

IPICO Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 2008

IPICO Inc.
Consolidated Balance Sheets (unaudited)

	September 30, 2008	December 31, 2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 6,660,909	\$ 7,914,550
Accounts receivable	1,275,334	936,727
Other receivables	222,058	129,683
Inventory	2,344,099	2,169,901
Prepaid expense	308,514	153,350
Total current assets	10,810,914	11,304,211
Capital assets	220,707	264,016
Intangibles (note 3)	8,372,563	11,282,999
Goodwill (note 4)	-	5,307,098
Total assets	\$ 19,404,184	\$ 28,158,324
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,375,541	\$ 1,425,407
Deferred revenue	204,777	131,678
Total current liabilities	2,580,318	1,557,085
Future tax liability	499,885	549,865
Convertible debentures	-	5,167,352
Preferred shares	5,667,644	5,459,609
Total liabilities	8,747,847	12,733,911
Shareholders' equity:		
Convertible debentures	-	435,950
Exchangeable shares of IPICO South Africa	2,595,562	2,873,910
Contributed surplus	1,966,833	944,518
Share capital (note 8)	40,891,373	29,563,352
Deficit	(34,797,431)	(18,393,317)
Total shareholders' equity	10,656,337	15,424,413
Total liabilities and shareholders' equity	\$ 19,404,184	\$ 28,158,324

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Consolidated Statement of Operations and Comprehensive Income (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue	\$ 701,449	\$ 1,057,697	\$ 2,901,520	\$ 2,568,570
Cost of revenue	670,846	727,640	1,940,030	1,747,305
Gross margin	30,603	330,057	961,490	821,265
Operating expenses:				
Development	1,162,193	478,951	2,197,349	1,303,500
Sales and marketing	830,634	595,831	2,561,985	1,816,863
General and administrative	1,279,576	852,740	3,564,964	2,302,727
Foreign exchange (gain) loss	(18,965)	120,344	(22,957)	357,489
Depreciation	21,989	22,674	70,761	74,147
Amortization of intangibles	349,535	349,535	1,048,605	1,048,605
Accounts receivable impairment (note 12)	609,700	-	609,700	-
Impairment of goodwill (note 4)	5,307,098	-	5,307,098	-
Impairment of intangibles (note 3)	1,861,830	-	1,861,830	-
Loss on disposal of capital assets	2,679	2,719	3,894	2,719
Total operating expenses	11,406,269	2,422,794	17,203,229	6,906,050
Loss from operations	(11,375,666)	(2,092,737)	(16,241,739)	(6,084,785)
Interest expense - net (note 10)	38,293	275,587	212,355	792,306
Loss before the provision for income taxes	(11,413,959)	(2,368,324)	(16,454,094)	(6,877,091)
Income taxes recovered	(16,660)	(16,660)	(49,980)	(49,980)
Net loss and Comprehensive loss	\$(11,397,299)	\$(2,351,664)	\$(16,404,114)	\$(6,827,111)
Loss per Share – Basic and diluted	\$ (0.21)	\$ (0.07)	\$ (0.32)	\$ (0.23)
Weighted average shares outstanding – basic and diluted	54,352,066	34,000,275	51,625,374	29,333,980

See accompanying Notes to the Interim Consolidated Financial Statements

IPICO Inc.

Consolidated Statement of Cash Flows (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Cash provided by (used for):				
OPERATIONS				
Net Loss	\$ (11,397,299)	\$ (2,351,664)	\$ (16,404,114)	\$ (6,827,111)
Items not affecting cash				
Depreciation	21,989	22,674	70,761	74,147
Interest on preferred shares	87,772	67,514	249,946	197,881
Interest on convertible debentures	-	68,810	54,762	200,681
Loss on disposal of capital assets	2,679	2,719	3,894	2,719
Amortization of intangibles	349,535	349,535	1,048,605	1,048,605
Impairment of goodwill	5,307,098	-	5,307,098	-
Impairment of intangibles	1,861,830	-	1,861,830	-
Impairment of accounts receivable	609,700	-	609,700	-
Stock-based compensation	84,672	59,764	316,240	158,740
Future income tax recovery	(16,660)	(16,660)	(49,980)	(49,980)
Changes in non cash operating working capital (note 11)	436,868	(508,987)	(388,721)	(1,618,591)
Cash used for operating activities	(2,651,816)	(2,306,295)	(7,319,979)	(6,812,909)
INVESTING				
Purchase of capital assets	(783)	(9,801)	(31,346)	(92,778)
Net cash used for investing activities	(783)	(9,801)	(31,346)	(92,778)
FINANCING				
Issuance of common shares	-	-	6,037,684	3,101,045
Repayment of share purchase loan (note 9)	-	-	60,000	-
Net cash provided by financing activities	-	-	6,097,684	3,101,045
(Decrease) increase in cash	(2,652,599)	(2,316,096)	(1,253,641)	(3,804,642)
Cash and cash equivalents, beginning of period	9,313,508	4,670,657	7,914,550	6,159,203
Cash and cash equivalents, end of period	\$ 6,660,909	\$ 2,354,561	\$ 6,660,909	\$ 2,354,561

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		Deficit \$	Total \$
							Quantity	\$		
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
Warrants issued				2,690,443		159,375				159,375
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
Stock options issued, compensation charge					280,000	59,764				59,764
Stock options forfeited					(333,333)					-
Expiry of common share warrants				(5,000,000)						-
Expiry of broker warrants				(360,000)						-
Net Loss									(2,351,664)	(2,351,664)
Balances at September 30, 2007	-	435,950	2,873,910	10,040,443	2,480,000	676,119	34,600,275	22,154,563	(15,917,173)	10,223,369
Stock options issued, compensation charge					335,000	55,990				55,990
Warrants exercised				(294,586)		(142,058)	294,586	363,268		221,210
Common shares issued							6,956,700	7,045,521		7,045,521
Warrants issued				3,826,185		354,467				354,467
Net Loss									(2,476,144)	(2,476,144)
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

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 9)						(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
Stock options issued, compensation charge						84,672				84,672
Stock options forfeited					(174,168)					-
Net loss									(11,397,299)	(11,397,299)
Balances at September 30, 2008	-	-	2,595,562	18,257,175	3,495,832	1,966,833	54,832,066	40,891,373	(34,797,431)	10,656,337

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended September 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. 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 September 30, 2008, the Company's accounts payable and accrued liabilities were \$2,375,541 all of which fall due for payment within twelve months of the balance sheet date.

During the nine months ended September 30, 2008, the Company incurred a net loss of \$8,625,486 prior to the \$7,168,928 non cash impairment of goodwill and intangibles, and the \$609,700 impairment in accounts receivable (2007 - \$6,827,111) and used cash from operations of \$7,319,979 (2007 - \$6,812,909). 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.

3. INTANGIBLES

The Company's intangibles represent acquired technology (patents) and licenses. These assets are considered to have a finite useful life and are being amortized over 10 year periods on a straight-line basis.

The Company reviews long-lived assets for impairment whenever events and circumstances indicate that the carrying amount may not be recoverable. If the total of the expected undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the carrying amount over the fair value of the asset.

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended September 30, 2008

CICA Handbook Section 3063, Impairment of Long-Lived Assets, requires the Company to evaluate its long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amounts to the future estimated undiscounted cash flows expected to be derived from these assets. If these future cash flows are less than the carrying amount of the asset, then the carrying amount of the asset is written down to its fair value, based on the related estimated discounted future cash flows. During the three months ended September 30, 2008, the Company determined that the business climate had changed such that the carrying value of the Company's intangible assets may not be fully recoverable. Accordingly, the Company recorded a non-cash impairment charge of \$1,861,830 for the three and nine months ended September 30, 2008. There were no such comparable amounts for the prior periods. No other impairment related to the remaining intangible assets was evidenced.

4. GOODWILL

Goodwill represents the excess, at the date of acquisition, of the cost of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. Goodwill impairment is assessed based on a comparison of the fair value of the reporting unit (which is the Company as a whole) to the underlying carrying value of the Company's net assets, including goodwill. If the carrying value of the Company exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of the impairment loss. The second step of the impairment test involves comparing the implied fair value of the Company's goodwill with its carrying amount to measure the amount of impairment loss, if any.

Goodwill is not amortized but is subject to an annual impairment test at the Company level (operating segment or one level below an operating segment) and between annual tests if changes in circumstances indicate a potential impairment. The Company's impairment test was based on its single operating segment and reporting unit structure.

During the three months ended September 30, 2008, the Company's market capitalization decreased below the carrying value of the Company and the Company concluded this to be an indicator of goodwill impairment and, accordingly, moved to the next step in assessing impairment and determined that the fair value of the Company did not support the carrying amount of goodwill. As a result, the Company recorded a non-cash goodwill impairment charge of \$5,307,098 during the three months ended September 30, 2008. There were no such comparable amounts for the prior periods.

5. 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.

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended September 30, 2008

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.

6. 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 (refer to note 2) 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.

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 September 30, 2008 four customers represented approximately 92% 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 September 30, 2008, approximately 34% of accounts receivable were current with 51% in the 1 to 90 days past due and 15% over 90 days past due and approximately 38% of the over 90 days was collected in the month following the quarter end.

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For the quarter ended September 30, 2008

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 September 30, 2008, the Company recorded a foreign exchange gain of \$18,965 (2007 – loss of \$120,344). For the nine months ended September 30, 2008 the Company recorded a foreign exchange gain of \$22,957 (2007 – loss of \$357,489).

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	89	4	5	2	100
Accounts and other receivables	0	78	1	21	100
Accounts payable and accrued liabilities	29	10	23	38	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 \$5,000 foreign exchange gain or loss.

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.

7. CAPITAL MANAGEMENT

The Company considers its capital to include exchangeable shares, contributed surplus, preferred shares and share capital, which at September 30, 2008 totaled \$51,121,412.

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.

The Company's Board of Directors takes full responsibility for managing the Company's capital and does so through quarterly board meetings, reviews 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.

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited) For the quarter ended September 30, 2008

8. 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.

Subsequent to September 30, 2008, 286,456 exchangeable shares of IPICO South Africa were converted into 286,456 common shares of IPICO Inc.

Warrants

The Company has the following outstanding warrants as at September 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	\$ 1.30
Compensation Warrants	347,835	October 5, 2008	\$ 1.15
Total	18,257,175		

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

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Subsequent to September 30, 2008 the 3,478,350 common share warrants issued to common shareholders and 347,835 compensation warrants expired without exercise on October 5, 2008.

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
Granted	-	-
Exercised	-	-
Forfeited	(174,168)	\$ 1.34
Balance, September 30, 2008	3,495,832	\$ 1.10

The following table summarizes information regarding stock options outstanding at September 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	578,333	3.58	\$ 0.66	246,665	\$ 0.63
\$ 0.75 – 0.99	150,000	3.99	\$ 0.79	33,333	.75
\$ 1.00 – 1.24	1,867,499	2.97	\$ 1.02	1,176,654	\$ 1.01
\$ 1.25 – 1.49	100,000	4.10	\$ 1.40	-	-
\$ 1.50 – 2.00	800,000	4.24	\$ 1.62	-	-
\$ 0.50 – 2.00	3,495,832	3.43	\$ 1.10	1,456,652	\$ 0.94

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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 September 30, 2008 was \$84,672 (2007 - \$59,764) and for the nine months ended September 30, 2008 was \$316,240 (2007- \$158,740).

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.

9. RELATED PARTY TRANSACTIONS

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

	Three months ended September 30, 2008		Nine months ended September 30, 2007	
Legal fees to the firm of a Company director	\$ 68,989	\$ 43,751	\$ 248,949	\$ 202,374

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 also 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 repaid on April 5, 2008.

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited) For the quarter ended September 30, 2008

10. INTEREST EXPENSE

	Three months ended September 30, 2008		2007		Nine months ended September 30, 2008		2007	
Interest expense								
– Convertible debentures	\$	-	\$	235,166	\$	156,021	\$	696,133
Interest expense								
– Preferred shares		87,772		67,514		249,946		197,882
Interest income		(49,479)		(27,093)		(193,612)		(101,709)
Interest Expense	\$	38,293	\$	275,587	\$	212,355	\$	792,306

Cash interest paid during the quarter ended September 30, 2008 was nil (2007 - \$166,356) and for the nine months ended September 30, 2008 was \$101,260 (2007- \$517,874)

11. CHANGES IN NON CASH OPERATING WORKING CAPITAL

	Three months ended September 30, 2008		2007		Nine months ended September 30, 2008		2007	
Accounts receivable	\$	268,035	\$	(282,078)	\$	(948,307)	\$	(283,081)
Other receivables		(28,997)		7,545		(92,375)		120,905
Due to iPico Holdings (Pty) Limited		-		-		-		5,788
Prepaid expense		159,593		(10,191)		(155,164)		(123,712)
Inventory		(363,073)		(114,407)		(174,198)		(967,530)
Accounts payable and accrued liabilities		422,826		(37,499)		908,224		(489,045)
Deferred revenue		(21,516)		(72,357)		73,099		118,084
Changes in non cash operating working capital	\$	436,868	\$	(508,987)	\$	(388,721)	\$	(1,618,591)

12. SUBSEQUENT EVENTS

Subsequent to the end of the quarter the Company acquired a controlling interest in the business of Mercury Sports Group, Inc. (branded IPICO Sports), the exclusive distributor of IPICO's sports timekeeping technology. As a result of this non-cash transaction, IPICO will have a 70% interest in the IPICO Sports business. The Company continues to evaluate the allocation of the purchase price to the assets acquired and liabilities assumed. Nevertheless, as this transaction provides evidence surrounding the collectability of amounts that had been owing to the Company from past transactions with Mercury Sports Group, Inc., the Company recorded a \$609,700 non-cash impairment of its accounts receivable balance in the third quarter.

13. SEGMENTED INFORMATION

The Company has one reportable segment. The Company's operations are substantially all related to the research, design, manufacturing and sales of RFID equipment. The Company determines the geographic area of its revenues based on the location of the customer.

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue:				
Canada	\$ 76,279	\$ 34,882	\$ 233,998	\$ 95,370
United States	377,373	762,089	2,088,621	1,639,820
South Africa	42,545	39,344	105,424	245,166
Other	205,252	221,382	473,477	588,214
Revenue	\$ 701,449	\$ 1,057,697	\$ 2,901,520	\$ 2,568,570

Intangible and capital assets:

	September 30, 2008	December 31, 2007
Canada	\$ 6,733,486	\$ 14,794,522
South Africa	1,805,607	1,995,170
Other	54,177	64,421
Intangible and capital assets	\$ 8,593,270	\$ 16,854,113