness of our internal control over financial reporting may be limited by a variety of factors including faulty human judgment and errors, omissions or mistakes, inappropriate management override of policies and procedures, and the possibility that any enhancements to disclosure controls and procedures may still not be adequate to assure timely and accurate financial information.

Ensuring that we have adequate financial and accounting controls to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently.

We have begun the process of documenting, reviewing, and improving our internal controls in order to comply with Canadian and United States securities regulation, which requires management assessments of the effectiveness of its internal control over financial reporting. Management will be testing the internal controls and, as part of that documentation and testing, identify areas for further attention and improvement. Improving the internal controls will likely involve substantial costs. This process may also take a significant time to complete and may distract officers, directors, and employees from the operations of the business. These efforts may not ultimately be effective to maintain adequate internal controls. If we fail to achieve and maintain effective controls and procedures for financial reporting, we could be unable to provide timely and accurate financial information. In addition, investor perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements may negatively affect our share price.

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 May 31, 2010, the Company was not involved in any material unconsolidated SPE transactions.

RISKS AND UNCERTAINTIES

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

Since we commenced operations we have incurred losses through May 31, 2010. These historical financial losses and financial condition could make it more difficult for the Company to obtain financing in the future. Since the products in our pipeline are still under development, we will continue to incur losses. There can be no assurance that we will ever be able to achieve or sustain profitability or positive cash flow. The ultimate success will depend on whether our drug formulations receive the approval of the FDA or of other applicable regulatory agencies and whether we are able to successfully market the approved products. There is no certainty that such FDA approval for any of the drug formulations can be received or that levels of sales and revenues necessary to achieve and sustain profitability can be attained.

Based on our current plans we will need to raise additional funds for ongoing operating costs, research and development activities, preclinical studies, and clinical trials necessary to bring our potential products to market. We may endeavor to secure additional financing, as required, through strategic alliance arrangements, the exercise of options and warrants, the issuance of new share capital, as well as through other financing opportunities. However, there can be no assurance that these financing efforts will be successful or that we will continue to be able to meet our ongoing cash requirements. It is possible that financing may not be available or, if available, will not be on acceptable terms. The availability of financing will be affected by the results of our research and development, our ability to obtain regulatory approvals, the market acceptance of our products, the state of the capital markets generally, strategic alliance agreements, and other relevant commercial considerations.

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

Further risks and uncertainties affecting us can be found elsewhere in this document, in our Annual Information Form for the year ended November 30, 2009 and other public documents filed on SEDAR and EDGAR.

OUTLOOK

Our future operations are highly dependent upon our ability to raise additional capital to support advancing our product pipeline through continued research and development activities. Our research and development efforts are dependent upon our ability to raise additional capital through a combination of equity or debt financing and/or from commercialization activities, payments received based on development and/or marketing license agreements, upon strategic partners funding directly some or all of the costs of development or the receipt of outstanding investment tax credits and other receivables. However, there can be no assurance that these financing efforts will be successful or that we will continue to be able to meet our ongoing cash requirements. It is possible that financing may not be available or, if available, will not be on acceptable terms. The availability of financing will be affected by the results of our research and development, our ability to obtain regulatory approvals, the market acceptance of our products, the state of the capital markets generally, strategic alliance agreements, and other relevant commercial considerations. Our cash outflows are expected to consist

primarily of internal and external research and development expenditures to advance our product pipeline in addition to general and administrative expenditures to support our corporate infrastructure.

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

ADDITIONAL INFORMATION

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

July 13, 2010

Unaudited interim consolidated financial statements of

Intellipharmaceutics International Inc.

May 31, 2010

Intellipharmaceutics International Inc.

May 31, 2010

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Intellipharmaceutics International Inc.

Unaudited consolidated balance sheets
As at May 31, 2010 and November 30, 2009
(Stated in U.S. dollars)

	May 31, 2010	November 30, 2009 (Notes 1 and 2)
	$	$
Assets		
Current		
Cash	4,068,780	8,014,492
Accounts receivable	2,659	5,427
Investment tax credits	1,135,525	1,840,044
Prepaid expenses and sundry assets	128,304	175,248
	5,335,268	10,035,211
Property and equipment, net (Note 4)	1,056,008	1,046,121
	6,391,276	11,081,332
Liabilities		
Current		
Accounts payable	471,004	1,323,368
Accrued liabilities (Note 5)	220,181	540,604
Employee costs payable (Note 7)	526,276	501,114
Current portion of capital lease obligations	27,460	35,595
Due to related parties (Note 6)	1,562,604	2,360,181
	2,807,525	4,760,862
Warrant liability (Note 12)	97,655	226,268
Capital lease obligations	3,774	12,862
Deferred revenue (Note 18)	8,906	1,449,326
	2,917,860	6,449,318
Shareholders' equity		
Capital stock (Notes 8 and 9)		
Authorized		
Unlimited common shares without par value		
Unlimited preference shares		
Issued and outstanding		
10,907,057 common shares (November 30, 2009 - 5,997,751 special voting shares 3,329,965 common shares), with $0.01 par value	16,969	16,969
Additional paid-in capital	18,811,489	18,263,340
Accumulated other comprehensive loss	(304,591)	(341,844)
Deficit	(15,050,451)	(13,306,451)
	3,473,416	4,632,014
Contingencies (Note 14)		
	6,391,276	11,081,332

See accompanying notes to interim consolidated financial statements

Intellipharmaceutics International Inc.

Unaudited consolidated statements of operations and comprehensive loss
For the three and six months period ended

(Stated in U.S. dollars)

	Three Months ended		Six Months ended	
	May 31, 2010	June 30, 2009	May 31, 2010	June 30, 2009
	$	$	$	$
Revenue				
Research and development	1,449,624	118,460	1,452,221	342,832
Expenses				
Cost of revenue	-	87,077	-	114,196
Research and development	1,174,769	253,226	1,874,427	660,017
Selling, general and administrative (Note 9)	682,628	202,261	1,386,657	322,147
Depreciation	60,898	103,939	115,883	201,649
	1,918,295	646,503	3,376,967	1,298,009
Loss before the undernoted	(468,671)	(528,043)	(1,924,746)	(955,177)
Fair value adjustment of warrants	110,157	-	132,021	-
Net foreign exchange gain	46,592	319,106	74,956	186,629
Interest income	20,101	225	23,734	1,518
Interest expense	(24,626)	(15,950)	(49,965)	(30,642)
Loss	(316,447)	(224,662)	(1,744,000)	(797,672)
Other comprehensive (loss) income				
Foreign exchange translation adjustment	29,907	(278,180)	37,253	(168,150)
Comprehensive loss	(286,540)	(502,842)	(1,706,747)	(965,822)
Loss per common share, basic and diluted	(0.03)	(0.02)	(0.16)	(0.09)
Weighted average number of common shares outstanding, basic and diluted	10,907,057	9,327,716	10,907,057	9,327,716

See accompanying notes to interim consolidated financial statements

Intellipharmaceutics International Inc.

Unaudited consolidated statements of shareholders' equity (deficiency)
year ended November 30, 2009 and for the six month period ended May 31, 2010
(Stated in U.S. dollars)

	Special voting shares		Common shares		Additional paid-in capital	Accumulated Other comprehensive income (loss)	Deficit	Total shareholders' equity (deficiency)
	Number	Amount	Number	Amount				
		$		$	$	$	$	$
Balance, December 31, 2008	5,997,751	10,850	3,329,965	6,024	10,482,120	385,647	(11,467,716)	(583,075)
Shares issued as compensation	-	-	52,356	95	394,764	-	-	394,859
Share cancellation	(5,997,751)	(10,850)	(3,382,321)	(6,119)	(10,876,884)	-	-	(10,893,853)
Shares issued	-	-	10,907,057	16,969	10,876,884	-	-	10,893,853
Broker options issued in connection with acquisition	-	-	-	-	161,833	-	-	161,833
Share issuance cost	-	-	-	-	(1,767,935)	-	-	(1,767,935)
Excess of assets over liabilities assumed on acquisition	-	-	-	-	8,992,558	-	-	8,992,558
Other comprehensive loss (net of tax - $nil)	-	-	-	-	-	(727,491)	-	(727,491)
Loss	-	-	-	-	-	-	(1,838,735)	(1,838,735)
	(5,997,751)	(10,850)	7,577,092	10,945	7,781,220	(727,491)	(1,838,735)	5,215,089
Balance, November 30, 2009	-	-	10,907,057	16,969	18,263,340	(341,844)	(13,306,451)	4,632,014
Adjustment of share issuance cost	-	-	-	-	68,328	-	-	68,328
Granting of Stock options - broker	-	-	-	-	13,711	-	-	13,711
Granting of Stock options - employee	-	-	-	-	466,110	-	-	466,110
Other comprehensive loss (net of tax - $nil)	-	-	-	-	-	37,253	-	37,253
Loss for the period	-	-	-	-	-	-	(1,744,000)	(1,744,000)
	-	-	-	-	548,149	37,253	(1,744,000)	(1,158,598)
Balance, May 31, 2010	-	-	10,907,057	16,969	18,811,489	(304,591)	(15,050,451)	3,473,416

See accompanying notes to interim consolidated financial statements

Intellipharmaceutics International Inc.

Unaudited consolidated statements of cash flows

(Stated in U.S. dollars)

	Three months ended		Six months ended	
	May 31, 2010	June 30, 2009	May 31, 2010	June 30, 2009
	$	$	$	$
Loss	(316,447)	(224,662)	(1,744,000)	(797,672)
Items not affecting cash	-			
Depreciation	60,898	103,939	115,883	201,649
Stock-based compensation	443,116	-	448,354	-
Interest accrual	23,454	16,649	47,829	29,799
Fair value adjustment of warrants	(110,156)	-	(132,021)	-
Unrealized foreign exchange loss (gain)	26,929	(307,294)	74,473	(178,049)
	127,794	(411,368)	(1,189,482)	(744,273)
Change in non-cash operating assets and liabilities				
Accounts receivable	(1,310)	10,709	3,049	25,178
Investment tax credits	779,731	(196,066)	730,194	(425,000)
Prepaid expenses and sundry assets	56,557	20,838	49,882	45,150
Accounts payable and accrued liabilities	(353,580)	103,740	(1,196,106)	153,423
Deferred revenue	(1,439,394)	(117,767)	(1,440,421)	(241,280)
Cash flows used in operating activities	(830,202)	(589,914)	(3,042,884)	(1,186,802)
Financing activities				
Payments on due to related parties	(104,344)	515,865	(860,104)	515,865
Receipts from related parties	-	-	-	-
Repayment of capital lease obligations	(9,597)	(8,240)	(17,891)	(15,341)
Share issuance costs	-	(42,791)	-	(179,450)
Cash flows from (used in) financing activities	(113,941)	464,834	(877,995)	321,074
Investing activity				
Purchase of property and equipment	(104,052)	-	(116,615)	(8,887)
Cash flows used in investing activities	(104,052)	-	(116,615)	(8,887)
Effect of foreign exchange (loss) gain on cash held in foreign currency	68,875	577	91,782	(2,080)
Decrease in cash	(979,320)	(124,503)	(3,945,712)	(876,695)
Cash, beginning of period	5,048,100	150,021	8,014,492	902,213
Cash, end of period	4,068,780	25,518	4,068,780	25,518
Supplemental cash flow information				
Interest paid	-	-	105,903	-
Taxes paid	-	-	-	-

See accompanying notes to interim consolidated financial statements

1. Nature of operations

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

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

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

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

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

2. Basis of presentation

(a) Basis of consolidation

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

These unaudited interim consolidated financial statements have been prepared using the same accounting policies, and methods as those used by the Company in the annual audited consolidated financial statements for the year ended November 30, 2009, except as described below under "recently adopted accounting pronouncements". The unaudited interim consolidated financial statements reflect all adjustments necessary for the fair presentation of the Company's financial position and results of operation for the interim periods presented.

On October 22, 2009, the Company, formerly IPC Ltd, as part of the acquisition discussed in Note 1, issued 1,526,987 shares of stock in exchange for all the outstanding shares of Vasogen and 9,380,070 shares of stock in exchange for all the outstanding shares of IPC Ltd. Each former Vasogen shareholders received 0.65963061 common shares of IPC and each former equity shareholder of IPC Ltd. and its operating affiliate IPC Corp. received 0.552788117 common shares of IPC, for each share they exchanged in the transaction. Under accounting principles generally accepted in the United States of America ("GAAP"), this transaction is considered to be a continuity of interest transaction followed by the acquisition of assets and assumption of certain liabilities of Vasogen. On acquisition, the difference between the fair value of assets acquired and liabilities assumed was recorded as a credit to additional paid in capital.

2. Basis of presentation (continued)

(a) Basis of consolidation (continued)

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

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

(b) Going concern

The unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as outlined in the FASB Accounting Standards Codification ("ASC"), assuming that the Company will continue as a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business.

The Company's principal business activities are focused on the research, development and manufacture of novel or generic controlled release and targeted release oral, solid dosage drugs. The Company earns revenues from development contracts which provide upfront fees, milestone payments, reimbursement of certain expenditures and royalty income upon commercialization of its products. The Company has incurred losses from operations since inception, and has an accumulated deficit of $15,050,451 as at May 31, 2010 (November 30, 2009 - $13,306,451). Previously, the Company has funded its research and development activities through the issuance of capital stock, loans from related parties, funds from the IPC Arrangement Agreement and funds received under development agreements. There is no certainty that such funding will be available going forward.

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

If the Company is not able to raise additional funds to finance its operations for the foreseeable future, there is substantial doubt about the Company's ability to continue as a going concern and realize its assets and pay its liabilities as they become due. The unaudited interim consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. Significant accounting policies

Recently adopted accounting pronouncements

In June 2009, the FASB issued new guidance on "Accounting for Transfers of Financial Assets". It addresses concerns raised by the SEC, members of Congress, and financial statement users about the accounting and disclosures required by existing guidance in the wake of the subprime mortgage crisis and the global credit market deterioration, and is intended to improve the accounting and disclosure for transfers of financial assets. The new guidance is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009, with early adoption prohibited. The Company has adopted it on December 1, 2009. The adoption did not have an impact on the Company's 2009 financial statements.

3. Significant accounting policies (continued)

In June 2009, the FASB updated "Consolidation - Consolidation of Variable Interest Entities" ("Consolidation"). The update amends the consolidation guidance that applies to variable interest entities ("VIEs"), and will significantly affect an entity's overall consolidation analysis. The amendments to the consolidation guidance affect all entities currently within the scope of Consolidation as well as qualifying special-purpose entities that are outside of its scope. An enterprise will need to reconsider its previous conclusions regarding the entities that it consolidates, as the update involves a shift to a qualitative approach that identifies which entities have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb its losses or the right to receive benefits from it, as compared to the existing quantitative-based risks and rewards calculation. The update also requires ongoing assessment of whether an entity is the primary beneficiary of a VIE, modifies the presentation of consolidated VIE assets and liabilities, and requires additional disclosures. The updated guidance is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009, with early adoption prohibited. The Company has adopted it on December 1, 2009. The adoption did not have an impact on the Company's 2009 financial statements.

Future accounting pronouncements

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition ("ASU 2009-13"). ASU 2009-13 amends the criteria for separating consideration in multiple-deliverable revenue arrangements, and establishes a hierarchy of selling prices to determine the selling price of each specific deliverable. As part of this, ASU 2009-13 eliminates the residual method for allocating revenue among the elements of an arrangement and requires that consideration be allocated at the inception of an arrangement. As well, it expands disclosure requirements. ASU 2009-13 is effective for fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of ASU 2009-13 will have on its financial statements upon its adoption.

The FASB, the EITF and the SEC have issued other accounting pronouncements and regulations during 2010 and 2009 that will become effective in subsequent periods. The Company's management does not believe that these pronouncements will have a significant impact on the Company's financial statements at the time they become effective.

(Stated in U.S. dollars)

4. Property and equipment

	May 31, 2010		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer equipment	171,988	117,616	54,372
Computer software	30,456	15,902	14,554
Furniture and fixtures	101,470	62,815	38,655
Laboratory equipment	1,925,387	1,046,319	879,068
Leasehold improvements	905,895	905,895	-
Lab equipment under capital lease	62,428	27,062	35,366
Computer under capital lease	77,812	43,819	33,993
	3,275,436	2,219,428	1,056,008

	November 30, 2009		
	Cost	Accumulated amortization	Net book value
	$	$	$
Computer equipment	149,969	109,353	40,616
Computer software	17,050	14,087	2,963
Furniture and fixtures	85,149	59,301	25,848
Laboratory equipment	1,808,372	910,055	898,317
Leasehold improvements	895,511	895,511	-
Lab equipment under capital lease	61,712	22,868	38,844
Computer under capital lease	76,920	37,387	39,533
	3,094,683	2,048,562	1,046,121

Depreciation for the three and six months period ended May 31, 2010 was $60,898 and $115,883, respectively (three and six months period ended June 30, 2009 - $103,939 and $201,649, respectively).

(Stated in U.S. dollars)

5. Accrued liabilities

	May 31, 2010	November 30, 2009
	$	$
Professional fees	213,416	482,624
Other	6,765	57,980
	220,181	540,604

6. Due to related parties

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

	May 31, 2010	November 30, 2009
	$	$
Promissory note payable to two directors and officers of the Company, unsecured 6% annual interest rate on the outstanding loan balance [(i)] (2010 - Cdn $1,602,410; 2009 - Cdn $2,463,240)	1,535,611	2,333,498
Note payable to an entity controlled by shareholders, officers and directors of the Company, unsecured, non-interest bearing with no fixed repayment terms. (2010 - Cdn $28,167; 2009 - Cdn $28,167)	26,993	26,683
	1,562,604	2,360,181

Interest expense on the promissory note payable to related parties for the three and six months period ended May 31, 2010 is $22,976 and $47,335 (three and six months period ended June 30, 2009 - $16,649 and $29,799) and has been included in the consolidated statement of operations.

(i) As a result of the transactions, as described in Note 1, effective October 22, 2009, the promissory note dated September 10, 2004 issued by IPC Corp. to Dr. Isa Odidi and Dr. Amina Odidi (the "Promissory Note") was amended to provide that the principal amount thereof shall be payable when payment is required solely out of (i) revenues earned by IPC Corp following the effective date, and/or proceeds received by any IPC Company from any offering of its securities following the effective date and/or amounts received by IPC Corp for the scientific research tax credits received after the effective date for research expenses of IPC Corp incurred before the effective date and (ii) up to $800,000 from the Net Cash (as defined in the IPC Arrangement Agreement). During the six months ended May 31, 2010 Cdn $800,000 (US $755,760) and an interest payment of Cdn $110,452 (US $104,943) of the shareholder note was repaid by the Company in accordance with the terms of the IPC Arrangement Agreement.

7. Employee costs payable

As at May 31, 2010, the Company had $472,619 (November 30, 2009 - $462,986) in unpaid salary payable to Dr. Isa Odidi and Dr. Amina Odidi, principal stockholders, directors and executive officers of the Company and $53,657 (November 30, 2009 - $38,128) for other amounts payable to certain employees.

8. Capital stock

Authorized, issued and outstanding

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 May 31, 2010 and November 30, 2009, the Company has 10,907,057 common shares issued and outstanding and no preference shares issued and outstanding.

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

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

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

The Company was able to negotiate certain reduced stock issuance costs in connection with becoming a publicly traded company in 2009. The estimate used in preparation of the year end financial statements was higher than the amount eventually paid during the second quarter of fiscal 2010, which resulted in an adjustment of $54,454 in the statement of shareholders' equity (deficiency) for the three month period ended February 28, 2010. In addition as described in Note 9 the Company issued an additional 32,722 broker options related to this transaction. The fair value of these stock options using the Black-Scholes options pricing model was less than the estimated fair value of these stock options recorded in the 2009 year end financial statements which resulted in a further adjustment of $13,874 for the three and six months ended May 31, 2010. This adjustment has been recorded as a credit to additional paid in capital.

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

9. 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 1,090,706 based on the number of issued and outstanding common shares as at May 31, 2010. As at May 31, 2010, 134,691 options are outstanding under the employee stock option plan. Each option granted allows the holder to purchase one common share at an exercise price not less than the closing price of the Company's common shares on the Toronto Stock Exchange on the last trading day prior to the grant of the option. Options granted under these plans generally have a maximum term of 10 years and generally vest over a period of up to three years. As at May 31, 2010, there were 1.0 million options available for grant under the Employee Stock Option Plan.

(Stated in U.S. dollars)

9. Options (continued)

In August 2004, the Board of Directors of IPC Ltd approved a grant of 2,763,940 stock options, to two executives who were also the principal shareholders of IPC Ltd. The vesting of these options is contingent upon the achievement of certain performance milestones. These options were still outstanding as at May 31, 2010 and will expire in 2014.

In addition to the Employee Stock Option Plan, in connection with the October 2009 transaction IPC Ltd issued 87,256 broker options to purchase common shares of IPC that were still outstanding as at May 31, 2010.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, consistent with the provisions of Accounting Standards Codification topic ASC 718, formerly SFAS No. 123(R) and SAB No. 107.

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

The weighted average value of employee stock options and broker options granted in 2010 and the value of broker options granted in 2009 was estimated using the following assumptions.

	2010	2009
Volatility	90.4%	142.3%
Risk-free interest rate	2.5%	1.5%
Expected life (in years)	3.47	1
Dividend yield	-	-
The weighted average grant date fair value per options granted	$ 1.15	$ 1.85

(Stated in U.S. dollars)

9. Options (continued)

Details of stock option transactions are as follows:

	Number of options	Weighted average exercise price per per share	Weighted average grant date fair value
		$	$
Outstanding, beginning of period, November 30, 2009	2,939,188	6.48	3.46
Expired	(9,687)	30.38	19.80
Outstanding at February 28, 2010	2,929,501	6.40	3.40
Granted	92,722	3.84	1.15
Expired	(3,614)	360.50	337.46
Outstanding, end of period, May 31, 2010	3,018,609	5.90	3.06
Options exercisable, end of period	759,957	12.70	7.39

As of May 31, 2010, the exercise prices, weighted average remaining contractual life of outstanding options and weighted average grant date fair values were as follows:

	Options outstanding				Options exercisable		
Exercise price	Number outstanding	Weighted average exercise price per share	Weighted average remaining contract life (years)	Weighted average grant date fair value	Number exercisable	Weighted average exercise price per share	Weighted average grant date fair value
$		$		$		$	$
Under 10.00	2,969,484	3.71	4.2	1.60	710,832	3.99	1.59
10.00-100.00	39,230	37.59	6.8	29.49	39,230	37.59	29.49
300.00-500.00	5,177	361.41	4.6	235.72	5,177	361.41	235.72
500.00-1,000.00	4,619	720.77	2.6	442.23	4,619	720.77	442.23
1,000.00-1,500.00	99	1,149.13	1.6	709.18	99	1,149.13	709.18
	3,018,609	5.90	4.2		759,957	12.70	

9. Options (continued)

Total unrecognized compensation cost relating to the unvested performance based stock options at May 31, 2010 is approximately $3,099,600 (November 30, 2009 - $3,542,400). Of the total performance based stock options granted to date May 31, 2010, 2,763,940 stock options will vest upon the achievement of certain performance conditions. During the year ended December 31, 2007, a performance condition was met as the U.S. Food and Drug Administration accepted ("FDA") an Abbreviated New Drug Application ("ANDA") for a certain drug, resulting in the vesting of 276,394 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 December 31, 2007. The Company determined that it was probable as at December 31, 2008 that the Company will meet the performance criteria related to an additional 276,394 stock options. Accordingly, the Company recorded an additional stock based compensation expense of $442,800 related to these options. During the three months ended May 31, 2010, the Company had a second ANDA filing accepted by the FDA. The Company determined that it is probable as at May 31, 2010 that the Company will meet the performance criteria related to another 276,394 performance stock options, accordingly the Company recorded an additional stock-based compensation expense of $442,800. As at May 31, 2010, 1,934,759 performance-based stock options remain unvested. No other compensation cost has been recognized for the remaining unvested performance-based options. On a pro forma basis, if all performance conditions are achieved prior to the expiry of the term of these options in 2014, a stock-based compensation expense of approximately $3,099,600 will be recognized.

No options were exercised in the three and six month period ended May 31, 2010 and in the three and six month period ended June 30, 2009.

During the three and six months ended May 31, 2010 the Company granted 60,000 stock options to employees. In addition, during the three month period May 31, 2010 the Company issued 32,722 broker options to purchase common shares of IPC, in connection with the October 2009 transaction. No options were granted during the three and six months ended June 30, 2009.

The Company's total stock based compensation for the three and six month period ended May 31, 2010 was $443,116 and $448,354 respectively. The Company recorded no stock-based compensation for the three and six month ended June 30, 2009. The Company recorded stock-based compensation of $2,907 in selling, general and administration and $445,447 in research and development expense for the six month period ended May 31, 2010.

10. Deferred share units

Effective May 28, 2010, the Company shareholders approved a Deferred Share Unit ("DSU") Plan to grant DSUs to its non-management directors and reserved a maximum of 110,000 common shares for issuance under the plan. The DSU plan permits certain non-management directors to defer receipt of all or a portion of their board fees until termination of 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. No DSUs have been issued under the plan.

11. Restricted share units

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

(Stated in U.S. dollars)

12. Warrants

The following table provides information on the 357,237 warrants outstanding and exercisable as of May 31, 2010:

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

Details of warrant transactions are as follows:

	May 31, 2010
Outstanding in beginning of period	376,699
Expired	(19,462)
	357,237

The fair value of the warrants outstanding at May 31, 2010 using the Black-Scholes options pricing model was estimated to be $97,655 (November 30, 2009 - $226,268) and was estimated using the following assumptions:

Warrants outstanding	Dividend	Volatility	Risk free rate	Expected life
		%	%	
113,962	-	141.8	1.62	1.5 yrs
243,275	-	136.2	1.62	2.0 yrs

13. Income taxes

The Company has had no taxable income under the Federal and Provincial tax laws of Canada for the six months ended May 31, 2010 and June 30, 2009. The Company has non-capital loss carry-forwards at May 31, 2010 totaling $9,010,300 in Canada and $91,784 in United States federal income tax losses that must be offset against future taxable income. If not utilized, the loss carry-forwards will expire between 2014 - 2030. As a result of FIN 48, “Accounting for Uncertainty in Income Taxes”, there was no material impact on the Company’s financial statements.

For the months ended May 31, 2010, the Company has a cumulative carry-forward pool of SR&ED expenditures in the amount of $4,768,202 Federal, which can be carried forward indefinitely.

At May 31, 2010 the Company had approximately $495,380 of Ontario harmonization credits, which will expire on the November 30, 2015 taxation year. These credits are subject to a full valuation allowance as they do not meet the more likely than not test.

For the months ended May 31, 2010, the Company had approximately $384,543 (2009 - $156,138) of unclaimed Canadian investment tax credits (ITCs) which expire from 2024 to 2029.

These losses and credits are subject to a full valuation allowance as they do not meet the more likely than not test.

14. Contingencies

From time to time, the Company may be exposed to claims and legal actions in the normal course of business, some of which may be initiated by the Company. As at May 31, 2010, there were no pending litigation or threatened claim outstanding other than the one described in the following paragraph.

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

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

The Company's obligations under the Indemnity Agreement relating to the Tax Pools (as defined in the Indemnity Agreement) are limited to an aggregate of Cdn$1,455,000 with a threshold amount of Cdn$50,000 before there is an obligation to make a compensation payment.

Subsequent to May 31, 2010, Wyeth LLC, a wholly owned subsidiary of Pfizer Inc., filed suit for patent infringement against the Company in the United States District Court for the District of Delaware and for the Southern District of New York, relating to Intellipharmaceutics' generic version of Effexor XR® (venlafaxine hydrochloride extended release) capsules. Lawsuits such as these are an ordinary and expected part of the process of obtaining approval to commercialize a generic drug product in the United States. The Company remains confident that Intellipharmaceutics' generic versions of Effexor XR® do not infringe those patents. Intellipharmaceutics intends to vigorously defend against the complaints described above.

15. Financial instruments

(a) Fair values

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

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

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

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

Level 3 inputs are unobservable inputs for asset or liabilities.

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

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

(Stated in U.S. dollars)

15. Financial instruments (continued)

(a) Fair values (continued)

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

The fair values of amounts due to related parties are not determinable due to the nature of the amounts.

(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 the investment due to the short term nature of the investments.

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:

	May 31, 2010	November 30, 2009
	$	$
Total accounts receivable	2,659	5,427
Less allowance for doubtful accounts	-	-
Total accounts receivable, net	2,659	5,427
Not past due	527	521
Past due for more than 31 days but no more than 60 days	554	3,589
Past due for more than 61 days but no more than 90 days	541	-
Past due for more than 91 days but no more than 120 days	1,037	-
Past due for more than 120 days	-	1,317
Less allowance for doubtful accounts	-	-
Total accounts receivable, net	2,659	5,427

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.

15. Financial instruments (continued)

(c) Foreign exchange risk

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

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

		May 31, 2010
	USD total	Canadian
FX rates used to translate to USD		1.0435
	$	$
Assets		
Cash	3,737,720	3,900,311
Accounts receivable	-	-
Investment tax credits	1,135,525	1,184,920
Liabilities		
Accounts payable	381,806	398,415
Accrued liabilities	214,992	224,344
Employee cost payable	53,657	55,991
Capital lease	31,234	32,593
Due to related parties	1,562,604	1,630,577

(d) Liquidity risk

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

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at May 31, 2010:

	Less than 3 months	3 to 6 months	6 to 9 months	9 months 1 year	Greater than 1 year
	$	$	$	$	$
Accounts payable	471,004	-	-	-	-
Accrued liabilities	220,181	-	-	-	-
Employee cost payable	526,276	-	-	-	-
Lease obligations	9,598	8,616	6,515	2,731	3,774
Due to related parties	1,562,604	-	-	-	-

(Stated in U.S. dollars)

16. Segmented information

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

	Three months ended		Six months ended	
	May 31, 2010	June 30, 2009	May 31, 2010	June 30, 2009
	$	$	$	$
Revenue				
Canada	-	-	-	-
United States	1,449,624	118,460	1,452,221	342,832
	1,449,624	118,460	1,452,221	342,832

	May 31, 2010	November 30, 2009
	$	$
Total assets		
Canada	6,391,276	11,081,332
Total property and equipment		
Canada	1,056,008	1,046,121

17. Major customers and concentration of credit risk

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 period ended May 31, 2010 one customer accounted for 100% of revenue of the Company and 100% of accounts receivable of the Company. In fiscal year 2009, two customers accounted for 90% and 10% of net revenue of the Company and one customer accounted for 100% of accounts receivable of November 30, 2009.

18. Deferred revenue

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

19. Subsequent events

The Company has evaluated subsequent events through the date of the release of the financial statements including the discussion in Note 14.