

IPICO INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") is prepared by management and comments on the consolidated operations and financial position of IPICO Inc. ("IPICO" or the "Company") for the year ended December 31, 2008. It is supplemental information and should be read in conjunction with the consolidated financial statements, including the accompanying notes for the years ended December 31, 2008 and 2007. All currency amounts in this MD&A are stated in Canadian dollars, unless otherwise indicated. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its audit committee.

Additional information including the Annual Information Form is available at www.sedar.com and on the Company's website at www.ipico.com. The date of this MD&A is April 27, 2009.

Forward Looking Statements

Except for the historical information contained herein, the discussion in this MD&A contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, strategies, expectations and intentions. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify such forward-looking statements. Such statements reflect the Company's views as at the date of this MD&A with respect to future events and are subject to certain risks, uncertainties and assumptions.

Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. See the "Risk Factors" section of this MD&A for more detailed information regarding these risks and uncertainties. These factors include, but are not limited to, impairment of assets, cease trade orders, continuing operations, accumulated deficit, uncertainty of future financing, potential fluctuations of financial results and management of operations. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Except as required by law, the Company does not intend, and does not assume any obligation, to update these forward looking statements.

The Company

IPICO Inc. is a Radio Frequency Identification ("RFID") solution supplier headquartered in Burlington, Canada with operations in the U.S.A., South Africa, Europe, Asia and Australia. Leveraging its IP-X communication protocol, the Company designs, develops, manufactures and markets a broad range of RFID solutions, including smart labels, tags and readers targeted primarily at selected closed loop vertical industry market sectors.

IPICO Inc. ("IPICO", "Company") was formed on March 30, 2006 by the amalgamation of AMtag ID Inc. ("AMtag") and Anitech Enterprises Inc. ("Anitech"). Also on March 30, 2006, AMtag completed two private placements for gross proceeds of \$15,000,000, and purchased certain assets of iPico Holdings (Pty) Ltd, including its subsidiary Centralised Authentication of Products ("CAP"), iPico Australasia (Pty) Ltd. and certain intangibles from Beijing XPS. The common shares of IPICO Inc. trade on the TSX Venture Exchange under the symbol "RFD".

The Company's products are used in the optimization of the management of items, people, animals and processes within the supply and other value chains. The Company has commenced commercial production of a majority of its products. Several of its other products have been tested in pilot projects and are set to commence commercial production, while still others are in the development and testing stage.

Generally, the Company's RFID solution consists of three basic components: a passive tag programmed with unique information, a reader consisting of a transceiver with a decoder, and an antenna (or coil). The Company's tags use the IP-X technology, a protocol developed by the Company. The Company's low interference readers are intended to substantially conform to regulatory requirements in most major geographical regions, and application for certification by the United States Federal Communications Commission has been or will be made in the case of most products. The Company's RFID products are designed to excel at long read-range, fast multi-read, anti-collision and high thru-beam read-speeds of dynamic tag populations, as well as to allow for multi-reader rollout in close proximity.

The Company's product lines currently consist of five models of dual frequency readers (Industrial, Application, Mobile, Registration and Access), six models of dual frequency tags (Sport Timekeeping, Paper Reel and Returnable Transport Item application specific tags, as well as Credit Card and ½ Credit Card size ISO cards, and CR-100 cards), five models of ultra-high frequency readers (Industrial and EVI long read range, Single Antenna long range, long range Mobile, Registration and Access), and five models of ultra-high frequency tags (Credit Card, Windscreen, Rail, iPlate and Industrial). Dual frequency products are used in challenging environments where the tags are in close proximity to radio frequency-absorbent and/or reflective materials such as people, metal, animals, vegetation, soil or fluids. Ultra-high frequency products are used in challenging environments where fast-moving tags need to be read at long distances such as for electronic vehicle identification or supply chain management.

Strategy

IPICO's strategy is to penetrate specific application markets that have proven to be early adopters of RFID technology. The principal markets consist of asset and people tracking; transportation and logistics; and supply chain management.

While IPICO's technology continues to create whole new sets of viable and cost-justifiable applications, IPICO is currently focused on five targeted service lines with closed loop applications that demonstrate the following attributes:

- a strong return on investment and quantifiable benefit to the direct customer,
- a clear business case for RFID-enabled solutions,
- a competitive advantage with IPICO's technologies,
- strategic partners with well-established global positions within relevant service lines, and
- a significant growth opportunity for IPICO by virtue of market size and demand volume.

IPICO's business model is based on the development and commercialization of Intellectual Property for a wide variety of closed-loop RFID applications in selected vertical markets, and for a number of selected niche applications (open-loop and closed-loop) where IPICO and its strategic partners intend to become a *de facto* standard. Intellectual Property is based on 'hard Intellectual Property' such as trade-marks, domain names, patents, copyright and Intellectual Property Agreements, as well as 'soft Intellectual Property' that is based on know-how, trade secrets and in-depth knowledge of the Company's own and its strategic partners' technology processes.

IPICO has attracted a strong technical and executive team, many with up to 15 years of experience in RFID that ranges from protocol and chip design to large-scale RFID system integration projects. During 2008, the Company looked to continue to augment both its team and its service capabilities to support IPICO's developing customer base and growing suite of 'hard' products and 'soft Intellectual Property' products:

- IP-XTM chips, tags, readers
- Reader decoder and Digital Signal Processing (DSP) filters (Field Programmable Gate Array or FPGA format)
- AofATM (Authentication of Articles), AofTTM (Authentication of Transactions) and AofSTM (Authentication of Supply Chains) application methodologies and processes

- Patents that cover the application of IPICO's technology, as well as patents covering the application of the IP-X protocol in multi-protocol environments.
- IPICO's proprietary business processes, training and support processes, as well as methodologies
- IPICO's product manufacturing specifications and documentation, as well as its system and solution specifications and documentation.

The Company has established a number of offices around the world to service its primary geographical markets, including Burlington (Canada), Atlanta (USA), Vienna (Austria), Pretoria (South Africa), Shanghai (People's Republic of China), Beijing (People's Republic of China), and Brisbane (Australia). The Company had 55 employees as of December 31, 2008 comparable to 55 at the end of 2007 although staff reductions implemented as part of the cost-savings measures was offset by the staff added as part the acquisition of the Company's exclusive Sports Timekeeping distributor completed in the fourth quarter of 2008 with offices in Peoria (USA). Retrenchments subsequent to the year end have brought the number of employees to 49.

The Company's primary sales strategy is to work through channel partners to serve end-user customer accounts. During the initial proto-typing and pilot phases of projects, the Company is directly involved in customer projects to ensure that its standard products are properly adapted to the application environment. The Company's market strategy is to penetrate specific application markets that have been identified as early adopters of RFID technology. This strategy focuses on specific service lines with closed loop applications in defined strategic markets. The majority of business is thereafter driven by system integrators, value added resellers and strategic partners, collectively referred to as "channel partners".

The Company is currently outsourcing its manufacturing to select contract manufacturers based in South Africa, Australia, Switzerland, China, Taiwan, India and France. The Company is in the process of enhancing its outsourced manufacturing capabilities to support the delivery of a high volume of quality RFID products.

Combining IPICO's market leading intellectual property, technical capabilities and strategic approach gives the Company a sustainable competitive advantage that its management believes will allow it to exploit the current and emerging market demand for RFID enabled solutions focused on closed loop applications.

OVERALL PERFORMANCE

The Company's efforts in 2008 have been focused on progressing its key customer initiatives that span four continents. This has included continued investment in support of product development and final commercial production of its core RFID product offerings. While IPICO's technology lends itself to a wide variety of viable and cost-justifiable applications, the Company has chosen a sales strategy designed to penetrate specific strategic markets that have proven to be early adopters of RFID technology. Those strategic markets consist of asset and people tracking, transportation and logistics, and supply chain management. The Company's core solutions targeted for these strategic markets include Electronic Vehicle Identification (EVI); Returnable Transport Items (RTI), Paper & Packaging, and Sports Timekeeping and the following highlights the progress made in 2008 in each of the Company's key targeted vertical markets.

1. Electronic vehicle identification (EVI): The Company continued to deliver its EVI solutions in China in support of its initiative with China's National Academy of Transportation Sciences ("CATS") to address China's demand for cost-effective traffic management systems. The first province deployment of its UHF readers and tags was completed under the Company's exclusive distribution agreement with CATS. To maintain the exclusive agreement, CATS plans to purchase at least RMB 24 million (~CDN \$3 million) worth of EVI solutions from IPICO over three years. The Company continued to progress its EVI solutions with the receipt, subsequent to the year end, of the first purchase order from ProcAT for the deployment of IPICO's IP-X based UHF passive tags and readers in a nationwide program with Société Nationale des Chemins de fer Belges (SNCB) to automatically track, trace and secure its passenger trains and rolling stock within Belgium. ProcAT N.V., a system integrator based in Antwerp, Belgium, will supply SNCB with IPICO's fixed and handheld readers as well as custom designed railway tags to be attached to the

thousands of railway cars used by SNCB. The majority of the readers will be installed next to railway tracks, and will automatically capture the data of each individual railcar as a train passes at high speeds. IPICO's technology is designed to capture vehicles moving at speeds of up to 260 Km/h.

2. **Returnable Transportation Items (RTI):** IPICO developed a complete portfolio of custom packaged dual frequency (DF) tags and readers to provide detection, monitoring, tracking and identification in extreme environments of items such as returnable plastic containers, commercial explosives, industrial laundry, wool bales and produce. The Company received the first order from CHEP Australia for 480,000 tags and reader infrastructure for IPICO's passive Dual Frequency RFID technology to be integrated in CHEP's new, managed, foldable, returnable packaging (FRPCs) solutions across New Zealand. This countrywide deployment will involve three service centres across New Zealand's two islands and kicks off the largest deployment of IPICO's passive Dual Frequency RFID to date. This order follows the initial agreement signed last year for the trial and customisation of IPICO's passive Dual Frequency RFID tags, which involved rigorous testing of the technology and its form factor as well as demonstrating "fit for purpose" compliance in CHEP's managed returnable packaging solutions applications. IPICO has spent almost a year of thoroughly testing its technology in the extreme environment that is the norm for handling produce, and has demonstrated to CHEP the suitability of its platform for this application.
3. **Paper & Packaging:** The Company launched with Sonoco Products Inc. ("Sonoco") the world's first RFID (Radio Frequency Identification) enabled core solution "ICORE" specifically designed for the paper industry and demonstrated at the Supercorr Expo in September in Atlanta Georgia. IPICO and Sonoco have developed a unique process by which IPICO's RFID technology is embedded in fiber-based cores. Sonoco is planning to use this process to produce its new Intellicore engineered carriers which are specifically designed to meet the unique needs of paper manufacturers. The Company completed an agreement as a result of which Mondi AG ("Mondi") has spun off its radio frequency identification (RFID) division in Vienna, Austria into IPICO and has contracted IPICO to manage and support the deployment of its paper-reel management and pallet tracking solutions into Mondi's operations for a minimum three year period. This transaction enhances IPICO's Paper & Packaging team and positions IPICO to actively deploy its unique, industry-specific product line directly to Mondi as well as other paper and packaging companies.
4. **Sports Timekeeping:** IPICO developed DF readers and tags based on its IP-X DF and UHF RFID technology for the global sports timekeeping industry. The portfolio includes shoe, bike and other tags, as well as readers and software modules. The Company's cost effective RFID Sports Timekeeping solution continues to expand its penetration in the global sports timekeeping market and the Company acquired a controlling interest in the business of Mercury Sports Group, Inc. (branded IPICO Sports), its exclusive distributor for Sports timekeeping solutions. With the combined strength of both organizations, the Company looks to continue to expand into new markets.

During the year the company also had the following other notable accomplishments.

- The Company entered into an agreement with Becker Mining Systems GmbH ("Becker") for the exclusive distribution of IPICO products in the global mining industry. Becker is a global leader in tracking, communication and automation solutions for underground mining. As part of this agreement, German-based Becker will incorporate IPICO RFID products into its mining solutions and resell them to the international mining industry. To maintain exclusivity, the agreement requires minimum aggregate revenues to IPICO Inc. of approximately \$11.5 million over the first five years.
- The Company also completed a public offering consisting of 5,212,633 units ("Units") at a price of \$1.20 per Unit, for gross proceeds of \$6,255,160. Each Unit consists of one common share of the Company (a "Common Share") and one common share purchase warrant (a "Warrant"). In accordance with the terms of the Company's convertible debentures, all of the \$5,500,000 of outstanding debentures were converted into 6,962,024 common shares upon the closing of this Offering.

The Company's revenue for year ended December 31, 2008 was \$3,885,341 up from \$3,170,989 for the year

ended December 31, 2007. The increase in revenue in 2008 over 2007 largely reflects progress from the Company's Sports Timekeeping RFID tag and reader products. The majority of the Company's core products have moved from development through to commercialization including moving to scalable outsourced contract manufacturing. However, while key customer initiatives progressed and new opportunities were developed, the sales cycle continued to lengthen amid the deteriorating global business climate. The Company initiated cost savings measures across all of its operations in light of the slower than anticipated progress in achieving its revenue targets and the overall weakened economic climate. This has included staff retrenchments, reduction in spending including reductions to senior management compensation and tight cost control with the benefits of its cost reduction measures expected to be realized over the coming quarters.

Developing Standards

As part of the Company's innovation and development strategy, IPICO is also pursuing the establishment of its IP-X protocol as a standard within various standard setting bodies around the world including the International Organization for Standardization (ISO). IPICO is contributing to a joint effort with EM Microelectronic ("EM"), the semiconductor company of the Swatch Group of Marin, Switzerland, to develop tag chips that support the ISO 18000-6 UHF RFID standard. TOTAL, a derivative of the IP-X protocol that has been harmonized with existing ISO 18000-6 standards, is anticipated to become an ISO standard during 2009. In January 2008, Standards South Africa, the organization responsible for setting that country's official standards, formally published the SANS 504 and SANS 24535 standards for electronic registration and identification of vehicles using passive RFID and RFID air interfaces, which form part of Intelligent Transport Systems. This is in anticipation of the deployment of passive UHF RFID based systems within the South African transportation sector, for such uses as authenticating vehicle license discs and license plates, monitoring individual vehicles as part of traffic management, and free-flow electronic toll collection, among others. The Company's IP-X based UHF RFID technology is fully compliant with these standards.

RESULTS OF OPERATIONS

Selected Annual Information

The table below shows selected consolidated financial information for the three most recently completed financial years. The results of operations for 2008 and 2007 include a full year of operations whereas 2006 largely includes the operating results for the nine months following the Company's formation on March 30, 2006.

(000's dollars except per share amounts)	2008	2007	2006*
Revenue	\$ 3,885	\$ 3,171	\$ 1,079
Gross margin	1,511	997	467
<i>Gross margin as a percent of revenue</i>	39%	31%	43%
Total operating expenses	19,549	9,351	6,973
Total operating expenses <i>(excluding impairment charges)</i>	11,770	9,351	6,973
Net loss and comprehensive loss	(18,259)	(9,303)	(6,573)
Net loss per share, basic and diluted	\$ (0.35)	\$ (0.29)	\$ (0.27)
Total Assets	\$ 17,014	\$ 28,158	\$ 27,374

* Note: On March 30, 2006 the Company completed asset acquisitions for the aggregate purchase price of approximately \$18 million.

Revenue

Revenue for year ended December 31, 2008 increased to \$3,885,341 up from \$3,170,989 for the year ended December 31, 2007. The increase in revenue in 2008 over 2007 largely reflects revenues from the Company's Sports Timekeeping RFID tag and reader products along with contributions from each of its targeted vertical markets including EVI and Paper & Packaging.

Gross Margin

Gross margin for the full year of 2008 increased to \$1,511,337 or 38.9% of revenues compared to \$996,846 or 31.4% of revenues in 2007. The gross margin increase reflects the increase in revenues along with the improved gross margin percentage resulting from the higher margins from the Sports Timekeeping sales as a result of the acquisition in the fourth quarter of 2008 along with attention to improving margins across all product lines.

Operating Expenses

Total operating expenses for the year ended December 31, 2008 were \$19,548,990 compared to \$9,350,878 for 2007. Total operating expenses before the impact of the non cash charges for impairment of goodwill, intangibles and accounts receivable were \$11,770,362 and this increase reflects the additional investment in development, sales and marketing and general and administrative functions including supply chain management.

Development costs for the 2008 year were \$2,922,902 up from \$1,719,692 in 2007. Development costs are comprised of internal development costs and external development costs. The increase over the prior year is due to the increased compensation related costs and external development costs. External development costs include amounts paid to third parties for the commercialization and certification of the IPICO's RFID products. Activities in this area increased over the prior year due to the increased level of key customer development initiatives along with planned increased investment to progress the Company's core products through the final stage of commercialization including certifications. With a majority of this activity completed or nearing completion, development costs are expected to reduce.

Sales and marketing costs were \$3,422,999 for 2008, up from \$2,483,524 in 2007 with increased investment in service delivery capabilities to support existing customer agreements including the RFID tracking solution for CHEP's returnable and reusable packaging. The Company expects these costs to reduce in future quarters to levels comparable to 2007 as a result of cost reduction measures recently implemented.

General and administration costs for the year ended December 31, 2008 were \$4,217,615 compared to \$3,268,203 in the prior year. General and administration costs include the costs of the executive group, the finance and administrative function and the management of manufacturing and logistics. The increase reflects increases in staffing to support supply chain capabilities along with increases in other general corporate costs including stock-based compensation expense along with the implementation of a new global ERP system.

The Company began implementing cost-saving measures designed to streamline the Company's global operations, reduce fixed administrative costs and conserve working capital. This included reductions in executive officer and senior management salaries along with the discontinuance of the Company's bonus compensation plans which favourably impacted the Company's fourth quarter general and administration costs. The Company expects its general and administration costs to reduce over the coming quarters to levels comparable to 2007.

The Company accounts for its foreign subsidiaries as integrated operations and is funding their operations and so is exposed to foreign exchange risk with the South African Rand, the United States Dollar, the Australian Dollar, the Euro and the Chinese Yuan. The Company reports in Canadian dollars and therefore is exposed to foreign exchange fluctuations in its monetary assets and liabilities, working capital and revenues and expenses. With the general weakening of the Canadian dollar to each of these foreign currencies, the Company incurred a foreign exchange gain of \$218,429 in 2008 compared to a loss of \$380,358 in the prior year.

On November 19, 2008, the Company acquired a 70% interest in the assets of Mercury Sports Group, Inc. (branded "IPICO Sports"), the exclusive distributor of IPICO's sports timekeeping technology. As this transaction provides evidence surrounding the collectability of amounts that had been owing to the Company from past transactions with Mercury Sports Group, Inc., the Company recorded a \$609,700 non-cash

impairment of its accounts receivable balance in the third quarter of 2008. This brought the carrying value of the Company's accounts receivable from Mercury Sports to the estimated fair value of the assets acquired as follows:

Cash	\$ 166,900
Accounts Receivable	\$ 417,900
Inventory	\$ 773,600
Fixed Assets	\$ 34,800
Accounts payable and accrued liabilities	<u>\$ (309,900)</u>
	<u>\$ 1,083,300</u>

The Company evaluated the carrying value of its goodwill and intangible assets during the year reflecting the dramatic deterioration in the overall economic climate and the decline in the Company's market value as a result of its reduced share price. This resulted in a non-cash impairment charge of \$5,307,098 writing off the carrying value of goodwill along with a \$1,861,830 non-cash impairment charge reducing the carrying value of intangible assets.

Amortization of intangibles was \$1,336,080 for the year ended December 31, 2008, down from \$1,398,140 in 2007 due to the reduction in the carrying value of intangibles as a result of the impairment charge.

The net interest expense was \$287,997 for the year ended December 31, 2008 down significantly from \$1,015,863 in 2007 due to the conversion of the \$5,500,000 convertible debenture to common shares on February 26, 2008.

Net loss

The loss from operations increased to \$18,037,653 for the year ended December 31, 2008 from \$8,354,032 in 2007, largely reflecting the \$7,168,928 non cash impairment of goodwill and intangibles, the \$609,700 impairment in accounts receivable along with an increase in operating expenses. This was reduced by the increase in gross margin as a result of the increase in revenues. The lower interest costs over the prior year resulted in a net loss for the year ended December 31, 2008 of \$18,259,010 compared with a net loss of \$9,303,255 in 2007.

SUMMARY OF QUARTERLY RESULTS

Select Unaudited Consolidated Quarterly Financial Information

The following table presents certain unaudited consolidated quarterly financial information for each of the eight quarters ended December 31, 2008. As discussed previously, the Company has limited operating history since March 30, 2006 and its quarterly operating results have historically fluctuated. The quarterly results may continue to fluctuate as the Company continues to successfully commercialize its product offerings and secure increased sales of its RFID.

(000's dollars except per share amounts)	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenue	983	702	1,181	1,019	602	1,058	1,010	501
Gross margin	550	31	518	412	176	330	338	153
<i>Gross margin %</i>	<i>56</i>	<i>4</i>	<i>44</i>	<i>40</i>	<i>29</i>	<i>33</i>	<i>31</i>	<i>30</i>
Total operating expenses	2,347	11,406	3,040	2,756	2,445	2,423	2,214	2,269
Total operating expenses Excluding impairment charges	2,347	3,627	3,040	2,756	2,445	2,423	2,214	2,269
Net loss	(1,855)	(11,397)	(2,528)	(2,479)	(2,476)	(2,352)	(2,134)	(2,341)
Net loss per share, basic and diluted	(0.04)	(0.21)	(0.05)	(0.05)	(0.06)	(0.07)	(0.07)	(0.09)

Revenue for the fourth quarter of 2008 was \$983,821 up from \$701,449 in the third quarter and \$602,419 in the comparable fourth quarter of 2007. Revenue in the third quarter was negatively impacted by a decline in sales from Sports Timekeeping but rebounded in the fourth quarter as the Company completed the acquisition of its exclusive Sports Timekeeping distributor. Overall the quarterly revenue increase since Q1 of 2007 was due largely to contributions from the Sports Timekeeping product sales but also included important progress on several of the Company's other core product offerings. Revenue for the fourth quarter of 2007 was \$602,419, which was down from the previous quarter of \$1,057,607 as the fourth quarter is a slower period for product shipments.

Gross margin in the fourth quarter of 2008 was \$549,847 or 55.9% compared to \$30,603 or 4.4% of revenues in the prior quarter. Before the impact of inventory write-offs of approximately \$230,000 in the third quarter of 2008, the gross margin percentage was 37%. The improved gross margin percentage in the fourth quarter reflected the increase gross margin from Sports Timekeeping products as a result of the acquisition. The second quarter of 2008 gross margin was \$518,950 or 43.9% of revenues up from \$411,937 or 40.4% of revenues in the first quarter. This compares to \$175,581 in the fourth quarter of 2007 or 29.1% of revenue. The overall improvement in gross margin percentage in 2008 was a result of focused efforts on improving product margins along with positive impact of the Sports Timekeeping products and royalties. While the gross margin percentage fluctuated from quarter to quarter in 2007 it was approximately 31% for the four quarters of 2007 which is consistent with the Company's business model.

Total operating costs, excluding the impairment of goodwill and intangibles, and the impairment in accounts receivable, increased in the first three quarters of 2008 reflecting the Company's planned increased investment in product development and commercialization along with supply chain and service delivery capabilities. The reduction in the total operating costs in the fourth quarter of 2008 was largely a result of the reduction in costs in development and general and administration which included the favourable impact of the discontinuance of the Company's bonus compensation plans. The increase in the third quarter of 2008 over the second quarter of 2008 was primarily due to increased activities in research and development on several key product development initiatives. During the four quarters of 2007, total operating expenses continued at comparable levels with some moderate fluctuations due to the timing of expenditures on trials, pilots and the continued development and certification of its RFID products. The Company expects its general and administration costs to reduce over the coming quarters to levels comparable to 2007 as a result of its cost-savings measures. As a result of the increased investment made during 2008 to move the Company's core products from development and pilots to commercialization and those efforts nearing completion, the operating expenses are expected to reduce.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents at December 31, 2008 totaled \$4,317,557 down from \$7,914,550 at December 31, 2007. The decrease is largely due to the net proceeds of \$6,037,684 from the issuance of common shares and common share warrants in the first quarter of 2008 being offset by the 9,544,394 of cash used for operating activities for the year ended December 31, 2008.

The working capital as at December 31, 2008 was \$6,765,469 compared with \$9,747,126 as at December 31, 2007 and the current ratio (current assets to current liabilities) was 4.6 to 1 compared with 7.3 to 1 at December 31, 2007. The decrease in working capital of \$2,981,657 was largely due to the decrease in cash and cash equivalents of \$3,542,993. Also the decrease was due to an increased investment in working capital as a result of an increase in inventories of \$1,065,769 from the acquisition completed in the fourth quarter.

Cash used for operating activities for the twelve months ended December 31, 2008 was \$9,544,394 compared with \$8,900,854 in the prior year. This increase is primarily due to the increase in the loss from operations of \$10,259,025 before the impact of the non cash impairment charges compared to \$8,354,032 for fiscal 2007.

The Company's working capital and current ratio (current assets to current liabilities), including cash and cash equivalents, is summarized as follows:

	December 31, 2008	December 31, 2007
Working capital	\$ 6,765,469	\$ 9,747,126
Current ratio	4.6 to 1.0	7.3 to 1.0

Note: The Company uses working capital and current ratio to enhance comparisons between periods. These terms do not have a standardized meaning under GAAP and are not necessarily comparable to similar measures presented by other companies. Working capital is calculated as the difference between current assets and current liabilities while the current ratio is calculated as current assets divided by current liabilities.

Capital expenditures, primarily related to computer equipment were \$96,283 in 2008 compared to \$66,042 in the prior year.

During the year ended December 31, 2008, the Company incurred a net loss of \$10,480,382 prior to the \$7,168,928 non-cash impairment of goodwill and intangibles and the \$609,700 impairment in accounts receivable (2007 - \$9,303,255) and used cash from operations of \$9,544,394 (2007 - \$8,900,854). 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, 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, it will require additional funding. Based upon its level of investment in these activities, the Company's current cash resources may be depleted late in the second quarter of 2009. The Company is actively engaged in securing the additional funding and this funding could include incurring debt and issuing additional equity securities, which could result in substantial dilution to existing shareholders. However, there can be no assurance that Company's plans will be successful and that additional funding will be available or, if available, that it will be available on acceptable terms.

Dividend payments, lease payments, interest on principal, payment on debt

On March 30, 2006, the Company completed a private placement of \$5,000,000 of Class A Preferred shares to Brookfield Technology Fund. The Class A Preferred shares have a fixed cumulative dividend per share of 5% per annum. As the preferred shares are being accounted for as debt, interest expense is recorded each quarter in respect of the cumulative dividend.

On March 30, 2006 the Company, as part of the purchase price of certain assets of iPico Holdings (Pty) Ltd., issued \$4,475,772 in a 3% per annum interest-bearing purchase debenture which matured on March 30, 2007 and was converted, by IPICO, into 4,475,772 Common Shares. As the debentures were treated as share capital, the interest expense during each quarter was treated as a dividend. The debenture was converted into 4,475,772 common shares of the Company during 2007 and the dividend of \$134,273 was paid.

In December 2006 the Company completed the issuance of convertible debentures of \$5,500,000 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. Interest payments are payable each quarter end starting on March 31, 2007. All of the outstanding debentures were converted into 6,962,024 common shares at a price of \$0.79 per common share upon the closing of the February 28, 2008 public offering.

Commitments

Contingent Incentive Bonus

Pursuant to Asset Purchase Agreements and related employment and consulting agreements, approximately 40 former employees and principals of the selling entities will be entitled to receive incentive payments totaling \$5,000,000 if the Company raises additional equity financing totaling at least \$15,000,000 at a price of at least

\$1.50 per common share up to March 30, 2009. To date, no equity financing of the Company has triggered this contingency.

Loan from Industrial Development Corporation of South Africa Limited (“IDC”)

On the closing of the private placements and the concurrent asset purchase and reverse take over, IPICO acquired the shares of CAP indirectly through its South African subsidiary. Prior to the Company’s acquisition of CAP, CAP had received a grant in the form of a forgivable loan from IDC in the amount of 13,585,000 ZAR (\$1,780,994) to assist with the development of certain technologies. The loan has been treated as government assistance in the financial statements, and as such, the balance has not been reflected in the liabilities of the Company. CAP is required to pay a royalty at the rate of 1.62% on any of its sales that include the technology developed under the assistance program for a period of five years up to October 2009. The royalty is factored into the cost of sales when products are sold.

Operating Leases

Future minimum lease payments under non-cancellable operating leases at December 31, 2008 are as follows:

2009	\$ 214,803
2010	\$ 7,994
2011	4,926
2012	4,926
2013	2,035
Thereafter	-
Total minimum lease payments	\$ 234,684

OFF BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

	Year ended December 31,	
	2008	2007
Legal Fees to the firm of a Company Director	\$ 314,080	\$ 303,354

On April 5, 2007, the Company advanced a loan in the amount of \$300,000 to a Director of the Company to complete the purchase of 600,000 common shares in a non-brokered private placement. The loan is secured by the shares purchased and is non-recourse and non-interest bearing. The terms of the loan were amended in 2008. The loan is repayable as follows:

- a) \$60,000 on April 5, 2008,
- b) \$60,000 on April 5, 2010,
- c) With the remainder due on December 31, 2011.

The terms of the share purchase also provide for the acceleration in certain events of the repayment in full of the outstanding balance of the five year term loan. In accordance with the terms of the loan \$60,000 was repaid on April 5, 2008.

RISKS AND UNCERTAINTIES

The following is a description of the risk factors that affect the Company's business, and ultimately, its financial condition and future performance. The Company's management is responsible for mitigating the risks to the extent possible, in order to maximize shareholder value.

Dependence on Management. The Company's development to date has largely depended and in the future will continue to depend on the efforts of key management. Loss of any of these people could have a material adverse effect on the Company and its business. The Company has not taken out and does not intend to take out key man insurance in respect of any directors, officer or other employees.

Limited Operating History. The Company has a limited operating history with its current line of products and services and accordingly a limited history from which performance can be assessed. There can be no assurance of continued market acceptance of its RFID technology solutions or that it will attain profitability. The Company cannot be certain that it will be able to successfully introduce its new line of products and services in the marketplace, realize the results contemplated by its business plan, achieve significant and sustainable operating profitability or generate sufficient cash flow to service its working capital requirements.

Early Stage Company. The Company has commenced commercial production for several of its products. Several of its other products have completed testing in pilot projects and are set to commence commercial production, while others are in the development and testing stage. As a result, the Company has not yet earned profits and remains subject to the risks associated with early stage companies, including start up losses, uncertainty of revenues, markets and profitability, volatile financial results and the need to raise additional funding. The Company has committed, and, for the foreseeable future, will continue to commit, significant financial resources to research, product development and commercialization. The Company must maintain a research and development programs in order to achieve profitable operations and remain competitive in an emerging market. There can be no assurance that research and development programs conducted by the Company will result in commercially viable products.

Ability to Achieve Commercialization on a Timely Basis. The risk of failing to develop and commercialize cost effective and reliable products on a timely basis presents one of the greatest risks for the Company. The Company's success will depend, to a great extent, on its ability to achieve commercial sales of products incorporating its RFID technology on a timely basis. There can be no assurance that the Company's technology and products based on such technology will achieve commercial acceptance on a timely basis or that, if market acceptance is achieved, the Company will be able to maintain such acceptance for a significant period of time. Failure to obtain commercial sales on a timely basis would have a material adverse impact on the Company's financial condition and its ability to sustain its operations.

Financing Risk. The Company anticipates, that based on current plans and assumptions relating to its operations, it may need additional financing to continue in business. The Company is an early stage RFID solutions company with limited financial assets and consequently it will likely be unable to secure conventional debt financing. Additional equity could result in substantial dilution to shareholders. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. If adequate funds are not available, the Company may not be able to take advantage of opportunities, develop new products or otherwise respond to competitive pressures and remain in business. The Company may be required to substantially reduce or eliminate expenditures for research and development, commercialization, certification, production and marketing of its products, or to obtain funds through arrangements with corporate partners that may require the Company to relinquish rights to certain of its technologies or products.

Competition. Many of the Company's current and potential competitors have longer operating histories, significantly greater financial, technical and other resources and greater name recognition than the Company does. The Company's competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Current and potential competitors have established, and may in the future

establish, cooperative relationships with third parties and with each other to increase the availability of their products and services to the marketplace. Competitive pressures could reduce the Company's market share or require it to reduce the price of its products and services, either of which could harm its business and operating results. Communication protocols are not standardized. Various countries regulate frequencies differently. There can be no assurance that the Company's IP-X will be accepted by markets or regulators as a recognized protocol standard.

Dependence on Proprietary Technology. The Company is dependent upon its patents and other intellectual property rights and in its ability to safeguard its know-how and trade secrets. There can be no assurance that the Company's patents will provide the Company with any competitive advantages or will not be successfully challenged by third parties, or that the patents of others will not have a material adverse effect on the Company's ability to do business. There can be no assurance that others will not independently develop similar products, duplicate some or all of its products or, if patents are issued to the Company, design its products so as to circumvent the Company's patent protection. Furthermore, there can be no assurance that the confidentiality of the Company's intellectual property can be maintained or that such intellectual property will not be independently discovered by others, or that the steps taken by the Company will prevent misappropriation of its technology, or that agreements entered into for such purpose will be enforceable.

Dependence on Market Growth. Future revenue generation and profitability will depend on the adoption rate of RFID and the Company's ability to effectively respond to the changing demands of an emerging market. As with any emerging technology, adoption rates have been slow on initial introductions of technological advancements. There are a number of impediments to broader adoption of RFID technology, including: (i) the cost of implementing a fully functional RFID system which, in addition to the cost of tags, includes the cost of readers and the supporting infrastructure and software required to manage RFID data, (ii) the use of different frequencies in different geographic areas, (iii) the limited read range of low-cost tags, which makes them unsuitable for certain uses, (iv) potential inaccuracy in RFID data caused by interference from other tags and/or readers or from other wireless devices and industrial equipment, or proximity to liquid or metals, and (v) regulatory change, including changes in response to concerns regarding the privacy of consumers who have purchased tagged items.

Dependence on Third Party Distribution. The Company does not have a direct sales force. The Company is focusing its current sales and marketing efforts on establishing, formalizing and maintaining long-term strategic relationships with channel partners, value added resellers and distributors. The establishment of these relationships is one of the key inputs to generating revenue growth for the Company. Should these alliances not materialize in a timely manner, this may negatively impact the Company's ability to gain market share and achieve growth targets in the future. The Company's distribution partners may not be prohibited from offering and reselling the products and services of the Company's competitors and may choose to devote insufficient resources to marketing and supporting their services or to devote greater resources to marketing and supporting the products and services of other companies. Reliance upon third-party distribution sources also subjects the Company to the risks of the business failure of such value-added resellers and distributors, as well as credit, inventory and business concentration risks.

Dependence on Key Employees. The Company's future success will depend on its ability to attract, train, retain and motivate highly skilled engineering, technical, managerial and other personnel. Competition for these personnel is intense. The Company may have difficulty hiring qualified personnel as quickly as it may require.

Dependence on Third Party Manufacturing. The Company outsources the manufacturing of its products to third party contract manufacturers. If these third party manufacturers are unable to either deliver on a timely basis or produce high quality products, customer relationships and future sales orders may be adversely impacted.

Management of Expanding Operations. In order for the Company to achieve the business plan, it will be required to expand its operations rapidly, which will place significant demands on the Company's managerial,

operational and financial personnel and systems. There can be no assurance that the Company's systems, procedures, controls and existing facilities will be adequate to support expansion of its operations. The Company's future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational, financial control and reporting systems. If the Company is unable to respond to and manage changing business conditions, the quality of the Company's services, its ability to retain key personnel and its results of operations could be materially adversely affected.

Risks in Foreign Jurisdictions. The Company anticipates earning a significant portion of its consolidated revenues from operations outside Canada, and to a significant degree from operations in many developing or emerging countries. International business activities entail inherent risks such as trade barriers, political risks, embargoes, uncertainty as to the protection and use of intellectual property, the risk of increase in taxes and changes in laws and policies. By way of example, unfriendly relations between China and the United States could lead to higher tariffs on goods imported from China, or a ban on manufacturing products in China using technology which the United States deems to be important to its national security. In addition, the Company intends to continue to employ the Company's South Africa based management, research and development team, and to continue the Company's relationships with manufacturers in South Africa. As a result, the Company will also be exposed to the risk of political or economic instability in South Africa.

Currency Risk. The Company anticipates that it may earn a substantial portion of its revenues in US dollars and euros, and that it will incur a significant portion of its expenses in Canadian dollars, South African rand and Australian dollars. Fluctuations in the relative values of those currencies may have a negative impact on the Company's operating results. The Company has no plans at present to enter into any foreign currency hedging or other similar arrangements.

Product Liability. Many of the Company's products will be critical to the operations of its clients and provide benefits that may be difficult to quantify. Any failure in a client's system could result in a claim for substantial damages against the Company by its customers, regardless of its responsibility for the failure. Although the Company maintains general product liability and errors and omissions insurance, there can be no assurance that this coverage will be sufficient to cover one or more large claims, or that the issuer will not disclaim coverage.

Potential Intellectual Property Infringement. While the Company believes that it currently owns all intellectual property rights used in its existing products and those currently in development, there can be no assurance that the Company's products do not or will not infringe on intellectual property rights owned by third parties. The payment by the Company of a monetary damage award, or payment by the Company of an amount in settlement of litigation, or the inability of the Company to obtain the necessary licenses or other rights on commercially acceptable terms, or the failure of the Company to redesign its products to avoid infringement of third party intellectual rights, could have a materially adverse effect on the Company.

Safety Risk. RFID products emit electromagnetic radiation which, it may be argued, may result in various safety and health issues. While the Company's products only emit low levels of this radiation and operate within all safety regulatory limits, there can be no assurance that the Company's products will not become the subject of safety concerns in the future. If safety concerns were to arise in the future, this could have an adverse effect on the Company's business and results of operations.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies, which are disclosed in Note 2 of the audited consolidated financial statements are in accordance with Canadian generally accepted accounting principles and are applied on a consistent basis. The Company uses judgment in selecting the policies for which alternative methods exist and in the application of those accounting policies. The policies discussed below are considered to be critical to the understanding of the Company's financial statements where the policy places the most significant demand on management's judgment and the financial reporting results rely on estimation about the effect of

matters that are inherently uncertain and changes in these estimates may have a material impact on the Company's financial statements.

Intangible assets, including Goodwill

The Company reviews and evaluates its intangible assets for impairment when events or circumstances indicate the carrying amount may not be recoverable and significant judgment is involved in the review and evaluation of these events or circumstances. The Company's reviews its intangibles for impairment if events or changes in circumstances indicate that the asset might be impaired. The Company considers numerous factors in making this assessment including significant adverse change in the Company's business climate, legal or regulatory environment, assets, market price, sales expectations and financial condition and projections. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus accounting estimates may change from period to period and future operating results could be materially impacted.

Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired in such acquisitions. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company tests for impairment of goodwill on an annual basis as of December 31. The first step in completing the impairment test is to compare the fair value of the reporting unit to its book value. The fair value of the reporting unit is estimated using a combination of the income or discounted cash flow approach and the market approach, which utilizes comparable companies' data. To determine the fair value using the discounted cash flow approach, we use estimates that include: (i) revenues; (ii) expected growth rates; (iii) costs; and (iv) appropriate discount rates. Significant management judgment is required in forecasting future operating results. Should different conditions prevail, material impairments of goodwill could occur.

The Company's intangible assets represent acquired technology and licenses. These assets are considered to have a finite useful life and are being amortized based on 10 year periods on a straight-line basis. Amortization methods and useful life estimates are reviewed annually and the Company has selected 10 years as the useful life of the patented technology as it is consistent with the expected cash flow from the sale of the technology and technology industry comparatives. In assessing the useful life of the technology, the Company considers the market and applications in which the Company's products are sold, the long-term development plan for its technology, and the expected life of similar technology deployed by other RFID providers.

With the dramatic deterioration in the overall economic climate and the decline in the Company's market capitalization as a result of its reduced share price, the Company evaluated the carrying value of its goodwill and intangible assets. As a result, the Company recorded a non-cash impairment charge of \$5,307,098 writing off the carrying value of goodwill along with a \$1,861,830 non-cash impairment charge reducing the carrying value of intangible assets.

Tax asset valuation

Significant management judgment is required in determining the valuation allowance recorded against net income tax assets. The Company operates in multiple geographic jurisdictions, and to the extent that it has profits in a jurisdiction, these profits are taxed pursuant to the tax laws of their jurisdiction. A valuation allowance is recorded to reduce future income tax assets recorded on the balance sheet to the amount of the future income tax benefit that is more likely than not to be realized. The Company has recorded a full valuation allowance to reflect the uncertainties associated with the realization of future income tax assets based on management's best estimates as to the certainty of realization.

Stock-based compensation

The Company recognizes compensation expense for stock options granted in the consolidated statements of operations using the fair value based method of accounting for all options issued in accordance with CICA

Handbook Section 3870. Any cash paid by employees, officers and directors on the exercise of stock options along with the accumulated stock based compensation recognized to date are considered contributed surplus for the Company's equity. The Company recognizes compensation expense equal to the fair value of the award over its vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of the stock options, the expected volatility of the Company's stock and expected dividends. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and the Company's results of operations could be materially impacted. The most significant estimate used in calculating the fair value of stock options and other convertible instruments is the estimate of the long-term volatility of the Company's shares. To date, the Company's shares have been thinly traded and as a result, the Company considers both the observed volatility of its stock, along with comparisons of volatility of other technology companies in establishing its volatility.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008 the Company adopted CICA Handbook Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Section 3862 and 3863, Financial Instruments – Disclosure and Presentation, revise and enhance disclosure and place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The adoption of the above noted standards did not have a material impact on the consolidated financial statements of the Company, other than the additional disclosures required as a result of the adoption.

On January 1, 2008 the Company adopted CICA Handbook Section 3031, Inventories, which prescribes disclosure and presentation requirements. This new section limits the choices available to calculate carrying values and provides new disclosure requirements. These changes did not have a significant impact on the Company's financial position, earnings or cash flows.

Inventories of raw materials and finished goods are stated at the lower of cost and net realizable value with cost being determined by the first-in, first-out ("FIFO") method with cost including direct costs of materials, labour and indirect costs (variable and fixed). Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for sale and distribution.

Impact of recently issued accounting pronouncements

In February 2008, the CICA approved Handbook Section 3064 Goodwill and Intangible Assets, replacing previous guidance. 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. This new standard is applicable to fiscal years beginning on or after October 1, 2008. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (CICA) has announced that Canadian GAAP for publicly accountable enterprise companies will be replaced with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The Company will begin reporting financial statements in

accordance with IFRS on January 1, 2011. The Company has begun planning the transition to IFRS and during 2008, carried out a diagnostic evaluation of all financial statement elements that would be impacted by the implementation of IFRS. The preliminary evaluation of the elements that will be impacted the most by the implementation of IFRS are foreign currency translation and stock based compensation although the impact has not been quantified as at December 31, 2008. The impact of the implementation of IFRS on the Company's information systems, internal control over financial reporting, disclosure controls and procedures or business activities such as capital requirements or compensation arrangements have not been determined at this time. The Company plans to fully assess the impact of IFRS on the above noted items and implement such changes as may be required to ensure that IFRS reporting is fully embedded in the Company's operations by the end of 2009.

FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held-to-maturity investments, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments:

	December 31, 2008	December 31, 2007
Held for trading (1)	\$ 4,371,557	\$ 7,914,550
Loans and receivables (2)	852,539	1,066,410
Other financial liabilities (3)	7,151,520	12,052,368

(1) Cash and cash equivalents

(2) Accounts receivable and other receivables

(3) Accounts payable and accrued liabilities, convertible debenture and preferred shares

Fair Value

Cash and cash equivalents, accounts receivable, other receivables, as well as accounts payable and accrued liabilities are short term financial instruments whose fair values approximate their respective carrying amounts due to their short maturities.

Based on current interest rates for loans with similar terms to similar companies, the fair value of the preferred shares is estimated to be \$4,688,000.

Credit risk

The Company is exposed to credit risk in its cash and cash equivalents, accounts receivable and other receivables where the counterparties do not meet their obligations. The Company minimizes the credit risk of cash and cash equivalents by depositing with only reputable financial institutions and investing in short term money market investments. The Company minimizes its credit risk related to accounts receivable and other receivables through credit review and on-going monitoring of accounts and as at December 31, 2008 five customers represented approximately 75% of the total accounts receivable. The maximum exposure to loss arising from accounts receivable is equal to the total carrying amount.

Credit risk from accounts receivable relates primarily from the potential of customers defaulting on their contractual obligations. The Company provides its services under contracts and formal purchase orders and monitors each customer's adherence to the terms and conditions of these contracts.

The Company assesses the risk of default of new customers and of current customers on an on-going basis with regular reviews of the collectability of each customer's accounts receivable including the review of the aging of accounts receivable with a focus on past due accounts. When collection is not reasonably assured the amount is

written off. As at December 31, 2008, approximately 50% of accounts receivable were current with 46% in the 1 to 90 days past due and 4% over 90 days past due.

Foreign currency risk

The Company accounts for its foreign subsidiaries as integrated operations. The Company is funding its subsidiary operations and is exposed to foreign currency risk with the South African Rand, the United States Dollar, the Australian Dollar, the Euro and the Chinese Yuan. The Company reports in Canadian dollars and therefore is exposed to foreign exchange fluctuations in its monetary assets and liabilities, working capital and revenues and expenses. The Company does not utilize any financial instruments or cash management policies to mitigate the risks arising from changes in foreign currency rates. There is a risk to the Company's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. For the year ended December 31, 2008, the Company recorded a foreign exchange gain of \$218,429 compared to a loss in 2007 of \$380,358.

The Company's financial instruments could be exposed to foreign currency risk in particular geographic regions as follows:

	Canada %	United States %	South Africa %	Other %	Total %
Cash and cash equivalents	71	13	4	12	100
Accounts and other receivables	13	49	16	22	100
Accounts payable and accrued liabilities	19	15	37	29	100

A one-cent increase or decrease in the value of the Canadian dollar against the South African Rand, the United States Dollar, the Australian Dollar, the Euro and the Chinese Yuan on the foreign currency denominated assets and liabilities, assuming these amounts remain unchanged, results in an approximately \$11,000 foreign exchange gain or loss.

Interest rate risk

The Company is not exposed to significant interest rate risk as its cash and cash equivalents are short term investments with maturities of less than three months and the Company's interest bearing debt instruments, which include the preferred shares, have fixed interest rates.

SUMMARY OF OUTSTANDING SHARE DATA

	April 27, 2009	December 31, 2008	December 31, 2007
Number of common shares	55,118,522	54,553,718	41,851,561
Number of preferred Shares	5,000,000	5,000,000	5,000,000
Closing common share price	\$ 0.145	\$ 0.075	\$ 1.64

Authorized

Unlimited number of common shares, voting

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

As of April 27, 2009, the Company has 55,118,522 common shares outstanding, 10,862,633 of warrants outstanding, 2,309,106 exchangeable shares of IPICO South Africa (Pty) Ltd. and 3,426,665 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.

On February 26, 2008, the Company completed a public offering consisting of 5,212,633 units (“Units”) at a price of \$1.20 per Unit, for gross proceeds of \$6,255,160. Each Unit consists of one common share of the Company (a “Common Share”) and one common share purchase warrant (a “Warrant”). Each Warrant will entitle the holder to purchase one Common Share of the Company for a period of 24 months from closing at an exercise price of \$1.35 per Common Share. In the event that the common shares of the Company trade on the TSX-V at a weighted-average closing price of 145% of the Warrant exercise price or more for a period of at least 20 consecutive trading days following the closing of the offering, the Company shall be entitled to accelerate the exercise period to a period ending at least 30 days from the date notice of such acceleration is provided to the holders of Warrants. The Company paid the Underwriters a cash commission of 6.0% of the gross proceeds of the offering. All of the outstanding Debentures were converted into 6,962,024 common shares effective immediately prior to the closing of the public offering.

During the year ended December 31, 2007 1,350,833 stock options were granted and 420,833 options forfeited. In addition during the year ended December 31, 2007 the Company issued a total of 17,218,773 common shares for net proceeds of \$14,826,231.

Internal Controls Over Financial Reporting

There have been no substantive changes in the Company’s internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

OUTLOOK

With the significant investment in 2008 in progressing the Company’s core products to commercialization, the Company is now focusing its efforts and resources on continuing to develop the commercial contracts to build its customer base and revenue growth while implementing cost savings measures. The Company began the implementation of cost-saving measures in 2008 in recognition of the difficult economic climate, the benefits of which are beginning to be realized. The Company completed an important acquisition of its exclusive global Sports Timekeeping distributor and integrated the new team into the organization while continuing to maintain the momentum for this important and growing revenue stream.

The Company is confident in its leading RFID technology and products and their competitive and compelling proposition to its core targeted vertical markets but recognizes the difficult economic environment. The Company will continue to pursue and grow these markets along with the support of its important brand owners, while focusing on securing the necessary funding to support its business plan and maintaining strict cost control.