

**IPICO Inc.**

**Unaudited Interim Consolidated Financial Statements**

**March 31, 2010**

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,139,425	\$ 1,873,268
Accounts receivable	565,852	1,073,501
Other receivables	106,597	21,635
Inventories	1,819,075	1,893,008
Prepaid expense	149,027	178,023
<b>Total current assets</b>	<b>3,779,976</b>	<b>5,039,435</b>
Capital assets	133,059	147,709
Intangibles	6,674,627	6,952,491
<b>Total assets</b>	<b>\$ 10,587,662</b>	<b>\$ 12,139,635</b>
<b>Liabilities and shareholders' equity:</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 1,841,497	\$ 1,892,149
Deferred revenue	260,479	124,572
<b>Total current liabilities</b>	<b>2,101,976</b>	<b>2,016,721</b>
Future tax liability	399,925	416,585
Convertible debentures (note 3)	2,574,389	2,330,763
Preferred shares	6,261,801	6,168,233
<b>Total liabilities</b>	<b>11,338,091</b>	<b>10,932,302</b>
<b>Shareholders' (deficit) equity:</b>		
Convertible debentures (note 3)	625,676	625,676
Contributed surplus	3,462,564	3,405,882
Share capital (note 4)	43,486,934	43,486,934
Deficit	(48,325,603)	(46,311,159)
<b>Total shareholders' (deficit) equity</b>	<b>(750,429)</b>	<b>1,207,333</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 10,587,662</b>	<b>\$ 12,139,635</b>

Going Concern (note 1)

See accompanying Notes to Interim Consolidated Financial Statements

**IPICO Inc.**

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

	<b>Three months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenue</b>	\$ 1,231,921	\$ 1,862,693
<b>Cost of revenue</b>	836,634	974,125
<b>Gross margin</b>	395,287	888,568
<b>Operating expenses:</b>		
Development	382,978	636,217
Sales and marketing	622,741	951,200
General and administrative	717,511	1,064,122
Foreign exchange (gain) loss	76,735	(15,863)
Depreciation	10,939	24,080
Amortization of intangibles	277,864	287,475
Loss on disposal of capital assets	1,429	1,590
<b>Total operating expenses</b>	2,090,197	2,948,821
<b>Loss from operations</b>	(1,694,910)	(2,060,253)
Finance cost, net (note 6)	336,194	83,811
<b>Loss before the provision for income taxes</b>	(2,031,104)	(2,144,064)
Income taxes recovered	(16,660)	(16,660)
<b>Net loss and Comprehensive loss</b>	\$ (2,014,444)	\$ (2,127,404)
Loss per Share – Basic and diluted	\$ (0.04)	\$ (0.04)
Weighted average shares outstanding – Basic and diluted	55,091,165	54,638,522

See accompanying Notes to Interim Consolidated Financial Statements

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

	<b>Three months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash provided by (used for):</b>		
<b>OPERATIONS</b>		
Loss for the period	\$ (2,014,444)	\$ (2,127,404)
Items not affecting cash		
Depreciation	10,939	24,080
Interest on the preferred shares	93,568	89,004
Interest on convertible debentures	243,626	-
Amortization of intangibles	277,864	287,475
Stock-based compensation	56,682	102,844
Future income tax recovery	(16,660)	(16,660)
Loss on disposal of capital assets	1,429	1,590
<b>Changes in non cash operating working capital (note 7)</b>	<b>610,871</b>	<b>231,546</b>
<b>Cash used for operating activities</b>	<b>(736,125)</b>	<b>(1,407,525)</b>
<b>INVESTING</b>		
Proceeds on sale of capital assets	2,282	-
<b>Cash provided by investing activities</b>	<b>2,282</b>	<b>-</b>
Decrease in cash	(733,843)	(1,407,525)
<b>Cash and cash equivalents, beginning of period</b>	<b>1,873,268</b>	<b>4,371,557</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,139,425</b>	<b>\$ 2,964,032</b>
Supplementary cash flow information:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
Components of cash and cash equivalents:		
Cash	\$ 1,139,425	\$ 2,964,032

See accompanying Notes to Interim Consolidated Financial Statements

# IPICO Inc.

## Consolidated Statement of Shareholders' (Deficit) Equity (unaudited)

	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, 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

	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, 2009	625,676	-	19,562,633	4,649,164	3,405,882	55,571,165	43,486,934	(46,311,159)	1,207,333
Stock options issued, compensation charge				-	56,682				56,682
Stock options forfeited				(195,834)					-
Expiry of common share warrants			(5,212,633)						
Net Loss								(2,014,444)	(2,014,444)
Balances at March 31, 2010	625,676	-	14,350,000	4,453,330	3,462,564	55,571,165	43,486,934	(48,325,603)	(750,429)

See accompanying Notes to Interim Consolidated Financial Statements

# **IPICO Inc.**

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

**For the quarter ended March 31, 2010**

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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, 2010, the Company incurred a net loss of \$2,014,444 (2009 - \$2,127,404) and used cash from operations of \$736,125 (2009 - \$1,407,525). At March 31, 2010, the Company held \$1,139,425 in cash to support operations. 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 requires 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 are projected to be depleted in the next quarter. The Company is pursuing remedial funding which 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, ultimately 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, 2009. 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 2009 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. CONVERTIBLE DEBENTURES**

On September 11, 2009 the Company completed the issuance of convertible debentures for gross proceeds of \$3,500,000 with an interest rate of 12%. As a significant portion of the convertible debenture is being treated as debt, the interest is being charged to the income statement. The

## **IPICO Inc.**

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

#### **For the quarter ended March 31, 2010**

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debentures are secured, bear interest at a rate of 12% per annum, payable upon maturity or earlier repayment, mature on the second anniversary of closing, and are convertible at the option of the holder into common shares of IPICO at a price of \$0.25 per share.

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

##### **Authorized**

Unlimited number of common shares, voting

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

##### **Warrants**

The Company has the following outstanding warrants as at March 31, 2010:

	Number	Expiry Date	Exercise Price
Common share warrants issued to common shareholders – Common Warrants	14,350,000	September 11, 2011	\$ 0.25

##### **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, 2009	4,649,164	\$ 0.77
Granted	-	-
Exercised	-	-
Forfeited	(195,834)	\$ 0.88
Balance, March 31, 2010	4,453,330	\$ 0.77

# IPICO Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited) For the quarter ended March 31, 2010

The following table summarizes information regarding stock options outstanding at March 31, 2010:

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	1,616,667	3.80	\$ 0.16	1,016,668	\$ 0.15
\$ 0.50 – 0.74	492,500	2.24	\$ 0.66	328,331	\$ 0.64
\$ 0.75 – 0.99	100,000	2.25	\$ 0.75	66,666	\$ 0.75
\$ 1.00 – 1.24	1,472,500	1.52	\$ 1.03	1,372,500	\$ 1.01
\$ 1.25 – 2.00	771,663	2.74	\$ 1.61	556,659	\$ 1.60
\$ 0.10 – 2.00	4,453,330	2.65	\$ 0.77	3,340,824	\$ 0.81

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. The weighted average risk-free interest rates on outstanding options 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, 2010 was \$56,682 (2009 - \$102,844).

### 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,	
	2010	2009
Legal fees to the firm of a Company director	\$ 31,415	\$ 55,707

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. In accordance with the CICA Emerging Issues Committee – EIC 132 “*Share Purchase Financing*”, the loan receivable has been classified as an offset to the related share capital purchase and accounted for as stock based compensation. The loan is repayable as follows:

- \$60,000 on June 30, 2010,
- 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.

**IPICO Inc.****Notes to Interim Consolidated Financial Statements (Unaudited)****For the quarter ended March 31, 2010****6. FINANCE COST - NET**

	Three months ended March 31,	
	2010	2009
Interest expense – Convertible debentures	\$ 243,626	\$ -
Interest expense – Preferred shares	93,568	89,004
Interest income	(1,000)	(5,193)
Finance cost - Net	\$ 336,194	\$ 83,811

**7. CHANGES IN NON CASH OPERATING WORKING CAPITAL**

	Three months ended March 31,	
	2010	2009
Accounts receivable	\$ 507,649	\$ (297,336)
Other receivables	(84,962)	50,762
Prepaid expense	28,996	(39,386)
Inventories	73,933	244,632
Accounts payable and accrued liabilities	(50,652)	266,639
Deferred revenue	135,907	6,235
Changes in non cash operating working capital	\$ 610,871	\$ 231,546

**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,	
	2010	2009
Canada	\$ 36,601	\$ -
United States	567,508	827,312
South Africa	30,483	13,032
Asia Pacific	148,431	303,340
Europe	393,035	571,619
Other	56,863	147,389
Revenue	\$ 1,231,921	\$ 1,862,693

**IPICO Inc.****Notes to Interim Consolidated Financial Statements (Unaudited)****For the quarter ended March 31, 2010**

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**Intangible and capital assets:**

	March 31, 2010	December 31, 2009
Canada	\$ 5,310,482	\$ 5,532,252
South Africa	1,429,678	1,495,057
Other	67,526	72,891
<b>Intangible and capital assets</b>	<b>\$ 6,807,686</b>	<b>\$ 7,100,200</b>

**9. COMPARATIVE NUMBERS**

Certain numbers have been reclassified to comply with current presentation.