Condensed unaudited interim consolidated financial statements of

Intellipharmaceutics International Inc.

February 28, 2019

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Intellipharmaceutics International Inc.

Condensed unaudited interim consolidated balance sheets

As at

(Stated in U.S. dollars)

	February 28, 2019	November 30, 2018
	$	$
Assets		
Current		
Cash	2,821,669	6,641,877
Accounts receivable, net	214,979	239,063
Investment tax credits	1,043,849	998,849
Prepaid expenses, sundry and other assets	618,477	586,794
Inventory (Note 3)	219,928	251,651
	4,918,902	8,718,234
Property and equipment, net (Note 4)	2,633,618	2,755,993
	7,552,520	11,474,227
Liabilities		
Current		
Accounts payable	1,769,675	2,643,437
Accrued liabilities	875,590	353,147
Employee costs payable	214,874	222,478
Convertible debentures (Note 5)	1,498,295	1,790,358
Deferred revenue (Note 3)	300,000	300,000
	4,658,434	5,309,420
Deferred revenue (Note 3)	1,987,500	2,062,500
	6,645,934	7,371,920
Shareholders' equity		
Capital stock (Note 6)		
Authorized		
Unlimited common shares without par value		
Unlimited preference shares		
Issued and outstanding		
21,925,577 common shares (November 30, 2018 - 18,252,243)	45,281,501	44,327,952
Additional paid-in capital	44,186,052	45,110,873
Accumulated other comprehensive income	284,421	284,421
Accumulated deficit	(88,845,388)	(85,620,939)
	906,586	4,102,307
Contingencies (Note 11)		
	7,552,520	11,474,227

See accompanying notes to the condensed unaudited interim consolidated financial statements

Intellipharmaceutics International Inc.

Condensed unaudited interim consolidated statements of operations and comprehensive loss
for the three months ended February 28, 2019 and 2018
(Stated in U.S. dollars)

	2019	2018
	$	$
Revenues		
Licensing (Note 3)	264,551	252,272
Up-front fees (Note 3)	78,985	82,246
	343,536	334,518
Cost of goods sold	33,068	-
Gross Margin	310,468	334,518
Expenses		
Research and development	2,132,261	2,264,128
Selling, general and administrative	1,207,243	1,013,470
Depreciation (Note 4)	125,284	148,182
	3,464,788	3,425,780
Loss from operations	(3,154,320)	(3,091,262)
Net foreign exchange (loss) gain	(11,332)	25
Interest income	11	-
Interest expense	(58,808)	(58,351)
Net loss and comprehensive loss	(3,224,449)	(3,149,588)
Loss per common share, basic and diluted	(0.16)	(0.91)
Weighted average number of common shares outstanding, basic and diluted	20,058,207	3,470,451

See accompanying notes to the condensed unaudited interim consolidated financial statements

Intellipharmaceutics International Inc.

Condensed unaudited interim consolidated statements of shareholders' equity (deficiency)
for the three months ended February 28, 2019 and 2018

(Stated in U.S. dollars)

	Number	Capital stock amount	Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total shareholders' equity (deficiency)
		$	$	$	$	$
Balance, November 30, 2017	3,470,451	35,290,034	36,685,387	284,421	(71,873,459)	386,383
DSU's to non-management board members (Note 8)	-	-	7,565	-	-	7,565
Stock options to employees (Note 7)	-	-	31,688	-	-	31,688
Net loss	-	-	-	-	(3,149,588)	(3,149,588)
Balance, February 28, 2018	3,470,451	35,290,034	36,724,640	284,421	(75,023,047)	(2,723,952)
Balance, November 30, 2018	18,252,243	44,327,952	45,110,873	284,421	(85,620,939)	4,102,307
Stock options to employees (Note 7)	-	-	2,274	-	-	2,274
Proceeds from exercise of 2018 Pre-Funded Warrants (Note 9)	3,673,334	953,549	(927,095)	-	-	26,454
Net Loss	-	-	-	-	(3,224,449)	(3,224,449)
Balance, February 28, 2019	21,925,577	45,281,501	44,186,052	284,421	(88,845,388)	906,586

See accompanying notes to condensed unaudited interim consolidated financial statements

Intellipharmaceutics International Inc.

Condensed unaudited interim consolidated statements of cash flows
for the three months ended February 28, 2019 and 2018

(Stated in U.S. dollars)

	2019	2018
	$	$
Net loss	(3,224,449)	(3,149,588)
Items not affecting cash		
Depreciation (Note 4)	126,165	148,182
Stock-based compensation (Note 7)	2,274	31,688
Deferred share units (Note 8)	-	7,565
Accreted interest (Note 5)	7,937	15,971
Unrealized foreign exchange loss	-	13,118
Change in non-cash operating assets & liabilities		
Accounts receivable	24,084	570,213
Investment tax credits	(45,000)	(45,002)
Prepaid expenses, sundry and other assets	(31,683)	(174,740)
Inventory	31,723	(95,181)
Accounts payable, accrued liabilities and employee costs payable	(358,923)	1,164,764
Deferred revenue	(75,000)	(75,000)
Cash flows used in operating activities	(3,542,872)	(1,588,010)
Financing activities		
Repayment of 2013 Debenture (Note 5)	(300,000)	-
Proceeds from issuance of shares on exercise of 2018 Pre-Funded Warrants (Note 9)	26,454	-
Cash flows used in financing activities	(273,546)	-
Investing activity		
Purchase of property and equipment (Note 4)	(3,790)	(38,825)
Cash flows used in investing activities	(3,790)	(38,825)
Decrease in cash	(3,820,208)	(1,626,835)
Cash, beginning of period	6,641,877	1,897,061
Cash, end of period	2,821,669	270,226
Supplemental cash flow information		
Interest paid	63,836	67,860
Taxes paid	-	-

See accompanying notes to the condensed unaudited interim consolidated financial statements

1. Nature of operations

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

On October 22, 2009, IntelliPharmaCeutics Ltd. ("IPC Ltd.") and Vasogen Inc. completed a court approved plan of arrangement and merger (the "IPC Arrangement Agreement"), resulting in the formation of the Company, which is incorporated under the laws of Canada. The Company's common shares are traded on the Toronto Stock Exchange ("TSX") and the OTCQB Venture Market.

The Company earns revenue from non-refundable upfront fees, milestone payments upon achievement of specified research or development, exclusivity milestone payments and licensing and cost-plus payments on sales of resulting products. In November 2013, the U.S. Food and Drug Administration ("FDA") granted the Company final approval to market the Company's first product, the 15 mg and 30 mg strengths of the Company's generic Focalin XR® (dexmethylphenidate hydrochloride extended-release) capsules. In 2017, the FDA granted final approval for the remaining 6 (six) strengths, all of which have been launched. In May 2017, the FDA granted the Company final approval for its second commercialized product, the 50, 150, 200, 300 and 400 mg strengths of generic Seroquel XR® (quetiapine fumarate extended release) tablets, and the Company commenced shipment of all strengths that same month. In November 2018, the FDA granted the Company final approval for its venlafaxine hydrochloride extended-release capsules in the 37.5, 75, and 150 mg strengths.

Going concern

The condensed unaudited interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. The Company has incurred losses from operations since inception and has reported losses of $3,224,449 for the three months ended February 28, 2019 (three months ended February 28, 2018 - $3,149,588), and has an accumulated deficit of $88,845,388 as at February 28, 2019 (November 30, 2018 - $85,620,939). The Company has a working capital of $260,468 as at February 28, 2019 (November 30, 2018 - $3,408,814). The Company has funded its research and development ("R&D") activities principally through the issuance of securities, loans from related parties, funds from the IPC Arrangement Agreement, and funds received under development agreements. There is no certainty that such funding will be available going forward. These conditions raise substantial doubt about its ability to continue as a going concern and realize its assets and pay its liabilities as they become due.

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

The availability of equity or debt financing will be affected by, among other things, the results of the Company's R&D, its ability to obtain regulatory approvals, its success in commercializing approved products with its commercial partners and the market acceptance of its products, the state of the capital markets generally, the delisting of our shares from Nasdaq, strategic alliance agreements, and other relevant commercial considerations. In addition, if the Company raises additional funds by issuing equity securities, its then existing security holders will likely experience dilution, and the incurring of indebtedness

1. Nature of operations (continued)

Going concern (continued)

would result in increased debt service obligations and could require the Company to agree to operating and financial covenants that would restrict its operations. In the event that the Company does not obtain sufficient additional capital, it will raise substantial doubt about the Company's ability to continue as a going concern, realize its assets and pay its liabilities as they become due. The Company's cash outflows are expected to consist primarily of internal and external R&D, legal and consulting expenditures to advance its product pipeline and selling, general and administrative expenses to support its commercialization efforts. Depending upon the results of the Company's R&D programs, the impact of the litigation against the Company and the availability of financial resources, the Company could decide to accelerate, terminate, or reduce certain projects, or commence new ones. Any failure on its part to successfully commercialize approved products or raise additional funds on terms favorable to the Company or at all, may require the Company to significantly change or curtail its current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in the Company not taking advantage of business opportunities, in the termination or delay of clinical trials or the Company not taking any necessary actions required by the FDA or Health Canada for one or more of the Company's product candidates, in curtailment of the Company's product development programs designed to identify new product candidates, in the sale or assignment of rights to its technologies, products or product candidates, and/or its inability to file Abbreviated New Drug Applications ("ANDAs"), Abbreviated New Drug Submissions ("ANDSs") or New Drug Applications ("NDAs") at all or in time to competitively market its products or product candidates.

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

2. Basis of presentation

(a) Basis of consolidation

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

References in these condensed unaudited interim consolidated financial statements to share amounts, per share data, share prices, exercise prices and conversion rates have been adjusted to reflect the effect of the 1-for-10 reverse stock split (known as a share consolidation under Canadian law) (the "reverse split") which became effective on each of The Nasdaq Stock Market LLC ("Nasdaq") and TSX at the opening of the market on September 14, 2018. The term "share consolidation" is intended to refer to such reverse split and the terms "pre-consolidation" and "post-consolidation" are intended to refer to "pre-reverse split" and "post-reverse split", respectively.

In September 2018, the Company announced the reverse split. At a special meeting of the Company's shareholders held on August 15, 2018, the Company's shareholders granted the Company's Board of Directors discretionary authority to implement a share consolidation of the issued and outstanding common shares of the Company on the basis of a share consolidation ratio within a range from five (5) pre-consolidation common shares for one (1) post-consolidation common share to fifteen (15) pre-consolidation common shares for one (1) post-consolidation common share. The Board of Directors selected a share consolidation ratio of ten (10) pre-consolidation shares for one (1) post-consolidation common share. On September 12, 2018, the Company filed an amendment to the Company's articles ("Articles of Amendment") to implement the 1-for-10 reverse split. The Company's common shares began trading on each of Nasdaq and TSX on a post-split basis under the Company's existing trade symbol "IPCI" at the opening of the market on September 14, 2018. In accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), the change has been applied retroactively.

2. Basis of presentation (continued)

(a) Basis of consolidation (continued)

The condensed unaudited interim consolidated financial statements do not conform in all respects to the annual requirements of U.S. GAAP. Accordingly, these condensed unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended November 30, 2018.

These condensed unaudited interim consolidated financial statements have been prepared using the same accounting policies and methods as those used by the Company in the annual audited consolidated financial statements for the year ended November 30, 2018 except for the adoption of ASC 606 "Revenue from Contracts with Customers" ("ASC 606"), and Accounting Standards Update ("ASU") No. 2016-01, "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01), as further discussed below in Notes 3 and 12.

The condensed unaudited interim consolidated financial statements reflect all adjustments necessary for the fair presentation of the Company's financial position and results of operation for the interim periods presented. All such adjustments are normal and recurring in nature.

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

(b) Use of estimates

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

Areas where significant judgment is involved in making estimates are: the determination of the functional currency; the fair values of financial assets and liabilities; the determination of units of accounting for revenue recognition; the accrual of licensing and milestone revenue; and forecasting future cash flows for assessing the going concern assumption.

3. Significant accounting policies

(a) Revenue recognition

The Company accounts for revenue in accordance with the provisions of ASC 606. Under ASC 606, the Company recognizes revenue when the customer obtains control of promised goods or services, in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The Company recognizes revenue following the five step model prescribed under ASC 606: (i) identify contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenues when (or as) the Company satisfies the performance obligation(s). The Company earns revenue from non-refundable upfront fees, milestone payments upon achievement of specified research or development, exclusivity milestone payments and licensing payments on sales of resulting products.

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

Licensing

The Company recognizes revenue from the licensing of the Company's drug delivery technologies, products and product candidates. Under the terms of the licensing arrangements, the Company provides the customer with a right to access the Company's intellectual property with regards to the license which is granted. Revenue arising from the license of intellectual property rights is recognized over the period the Company transfers control of the intellectual property.

The Company has a license and commercialization agreement with Par Pharmaceutical Inc. ("Par"). Under the exclusive territorial license rights granted to Par, the agreement requires that Par manufacture, promote, market, sell and distribute the product. Licensing revenue amounts receivable by the Company under this agreement are calculated and reported to the Company by Par, with such

3. Significant accounting policies (continued)

(a) Revenue recognition (continued)

amounts generally based upon net product sales and net profit which include estimates for chargebacks, rebates, product returns, and other adjustments. Licensing revenue payments received by the Company from Par under this agreement are not subject to further deductions for chargebacks, rebates, product returns, and other pricing adjustments. Based on this arrangement and the guidance per ASC 606, the Company records licensing revenue over the period the Company transfers control of the intellectual property in the consolidated statements of operations and comprehensive loss.

The Company also has a license and commercial supply agreement with Mallinckrodt LLC ("Mallinckrodt") which provides Mallinckrodt an exclusive license to market, sell and distribute in the U.S. three drug product candidates for which the Company has ANDAs filed with the FDA, one of which (the Company's generic Seroquel XR®) received final approval from the FDA in 2017.

Under the terms of this agreement, the Company is responsible for the manufacture of approved products for subsequent sale by Mallinckrodt in the U.S. market. Following receipt of final FDA approval for its generic Seroquel XR®, the Company began shipment of manufactured product to Mallinckrodt. The Company records revenue once Mallinckrodt obtains control of the product and the performance obligation is satisfied.

Licensing revenue in respect of manufactured product is reported as revenue in accordance with ASC 606. Once product is sold by Mallinckrodt, the Company receives downstream licensing revenue amounts calculated and reported by Mallinckrodt, with such amounts generally based upon net product sales and net profit which includes estimates for chargebacks, rebates, product returns, and other adjustments. Such downstream licensing revenue payments received by the Company under this agreement are not subject to further deductions for chargebacks, rebates, product returns, and other pricing adjustments. Based on this agreement and the guidance per ASC 606, the Company records licensing revenue as earned on a monthly basis.

Milestones

For milestone payments that are not contingent on sales-based thresholds, the Company applies a most-likely amount approach on a contract-by-contract basis. Management makes an assessment of the amount of revenue expected to be received based on the probability of the milestone outcome. Variable consideration is included in revenue only to the extent that it is probable that the amount will not be subject to a significant reversal when the uncertainty is resolved (generally when the milestone outcome is satisfied).

Research and development

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

Deferred revenue

Deferred revenue represents the funds received from clients, for which the revenues have not yet been earned, as the milestones have not been achieved, or in the case of upfront fees for drug development, where the work remains to be completed. During the year ended November 30, 2016, the Company received an up-front payment of $3,000,000 from Mallinckrodt pursuant to the Mallinckrodt license and commercial supply agreement, and initially recorded it as deferred revenue, as it did not meet the criteria for recognition. For the three months ended February 28, 2019, the Company recognized $75,000 (three months ended February 28, 2018 - $75,000) of revenue based on a straight-line basis over the expected term of the Mallinckrodt agreement of 10 years.

As of February 28, 2019, the Company has recorded a deferred revenue balance of $2,287,500 (November 30, 2018 - $2,362,500) relating to the underlying contracts, of which $300,000 (November 30, 2018 - $300,000) is considered a current portion of deferred revenue.

3. Significant accounting policies (continued)

(b) Research and development costs

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

(c) Inventory

Inventories comprise raw materials, work in process, and finished goods, which are valued at the lower of cost or market, on a first-in, first-out basis. Cost for work in process and finished goods inventories includes materials, direct labor, and an allocation of manufacturing overhead. Market for raw materials is replacement cost, and for work in process and finished goods is net realizable value. The Company evaluates the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared with quantities on hand, the price the Company expects to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand. As of February 28, 2019, the Company had raw materials inventories of $123,875 (November 30, 2018 - $144,659), work in process of $96,053 (November 30, 2018 - $73,927) and finished goods inventory of $Nil (November 30, 2018 - $33,065) relating to the Company's generic Seroquel XR® product. The recoverability of the cost of any pre-launch inventories with a limited shelf life is evaluated based on the specific facts and circumstances surrounding the timing of the anticipated product launch.

(d) Translation of foreign currencies

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

The functional and reporting currency of the Company and its subsidiaries is the U.S. dollar.

(e) Convertible debentures

In fiscal year 2013, the Company issued an unsecured convertible debenture in the principal amount of $1,500,000 (the "2013 Debenture"). At issuance, the conversion option was bifurcated from its host contract and the fair value of the conversion option was characterized as an embedded derivative upon issuance as it met the criteria of ASC topic 815 Derivatives and Hedging. Subsequent changes in the fair value of the embedded derivative were recorded in the consolidated statements of operations and comprehensive loss. The proceeds received from the 2013 Debenture less the initial amount allocated to the embedded derivative were allocated to the liability and were accreted over the life of the 2013 Debenture using the effective rate of interest. The Company changed its functional currency effective December 1, 2013 such that the conversion option no longer met the criteria for bifurcation and was prospectively reclassified to shareholders' equity under ASC Topic 815 at the U.S. dollar translated amount at December 1, 2013.

On September 10, 2018, the Company completed a private placement financing (the "2018 Debenture Financing") of an unsecured convertible debenture in the principal amount of $500,000 (the "2018 Debenture"). At issuance, the conversion price was lower than the market share price, and the value of the beneficial conversion feature related to the 2018 Debenture was allocated to shareholders' equity.

(f) Investment tax credits

The investment tax credits ("ITC") receivable are amounts considered recoverable from the Canadian federal and provincial governments under the Scientific Research & Experimental Development ("SR&ED") incentive program. The amounts claimed under the program represent the amounts based on management estimates of eligible research and development costs incurred during the year. Realization is subject to government approval. Any adjustment to the amounts claimed will be recognized in the year in which the adjustment occurs. Refundable ITCs claimed relating to capital

3. Significant accounting policies (continued)

(f) Investment tax credits (continued)

expenditures are credited to property and equipment. Refundable ITCs claimed relating to current expenditures are netted against research and development expenditures.

(g) Recently adopted accounting pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments, which makes eight targeted changes to how cash receipts and cash payments are presented and classified in the Statement of Cash Flows. ASU 2016-15 became effective on May 1, 2018. The Company adopted ASU 2016-15 and the amendments did not have any material impact on the Company's financial position, results of operations, cash flows or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, ASC 606, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under ASC 606, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring control of goods or services to a customer. The principles in ASC 606 provide a more structured approach to measuring and recognizing revenue. As of December 1, 2018, the Company has adopted ASC 606 using the modified retrospective method and has elected to apply the standard retrospectively only to contracts that are not completed contracts at the date of initial application. The adoption of ASC 606 did not have an impact on the date of transition and did not have a material impact on the Company's condensed unaudited interim consolidated financial statements for the three months ended February 28, 2019.

In January 2016, the FASB issued ASU No. 2016-01, which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The new standard significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The Company has adopted ASU No. 2016-01 effective December 1, 2018 and the adoption did not have an impact on the date of transition or any material impact on the Company's condensed unaudited interim consolidated financial statements for the three months ended February 28, 2019.

In August 2016, the FASB issued ASU 2017-01 that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. ASU 2017-01 also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in ASC 606.1. ASU 2017-01 is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The Company adopted ASU 2017-01 effective December 1, 2018 and the amendments did not have any material impact on the Company's financial position, results of operations, cash flows or disclosures.

In May 2017, the FASB issued ASU 2017-09 in relation to Compensation —Stock Compensation (Topic 718), Modification Accounting. The amendments provide guidance on changes to the terms or conditions of a share-based payment award, which require an entity to apply modification accounting in Topic 718. The amendments are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments should be applied prospectively to an award modified on or after the adoption date. The Company adopted ASU 2017-09 effective December 1, 2018 and the amendments did not have any material impact on the Company's financial position, results of operations, cash flows or disclosures.

3. Significant accounting policies (continued)

(h) Future accounting pronouncements

In February 2016, the FASB issued new guidance, ASU No. 2016-02, Leases (Topic 842). The main difference between current U.S. GAAP and the new guidance is the recognition of lease liabilities based on the present value of remaining lease payments and corresponding lease assets for operating leases under current U.S. GAAP with limited exception. Additional qualitative and quantitative disclosures are also required by the new guidance. Topic 842 is effective for annual reporting periods (including interim reporting periods) beginning after December 15, 2018. Early adoption is permitted. The Company is in the process of evaluating the amendments to determine if they have a material impact on the Company's financial position, results of operations, cash flows or disclosures.

(Stated in U.S. dollars)

4. Property and equipment

	Computer equipment	Computer software	Furniture and fixtures	Laboratory equipment	Leasehold improvements	Laboratory equipment under capital lease	Computer equipment under capital lease	Total
	$	$	$	$	$	$	$	$
Cost								
Balance at November 30, 2017	530,750	156,059	172,498	5,286,803	1,441,452	276,300	76,458	$ 7,940,320
Additions	20,336	-	-	80,842	-	-	-	101,178
Balance at November 30, 2018	551,086	156,059	172,498	5,367,645	1,441,452	276,300	76,458	8,041,498
Additions	3,790	-	-	-	-	-	-	3,790
Balance at February 28, 2019	554,876	156,059	172,498	5,367,645	1,441,452	276,300	76,458	8,045,288
Accumulated depreciation								
Balance at November 30, 2017	286,483	131,128	119,990	2,669,232	1,192,946	198,798	74,192	4,672,769
Depreciation	77,179	12,465	10,501	413,576	82,835	15,500	680	612,736
Balance at November 30, 2018	363,662	143,593	130,491	3,082,808	1,275,781	214,298	74,872	5,285,505
Depreciation	14,114	1,558	2,100	84,463	20,711	3,100	119	126,165
Balance at February 28, 2019	377,776	145,151	132,591	3,167,271	1,296,492	217,398	74,991	5,411,670
Net book value at:								
Balance at November 30, 2018	$ 187,424	$ 12,466	$ 42,007	$ 2,284,837	$ 165,671	$ 62,002	$ 1,586	$ 2,755,993
Balance at February 28, 2019	$ 177,100	$ 10,908	$ 39,907	$ 2,200,374	$ 144,960	$ 58,902	$ 1,467	$ 2,633,618

As at February 28, 2019, there was $595,589 (November 30, 2018 - $595,589) of laboratory equipment that was not available for use and therefore, no depreciation has been recorded for such laboratory equipment. During the three months ended February 28, 2019 and 2018, the Company recorded depreciation expense within cost of goods sold in the amount of $881 and $Nil, respectively.

(Stated in U.S. dollars)

5. Due to related parties

Convertible debentures

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

	February 28, 2019	November 30, 2018
Convertible debenture payable to two directors and officers of the Company, unsecured, 12% annual interest rate, payable monthly ("2013 Debenture")	$1,050,000	$1,350,000
Convertible debenture payable to two directors and officers of the Company, unsecured, 10% annual interest rate, payable monthly ("2018 Debenture")	$448,295	$440,358
	$1,498,295	$1,790,358

On January 10, 2013, the Company completed a private placement financing of the unsecured convertible 2013 Debenture (as defined above) in the original principal amount of $1.5 million, which was originally due to mature on January 1, 2015. The 2013 Debenture bears interest at a rate of 12% per annum, payable monthly, is pre-payable at any time at the option of the Company and is convertible at any time into common shares at a con

version price of $30.00 per common share at the option of the holder.

Dr. Isa Odidi and Dr. Amina Odidi, shareholders, directors and executive officers of the Company purchased the 2013 Debenture and provided the Company with the original $1.5 million of the proceeds for the 2013 Debenture.

Effective October 1, 2014, the maturity date for the 2013 Debenture was extended to July 1, 2015. Under ASC 470-50, the change in the debt instrument was accounted for as a modification of debt. The increase in the fair value of the conversion option at the date of the modification, in the amount of $126,414, was recorded as a reduction in the carrying value of the debt instrument with a corresponding increase to Additional paid-in-capital. The carrying amount of the debt instrument was accreted over the remaining life of the 2013 Debenture using a 15% effective rate of interest.

Effective June 29, 2015, the July 1, 2015 maturity date for the 2013 Debenture was further extended to January 1, 2016. Under ASC 470-50, the change in the maturity date for the debt instrument resulted in an extinguishment of the original 2013 Debenture as the change in the fair value of the embedded conversion option was greater than 10% of the carrying amount of the 2013 Debenture. In accordance with ASC 470-50-40, the 2013 Debenture was recorded at fair value. The difference between the fair value of the convertible 2013 Debenture after the extension and the net carrying value of the 2013 Debenture prior to the extension of $114,023 was recognized as a loss on the statement of operations and comprehensive loss. The carrying amount of the debt instrument was accreted to the face amount of the 2013 Debenture over the remaining life of the 2013 Debenture using a 14.6% effective rate of interest.

Effective December 8, 2015, the January 1, 2016 maturity date for the 2013 Debenture was further extended to July 1, 2016. Under ASC 470-50, the change in the debt instrument was accounted for as a modification of debt. The increase in the fair value of the conversion option at the date of the modification, in the amount of $83,101, was recorded as a reduction in the carrying value of the debt instrument with a corresponding increase to Additional paid-in-capital. The carrying amount of the debt instrument was accreted over the remaining life of the 2013 Debenture using a 6.6% effective rate of interest.

Effective May 26, 2016, the July 1, 2016 maturity date for the 2013 Debenture was further extended to December 1, 2016. Under ASC 470-50, the change in the debt instrument was accounted for as a modification of debt. The increase in the fair value of the conversion option at the date of the modification, in the amount of $19,808, was recorded as a reduction in the carrying value of the debt instrument with a corresponding increase to Additional paid-in-capital. The carrying amount of the debt instrument was

5. Due to related parties (continued)

Convertible debentures (continued)

accreted over the remaining life of the 2013 Debenture using a 4.2% effective rate of interest.

Effective December 1, 2016, the maturity date for the 2013 Debenture was further extended to April 1, 2017 and a principal repayment of $150,000 was made at the time of the extension. Under ASC 470-50, the change in the debt instrument was accounted for as a modification of debt. The increase in the fair value of the conversion option at the date of the modification, in the amount of $106,962, was recorded as a reduction in the carrying value of the debt instrument with a corresponding increase to Additional paid-in-capital. The carrying amount of the debt instrument was accreted over the remaining life of the 2013 Debenture using a 26.3% effective rate of interest.

Effective March 28, 2017, the maturity date for the 2013 Debenture was further extended to October 1, 2017. Under ASC 470-50, the change in the debt instrument was accounted for as a modification of debt. The increase in the fair value of the conversion option at the date of the modification, in the amount of $113,607, was recorded as a reduction in the carrying value of the debt instrument with a corresponding increase to Additional paid-in-capital. The carrying amount of the debt instrument was accreted over the remaining life of the 2013 Debenture using a 15.2% effective rate of interest.

Effective September 28, 2017, the maturity date for the 2013 Debenture was further extended to October 1, 2018. Under ASC 470-50, the change in the debt instrument was accounted for as a modification of debt. The increase in the fair value of the conversion option at the date of the modification, in the amount of $53,227, was recorded as a reduction in the carrying value of the debt instrument with a corresponding increase to Additional paid-in-capital. The carrying amount of the debt instrument was accreted over the remaining life of the 2013 Debenture using a 4.9% effective rate of interest.

Effective October 1, 2018, the maturity date for the 2013 Debenture was further extended to April 1, 2019. Effective April 1, 2019, the maturity date for the 2013 Debenture was further extended to May 1, 2019.

Under ASC 470-50, the change in the debt instrument was accounted for as a modification of debt. There was no change in the fair value of the conversion option at the date of the modification. The carrying amount of the debt instrument is accreted over the remaining life of the 2013 Debenture using a nominal effective rate of interest. In December 2018, a principal repayment of $300,000 was made on the 2013 Debenture to Drs. Isa and Amina Odidi.

On September 10, 2018, the Company completed a private placement financing of the unsecured convertible 2018 Debenture (as defined above) in the principal amount of $0.5 million. The 2018 Debenture will mature on September 1, 2020. The 2018 Debenture bears interest at a rate of 10% per annum, payable monthly, is pre-payable at any time at the option of the Company and is convertible at any time into common shares of the Company at a conversion price of $3.00 per common share at the option of the holder. Dr. Isa Odidi and Dr. Amina Odidi, who are shareholders, directors and executive officers of the Company provided the Company with the $0.5 million of the proceeds for the 2018 Debenture.

At issuance, as the conversion price was lower than the market share price, the beneficial conversion feature valued at September 10, 2018 of $66,667 was allocated to Additional paid-in capital. Subsequently, the fair value of the 2018 Debenture is accreted over the remaining life of the 2018 Debenture using an effective rate of interest of 7.3%.

Accreted interest expense during the three months ended February 28, 2019 is $7,937 (three months ended February 28, 2018 - $15,971) and has been included in the condensed unaudited interim consolidated statements of operations and comprehensive loss. In addition, the coupon interest on the 2013 Debenture and 2018 Debenture (collectively, the “Debentures”) for the three months ended February 28, 2019 is $46,423 (three months ended February 28, 2018 – $39,918) and has also been included in the condensed unaudited interim consolidated statements of operations and comprehensive loss.

6. Capital stock

Authorized, issued and outstanding

(a) The Company is authorized to issue an unlimited number of common shares, all without nominal or par value and an unlimited number of preference shares. As at February 28, 2019, the Company had 21,925,577 (November 30, 2018 – 18,252,243) common shares issued and outstanding and no preference shares issued and outstanding. Two officers and directors of the Company owned directly and through their family holding company 578,131 (November 30, 2018 – 578,131) common shares or approximately 2.6% (November 30, 2018 – 3.2%) of the issued and outstanding common shares of the Company as at February 28, 2019.

(b) In November 2013, the Company entered into an equity distribution agreement with Roth Capital Partners, LLC ("Roth"), pursuant to which the Company originally could from time to time sell up to 530,548 of the Company's common shares for up to an aggregate of $16.8 million (or such lesser amount as may then be permitted under applicable exchange rules and securities laws and regulations) through at-the-market issuances on Nasdaq or otherwise. Under the equity distribution agreement, the Company was able at its discretion, from time to time, offer and sell common shares through Roth or directly to Roth for resale to the extent permitted under Rule 415 under the Securities Act of 1933, as amended, at such time and at such price as were acceptable to the Company by means of ordinary brokers' transactions on Nasdaq or otherwise at market prices prevailing at the time of sale or as determined by the Company. The Company has paid Roth a commission, or allowed a discount, of 2.75% of the gross proceeds that the Company received from any sales of common shares under the equity distribution agreement. The Company also agreed to reimburse Roth for certain expenses relating to the at-the-market offering program.

In March 2018, the Company terminated its continuous offering under the prospectus supplement dated July 18, 2017 and prospectus dated July 17, 2017 in respect of its at-the-market program.

The underwriting agreement relating to the October 2018 offering described in Note 10 restricts the Company's ability to use this equity distribution agreement. It contains a prohibition on the Company: (i) for a period of two years following the date of the underwriting agreement, from directly or indirectly in any at-the-market or continuous equity transaction, offer to sell, or otherwise dispose of shares of capital stock of the Company or any securities convertible into or exercisable or exchangeable for its shares of capital stock or (ii) for a period of five years following the closing, effecting or entering into an agreement to effect any issuance by the Company of common shares or common share equivalents involving a certain variable rate transactions under an at-the-market offering agreement, whereby the Company may issue securities at a future determined price, except that, on or after the date that is two years after the closing, the Company may enter into an at-the-market offering agreement.

(c) Direct costs related to the Company's filing of a base shelf prospectus filed in May 2014 and declared effective in June 2014, direct costs related to the base shelf prospectus filed in May 2017 and certain other on-going costs related to the at the-market facility are recorded as deferred offering costs and are being amortized and recorded as share issuance costs against share offerings.

(d) In October 2017, the Company completed a registered direct offering of 363,636 common shares at a price of $11.00 per share. The Company also issued to the investors warrants to purchase an aggregate of 181,818 common shares (the "October 2017 Warrants"). The warrants became exercisable six months following the closing date, will expire 30 months after the date they became exercisable, have a term of three years and have an exercise price of $12.50 per common share. The Company also issued to the placement agents warrants to purchase 18,181 common shares at an exercise price of $13.75 per share (the "October 2017 Placement Agent Warrants"). The holders of October 2017 Warrants and October 2017 Placement Agent Warrants are entitled to a cashless exercise under which the number of shares to be issued will be based on the number of shares for which warrants are exercised times the difference between the market price of the common share and the exercise price divided by the market price. The October 2017 Warrants and the October 2017 Placement Agent Warrants are considered to be indexed to the Company's own stock and are therefore classified as equity under ASC topic 480 Distinguishing Liabilities from Equity.

6. Capital stock (continued)

Authorized, issued and outstanding (continued)

The Company recorded $3,257,445 as the value of common shares under Capital stock and $742,555 as the value of the October 2017 Warrants under Additional paid-in-capital in the consolidated statements of shareholders' equity (deficiency). The Company has disclosed the terms used to value the warrants in Note 9.

The direct costs related to the issuance of the common shares, October 2017 Warrants and October 2017 Placement Agent Warrants were $500,492 and were recorded as an offset against the statement of shareholders' equity (deficiency) with $391,580 being recorded under Capital stock and $108,912 being recorded under Additional paid-in-capital.

(e) In March 2018, the Company completed two registered direct offerings of an aggregate of 883,333 common shares at a price of $6.00 per share. The Company also issued to the investors warrants to purchase an aggregate of 441,666 common shares (the "March 2018 Warrants"). The warrants became exercisable six months following the closing date, will expire 30 months after the date they became exercisable, and have an exercise price of $6.00 per common share. The Company also issued to the placement agents warrants to purchase 44,166 common shares at an exercise price of $7.50 per share (the "March 2018 Placement Agent Warrants"). The holders of March 2018 Warrants and March 2018 Placement Agent Warrants are entitled to a cashless exercise under which the number of shares to be issued will be based on the number of shares for which warrants are exercised times the difference between the market price of the common share and the exercise price divided by the market price. The March 2018 Warrants and March 2018 Placement Agent Warrants are considered to be indexed to the Company's own stock and are therefore classified as equity under ASC topic 480 Distinguishing Liabilities from Equity.

The Company recorded $4,184,520 as the value of common shares under Capital stock and $1,115,480 as the value of the March 2018 Warrants under Additional paid-in-capital in the consolidated statements of shareholders' equity (deficiency). The Company has disclosed the terms used to value the warrants in Note 9.

The direct costs related to the issuance of the common shares and warrants were $831,357 including the cost of warrants issued to the placement agents. These direct costs were recorded as an offset against the statement of shareholders' equity (deficiency) with $656,383 being recorded under Capital stock and $174,974 being recorded under Additional paid-in-capital.

(f) In October 2018, the Company completed an underwritten public offering in the United States, resulting in the sale to the public of 827,970 Units at $0.75 per Unit, which were comprised of one common share and one warrant (the "2018 Unit Warrants") exercisable at $0.75 per share. The Company concurrently sold an additional 1,947,261 common shares and warrants to purchase 2,608,695 common shares exercisable at $0.75 per share (the "2018 Option Warrants') pursuant to the overallotment option exercised in part by the underwriter. The price of the common shares issued in connection with exercise of the overallotment option was $0.74 per share and the price for the warrants issued in connection with the exercise of the overallotment option was $0.01 per warrant, less in each case the underwriting discount. In addition, the Company issued 16,563,335 pre-funded units ("2018 Pre-Funded Units'), each 2018 Pre-Funded Unit consisting of one pre-funded warrant (a "2018 Pre-Funded Warrant") to purchase one common share and one warrant (a "2018 Warrant", and together with the 2018 Unit Warrants and the 2018 Option Warrants, the "2018 Firm Warrants") to purchase one common share. The 2018 Pre-Funded Units were offered to the public at $0.74 each and a 2018 Pre-Funded Warrant is exercisable at $0.01 per share. Each 2018 Firm Warrant is exercisable immediately and has a term of five years and each 2018 Pre-Funded Warrant is exercisable immediately and until all 2018 Pre-Funded Warrants are exercised. The Company also issued warrants to the placement agents to purchase 1,160,314 common shares at an exercise price of $0.9375 per share (the "October 2018 Placement Agent Warrants"), which were exercisable immediately upon issuance. In aggregate, the Company issued 2,775,231 common shares, 16,563,335 2018 Pre-Funded Warrants and 20,000,000 2018 Firm Warrants in addition to 1,160,314 October 2018 Placement Agent Warrants.

6. Capital stock (continued)

Authorized, issued and outstanding (continued)

The Company raised $14,344,906 in gross proceeds as part of October 2018 underwritten public offering. The Company recorded $1,808,952 as the value of common shares under Capital stock and $279,086 as the value of the 2018 Firm Warrants and $12,256,868 as the value of the 2018 Pre-Funded Warrants under Additional paid-in-capital in the consolidated statements of shareholders' equity (deficiency). During the year ended November 30, 2018, 12,153,334 2018 Pre-Funded Warrants were exercised for proceeds of $121,553, and the Company recorded a charge of $4,262,526 from Additional paid in capital to common shares under Capital stock. During the three months ended February 28, 2019, 2,643,334 common shares were issued upon the exercise of 2018 Pre-Funded Warrants and 1,030,000 common shares were issued in respect of 2018 Pre-Funded Warrants which were exercised as of November 30, 2018 but for which common shares were not yet issued as of November 30, 2018. As of February 28, 2019, no other 2018 Firm Warrants or 2018 Pre-Funded Warrants had been exercised. The Company has disclosed the terms used to value these warrants in Note 9.

The direct costs related to the issuance of the common shares and warrants issued in October 2018 were $2,738,710 including the cost of October 2018 Placement Agent Warrants in the amount of $461,697. These direct costs were recorded as an offset against the statement of shareholders' equity (deficiency) with $345,363 being recorded under Capital stock and $2,393,347 being recorded under Additional paid-in-capital.

7. Options

All grants of options to employees after October 22, 2009 are made from the Employee Stock Option Plan (the "Employee Stock Option Plan"). The maximum number of common shares issuable under the Employee Stock Option Plan is limited to 10% of the issued and outstanding common shares of the Company from time to time, or 2,192,557 based on the number of issued and outstanding common shares as at February 28, 2019. As at February 28, 2019, 277,257 options are outstanding and there were 1,915,300 options available for grant under the Employee Stock Option Plan. Each option granted allows the holder to purchase one common share at an exercise price not less than the closing price of the Company's common shares on the TSX on the last trading day prior to the grant of the option. Options granted under these plans typically have a term of 5 years with a maximum term of 10 years and generally vest over a period of up to three years.

In August 2004, the Board of Directors of IPC Ltd. approved a grant of 276,394 performance-based stock options, to two executives who were also the principal shareholders of IPC Ltd. The vesting of these options is contingent upon the achievement of certain performance milestones. A total of 276,394 performance-based stock options have vested as of February 28, 2019. Under the terms of the original agreement these options were to expire in September 2014. Effective March 27, 2014, the Company's shareholders approved the two year extension of the performance-based stock option expiry date to September 2016. Effective April 19, 2016, the Company's shareholders approved a further two year extension of the performance-based stock option expiry date to September 2018. Effective May 15, 2018, the Company's shareholders approved a further two year extension of the performance-based stock option expiry date to September 2020. These options were outstanding as at February 28, 2019.

In the three months ended February 28, 2019, Nil (three months ended February 28, 2018 – Nil) stock options were granted.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes Option-Pricing Model, consistent with the provisions of ASC topic 718.

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

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

7. Options (continued)

The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on the historical average of the term and historical exercises 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.

Details of stock option transactions in Canadian dollars ("C$") are as follows:

	February 28, 2019			February 28, 2018		
	Number of options	Weighted average exercise price per share	Weighted average grant date fair value	Number of options	Weighted average exercise price per share	Weighted average grant date fair value
	#	$	$	#	$	$
Outstanding, beginning of period	555,651	37.70	16.69	582,811	36.90	17.20
Forfeiture	(2,000)	14.93	8.19	-	-	-
Expired	-	-	-	(15,828)	54.20	39.20
Balance at end of period	553,651	37.54	16.73	566,984	36.30	16.60
Options exercisable end of period	543,952	38.01	16.92	506,278	37.40	17.20

Total unrecognized compensation cost relating to the unvested performance-based stock options at February 28, 2019 is $Nil (February 28, 2018 - $788,887).

For the three months ended February 28, 2019 and 2018, no options were exercised.

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

	For the three months ended	
	February 28, 2019	February 28, 2018
	$	$
Research and development	3,501	11,039
Selling, general and administrative	(1,227)	20,649
	2,274	31,688

The Company has estimated its stock option forfeitures to be approximately 4% at February 28, 2019 (three months ended February 28, 2018 – 4%).

8. Deferred share units

Effective May 28, 2010, the Company's shareholders approved a Deferred Share Unit ("DSU") Plan to grant DSUs to its non-management directors and reserved a maximum of 11,000 common shares for issuance under the plan. The DSU Plan permits certain non-management directors to defer receipt of all or a portion of their board fees until termination of the board service and to receive such fees in the form of common shares at that time. A DSU is a unit equivalent in value to one common share of the Company based on the trading price of the Company's common shares on the TSX.

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

During the three months ended February 28, 2019 and 2018, no non-management board members elected to receive director fees in the form of DSUs under the Company's DSU Plan. As at February 28, 2019, 10,279 (February 28, 2018 – 10,279) DSUs are outstanding and 721 (February 28, 2018 – 721) DSUs are available for grant under the DSU Plan. The Company recorded the following amounts related

(Stated in U.S. dollars)

8. Deferred share units (continued)

to DSUs for each of the three months ended February 28, 2019 and three months ended February 28, 2018 in additional paid in capital and accrued the following amounts as at February 28, 2019 and February 28, 2018:

	For the three months ended			
	February 28, 2019		February 28, 2018	
	$	shares	$	shares
Additional paid in capital	-	-	7,565	8,660
Accrued liability	-	-	-	-

9. Warrants

All of the Company's outstanding warrants are considered to be indexed to the Company's own stock and are therefore classified as equity under ASC 480. The warrants, in specified situations, provide for certain compensation remedies to a holder if the Company fails to timely deliver the shares underlying the warrants in accordance with the warrant terms.

In the underwritten public offering completed in June 2016, gross proceeds of $5,200,000 were received through the sale of the Company's units comprised of common shares and warrants. The Company issued at the initial closing of the offering an aggregate of 322,981 common shares and warrants to purchase an additional 161,490 common shares, at a price of $16.10 per unit. The warrants are currently exercisable, have a term of five years and an exercise price of $19.30 per common share. The underwriter also purchased at such closing additional warrants (collectively with the warrants issued at the initial closing, the "June 2016 Warrants") at a purchase price of $0.01 per warrant to acquire 24,223 common shares pursuant to the overallotment option exercised in part by the underwriter. The Company subsequently sold an aggregate of 45,946 additional common shares at the public offering price of $16.10 per share in connection with subsequent partial exercises of the underwriter's overallotment option. The fair value of the June 2016 Warrants of $1,175,190 was initially estimated at closing using the Black-Scholes Option Pricing Model, using volatility of 64.1%, risk free interest rates of 0.92%, expected life of 5 years, and dividend yield of Nil. The June 2016 Warrants currently outstanding are detailed below.

In the registered direct offering completed in October 2017, gross proceeds of $4,000,000 were received through the sale of the Company's common shares and warrants. The Company issued at the closing of the offering an aggregate of 363,636 common shares at a price of $11.00 per share and warrants to purchase an additional 181,818 common shares (the "October 2017 Warrants"). The October 2017 Warrants became exercisable six months following the closing date, will expire 30 months after the date they became exercisable, and have an exercise price of $12.50 per common share. The Company also issued the October 2017 Placement Agents Warrants to purchase 18,181 common shares at an exercise price of $13.75 per share. The holders of October 2017 Warrants and October 2017 Placement Agent Warrants are entitled to a cashless exercise under which the number of shares to be issued will be based on the number of share for which warrants are exercised times the difference between the market price of the common share and the exercise price divided by the market price. The fair value of the October 2017 Warrants of $742,555 was initially estimated at closing using the Black- Scholes Option Pricing Model, using volatility of 73.67%, risk free interest rates of 1.64%, expected life of 3 years, and dividend yield of Nil.

The fair value of the October 2017 Placement Agents Warrants was estimated at $86,196 using the Black-Scholes Option Pricing Model, using volatility of 73.67%, a risk free interest rate of 1.64%, an expected life of 3 years, and a dividend yield of Nil.

The October 2017 Warrants and the October 2017 Placement Agent Warrants currently outstanding are detailed below.

In the two registered direct offerings completed in March 2018, gross proceeds of $5,300,000 were received through the sale of the Company's common shares and warrants. The Company issued at the

9. Warrants (continued)

closing of the offering an aggregate of 883,333 common shares at a price of $6.00 per share and the March 2018 Warrants to purchase an additional 441,666 common shares. The March 2018 Warrants became exercisable six months following the closing date, will expire 30 months after the date they became exercisable and have an exercise price of $6.00 per common share. The Company also issued the March 2018 Placement Agent Warrants to purchase 44,166 common shares at an exercise price of $7.50 per share. The holders of March 2018 Warrants and March 2018 Placement Agent Warrants are entitled to a cashless exercise under which the number of shares to be issued will be based on the number of share for which warrants are exercised times the difference between the market price of the common share and the exercise price divided by the market price. The fair value of the March 2018 Warrants of $1,115,480 was initially estimated at closing using the Black- Scholes Option Pricing Model, using volatility of 70%, risk free interest rates of 2.44% and 2.46%, expected life of 3 years, and dividend yield of Nil.

The fair value of the March 2018 Placement Agent Warrants was estimated at $141,284 using the Black-Scholes Option Pricing Model, using volatility of 70%, risk free interest rates of 2.44% and 2.46%, an expected life of 3 years, and a dividend yield of Nil. The March 2018 Warrants and the March 2018 Placement Agent Warrants currently outstanding are detailed below.

In October 2018, the Company completed an underwritten public offering in the United States, resulting in the sale to the public of 827,970 Units at $0.75 per Unit, which are comprised of one common share and one 2018 Unit Warrant (as defined above) exercisable at $0.75 per share. The Company concurrently sold an additional 1,947,261 common shares and 2018 Option Warrants to purchase 2,608,695 common shares exercisable at $0.75 per share pursuant to the overallotment option exercised in part by the underwriter. The price of the common shares issued in connection with exercise of the overallotment option was $0.74 per share and the price for the warrants issued in connection with the exercise of the overallotment option was $0.01 per warrant, less in each case the underwriting discount. In addition, the Company issued 16,563,335 2018 Pre-Funded Units (as defined above), each 2018 Pre-Funded Unit consisting of one 2018 Pre-Funded Warrant (as defined above) to purchase one common share and one 2018 Warrant (as defined above) to purchase one common share. The 2018 Pre-Funded Units were offered to the public at $0.74 each and a 2018 Pre-Funded Warrant is exercisable at $0.01 per share. Each 2018 Firm Warrant is exercisable immediately and has a term of five years and each 2018 Pre-Funded Warrant is exercisable immediately and until all 2018 Pre-Funded Warrants are exercised. The Company also issued the October 2018 Placement Agent Warrants to the placement agents to purchase 1,160,314 common shares at an exercise price of $0.9375 per share, which were exercisable immediately upon issuance. In aggregate, in October 2018, the Company issued 2,775,231 common shares, 16,563,335 2018 Pre-Funded Warrants and 20,000,000 2018 Firm Warrants in addition to 1,160,314 October 2018 Placement Agent Warrants.

The fair value of the 2018 Firm Warrants of $279,086 was initially estimated at closing using the Black-Scholes Option Pricing Model, using volatility of 92%, risk free interest rates of 3.02%, expected life of 5 years, and dividend yield of Nil. The fair value of the October 2018 Placement Agents Warrants was estimated at $461,697 using the Black-Scholes Option Pricing Model, using volatility of 92%, risk free interest rates of 3.02%, an expected life of 5 years, and a dividend yield of Nil.

The fair value of the 2018 Pre-Funded Warrant of $12,256,868 and the fair value of the 2018 Firm Warrants of $279,086, respectively, were recorded under Additional paid-in-capital in the consolidated statements of shareholders' equity (deficiency).

During the three months ended February 28, 2019, 2,643,334 (three months ended February 28, 2018 – Nil) 2018 Pre-Funded Warrants were exercised for proceeds of $26,454 (three months ended February 28, 2018 - $Nil), and the Company recorded a charge of $927,095 (three months ended February 28, 2018 - $Nil) from Additional paid-in-capital to common shares under Capital stock. During the three months ended February 28, 2019, 1,030,000 common shares were issued in respect of 2018 Pre-Funded Warrants which were exercised as of November 30, 2018 but for which common shares were not yet issued as of November 30, 2018.

(Stated in U.S. dollars)

9. Warrants (continued)

As at February 28, 2019, 1,766,667 2018 Pre-Funded Warrants are outstanding which are exercisable immediately at $0.01 per share. In addition, the following table provides information on the 23,890,290 warrants including 2018 Firm Warrants outstanding and exercisable as of February 28, 2019:

Warrant	Exercise price	Number outstanding	Expiry	Shares issuable upon exercise
June 2016 Warrants	$ 19.30	277,478	June 2, 2021	138,739
October 2017 Warrants	$ 12.50	181,818	October 13, 2020	181,818
October 2017 Placement Agent Warrants	$ 13.75	18,181	October 13, 2020	18,181
March 2018 Warrants	$ 6.00	291,666	March 16, 2021	291,666
March 2018 Warrants	$ 6.00	150,000	March 21, 2021	150,000
March 2018 Placement Agent Warrants	$ 7.50	29,166	March 16, 2021	29,166
March 2018 Placement Agent Warrants	$ 7.50	15,000	March 21, 2021	15,000
2018 Firm Warrants	$ 0.75	20,000,000	October 16, 2023	20,000,000
2018 Pre-Funded Warrants	$ 0.01	1,766,667	October 16, 2023	1,766,667
October 2018 Placement Agent Warrants	$ 0.9375	1,160,314	October 16, 2023	1,160,314
		23,890,290		23,751,551

During the three months ended February 28, 2019, other than 2018 Pre-Funded Warrants as noted above, there were no cash exercises in respect of warrants (three months ended February 28, 2018 – Nil) and no cashless exercise (three months ended February 28, 2018 - Nil) of warrants, resulting in the issuance of Nil (three months ended February 28, 2018 – Nil) and Nil (three months ended February 28, 2018 - Nil) common shares, respectively.

Details of warrant transactions are as follows:

	Outstanding, December 1, 2018	Issued	Expired	Exercised	Outstanding, February 28, 2019
June 2016 Warrants	277,478	-	-	-	277,478
October 2017 Warrants	181,818	-	-	-	181,818
October 2017 Placement Agent Warrants	18,181	-	-	-	18,181
March 2018 Warrants	441,666	-	-	-	441,666
March 2018 Placement Agent Warrants	44,166	-	-	-	44,166
2018 Firm Warrants	20,000,000	-	-	-	20,000,000
2018 Pre-Funded Warrants	4,410,001	-	-	(2,643,334)	1,766,667
October 2018 Placement Agent Warrants	1,160,314	-	-	-	1,160,314
	26,533,624	-	-	(2,643,334)	23,890,290

	March 2013 Warrants	July 2013 Warrants	June 2016 Warrants	October 2017 Warrants	Placement Agent Warrants	Total
Outstanding, December 1, 2017	149,174	87,000	277,872	181,818	18,181	714,045
Outstanding, February 28, 2018	149,174	87,000	277,872	181,818	18,181	714,045

10. Income taxes

The Company has had no taxable income under the Federal and Provincial tax laws of Canada for the three months ended February 28, 2019 and February 28, 2018. The Company has non-capital loss carry-forwards at February 28, 2019, totaling $47,805,175 in Canada that must be offset against future taxable income. If not utilized, the loss carry-forwards will expire between 2028 and 2038.

For the three months ended February 28, 2019, the Company had a cumulative carry-forward pool of Canadian Federal Scientific Research & Experimental Development expenditures in the amount of $18,400,000 which can be carried forward indefinitely.

For the three months ended February 28, 2019, the Company had approximately $3,500,000 of unclaimed Investment Tax Credits which expire from 2025 to 2038. These credits are subject to a full valuation allowance as they are not more likely than not to be realized.

11. Contingencies

From time to time, the Company may be exposed to claims and legal actions in the normal course of business. As at February 28, 2019, and continuing as at April 15, 2019, the Company is not aware of any pending or threatened material litigation claims against the Company, other than as described below.

In November 2016, the Company filed an NDA for its abuse-deterrent oxycodone hydrochloride extended release tablets (formerly referred to as RexistaTM) ("Oxycodone ER") product candidate, relying on the 505(b)(2) regulatory pathway, which allowed the Company to reference data from Purdue Pharma L.P.'s file for its OxyContin® extended release oxycodone hydrochloride. The Oxycodone ER application was accepted by the FDA for further review in February 2017. The Company certified to the FDA that it believed its Oxycodone ER product candidate would not infringe any of the OxyContin® patents listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the "Orange Book", or that such patents are invalid, and so notified Purdue Pharma L.P. and the other owners of the subject patents listed in the Orange Book of such certification. On April 7, 2017, the Company received notice that Purdue Pharma L.P., Purdue Pharmaceuticals L.P., The P.F. Laboratories, Inc., or collectively the Purdue parties, Rhodes Technologies, and Grünenthal GmbH, or collectively the Purdue litigation plaintiffs, had commenced patent infringement proceedings against the Company in the U.S. District Court for the District of Delaware (docket number 17-392) in respect of the Company's NDA filing for Oxycodone ER, alleging that its proposed Oxycodone ER infringes 6 out of the 16 patents associated with the branded product OxyContin®, or the OxyContin® patents, listed in the Orange Book. The complaint seeks injunctive relief as well as attorneys' fees and costs and such other and further relief as the Court may deem just and proper. An answer and counterclaim have been filed.

Subsequent to the above-noted filing of lawsuit, 4 further such patents were listed and published in the Orange Book. The Company then similarly certified to the FDA concerning such further patents. On March 16, 2018, the Company received notice that the Purdue litigation plaintiffs had commenced further such patent infringement proceedings against the Company adding the 4 further patents. This lawsuit is also in the District of Delaware federal court under docket number 18-404.

As a result of the commencement of the first of these legal proceedings, the FDA is stayed for 30 months from granting final approval to the Company's Oxycodone ER product candidate. That time period commenced on February 24, 2017, when the Purdue litigation plaintiffs received notice of the Company's certification concerning the patents, and will expire on August 24, 2019, unless the stay is earlier terminated by a final declaration of the courts that the patents are invalid, or are not infringed, or the matter is otherwise settled among the parties.

On or about June 26, 2018 the court issued an order to sever 6 overlapping patents from the second Purdue case, but ordered litigation to proceed on the 4 new (2017-issued) patents. An answer and counterclaim was filed July 9, 2018. The existence and publication of additional patents in the Orange Book, and litigation arising therefrom, is an ordinary and to be expected occurrence in the course of such litigation.

On July 6, 2018 the court issued a so-called "Markman" claim construction ruling on the first case and the October 22, 2018 trial date remained unchanged. The Company believes that it has non-infringement

11. Contingencies (continued)

and/or invalidity defenses to all of the asserted claims of the subject patents in both of the cases and will vigorously defend against these claims.

On July 24, 2018, the parties mutually agreed to and did have dismissed without prejudice the infringement claims related to the Grünenthal '060 patent. The Grünenthal '060 patent is one of the six patents included in the original litigation case, however, the dismissal does not by itself result in a termination of the 30-month litigation stay.

On October 4, 2018, the parties mutually agreed to postpone the scheduled court date pending a case status conference scheduled for December 17, 2018. At that time, further trial scheduling and other administrative matters were postponed pending the Company's resubmission of the Oxycodone ER NDA to the FDA, which was made on February 28, 2019. On January 17, 2019, the court issued a scheduling order in which the remaining major portions are scheduled. The trial is scheduled for June 2020.

On April 4, 2019, the U.S. Federal Circuit Court of Appeal affirmed the invalidity of one Purdue Oxycontin patent. This patent claimed a core matrix containing PEO and magnesium stearate, which is then heated. The invalidity ruling reduces another patent from the original litigation case. However it does not, by itself, eliminate the 30 month litigation stay in either docketed case.

In July 2017, three complaints were filed in the U.S. District Court for the Southern District of New York that were later consolidated under the caption Shanawaz v. Intellipharmaceutics Int'l Inc., et al., No. 1:17-cv-05761 (S.D.N.Y.). The lead plaintiffs filed a consolidated amended complaint on January 29, 2018. In the amended complaint, the lead plaintiffs assert claims on behalf of a putative class consisting of purchasers of the Company's securities between May 21, 2015 and July 26, 2017. The amended complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making allegedly false and misleading statements or failing to disclose certain information regarding the Company's NDA for Oxycodone ER abuse-deterrent oxycodone hydrochloride extended release tablets. The complaint seeks, among other remedies, unspecified damages, attorneys' fees and other costs, equitable and/or injunctive relief, and such other relief as the court may find just and proper.

On March 30, 2018, the Company and the other defendants filed a motion to dismiss the amended complaint for failure to state a valid claim. The defendants' motion to dismiss was granted in part, and denied in part, in an Order dated December 17, 2018. In its Order, the court dismissed certain of the plaintiffs' securities claims to the extent that the claims were based upon statements describing the Oxycodone ER product's abuse-deterrent features and its bioequivalence to OxyContin. However, the court allowed the claims to proceed to the extent plaintiffs challenged certain public statements describing the contents of the Company's Oxycodone ER NDA. Defendants filed an answer to the amended complaint on January 7, 2019. On February 5, 2019, the court held an initial pretrial conference and entered a scheduling order governing discovery and class certification. Discovery is ongoing and is likely to continue until late 2019. The Company and the other defendants intend to vigorously defend themselves against the remainder of the claims asserted in the consolidated action.

On February 21, 2019, the Company and its CEO, Dr. Isa Odidi ("Defendants"), were served with a Statement of Claim filed in the Superior Court of Justice of Ontario ("Court") for a proposed class action under the Ontario Class Proceedings Act ("Action"). The Action was brought by Victor Romita, the proposed representative plaintiff ("Plaintiff"), on behalf of a class of Canadian persons ("Class") who traded shares of the Company during the period from February 29, 2016 to July 26, 2017 ("Period"). The Statement of Claim, under the caption *Victor Romita v. Intellipharmaceutics International Inc. and Isa Odidi*, asserts that the Defendants knowingly or negligently made certain public statements during the Period that contained or omitted material facts concerning Oxycodone ER abuse-deterrent oxycodone hydrochloride extended release tablets. The Plaintiff alleges that he and the Class suffered loss and damages as a result of their trading in the Company's shares during the Period. The Plaintiff seeks, among other remedies, unspecified damages, legal fees and court and other costs as the Court may permit. On February 26, 2019, the Plaintiff delivered a Notice of Motion seeking the required approval from the Court, in accordance with procedure under the Ontario Securities Act, to allow the statutory claims under the Ontario Securities Act to proceed with respect to the claims based upon the acquisition or disposition of

11. Contingencies (continued)

the Company's shares on the Toronto Stock Exchange during the Period. No date has been set for the hearing of the Notice of Motion. No date has been set for the hearing of the certification application. The Defendants intend to vigorously defend the action and have filed a Notice of Intent to Defend.

12. Financial instruments

(a) Fair values

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

As of December 1, 2018, the Company has adopted ASU No. 2016-01, which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The new standard significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The adoption did not have an impact on the date of transition and did not have a material impact to our condensed unaudited interim consolidated financial statements for the three months ended February 28, 2019.

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

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

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

Level 3 inputs are unobservable inputs for asset or liabilities.

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

(i) The Company calculates expected volatility based on historical volatility of the Company's peer group that is publicly traded for options that have an expected life that is more than nine years (Level 2) while the Company uses its own historical volatility for options that have an expected life of nine years or less (Level 1).

(ii) The Company calculates the interest rate for the conversion option based on the Company's estimated cost of raising capital (Level 2).

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

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

(Stated in U.S. dollars)

12. Financial instruments (continued)

(a) Fair values (continued)

	February 28, 2019		November 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial Liabilities				
Convertible debentures[(i)]	1,498,295	1,512,729	1,790,358	1,795,796

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

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

(b) Interest rate and credit risk

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

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:

	February 28, 2019	November 30, 2018
	$	$
Total accounts receivable	281,828	305,912
Less allowance for doubtful accounts	(66,849)	(66,849)
Total accounts receivable, net	214,979	239,063
Not past due	214,979	239,063
Past due for more than 31 days but no more than 120 days	-	-
Past due for more than 120 days	66,849	66,849
Total accounts receivable, gross	281,828	305,912

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of uncollateralized accounts receivable. The Company's maximum exposure to credit risk is equal to the potential amount of financial assets. For the three months ended February 28, 2019 and 2018, two customers accounted for substantially all the revenue and all the accounts receivable of the Company. The Company is also exposed to credit risk at period end from the carrying value of its cash. The Company manages this risk by maintaining bank accounts with a Canadian Chartered Bank. The Company's cash is not subject to any external restrictions.

12. 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 translating certain non-U.S. dollar balance sheet accounts as these statements are presented in U.S. dollars. A strengthening U.S. dollar will lead to a foreign exchange loss while a weakening U.S. dollar will lead to a foreign exchange gain. For each Canadian dollar balance of $1.0 million, a +/- 10% movement in the Canadian currency held by the Company versus the U.S. dollar would affect the Company's loss and other comprehensive loss by $0.1 million.

(d) Liquidity risk

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

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at February 28, 2019:

	Less than 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	Greater than 1 year	Total
	$	$	$	$	$	$
Third parties						
Accounts payable	1,769,675	-	-	-	-	1,769,675
Accrued liabilities	875,590	-	-	-	-	875,590
Related parties						
Employee costs payable	214,874	-	-	-	-	214,874
Convertible debentures (Note 5)	1,073,649	12,603	12,466	12,329	525,479	1,636,526
	3,933,788	12,603	12,466	12,329	525,479	4,496,665

13. Segmented information

The Company's operations comprise a single reportable segment engaged in the research, development and manufacture of novel and generic controlled-release and targeted-release oral solid dosage drugs. As the operations comprise a single reportable segment, amounts disclosed in the financial statements for revenue, loss for the period, depreciation and total assets also represent segmented amounts. In addition, all of the Company's long-lived assets are in Canada. The Company's license and commercialization agreement with Par accounts for substantially all of the revenue of the Company.

(Stated in U.S. dollars)

13. Segmented information (continued)

	For the three months ended	
	February 28, 2019	February 28, 2018
	$	$
Revenue		
Canada	-	-
United States	343,536	334,518
	343,536	334,518

	February 28, 2019	November 30, 2018
Total assets		
Canada	7,552,520	11,474,224
Total property and equipment		
Canada	2,633,618	2,755,993

14. Subsequent events

In March 2019, the Company received formal notice that the Nasdaq Hearings Panel had determined to delist the Company's shares from Nasdaq based upon the Company's non-compliance with the $1.00 bid price requirement, as set forth in Nasdaq Listing Rule 5550(a)(2). The suspension of trading on Nasdaq took effect at the open of business on March 21, 2019.

Effective March 21, 2019 the Company's shares started trading on the OTCQB Venture Market.

In March 2019, 1,687,000 stock options were granted to management and other employees and 200,000 stock options were granted to non-management members of the Board of Directors.

On April 4, 2019, a tentative approval from TSX was received for a proposed refinancing of the 2013 Debenture subject to certain conditions being met. As a result of the proposed refinancing, the principal amount owing under the 2013 Debenture will be refinanced by a new debenture (the "New Debenture"). If issued, the New Debenture will have a principal amount of $1,050,000, and will mature on November 1, 2019, bear interest at a rate of 12% per annum and be convertible into 1,779,661 common shares of the Company at a conversion price of $0.59 per common share. Dr. Isa Odidi and Dr. Amina Odidi, who are shareholders, directors, and executive officers of the Company, will be the holders of the New Debenture.

On April 12, 2019, Mallinckrodt and the Company mutually agreed to terminate their Commercial Supply Agreement (the "Mallinckrodt agreement") effective no later than August 31, 2019. Under the terms of the mutual agreement, Mallinckrodt has been released from certain obligations under the agreement as of April 12, 2019. The Company is in discussions with other parties who are interested in marketing and distributing the Company's products which have been licensed under the Mallinckrodt agreement.