

IPICO Inc.

Unaudited Interim Consolidated Financial Statements

September 30, 2009

IPICO Inc.
Consolidated Interim Balance Sheets (unaudited)

	September 30, 2009	December 31, 2008
Assets:		
Current assets:		
Cash and cash equivalents	\$ 3,169,441	\$ 4,371,557
Accounts receivable	954,112	725,968
Other receivables	103,158	126,571
Inventory	2,305,102	3,235,670
Prepaid expense	311,056	198,032
Total current assets	6,842,869	8,657,798
Capital assets	205,550	271,104
Intangibles	7,230,352	8,085,089
Total assets	\$ 14,278,771	\$ 17,013,991
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,928,469	\$ 1,411,991
Deferred revenue	110,867	480,338
Total current liabilities	2,039,336	1,892,329
Future tax liability	433,245	483,225
Convertible debenture (Note 4)	2,078,050	-
Preferred shares	5,959,016	5,739,529
Total liabilities	10,509,647	8,115,083
Shareholders' equity:		
Convertible debenture (Note 4)	625,676	-
Exchangeable shares of IPICO South Africa (note 5)	-	2,309,106
Contributed surplus	3,328,652	2,064,301
Share capital (note 5)	43,486,934	41,177,828
Deficit	(43,672,138)	(36,652,327)
Total shareholders' equity	3,769,124	8,898,908
Total liabilities and shareholders' equity	\$ 14,278,771	\$ 17,013,991

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

IPICO Inc.

Consolidated Interim Statement of Operations and Comprehensive Income (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenue	\$ 2,003,253	\$ 701,449	\$ 5,671,964	\$ 2,901,520
Cost of revenue	1,407,295	670,846	3,704,125	1,940,030
Gross margin	595,958	30,603	1,967,839	961,490
Operating expenses:				
Development	376,784	1,162,193	1,728,797	2,197,349
Sales and marketing	754,773	830,634	2,537,371	2,561,985
General and administrative	842,521	1,279,576	3,155,001	3,564,964
Foreign exchange (gain) loss	100,551	(18,965)	128,230	(22,957)
Depreciation	18,344	21,989	63,964	70,761
Amortization of intangibles	279,787	349,535	854,737	1,048,605
Accounts receivable impairment	-	609,700	-	609,700
Impairment of goodwill	-	5,307,098	-	5,307,098
Impairment of intangibles	-	1,861,830	-	1,861,830
Loss on disposal of capital assets	-	2,679	1,590	3,894
Total operating expenses	2,372,760	11,406,269	8,469,690	17,203,229
Loss from operations	(1,776,802)	(11,375,666)	(6,501,851)	(16,241,739)
Finance cost - net (note 7)	394,467	38,293	567,940	212,355
Loss before the provision for income taxes	(2,171,269)	(11,413,959)	(7,069,791)	(16,454,094)
Future income taxes recovered	(16,660)	(16,660)	(49,980)	(49,980)
Net loss and Comprehensive loss	\$ (2,154,609)	\$ (11,397,299)	\$ (7,019,811)	\$ (16,404,114)
Loss per share – Basic and Diluted	\$ (0.04)	\$ (0.21)	\$ (0.13)	\$ (0.32)
Weighted average shares outstanding – Basic and Diluted	55,091,165	54,352,066	54,842,460	51,625,374

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Consolidated Interim Statement of Cash Flows (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash provided by (used for):				
OPERATIONS				
Net Loss	\$(2,154,609)	\$(11,397,299)	\$(7,019,811)	\$(16,404,114)
Items not affecting cash				
Depreciation	18,344	21,989	63,964	70,761
Interest on preferred shares	75,390	87,772	219,487	249,946
Interest on convertible debentures	26,131	-	26,131	54,762
Amortization of intangibles	279,787	349,535	854,737	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	109,858	84,672	309,074	316,240
Stock-based compensation - Trust	-	-	313,960	-
Future income tax recovery	(16,660)	(16,660)	(49,980)	(49,980)
Loss on disposal of capital assets	-	2,679	1,590	3,894
Changes in non cash operating working capital (note 8)	120,418	436,868	759,820	(388,721)
Cash used for operating activities	(1,541,341)	(2,651,816)	(4,521,028)	(7,319,979)
INVESTING				
Purchase of capital assets	-	(783)	-	(31,346)
Net cash used for investing activities	-	(783)	-	(31,346)
FINANCING				
Issuance of common shares	-	-	-	6,037,684
Issuance of convertible debentures	3,500,000	-	3,500,000	-
Cost incurred to issue convertible debentures	(181,088)	-	(181,088)	-
Repayment of share purchase loan (note 6)	-	-	-	60,000
Net cash provided by financing activities	3,318,912	-	3,318,912	6,097,684
Increase (decrease) in cash	1,777,571	(2,652,599)	(1,202,116)	(1,253,641)
Cash and cash equivalents, beginning of period	1,391,870	9,313,508	4,371,557	7,914,550
Cash and cash equivalents, end of period	\$ 3,169,441	\$6,660,909	\$ 3,169,441	\$ 6,660,909
Supplementary cash flow information:				
Interest paid	\$ -	\$ -	\$ -	\$ 101,260
Income taxes paid	\$ -	\$ -	\$ -	\$ -

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Consolidated Interim 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
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
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.

Consolidated Interim 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, 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
Stock options issued, compensation charge				150,000	96,372				96,372
Stock options forfeited				(109,165)					-
Stock based compensation charge (note 5)					313,960				313,960
Shares returned to treasury (note 5)						(1,856,463)			-
Conversion of exchangeable shares into common shares (note 5)		(2,309,106)				2,309,106	2,309,106		-
Net Loss								(2,737,798)	(2,737,798)
Balances at June 30, 2009	-	-	5,212,633	4,916,666	2,577,477	55,571,165	43,486,934	(41,517,529)	4,546,882
Stock options issued, compensation charge					109,858				109,858
Stock options forfeited				(245,833)					-
Convertible debentures warrants issued (note 4)			14,350,000		641,317				641,317
Conversion option on the convertible debenture (note 4)	625,676								625,676
Net Loss								(2,154,609)	(2,154,609)
Balances at September 30, 2009	625,676	-	19,562,633	4,670,833	3,328,652	55,571,165	43,486,934	(43,672,138)	3,769,124

See accompanying Notes to Interim Consolidated Financial Statements

IPICO Inc.

Notes to Consolidated Interim Financial Statements (Unaudited)

For the quarter ended September 30, 2009

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 nine months ended September 30, 2009, the Company incurred a net loss of \$7,019,811 and used cash from operations of \$4,521,028. 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 may 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. During the quarter, the Company entered into a definitive agreement with CATS LUHAI (Beijing) Investment Co., Ltd. to complete a non-brokered \$10 million private placement of common shares of IPICO at the price of \$0.25 per share subject to shareholder approval and other customary closing conditions. The Company also completed a non-brokered private placement of convertible secured debentures for gross proceeds of \$3,500,000 as bridge funding pending completion of the private placement. 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 which had no impact). 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. The Company has elected to account for transaction costs related to the issuance of debt instruments as a charge to the statement of operations in the period in which they arise.

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.

IPICO Inc.

Notes to Consolidated Interim Financial Statements (Unaudited)

For the quarter ended September 30, 2009

3. CHANGE IN ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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. 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 for 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 standard. 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. CONVERTIBLE DEBENTURES

On September 11, 2009, the Company completed a non-brokered private placement of convertible secured debentures (the "Debentures") for gross proceeds of \$3,500,000. Each purchaser of debentures received on closing a commitment fee of 6% together with four warrants for each dollar of principal purchased. The debentures are secured by a general security agreement over assets, 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. Each warrant entitles the holder to purchase one common share of IPICO for a period of 24 months from closing at a price of \$0.25 per share. In addition, a further 350,000 common share warrants with the same terms were issued to the sole holder of the Class A Preferred Shares of IPICO in consideration of certain concessions granted in support of the placement. The Company incurred Debenture issuance costs of \$437,688 of which \$256,600 has been expensed in the quarter as per company policy. All of the securities issued in connection with the placement are restricted from resale for a period of four months and one day from closing. The debentures include various clauses which restrict the activities of the Company in some cases. Accordingly, management has included the debentures as part of its managed capital, and will adjust its management of capital process to reflect these restrictions.

As the convertible debentures include features of both debt and equity, the Company allocated the total proceeds from the convertible debentures (less a portion of the issuance costs) based upon the relative fair values of each component of the convertible debenture. The fair value of the debt was estimated by discounting the cash flows due under the convertible debenture by the fair value interest rate for a similar debt instrument without the conversion feature. Having recognized the debt initially at fair value, it is subsequently measured at amortized cost using the effective interest rate method. Interest is recorded as finance cost in the income statement. The Company valued the conversion option and the warrants issued with this convertible debenture on the date of issuance

IPICO Inc.

Notes to Consolidated Interim Financial Statements (Unaudited)

For the quarter ended September 30, 2009

using the Black-Scholes Option Pricing Model and based upon the following assumptions: risk free rate of 1.2%, expected life of 24 months, expected volatility of 66% and expected dividends of nil. The amount allocated to the conversion option is \$625,676 net of issuance costs and the amount allocated to the warrants is \$641,317 net of issuance costs.

5. SHARE CAPITAL

Authorized

Unlimited number of common shares, voting

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

Prior to June 30, 2009, the common shares issued included 3,249,000 common shares held by a trust set up by the Company to provide incentives to key employees. During the quarter ended June 30, 2009, 1,207,537 shares were released from the trust and the Company recorded a stock based compensation expense in the amount of \$313,960 (2008 - \$0) in accordance with CICA Handbook Section 3870 – Stock Based Compensation and Other-Stock-Based Payments, while 1,856,463 were forfeited, returned to treasury and cancelled. The remaining 185,000 common shares remain in the trust and will not be voted until they are allocated and transferred to the employees. During the quarter ended June 30, 2009 all of the remaining 2,309,106 of exchangeable shares were exchanged for 2,309,106 common shares of the Company.

During the quarter ended September 30, 2009, the Company released two shareholders of the Company from any obligation to surrender to the Company for cancellation 1,248,750 common shares each pursuant to the terms of an agreement which predated the listing of the shares of the Corporation on the TSX Venture Exchange and the shareholders agreed to a standstill on trading of these shares until December 31, 2009. Also, during the quarter the Company adopted a Shareholder Rights Plan designed to ensure that all shareholders receive equal treatment and to maximize shareholder value in the event of a take-over bid or other acquisition that could lead to the change in control of the Company. The Shareholder Rights Plan was ratified by the shareholders and will continue in effect until the earlier of the termination time, as defined in the Shareholder Rights Plan, or the date upon which the annual meeting of the shareholders of the Company terminates in 2012.

Warrants

The Company has the following outstanding warrants as at September 30, 2009:

	Number	Expiry Date	Exercise Price
Common share warrants issued to common shareholders – Common Warrants	5,212,633	February 26, 2010	\$ 1.35
Convertible Debenture Warrants	14,350,000	September 11, 2011	\$ 0.25
	<u>19,562,633</u>		

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.

IPICO Inc.**Notes to Consolidated Interim Financial Statements (Unaudited)****For the quarter ended September 30, 2009**

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
Granted	150,000	\$ 0.25
Exercised	-	-
Forfeited	(109,165)	\$ 1.05
Balance, June 30, 2009	4,916,666	\$ 0.76
Granted	-	
Exercised	-	
Forfeited	(245,833)	\$ 0.62
Balance, September 30, 2009	4,670,833	\$ 0.77

The following table summarizes information regarding stock options outstanding at September 30, 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	1,675,000	4.30	\$ 0.16	508,332	\$ 0.15
\$ 0.50 – 0.74	545,000	2.73	\$ 0.66	363,329	\$ 0.65
\$ 0.75 – 0.99	100,000	2.75	\$ 0.75	66,666	\$ 0.75
\$ 1.00 – 1.24	1,497,500	2.02	\$ 1.03	1,364,166	\$ 1.01
\$ 1.25 – 2.00	853,333	3.23	\$ 1.60	286,659	\$ 1.60
\$ 0.10 – 2.00	4,670,833	3.15	\$ 0.77	2,589,152	\$ 0.85

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 38.2% on outstanding options. The weighted average risk-free interest rates on outstanding options is 3.1% and is based on the Government of Canada average bond yields for a period consistent with the expected life of the

IPICO Inc.

Notes to Consolidated Interim Financial Statements (Unaudited)

For the quarter ended September 30, 2009

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 September 30, 2009 was \$109,858 (2008 - \$84,672). Total stock-based compensation expense for the nine month period ended September 30, 2009 was \$309,074 (2008 - \$316,240).

Earnings per share

As a result of the losses incurred applicable to common shares, the Common 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Legal fees to the firm of a Company director	\$ 106,169	\$ 68,989	\$ 233,512	\$ 248,949

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:

- \$60,000 on April 5, 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.

7. FINANCE COST

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest expense				
– Convertible debentures	\$ 49,145	\$ -	\$ 49,145	\$ 156,021
Interest expense				
– Preferred shares	94,238	87,772	274,359	249,946
Interest income	(5,516)	(49,479)	(12,163)	(193,612)
Issuance costs (note 4)	256,600	-	256,600	-
Finance cost	\$ 394,467	\$ 38,293	\$ 567,941	\$ 212,355

IPICO Inc.**Notes to Consolidated Interim Financial Statements (Unaudited)
For the quarter ended September 30, 2009****8. CHANGES IN NON CASH OPERATING WORKING CAPITAL**

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Accounts receivable	\$ 58,849	\$ 268,035	\$ (228,144)	\$ (948,307)
Other receivables	10	(28,997)	23,413	(92,375)
Prepaid expense	(102,331)	159,593	(113,024)	(155,164)
Inventory	788,969	(363,073)	930,568	(174,198)
Accounts payable and accrued liabilities	(385,975)	422,826	516,478	908,224
Deferred revenue	(239,104)	(21,516)	(369,471)	73,099
Changes in non cash operating working capital	\$ 120,418	\$ 436,868	\$ 759,820	\$ (388,721)

9. 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Canada	\$ 76,904	\$ 1,665	\$ 77,063	\$ 10,956
United States	628,183	377,373	2,026,083	2,088,621
South Africa	23,777	42,545	64,968	105,424
New Zealand	447,135	68,218	1,019,981	82,058
Other	827,254	211,648	2,483,869	614,461
Revenue	\$ 2,003,253	\$ 701,449	\$ 5,671,964	\$ 2,901,520

Intangible and capital assets:

	September 30, 2009	December 31, 2008
Canada	\$ 5,752,698	\$ 6,439,781
South Africa	1,554,637	1,746,652
Other	128,568	169,760
Intangible and capital assets	\$ 7,435,903	\$ 8,356,193