

IPICO Inc.

Unaudited Interim Consolidated Financial Statements

June 30, 2010

IPICO Inc.
Consolidated Balance Sheets (unaudited)

	June 30, 2010	December 31, 2009
Assets:		
Current assets:		
Cash and cash equivalents	\$ 889,939	\$ 1,873,268
Accounts receivable	500,475	1,073,501
Other receivables	138,353	21,635
Inventories	1,401,691	1,893,008
Prepaid expense and deferred charges	314,047	178,023
Total current assets	3,244,505	5,039,435
Capital assets	121,042	147,709
Intangibles	6,396,763	6,952,491
Total assets	\$ 9,762,310	\$ 12,139,635
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,839,063	\$ 1,892,149
Loan Payable (note 3)	500,000	-
Deferred revenue	166,251	124,572
Total current liabilities	2,505,314	2,016,721
Future tax liability	383,265	416,585
Convertible debentures (note 3)	2,833,501	2,330,763
Preferred shares	6,356,729	6,168,233
Total liabilities	12,078,809	10,932,302
Shareholders' (deficit) equity:		
Convertible debentures (note 3)	625,676	625,676
Contributed surplus	3,516,842	3,405,882
Share capital (note 4)	43,486,934	43,486,934
Deficit	(49,945,951)	(46,311,159)
Total shareholders' (deficit) equity	(2,316,499)	1,207,333
Total liabilities and shareholders' (deficit) equity	\$ 9,762,310	\$ 12,139,635

Going Concern (note 1)

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,	
	2010	2009	2010	2009
Revenue	\$ 1,270,976	\$ 1,806,018	\$ 2,502,897	\$ 3,668,711
Cost of revenue	766,568	1,322,705	1,603,202	2,296,830
Gross margin	504,408	483,313	899,695	1,371,881
Operating expenses:				
Development	167,932	715,796	550,910	1,352,013
Sales and marketing	656,289	831,398	1,279,030	1,782,598
General and administrative	669,075	1,248,358	1,386,586	2,312,480
Foreign exchange loss	9,558	43,542	86,293	27,679
Depreciation	9,281	21,540	20,220	45,620
Amortization of intangibles	277,864	287,475	555,728	574,950
Loss on disposal of capital assets	2,736	-	4,165	1,590
Total operating expenses	1,792,735	3,148,109	3,882,932	6,096,930
Loss from operations	(1,288,327)	(2,664,796)	(2,983,237)	(4,725,049)
Finance cost - net (note 6)	348,681	89,662	684,875	173,473
Loss before the provision for income taxes	(1,637,008)	(2,754,458)	(3,668,112)	(4,898,522)
Future income taxes recovered	(16,660)	(16,660)	(33,320)	(33,320)
Net loss and Comprehensive loss	\$ (1,620,348)	\$ (2,737,798)	\$ (3,634,792)	\$ (4,865,202)
Loss per share – Basic and Diluted	\$ (0.03)	\$ (0.05)	\$ (0.07)	\$ (0.09)
Weighted average shares outstanding – Basic and Diluted	55,091,165	54,792,719	55,091,165	54,716,046

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Consolidated Interim Statement of Cash Flows (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Cash provided by (used for):				
OPERATIONS				
Net Loss	\$(1,620,348)	\$(2,737,798)	\$(3,634,792)	\$(4,865,202)
Items not affecting cash				
Depreciation	9,281	21,540	20,220	45,620
Interest on preferred shares	94,928	72,893	188,496	144,097
Interest on convertible debentures	259,112	-	502,738	-
Amortization of intangibles	277,864	287,475	555,728	574,950
Stock-based compensation - Options	54,278	96,372	110,960	199,216
Stock-based compensation - Trust	-	313,960	-	313,960
Future income tax recovery	(16,660)	(16,660)	(33,320)	(33,320)
Loss on disposal of capital assets	2,736	-	4,165	1,590
Changes in non cash operating working capital (note 7)	189,323	390,056	800,194	639,402
Cash used for operating activities	(749,486)	(1,572,162)	(1,485,611)	(2,979,687)
INVESTING				
Proceeds on disposal of capital assets	-	-	2,282	-
Net cash provided by investing activities	-	-	2,282	-
FINANCING				
Short term loan proceeds	500,000	-	500,000	-
Net cash provided by financing activities	500,000	-	500,000	-
Decrease in cash	(249,486)	(1,572,162)	(983,329)	(2,979,687)
Cash and cash equivalents, beginning of period	1,139,425	2,964,032	1,873,268	4,371,557
Cash and cash equivalents, end of period	\$ 889,939	\$ 1,391,870	\$ 889,939	\$ 1,391,870
Supplementary cash flow information:				
Interest paid	\$ -	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -	\$ -

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2010

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 six months ended June 30, 2010, the Company incurred a net loss of \$3,634,792 (2009 - \$4,865,202) and used cash from operations of \$1,485,611 (2009 - \$2,979,687). To date, the Company has relied primarily upon the proceeds from private placements and public offerings of its common shares to fund its operations. At June 30, 2010, the Company held \$889,939 in cash to support operations. The Company 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.

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.

On June 30, 2010, the Company announced its intention to issue on a non-brokered private placement basis convertible secured debentures and warrants (the "Offering") for gross proceeds of up to \$2,500,000. The Offering is conditional on the final approval of the TSX Venture Exchange and shareholder approval at a special meeting of shareholders to be called for this purpose. Conditional approval of the Offering by the TSX Venture Exchange has been obtained. The Company anticipates closing on or about September 30, 2010, subject to those approvals and satisfaction of other customary conditions, including execution of subscription agreements and other documentation. The proceeds of the Offering may be made available in tranches, as required, subject to certain conditions. The net proceeds of the Offering will be used for general corporate purposes. The Company's largest shareholder, Brookfield Technology Fund ("BTF"), has indicated its intention to purchase the Offering in tranches totaling \$2,000,000, subject to certain conditions. Up to an additional \$500,000 of the Offering will be offered to the holders of the outstanding Series B debentures of the Company. In order to meet its immediate cash needs pending shareholder approval of the Offering, the Company arranged with BTF an interim bridge loan of \$1,000,000 of secured convertible Series C debentures as described above, without warrants, of which \$500,000 Series C debentures were issued under the interim loan as at June 30, 2010 and the remaining \$500,000 subsequent to the end of the quarter. Should the required approvals not be obtained, the amounts received under the interim loan become immediately due and payable. There can be no assurance that this transaction will close as anticipated.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional funding including closing the transaction described above 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.

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Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2010

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 June 30, 2010, the Company announced its intention to issue on a non-brokered private placement basis convertible secured debentures and warrants (the "Offering") for gross proceeds of up to \$2,500,000. The Offering is conditional on the final approval of the TSX Venture Exchange and shareholder approval at a special meeting of shareholders to be called for this purpose. Conditional approval of the Offering by the TSX Venture Exchange has been obtained. The Company anticipates closing on or about September 30, 2010, subject to those approvals and satisfaction of other customary conditions, including execution of subscription agreements and other documentation. The proceeds of the Offering may be made available in tranches, as required, subject to certain conditions. The net proceeds of the Offering will be used for general corporate purposes.

The debentures will be designated as Series C debentures, will mature on the second anniversary of issue and will be convertible at the option of the holder into common shares of the Company at a conversion price of \$0.10 per share. The debentures will bear interest at a rate of 12% per annum, payable upon maturity or earlier repayment. The debentures will be secured by a general security interest over all of the assets and undertaking of the Company and will rank in priority to the outstanding Series B debentures of the Company. Each purchaser of Series C debentures will receive on issue 10,000 common share warrants for each \$1,000 debenture purchased. Each warrant will entitle the holder to purchase one common share of the Company for a period of 24 months at a price of \$0.10 per share.

The Company's largest shareholder, Brookfield Technology Fund ("BTF"), has indicated its intention to purchase the Offering in tranches totaling \$2,000,000, subject to certain conditions. Up to an additional \$500,000 of the Offering will be offered to the holders of the outstanding Series B debentures of the Company.

BTF's purchase of the Offering is subject to the prior approval of the holders of the Company's outstanding Series B debentures. That consent has been obtained, subject to the reduction of the conversion price of the Series B debentures from \$0.25 to equal the \$0.10 conversion price applicable to the Series C debentures, the extension of the term of the Series B debentures to correspond to the maturity date of the Series C debentures, the reduction of the exercise price of the 14,000,000 warrants held by the Series B debenture holders from \$0.25 to equal the \$0.10 conversion price applicable to the Series C debentures and the extension of the term of those

IPICO Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

For the quarter ended June 30, 2010

warrants to the same date. All changes to the terms of those securities are subject to shareholder approval.

It is a further condition to BTF's purchase of the Offering that the conversion price of the Company's Class A Preferred Shares also be reduced to equal the \$0.10 price applicable to the Series C debentures, the outstanding Series B debentures and the 14,000,000 outstanding warrants. In consideration of that change BTF has agreed to certain other changes to the rights attaching to the Class A Preferred Shares in favour of the Company and its common shareholders. All changes to the terms of the Class A Preferred Shares are subject to shareholder approval.

BTF holds at the date hereof approximately 3,164,557 common shares and 5,000,000 Class A Preferred shares convertible into common shares of the Company. Assuming the purchase and conversion by BTF of Series C debentures totaling \$2,000,000, the issue of a total of \$2,500,000 Series C debentures and the conversion of all outstanding convertible securities of the Company upon the terms thereof, BTF would hold approximately 47% of the issued common shares of the Company on a fully diluted basis.

In order to meet its immediate cash needs pending shareholder approval of the Offering, the Company arranged with BTF an interim bridge loan by way of up to \$1,000,000 of secured convertible Series C debentures as described above, without warrants and issued \$500,000 Series C debentures under the interim loan on June 30, 2010. This interim loan is subject to the final approval of the TSX Venture Exchange, but is not conditional upon the changes to the other securities described above in connection with the Offering and accordingly is not subject to shareholder approval. Conditional approval of the interim loan by the TSX Venture Exchange has been obtained. The interim loan is subject to the unconditional approval of the holders of the Company's outstanding Series B debentures, which consent has been obtained. The balance of the interim loan may be made available, as required, subject to certain conditions. It is intended that the interim loan will be repaid from the net proceeds of the Offering. If the Offering is not approved by the Company's shareholders at the special meeting called for that purpose, the interim loan will become immediately repayable.

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 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.

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Notes to Interim Consolidated Financial Statements (Unaudited) For the quarter ended June 30, 2010

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 June 30, 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
Granted	-	\$ -
Exercised	-	-
Forfeited	(382,497)	\$ 0.90
Balance, June 30, 2010	4,070,833	\$ 0.75

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Notes to Interim Consolidated Financial Statements (Unaudited) For the quarter ended June 30, 2010

The following table summarizes information regarding stock options outstanding at June 30, 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	1,500,000	3.55	\$ 0.16	950,001	\$ 0.16
\$ 0.50 – 0.74	488,333	1.99	\$ 0.66	454,999	\$ 0.65
\$ 0.75 – 0.99	100,000	2.00	\$ 0.75	66,666	\$ 0.75
\$ 1.00 – 1.24	1,337,500	1.31	\$ 1.03	1,287,500	\$ 1.02
\$ 1.25 – 2.00	645,000	2.51	\$ 1.64	429,996	\$ 1.64
\$ 0.10 – 2.00	4,070,833	2.42	\$ 0.75	3,189,162	\$ 0.79

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 three month period ended June 30, 2010 was \$54,278 (2009 - \$96,372).

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 June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Legal fees to the firm of a Company director	\$ 132,435	\$ 71,636	\$ 163,850	\$ 127,343

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 September 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 June 30, 2010****6. FINANCE COST – NET**

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Interest expense				
– Convertible debentures	\$ 259,111	\$ -	\$ 502,738	\$ -
Interest expense				
– Preferred shares	94,928	91,117	188,496	180,121
Interest income	(5,358)	(1,455)	(6,359)	(6,648)
Finance cost - Net	\$ 348,681	\$ 89,662	\$ 684,875	\$ 173,473

7. CHANGES IN NON CASH OPERATING WORKING CAPITAL

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Accounts receivable	\$ 65,377	\$ 10,343	\$ 573,026	\$ (286,993)
Other receivables	(31,756)	(27,359)	(116,718)	23,403
Prepaid expense and deferred charges	(165,020)	28,693	(136,024)	(10,693)
Inventory	417,384	(103,033)	491,317	141,599
Accounts payable and accrued liabilities	(2,434)	618,014	(53,086)	902,453
Deferred revenue	(94,228)	(136,602)	41,679	(130,367)
Changes in non cash operating working capital	\$ 189,323	\$ 390,056	\$ 800,194	\$ 639,402

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 June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Canada	\$ 33,222	\$ 159	\$ 69,823	\$ 159
United States	566,630	570,588	1,134,138	1,397,900
South Africa	36,983	28,160	67,466	41,192
Asia Pacific	260,290	605,002	408,721	908,342
Europe	254,504	426,863	647,539	998,482
Other	119,347	175,246	175,210	322,636
Revenue	\$ 1,270,976	\$ 1,806,018	\$ 2,502,897	\$ 3,668,711

IPICO Inc.**Notes to Interim Consolidated Financial Statements (Unaudited)****For the quarter ended June 30, 2010**

Intangible and capital assets:

	June 30, 2010	December 31, 2009
Canada	\$ 5,088,805	\$ 5,532,252
South Africa	1,366,380	1,495,057
Other	62,620	72,891
Intangible and capital assets	\$ 6,517,805	\$ 7,100,200

9. COMPARATIVE NUMBERS

Certain numbers have been reclassified to comply with current presentation.