

IPICO Inc.
Unaudited Interim Consolidated Financial Statements
June 30, 2008

IPICO Inc.
Consolidated Balance Sheets (unaudited)

	June 30, 2008	December 31, 2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 9,313,508	\$ 7,914,550
Accounts receivable	2,153,069	936,727
Other receivables	193,061	129,683
Inventory	1,981,026	2,169,901
Prepaid expense	468,107	153,350
Total current assets	14,108,771	11,304,211
Capital assets	244,592	264,016
Intangibles	10,583,929	11,282,999
Goodwill	5,307,098	5,307,098
Total assets	\$ 30,244,390	\$ 28,158,324
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,935,162	\$ 1,425,407
Deferred revenue	226,293	131,678
Total current liabilities	2,161,455	1,557,085
Future tax liability	516,545	549,865
Convertible debentures	-	5,167,352
Preferred shares	5,597,426	5,459,609
Total liabilities	8,275,426	12,733,911
Shareholders' equity:		
Convertible debentures	-	435,950
Exchangeable shares of IPICO South Africa	2,595,562	2,873,910
Contributed surplus	1,882,161	944,518
Share capital (note 5)	40,891,373	29,563,352
Deficit	(23,400,132)	(18,393,317)
Total shareholders' equity	21,968,964	15,424,413
Total liabilities and shareholders' equity	\$ 30,244,390	\$ 28,158,324

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Consolidated Statement of Operations and Comprehensive Income (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenue	\$ 1,180,958	\$ 1,010,367	\$ 2,200,071	\$ 1,510,873
Cost of revenue	662,008	672,473	1,269,184	1,019,665
Gross margin	518,950	337,894	930,887	491,208
Operating expenses:				
Development	589,294	352,595	1,035,156	824,549
Sales and marketing	871,024	540,143	1,731,351	1,221,032
General and administrative	1,221,602	776,716	2,285,388	1,449,987
Foreign exchange (gain) loss	(18,593)	166,746	(3,992)	237,145
Depreciation	27,607	28,457	48,772	51,473
Amortization of intangibles	349,535	349,535	699,070	699,070
Loss on disposal of capital assets	-	-	1,215	-
Total operating expenses	3,040,469	2,214,192	5,796,960	4,483,256
Loss from operations	(2,521,519)	(1,876,298)	(4,866,073)	(3,992,048)
Interest expense - net (note 7)	23,192	275,189	174,062	516,719
Loss before the provision for income taxes	(2,544,711)	(2,151,487)	(5,040,135)	(4,508,767)
Income taxes recovered	(16,660)	(16,660)	(33,320)	(33,320)
Net loss and Comprehensive loss	\$ (2,528,051)	\$ (2,134,827)	\$ (5,006,815)	\$ (4,475,447)
Loss per Share – Basic and diluted	\$ (0.05)	\$ (0.07)	\$ (0.10)	\$ (0.17)
Weighted average shares outstanding – basic and diluted	54,346,791	29,216,411	50,247,046	26,962,162

See accompanying Notes to the Interim Consolidated Financial Statements

IPICO Inc.
Consolidated Statement of Cash Flows (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Cash provided by (used for):				
OPERATIONS				
Net Loss	\$ (2,528,051)	\$ (2,134,827)	\$ (5,006,815)	\$ (4,475,447)
Items not affecting cash				
Depreciation	27,607	28,457	48,772	51,473
Interest on preferred shares	93,695	65,947	162,174	130,367
Interest on convertible debentures	-	67,448	54,762	131,871
Loss on disposal of capital assets	-	-	1,215	-
Amortization of intangibles	349,535	349,535	699,070	699,070
Stock-based compensation	103,657	53,738	231,568	98,976
Future income tax recovery	(16,660)	(16,660)	(33,320)	(33,320)
Changes in non cash operating working capital (note 8)	(613,521)	(1,079,613)	(825,589)	(1,109,604)
Cash used for operating activities	(2,583,738)	(2,665,975)	(4,668,163)	(4,506,614)
INVESTING				
Purchase of capital assets	(12,538)	(32,927)	(30,563)	(82,977)
Net cash used for investing activities	(12,538)	(32,927)	(30,563)	(82,977)
FINANCING				
Issuance of common shares	-	3,101,045	6,037,684	3,101,045
Repayment of share purchase loan (note 6)	60,000	-	60,000	-
Net cash provided by financing activities	60,000	3,101,045	6,097,684	3,101,045
(Decrease) increase in cash	(2,536,276)	402,143	1,398,958	(1,488,546)
Cash and cash equivalents, beginning of period	11,849,784	4,268,514	7,914,550	6,159,203
Cash and cash equivalents, end of period	\$ 9,313,508	\$ 4,670,657	\$ 9,313,508	\$ 4,670,657

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Consolidated Statement of Shareholders' Equity (unaudited)

	Purchase Debentures \$	Convertible Debentures \$	Exchangeable Shares of IPICO South Africa \$	Warrants Quantity	Stock Options Quantity	Contributed Surplus \$	IPICO Common Shares Quantity		Deficit \$	Total \$
Balances at December 31, 2006	4,475,772	435,950	2,873,561	12,710,000	1,885,000	358,004	24,633,136	14,737,470	(8,311,250)	14,569,507
Adjustment to opening deficit, relating to changes in accounting policies									(745,244)	(745,244)
Balances at January 1, 2007	4,475,772	435,950	2,873,561	12,710,000	1,885,000	358,004	24,633,136	14,737,470	(9,056,494)	13,824,263
Conversion of purchase debentures into common shares	(4,475,772)						4,475,772	4,475,772		-
Stock options issued, compensation charge					385,833	45,238				45,238
Stock options forfeited					(60,834)					-
Dividends									(33,568)	(33,568)
Net Loss									(2,340,620)	(2,340,620)
Balances at March 31, 2007	-	435,950	2,873,561	12,710,000	2,209,999	403,242	29,108,908	19,213,242	(11,430,682)	11,495,313
Common shares issued							5,491,715	2,941,670		2,941,670
Service warrants issued				2,445,857		20,229				20,229
Broker warrants issued				244,586		139,146				139,146
Stock options issued, compensation charge					350,000	53,738				53,738
Stock options forfeited					(26,666)					-
Other			349				(348)	(349)		-
Net Loss									(2,134,827)	(2,134,827)
Balances at June 30, 2007	-	435,950	2,873,910	15,400,443	2,533,333	616,355	34,600,275	22,154,563	(13,565,509)	12,515,269

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Consolidated Statement of Shareholders' Equity (unaudited)

	Purchase Debtentures \$	Convertible Debtentures \$	Exchangeable Shares of IPICO South Africa \$	Warrants Quantity	Stock Options Quantity	Contributed Surplus \$	IPICO Common Shares		Deficit \$	Total \$
							Quantity	\$		
Balances at December 31, 2007	-	435,950	2,873,910	13,572,042	2,815,000	944,518	41,851,561	29,563,352	(18,393,317)	15,424,413
Stock options issued, compensation charge					725,000	127,911				127,911
Stock options forfeited					(10,000)					-
Conversion of exchangeable shares into common shares			(278,348)				278,348	278,348		-
Conversion of convertible debtentures into common shares		(435,950)					6,962,024	5,658,064		5,222,114
Common shares issued							5,212,633	4,832,256		4,832,256
Warrants issued				5,212,633		757,053				757,053
Warrants exercised				(527,500)		(30,010)	527,500	478,385		448,375
Net loss									(2,478,764)	(2,478,764)
Balances at March 31, 2008	-	-	2,595,562	18,257,175	3,530,000	1,799,472	54,832,066	40,810,405	(20,872,081)	24,333,358
Stock options issued, compensation charge					300,000	103,657				103,657
Stock options forfeited					(160,000)					-
Repayment of share purchase loan (note 6)						(20,968)		80,968		60,000
Net loss									(2,528,051)	(2,528,051)
Balances at June 30, 2008	-	-	2,595,562	18,257,175	3,670,000	1,882,161	54,832,066	40,891,373	(23,400,132)	21,968,964

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2008

1. SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. The preparation of the financial statements is based on accounting policies and practices consistent with those used in the preparation of the audited consolidated financial statement for the year ended December 31, 2007 (except for changes as described in note 2). These unaudited interim consolidated financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements and accordingly should be read together with the audited consolidated financial statements and the accompanying notes included in the Company's 2007 Annual Report.

These consolidated financial statements include the accounts of IPICO Inc. (the Company) and its subsidiaries from their respective dates of acquisition. All intercompany transactions have been eliminated.

2. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted CICA Section 3031, Inventories, which prescribes disclosure and presentation requirements. This new section limits the choices available to calculate carrying values and provides new disclosure requirements. These changes did not have a significant impact on the Company's financial position, earnings or cash flows.

Inventories of raw materials and finished goods are stated at the lower of cost and net realizable value with cost being determined by the first-in, first-out ("FIFO") method and includes direct costs of materials, labour and indirect costs (variable and fixed). Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for sale and distribution.

Impact of recently issued accounting pronouncements

In February 2008, the CICA approved Handbook Section 3064 Goodwill and Intangible Assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged. This new standard is applicable to fiscal years beginning on or after October 1, 2008. The Company is evaluating the impact of the new section on the consolidated financial statements.

3. FINANCIAL INSTRUMENTS

The Company is currently exposed to a number of risks related to its use of financial instruments including credit risk, foreign exchange risk, liquidity risk and interest rate risk.

The Company has established policies and procedures to manage these risks, with the objective of minimizing the impact on the financial condition of the Company of adverse changes related to these risks.

This note presents information about the Company's exposure to each of the above risks.

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2008

Classification of financial instruments

The Company has made the following classifications for its financial instruments:

Cash and cash equivalents	Assets held for trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Convertible debenture	Other financial liabilities
Preferred shares	Other financial liabilities

Credit risk

The Company is exposed to credit risk in its cash and cash equivalents, accounts receivable and other receivables where the counterparties do not meet their obligations. The Company minimizes the credit risk of cash and cash equivalents by depositing with only reputable financial institutions and investing in short term money market investments. The Company minimizes its credit risk related to accounts receivable and other receivables through credit review and on-going monitoring of accounts and as at June 30, 2008 four customers represented approximately 96% of the total accounts receivable. The maximum exposure to loss arising from accounts receivable is equal to the total carrying amount.

Credit risk from accounts receivable relates primarily from the potential of customers defaulting on their contractual obligations. The Company provides its services under contracts and formal purchase orders and monitors each customer's adherence to the terms and conditions of these contracts.

The Company assesses the risk of default of new customers and of current customers on an on-going basis with regular reviews of the collectability of each customer's accounts receivable including the review of the aging of accounts receivable with a focus on past due accounts. When collection is not reasonably assured the amount is written off. As at June 30, 2008, approximately 30% of accounts receivable were current with 44% in the 1 to 90 days past due and 26% over 90 days past due and approximately 13% of the over 90 days was collected in the month following the quarter end.

Foreign currency risk

The Company accounts for its foreign subsidiaries as integrated operations. The Company is funding its subsidiary operations and is exposed to foreign currency risk with the South African Rand, the United States Dollar, the Australian Dollar, the Euro and the Chinese Yuan. The Company reports in Canadian dollars and therefore is exposed to foreign exchange fluctuations in its monetary assets and liabilities, working capital and revenues and expenses. The Company does not utilize any financial instruments or cash management policies to mitigate the risks arising from changes in foreign currency rates. There is a risk to the Company's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates.

For the quarter ended June 30, 2008, the Company recorded a foreign exchange gain of \$18,593 (2007 – loss of \$166,746). For the six months ended June 30, 2008 the Company recorded a foreign exchange gain of \$3,992 (2007 – loss of \$237,145).

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2008

The Company's financial instruments could be exposed to foreign currency risk in particular geographic regions as follows:

	Canada %	United States %	South Africa %	Other %	Total %
Cash and cash equivalents	93	0	4	3	100
Accounts and other receivables	1	85	2	12	100
Accounts payable and accrued liabilities	35	7	27	31	100

A one-cent increase or decrease in the value of the Canadian dollar against the South African Rand, the United States Dollar, the Australian Dollar, the Euro and the Chinese Yuan on the foreign currency denominated assets and liabilities, assuming these amounts remain unchanged, results in an approximately \$14,000 foreign exchange gain or loss.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it has sufficient resources to meet its liabilities when due.

The Company does not have any borrowing or debt facilities and settles its financial obligations out of cash and cash equivalents. The ability to do this depends on the Company collecting its accounts receivable in a timely manner and maintaining sufficient cash on hand.

As at June 30, 2008, the Company's accounts payable and accrued liabilities were \$1,935,162 all of which fall due for payment within twelve months of the balance sheet date.

During the six months ended June 30, 2008, the Company incurred a net loss of \$5,006,815 (2007 - \$4,475,447) and used cash from operations of \$4,668,163 (2007 - \$4,506,614). To date, the Company has relied primarily upon the proceeds from private placements and public offerings of its common shares to fund its operations. The Company anticipates that, based on current plans and assumptions relating to its operations, including continued investment in the innovation and commercialization of its products and the investment in working capital to support the planned growth in revenue, it may require additional funding. This funding could include incurring debt and issuing additional equity securities, which could result in substantial dilution to existing shareholders. However, there can be no assurance that Company's plans will be successful and that additional funding will be available or, if available, that it will be available on acceptable terms.

Interest rate risk

The Company is not exposed to significant interest rate risk as its cash and cash equivalents are short term investments with maturities of less than one year and the Company's interest bearing debt instruments, which include the preferred shares, have fixed interest rates.

4. CAPITAL MANAGEMENT

The Company considers its capital to include exchangeable shares, contributed surplus and share capital, which at June 30, 2008 totaled \$45,369,096.

The Company manages its capital structure in order to ensure sufficient resources are available to meet day to day operating requirements, to allow it to enhance existing product offerings as well as develop new ones and to have the financial ability to expand the size of its operations in support of its growth strategy. In managing its capital structure, the Company takes into consideration various factors, including the conditions of the markets in which it operates, the growth of its business and related infrastructure and the upfront cost of growing its customer base.

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2008

The Company's Board of Directors takes full responsibility for managing the Company's capital and does so through quarterly board meetings, review of financial information and regular communication with officers and senior management. Methods used by the Company to manage its capital include the issuance of new share capital and related warrants which has been done through both private placements and public offerings of its common shares along with debt financing.

The Company is not subject to any externally imposed capital requirements.

5. SHARE CAPITAL

Authorized

Unlimited number of common shares, voting

Unlimited number of 5% cumulative redeemable convertible Class A preferred shares, voting, issuable with various restrictions and conditions.

Common shares

The Company has, throughout its operating history, engaged in a series of offerings of its common shares, all of which have been described in the Company's audited consolidated financial statements for the year ended December 31, 2007. Changes in the common shares since that date are described below:

On February 26, 2008 the Company completed a public offering consisting of 5,212,633 units ("Units") at a price of \$1.20 per Unit, for gross proceeds of \$6,255,160. Each Unit consisted of one common share of the Company (a "Common Share") and one common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder to purchase one Common Share of the Company at an exercise price of \$1.35 per Common Share, and each Warrant expires on February 26, 2010. The fair value of the Warrants was estimated to be \$757,053 on the date of issuance using the Black-Scholes Option Pricing Model and based upon the following assumptions: risk free rate of 3%, expected life of 24 months, expected volatility of 35% and expected dividends of nil.

The Company incurred issuance costs of \$665,851 in connection with the public offering. In accordance with the terms of the Debentures, all of the outstanding \$5,500,000 of convertible debentures were converted into 6,962,024 common shares effective immediately prior to the closing of the offering.

Warrants

The Company has the following outstanding warrants as at June 30, 2008:

	Number	Expiry Date	Exercise Price
Common share warrants issued to preferred shareholders – Class A Warrants	5,000,000	March 31, 2009	\$ 1.30
Common share warrants issued to common shareholders – Common Warrants	1,918,357	December 28, 2008	\$ 0.85
Common share warrants issued to common shareholders – Common Warrants	5,212,633	February 26, 2010	\$ 1.35
Convertible Debenture Warrants	1,650,000	December 18, 2008	\$ 1.00
Service Warrants	650,000	March 30, 2009	\$ 1.00
Common share warrants issued to common shareholders – Common Warrants	3,478,350	October 5, 2008	\$ 1.15
Compensation Warrants	347,835	October 5, 2008	\$ 1.15
Total	18,257,175		

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2008

During the quarter ended June 30, 2008 no Common Share warrants were exercised and for the six months ended June 30, 2008 there were 527,500 Common Share warrants exercised for proceeds of \$448,375.

Stock options

The Company's stock option plan is intended to encourage ownership of the Company by directors, officers and employees of the Company and its subsidiaries. The maximum number of common shares which may be set aside for issuance under the plan is 10% of the voting shares issued and outstanding. Any option granted which, for any reason, is cancelled or terminated prior to its exercise, will again become available for grant under the plan.

Options issued under the plan vest annually over a one to three year period. In accordance with the plan, the exercise price of each option is determined based on the fair value of the Company's common shares at the date of grant. Options granted under the plan may be exercised during a period not exceeding five years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, officer or employee of the Company or any of its subsidiaries, as applicable. Options issued under the plan are non-transferable. A summary of the status of the stock options issued is as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance, December 31, 2007	2,815,000	\$ 0.99
Granted	725,000	\$ 1.59
Exercised	-	-
Forfeited	(10,000)	\$ 1.00
Balance, March 31, 2008	3,530,000	\$ 1.11
Granted	300,000	1.03
Exercised	-	-
Forfeited	(160,000)	\$ 1.00
Balance, June 30, 2008	3,670,000	\$ 1.11

The following table summarizes information regarding stock options outstanding at June 30, 2008:

Range of exercise price	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average contractual life (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price
\$ 0.50 – 0.74	580,000	3.83	\$ 0.66	239,165	\$ 0.63
\$ 0.75 – 0.99	150,000	4.24	\$ 0.79	-	-
\$ 1.00 – 1.24	1,940,000	3.21	\$ 1.02	1,176,654	\$ 1.01
\$ 1.25 – 1.49	100,000	4.25	\$ 1.40	-	-
\$ 1.50 – 2.00	900,000	4.49	\$ 1.62	-	-
\$ 0.50 – 2.00	3,670,000	3.69	\$ 1.11	1,415,819	\$ 0.94

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2008

The fair value of the options issued and other stock-based compensation is estimated using the Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Company's common stock and other factors and the weighted average is 30.48 % on outstanding options. The weighted average risk-free interest rates on outstanding options is 3.94% and is based on the Government of Canada average bond yields for a period consistent with the expected life of the option in effect at the time of the grant. The expected option lives are based on the contractual lives of the options with an expected dividend yield of nil.

Total stock-based compensation expense for the quarter ended June 30, 2008 was \$103,658 (2007 - \$53,738) and for the six months ended June 30, 2008 was \$231,569 (2007- \$98,976).

Earnings per share

As a result of the losses incurred applicable to common shares, the Common Warrants, Class A Warrants, Service Warrants, Broker Warrants, Compensation Warrants and stock options have been excluded in the diluted loss per share calculation as their inclusion would have been anti-dilutive.

6. RELATED PARTY TRANSACTIONS

The Company incurred the following fees with related parties in the normal course of operations:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Legal fees to the firm of a Company director	\$ 48,044	\$ 93,999	\$ 179,960	\$ 158,623

On April 5, 2007, the Company advanced a loan in the amount of \$300,000 to a Director of the Company to complete the purchase of 600,000 common shares in a non-brokered private placement. The loan is secured by the shares purchased and is non-recourse and non-interest bearing.

The loan is repayable as follows:

- \$60,000 on April 5, 2008
- \$60,000 on April 5, 2009
- \$60,000 if on or prior to March 30, 2009 the Company has successfully raised additional capital of no less than an aggregate of \$15,000,000 at a price per share at least equivalent to \$1.50 per share of the date of completion of such raise
- \$60,000 if on or prior to March 30, 2009 the 20 day weighted average closing trading price of the Company's shares on the TSXV exceeds \$2.50 per share
- With the remainder due on December 31, 2011.

The terms of the share purchase loan were amended in the quarter to provide for the acceleration in certain events of the repayment in full of the outstanding balance of the five year term loan. In accordance with the terms of the loan \$60,000 was been repaid on April 5, 2008.

IPICO Inc.**Notes to Interim Consolidated Financial Statements (Unaudited)****For the quarter ended June 30, 2008**

7. INTEREST EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Interest expense				
– Convertible debentures	\$ -	\$ 231,997	\$ 156,021	\$ 460,967
Interest expense				
– Preferred shares	93,695	65,948	162,174	130,368
Interest income	(70,503)	(22,756)	(144,133)	(74,616)
Interest Expense	\$ 23,192	\$ 275,189	\$ 174,062	\$ 516,719

Cash interest paid during the quarter ended June 30, 2008 was nil (2007 - \$296,419) and for the six months ended June 30, 2008 was \$101,260 (2007- \$483,389)

8. CHANGES IN NON CASH OPERATING WORKING CAPITAL

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Accounts receivable	\$ (537,463)	\$ (150,401)	\$ (1,216,342)	\$ (1,003)
Other receivables	(16,621)	(21,921)	(63,378)	113,360
Due to iPico Holdings (Pty) Limited	-	-	-	5,788
Prepaid expense	(206,490)	(71,544)	(314,757)	(113,521)
Inventory	(129,364)	(504,980)	188,875	(853,123)
Accounts payable and accrued liabilities	217,584	(480,456)	485,398	(451,546)
Deferred revenue	58,833	149,689	94,615	190,441
Changes in non cash operating working capital	\$ (613,521)	\$ (1,079,613)	\$ (825,589)	\$ (1,109,604)