

**IPICO Inc.**

**Unaudited Interim Consolidated Financial Statements**

**March 31, 2009**

**IPICO Inc.**  
**Consolidated Balance Sheets (unaudited)**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,964,032	\$ 4,371,557
Accounts receivable	1,023,304	725,968
Other receivables	75,809	126,571
Inventory	2,991,038	3,235,670
Prepaid expense	237,418	198,032
<b>Total current assets</b>	<b>7,291,601</b>	<b>8,657,798</b>
Capital assets	245,434	271,104
Intangibles	7,797,614	8,085,089
<b>Total assets</b>	<b>\$ 15,334,649</b>	<b>\$ 17,013,991</b>
<b>Liabilities and shareholders' equity:</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 1,696,430	\$ 1,411,991
Deferred revenue	486,573	480,338
<b>Total current liabilities</b>	<b>2,183,003</b>	<b>1,892,329</b>
Future tax liability	466,565	483,225
Preferred shares	5,810,733	5,739,529
<b>Total liabilities</b>	<b>8,460,301</b>	<b>8,115,083</b>
<b>Shareholders' equity:</b>		
Exchangeable shares of IPICO South Africa (note 4)	2,309,106	2,309,106
Contributed surplus	2,167,145	2,064,301
Share capital (note 4)	41,177,828	41,177,828
Deficit	(38,779,731)	(36,652,327)
<b>Total shareholders' equity</b>	<b>6,874,348</b>	<b>8,898,908</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 15,334,649</b>	<b>\$ 17,013,991</b>

Going Concern (note 1)  
See accompanying Notes to Consolidated Financial Statements

IPICO Inc.

**Consolidated Statement of Operations and Comprehensive Income (unaudited)**

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenue</b>	\$ 1,862,693	\$ 1,019,113
<b>Cost of revenue</b>	974,125	607,176
<b>Gross margin</b>	888,568	411,937
<b>Operating expenses:</b>		
Development	636,217	445,862
Sales and marketing	951,200	860,327
General and administrative	1,064,122	1,063,786
Foreign exchange (gain) loss	(15,863)	14,601
Depreciation	24,080	21,165
Amortization of intangibles	287,475	349,535
Loss on disposal of capital assets	1,590	1,215
<b>Total operating expenses</b>	2,948,821	2,756,491
<b>Loss from operations</b>	(2,060,253)	(2,344,554)
Interest expense (note 6)	83,811	150,870
<b>Loss before the provision for income taxes</b>	(2,144,064)	(2,495,424)
Income taxes recovered	(16,660)	(16,660)
<b>Net loss and Comprehensive loss</b>	\$ (2,127,404)	\$ (2,478,764)
Loss per Share – Basic and diluted	\$ (0.04)	\$ (0.05)
Weighted average shares outstanding – Basic and diluted	54,638,522	46,798,606

See accompanying Notes to Interim Consolidated Financial Statements

**IPICO Inc.**  
**Consolidated Statement of Cash Flows (unaudited)**

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash provided by (used for):</b>		
<b>OPERATIONS</b>		
Loss for the period	\$ (2,127,404)	\$ (2,478,764)
Items not affecting cash		
Depreciation	24,080	21,165
Interest on the preferred shares	71,204	68,479
Interest on convertible debentures	-	54,762
Amortization of intangibles	287,475	349,535
Stock-based compensation	102,844	127,911
Future income tax recovery	(16,660)	(16,660)
Loss on disposal of capital assets	1,590	1,215
Changes in non cash operating working capital (note 7)	249,346	(212,068)
<b>Cash used for operating activities</b>	<b>(1,407,525)</b>	<b>(2,084,425)</b>
<b>INVESTING</b>		
Purchase of capital assets	-	(18,025)
<b>Cash used for investing activities</b>	<b>-</b>	<b>(18,025)</b>
<b>FINANCING</b>		
Issuance of common shares	-	6,037,684
<b>Cash provided by financing activities</b>	<b>-</b>	<b>6,037,684</b>
Increase (decrease) in cash	(1,407,525)	3,935,234
<b>Cash and cash equivalents, beginning of period</b>	<b>4,371,557</b>	<b>7,914,550</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,964,032</b>	<b>\$ 11,849,784</b>
Supplementary cash flow information:		
Interest paid	\$ -	\$ 101,260
Income taxes paid	\$ -	\$ -

See accompanying Notes to Interim Consolidated Financial Statements

# IPICO Inc.

## Consolidated Statement of Shareholders' Equity (unaudited)

	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, 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 debentures 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
	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, 2008	-	2,309,106	10,862,633	3,426,665	2,064,301	55,118,522	41,177,828	(36,652,327)	8,898,908
Stock options issued, compensation charge				1,600,000	102,844				102,844
Stock options forfeited				(150,834)					
Expiry of common share warrants			(5,000,000)						
Expiry of service warrants			(650,000)						
Net Loss								(2,127,404)	(2,127,404)
Balances at March 31, 2009	-	2,309,106	5,212,633	4,875,831	2,167,145	55,118,522	41,177,828	(38,779,731)	6,874,348

See accompanying Notes to Interim Consolidated Financial Statements

# **IPICO Inc.**

## **Notes to Interim Consolidated Financial Statements (Unaudited)**

**For the quarter ended March 31, 2009**

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### **1. GOING CONCERN**

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due.

During the period ended March 31, 2009, the Company incurred a net loss of \$2,127,404 (2008 - \$2,478,764) and used cash from operations of \$1,407,525 (2008 - \$2,084,425). 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 it will require additional funding 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. Based upon its level of investment in these activities, the Company's current cash resources may be depleted in the next two quarters. Remedial funding could include incurring debt and/or issuing additional equity securities, which could result in substantial dilution to existing shareholders. However, there can be no assurance that the Company's plans will be successful and that additional funding will be available or, if available, that it will be available on acceptable terms.

These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional funding to support its product development programs and to grow its business to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

### **2. 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, 2008 (except for changes as described in note 3). 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 2008 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.

### **3. CHANGE IN ACCOUNTING POLICIES**

On January 1, 2009 the Company adopted the new CICA Handbook Section 3064 Goodwill and Intangible Assets. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition.

## **IPICO Inc.**

### **Notes to Interim Consolidated Financial Statements (Unaudited)**

**For the quarter ended March 31, 2009**

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Standards concerning goodwill are unchanged. The adoption of this new standard had no impact on the Company's financial statements.

In January 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581, Business Combinations. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

#### **4. SHARE CAPITAL**

##### **Authorized**

Unlimited number of common shares, voting

Unlimited number of 5% cumulative redeemable convertible Class A preferred shares, voting

During the quarter ended March 31, 2008 the Company completed a prospectus offering of 5,212,633 units for gross proceeds of \$6,255,160. In accordance with the terms of the Debentures, all of the outstanding Debentures were converted into 6,962,024 common shares effective immediately prior to the closing of this public offering. Also during the quarter 725,000 stock options were granted and 10,000 options forfeited, 527,500 warrants were exercised for gross proceeds of \$448,375 and 278,348 exchangeable shares were exchanged for 278,348 common shares.

As of May 20, 2009, the Company has 55,118,522 common shares outstanding, 5,212,633 of warrants outstanding, 2,309,106 exchangeable shares of IPICO South Africa (Pty) Ltd. and 4,875,831 stock options outstanding. The Company has reserved for issuance 2,309,106 of its Common Shares in contemplation of the exchange of any or all of the 2,309,106 Preference Shares of its subsidiary, IPICO South Africa (Pty) Ltd. Those Preference Shares are exchangeable for common shares of the Company on a one-for-one basis at the option of the holder at any time, or at the option of the Company at any time after March 30, 2011. The Company also has 5,000,000 of 5% cumulative redeemable convertible Class A preferred shares.

# IPICO Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) For the quarter ended March 31, 2009

### Warrants

The Company has the following outstanding warrants as at March 31, 2009:

	Number	Expiry Date	Exercise Price
Common share warrants issued to common shareholders – Common Warrants	5,212,633	February 26, 2010	\$ 1.35

### 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 Options	Weighted Average Exercise Price
Balance, December 31, 2008	3,426,665	\$ 1.07
Granted	1,600,000	\$ 0.15
Exercised	-	-
Forfeited	(150,834)	\$ 0.55
Balance, March 31, 2009	4,875,831	\$ 0.79

The following table summarizes information regarding stock options outstanding at March 31, 2009:

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
\$ 0.10 – 0.49	1,625,000	4.76	\$ 0.15	-	-
\$ 0.50 – 0.74	577,500	3.08	\$ 0.66	245,832	\$ 0.63
\$ 0.75 – 0.99	116,666	3.36	\$ 0.77	49,999	\$ 0.79
\$ 1.00 – 1.24	1,676,666	2.48	\$ 1.02	1,058,322	\$ 1.01
\$ 1.25 – 2.00	879,999	3.73	\$ 1.60	299,991	\$ 1.59
\$ 0.10 – 2.00	4,875,831	3.56	\$ 0.79	1,654,144	\$ 1.05

## **IPICO Inc.**

### **Notes to Interim Consolidated Financial Statements (Unaudited)**

**For the quarter ended March 31, 2009**

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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 37.1% on outstanding options. The weighted average risk-free interest rates on outstanding options is 3.18% 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 period ended March 31, 2009 was \$102,844 (2008 - \$127,911).

#### **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.

#### **5. RELATED PARTY TRANSACTIONS**

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

	Three months ended March 31,	
	2009	2008
Legal fees to the firm of a Company director	\$ 55,707	\$ 131,916

The Company has a share purchase loan outstanding in the amount of \$240,000 to a Director of the Company secured by the shares and the loan is non-recourse and non-interest bearing. The loan is repayable as follows:

- a) \$60,000 on April 5, 2010,
- b) 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.

#### **6. INTEREST EXPENSE**

	Three months ended March 31,	
	2009	2008
Interest expense – Convertible debentures	\$ -	\$ 156,021
Interest expense – Preferred shares	89,004	68,479
Interest income	(5,193)	(73,630)
Interest Expense	\$ 83,811	\$ 150,870

**IPICO Inc.****Notes to Interim Consolidated Financial Statements (Unaudited)****For the quarter ended March 31, 2009****7. CHANGES IN NON CASH OPERATING WORKING CAPITAL**

	Three months ended March 31,	
	2009	2008
Accounts receivable	\$ (297,336)	\$ (678,879)
Other receivables	50,762	(46,757)
Prepaid expense	(39,386)	(108,267)
Inventory	244,632	318,239
Accounts payable and accrued liabilities	284,439	267,814
Deferred revenue	6,235	35,782
Changes in non cash operating working capital	\$ 249,346	\$ (212,068)

**8. 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.

**Revenue:**

	Three months ended March 31,	
	2009	2008
Canada	\$ -	\$ -
United States	827,312	735,724
South Africa	13,032	28,186
Other	1,022,349	255,203
Revenue	\$ 1,862,693	\$ 1,019,113

**Intangible and capital assets:**

	March 31,	December 31,
	2009	2008
Canada	\$ 6,208,076	\$ 6,439,781
South Africa	1,680,510	1,746,652
Other	154,462	169,760
Intangible and capital assets	\$ 8,043,048	\$ 8,356,193