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# INDEPENDENT RESEARCH



## ILI Technologies Corp. (ILI : TSX-V)

Date: January 11, 2007  
Price: \$0.85



### KEY INFORMATION (post-financing)

Fiscal Year-end	December 31
52-Week High/Low	\$1.05 - \$0.35
3-Month Avg. Daily Trading Volume	45,051 shares
Market Capitalization	\$15.9 million
Enterprise Value	\$10.4 million
Book Value Per Share (Sept. 30/06)	\$0.27
Working Capital Per Share	\$0.29
Gross Margin	59%
LT Debt to 2006e CF	0.0
LT Debt to Equity	0.0
Price to 2005 Earnings	nm
Price to 2006e Earnings	12.1

### FINANCIAL DATA (000's of Canadian Dollars)

	3 Months Sept. 30		9 Months Sept. 30	
	2006	2005	2006	2005
Revenues	1,833	371	3,510	945
Earnings	414	44	323	40
per share	0.03	0.00	0.02	0.00
Cash Flow	303	52	313	133
per share	0.02	0.01	0.02	0.01

### BALANCE SHEET (as at September 30, 2006)

Current Assets	3,155,474
Total Assets	4,552,128
Current Liabilities	622,570
Long-Term Debt	nil
Shareholders' Equity	3,929,558

### SHARES OUTSTANDING (as at December 31, 2006)

Basic	*18.7 million
Fully-Diluted	23.5 million

\*management and insiders own approximately 5-10% of the common shares issued and outstanding

### Highlights:

- signed contracts totaling more than \$3.0 million from August to December 2006 with additional quotes presently under review
- working capital of more than \$5.5 million or \$0.29 per share and no long-term debt (post-financing)
- robust activity in the oil and gas industry providing opportunity for growth

ILI is a rapidly emerging small-cap company specializing in providing innovative products to the oil and gas sector. The scope of ILI is changing dramatically with the recent purchase of a coalbed methane (CBM) pump supplier, increasing distribution channels, and robust demand in the oil and gas servicing sector. ILI's strategy is to manufacture and integrate automated data collection systems to assist customers in increasing profitability and economic productivity and to tap existing and new distribution channels to increase sales for pumps and piping products.

One of ILI's main products is Touch Trax, a cost effective inventory recognition product that utilizes RFID (radio frequency identification) technology. Typical applications for these tags include local asset management, inventory control, facility maintenance, security inspection, health, fire & safety compliance, shipping/receiving, and field equipment service record keeping. Also in its suite of data acquisition products, ILI offers Sand Trax, an innovative method for oil and gas producers to determine the presence of sand in the flow stream without the use of radioactive materials, dyes, or other hazardous markers. Another product developed by ILI is called Pressure Trax, a battery powered, stand-alone system that can record pressure, temperature, rate and time simultaneously while displaying this data on a remote computer.

On March 13, 2006, ILI completed the acquisition of CBM Pumps and Services Inc., a private company based in Gillette, Wyoming.

CBM sells and services submersible pumps and support products for CBM wells and other oil and gas applications. Consideration consisted of US\$825,000 plus 350,000 ILI shares at a deemed price of \$0.50 per share.

In mid-March 2006, ILI closed a private placement of 4,307,798 units issued at a price of \$0.45 per unit for gross proceeds of about \$1.94 million. Each unit consisted of one common share and one half of one common share purchase warrant with each whole warrant exercisable at \$0.60 per share until August 31, 2007. However, ILI can force the exercise of the warrants if its share price trades above \$0.75 for 20 consecutive trading days.

In August 2006, the company commenced distribution of Thermoflex Tubing, an innovative, lightweight, reinforced tubing product with significant advantages over conventional steel tube for use in the oil and gas industry. On August 9, 2006, ILI received a US\$450,000 order for Thermoflex Tubing. An additional US\$375,000 order was received in mid-September 2006. Also in mid-September, management announced a US\$240,000 contract for ILI's RFID tags and associated equipment.

On October 26, 2006, ILI signed a \$1.5 million order for Thermoflex tubing and associated connectors. The product was expected to take approximately four to eight weeks to manufacture and deliver to a major corporation in Mexico. Also, in mid-December 2006, ILI announced another \$750,000 in orders for its pump and piping products. Sales of Thermoflex tubing to date represent only a fraction of the potential market in Mexico as old flow lines are in need of replacement or repair and companies are looking for longer-lasting and more efficient methods of flow lining new wells. The company is working to secure several additional orders in this region and is also

looking to expand sales into the U.S. and Canada with its innovative product line.

During the quarter ended September 30, 2006, ILI recorded total sales of \$1.83 million and net earnings of \$413,646 or \$0.03 per share. Gross margin for the period was 54%. The company had a strong balance sheet at the end of the third quarter with positive working capital of \$2.5 million or \$0.17 per share and no long-term debt.

In late December 2006, the company completed a \$3 million non-brokered private placement through the issuance of 4 million units at a price of \$0.75 per unit. Each unit consisted of one common share and one-half of a common share purchase warrant with each whole warrant exercisable at \$1.25 per share for a two-year period. Sprott Asset Management Inc. is participating in this financing and on a post-offering basis, will hold over 19% of ILI's outstanding shares (assuming all warrants are exercised). The proceeds will be used to increase ILI's inventory, build new manufacturing and sales facilities, expand its Mexico and U.S. operations, hire staff, acquisition opportunities, and to provide working capital for the continuing operations of the business.

ILI is beginning to achieve significant revenue and earnings growth through the CBM acquisition, the distribution rights for Thermoflex Tubing and the organic growth of its original suite of products. The company has dramatically increased its sales and marketing efforts in the U.S and Mexico. Additional orders will continue to have a material impact on ILI's revenue base and net earnings. Given the large contracts recently announced, revenues during the fourth quarter ended December 31, 2006, are expected to surpass \$2.5 million. The company also has several other quotes in the process of review by other potential customers.

### **ILI Technologies Corp.**

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