

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, 2009. 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, 2009 and 2008. 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 28, 2010.

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 and Asia. 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. The common shares of IPICO Inc. trade on the TSX Venture Exchange under the symbol "RFD".

IPICO has designed and developed several generations of patented Dual Frequency ("DF") and Ultra High Frequency ("UHF") passive RFID technology based on its IP-X communication protocol. IPICO focuses on serving the Sports Timekeeping, Asset and People Tracking, Electronic Vehicle Identification & Rail, Returnable Transport Items and Paper & Packaging markets.

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 ten models of dual frequency readers (Industrial, Application, Handheld, Proximity - Registration and Access), eight models of dual frequency tags (Sports Timekeeping, Paper Reel, Laundry and Returnable Transport Item application specific tags, as well as Credit Card and ½ Credit Card size ISO cards, and CR-100 cards), seven models of ultra-high frequency readers (Industrial and EVI long read range, Single Antenna long range, long range Handheld and Proximity - Registration and Access), and four models of ultra-high frequency tags (Credit Card, Windscreen, Rail 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 that prevent good radio transmission and power transfer (lossy media) such as people, metal, animals, vegetation, soil or fluids. UHF 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 the Company believes are 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 markets 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, brand owners, with well-established global positions within relevant markets, 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 markets, and for a number of selected niche applications (open-loop and closed-loop) where IPICO and its strategic partners solution intends 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 a strong technical and executive team, many with up to 15 years of experience in RFID design, with experience in design and development along with hands-on experience in numerous RFID deployments around the globe.

The Company has a number of offices around the world to service its primary geographical markets, including Burlington (Canada), Peoria (United States), Vienna (Austria), Pretoria (South Africa) and Shanghai (People's Republic of China). The Company had 32 employees as December 31, 2009 down from 55 employees as of December 31, 2008 as a result of streamlining and cost-savings measures.

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 closed loop applications in defined strategic markets. The majority of business is thereafter driven by system integrators, value added re-sellers and strategic partners, collectively referred to as "channel partners".

The Company outsources its manufacturing of chips, tags and readers to select contract manufacturers based in South Africa, Australia, Switzerland, China, and India. The Company continues to enhance 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

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 strategic markets that the Company believes 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) and Rail, Returnable Transport Items (RTI), Paper & Packaging, and Asset & People Tracking including Sports Timekeeping. During 2009, the Company streamlined its operations reducing operating costs, while focusing on near term revenue opportunities including Sports, EVI – China, CHEP New Zealand RTI pilot and on completing its core product offerings. The following highlights the progress made in 2009 in each of the Company's target markets:

1. **Electronic vehicle identification (EVI) and Rail:** The Company progressed its **EVI** initiatives around the globe including entering into a definitive agreement with CATS LUHAI (Beijing) Investment Co., Ltd. (CATS LUHAI) to form a joint venture company in the People's Republic of China for the purpose of the implementation and management of an advanced integrated nation-wide electronic (RFID) motor vehicle identification and registration, route identification and toll collection program throughout China. CATS LUHAI is a subsidiary of the China Academy of Transportation Sciences (CATS), an agency of the Chinese national Ministry of Transport with general responsibility for all aspects of transportation management. This joint venture agreement flows from the final selection by CATS of IPICO's UHF RFID Electronic Vehicle Identification (EVI) technology. Following the successful pilot in the Jilin province the Company anticipates being the Jilin province deployment in 2010. China has an extensive network of over 63,000 kilometers of national, provincial and local highways, most of which are already subject to an older patchwork of manual toll collection concessions. There are estimated to be over 56 million motor vehicles in China. After IPICO expects that the rollout of the joint venture solutions would proceed province by province throughout China over the next four to five years. The Company also entered into a strategic relationship with International Road Dynamics Inc. (TSX: IRD) under which IRD has the exclusive right to market and sell IPICO's range of Electronic Vehicle Identification (EVI) Radio Frequency Identification Device (RFID) systems throughout Latin America and received initial orders for EVI projects in Chile and Colombia and as IPICO's preferred distributor in India and certain other countries in the Indian Subcontinent, West Africa and Nigeria, IRD recently secured contracts to take over and expand an existing road and vehicle management solution installation in India and intends to deploy IPICO's EVI product lines as part of this expansion. IPICO also continues to progress its **Rail** initiatives through channel partners with the first 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. IPICO's technology has also been selected by Kernex Microsystems (India) Ltd. (KMIL: Bombay Stock Exchange) for automated Rail car management in India.

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. During 2009 IPICO's DF technology was deployed by CHEP Australia, the largest equipment pooling company in Australia and New Zealand, in a large scale pilot in New Zealand. IPICO's passive Dual Frequency RFID technology was integrated in CHEP's new returnable plastic container (RPC) solutions in New Zealand and the Company anticipates, after successful completion of the pilot in early 2010, further deployments to commence.
3. **Paper & Packaging:** IPICO continues to progress with its unique passive Dual Frequency paper reel and paper management solution that has proven return on investment (ROI) to the customer with its Mondi March (UK) Plant reference site. The Company has secured several new customer initiatives in early 2010 in China and the United Kingdom.
4. **Asset & People Tracking:** IPICO has developed both UHF and DF readers and tags based on its IP-X RFID technology for the asset and people tracking market. The Company's **Sports Timekeeping** DF solution includes shoe, bike and other tags, as well as readers and software modules and the Company was presented with the Frost & Sullivan 2009 North American RFID Sports Technology Leadership of the Year Award. The Company's cost effective RFID Sports Timekeeping solution, branded IPICO Sports continues to expand its penetration in the global timekeeping market with over 600 systems sold in 36 countries since its launch in March of 2007. The Company was selected as exclusive official supplier of RFID data collection technology for The Virgin London Marathon and all other London Marathon Ltd. events for five years. Subsequent to the year end the Company announced that it had entered into an exclusive letter of intent with Maritime Telecommunications Network, Inc. (MTN), a global service provider of communications, connectivity and content services to remote locations around the world, respecting the distribution of an integrated solution co-developed by IPICO and MTN for people-tracking applications on cruise lines using IPICO's IP-X based tag and reader technology and MTN's proprietary software. The Company further expanded the reach of its **personal tracking and performance systems** with the recent announcement that the China military had selected IPICO technology for military fitness training programs.

During the year the Company completed a non-brokered private placement of convertible secured debentures ("debenture") for gross proceeds of \$3,500,000.

The Company's revenue for year ended December 31, 2009 increased to \$6,967,626 up from \$3,885,341 for the year ended December 31, 2008. The increase in revenue in 2009 over 2008 largely reflects increases in Sports Timekeeping revenues along with revenues from RTI product sales in support of the CHEP New Zealand project.

The majority of the Company's core products have moved from development through to commercialization including moving to scalable outsourced contract manufacturing. While the difficult global business climate continued in 2009 with long and unpredictable sales cycle, the Company did progress existing customer initiatives along with securing several new initiatives in each of its key target markets. The Company also streamlined its global operations and implemented cost savings measures which has resulted in reduced staffing levels and operating costs with significant operating cost reductions expected in 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). TOTAL (Tag Only Talks After Listening) is a version of IP-X developed by IPICO to harmonize the operation of IP-X tags in UHF mixed tag populations with EPC tags. Through a joint effort with EM Microelectronic ("EM"), the semiconductor company of the Swatch Group of Marin, Switzerland, TOTAL is included in the current proposed amendment to ISO 18000-6 as 18000-6 Type D. This amendment currently has Final Committee Draft (FCD) status and is expected to move to Final Draft International Standard (FDIS) in 2010.

RESULTS OF OPERATIONS

Selected Annual Information

The table below shows selected consolidated financial information for the three most recently completed financial years.

(000's dollars except per share amounts)	2009	2008	2007
Revenue	\$ 6,968	\$ 3,885	\$ 3,171
Gross margin	2,325	1,511	997
<i>Gross margin as a percent of revenue</i>	33%	39%	31%
Total operating expenses	11,159	19,549	9,351
Total operating expenses (excluding impairment charges)	11,159	11,770	9,351
Net loss and comprehensive loss	(9,658)	(18,259)	(9,303)
Net loss per share, basic and diluted	\$ (0.18)	\$ (0.35)	\$ (0.29)
Total Assets	\$ 12,140	\$ 17,014	\$ 28,158

Revenue

Revenue for year ended December 31, 2009 increased to \$6,967,626 up from \$3,885,341 for the year ended December 31, 2008. The increase in revenue in 2009 over 2008 largely reflects increases in Sports Timekeeping revenues along with revenues from RTI product sales in support of the CHEP New Zealand project along with contributions from each of its key target markets including EVI, Rail and Paper & Packaging.

Gross Margin

Gross margin for the full year of 2009 increased to \$2,325,468 or 33% up from \$1,511,337 or 39% of revenues in 2008. The gross margin increase reflects the increase in revenues while the gross margin percentage declines as the generally higher Sports Timekeeping margins were offset by lower margins associated with the initial sales of the CHEP RPC solution.

Operating Expenses

Total operating expenses for the year ended December 31, 2009 were \$11,159,152 which included non cash stock based compensation charges of \$313,960 (2008 - \$0) related to the release of shares held by a trust. This is down from \$19,548,990 in total operating expenses for 2008 or \$11,770,362 before the impact of the non cash charges for impairment of goodwill, intangibles and accounts receivable. The reduced operating costs resulted from cost savings measures implement and more than offset the increased operating costs in 2009 associated with the Company's exclusive Sports Timekeeping distributor acquired in the fourth quarter of 2008. The benefits of the cost savings measures implemented across all of the Company's operations which include staff retrenchments, reduced spending including reductions to senior management compensation and tight cost control, are expected to reduce quarterly operating costs by in excess of one million dollars in the coming quarters.

Development costs for the 2009 year were \$2,196,565 down from \$2,922,902 in 2008. Development costs are comprised of internal and external development costs. The decrease over the prior year is due to cost saving measures along with reduced development activities as the majority of the Company's core products are completed. With a majority of this core activity completed or nearing completion, development costs are expected to continue to decrease in the coming quarters. Development costs comprise internal development costs, which are largely engineering staff costs, and external, third party development costs, which include costs for certification of IPICO's RFID products.

Sales and marketing costs were \$3,390,905 for 2009, down from \$3,422,999 in 2008 with savings realized as part of cost reduction measures being offset somewhat by the sales and marketing costs associated with the with the Company's exclusive Sports Timekeeping distributor acquired in the fourth quarter of 2008. The Company expects these costs to reduce in future quarters as a result of cost reduction measures implemented.

General and administration costs for the year ended December 31, 2009 were \$4,094,957 and prior to the impact of the non cash stock based compensation charge of \$313,960 related to the release of shares held by a trust were \$3,780,997. This is down from \$4,217,615 in the prior year ending 2008 where there was no such compensation charge. General and administration costs include costs of the executive group, the finance and administrative function and supply chain management and the reductions reflect the impact of cost savings measures and the Company expects general and administration costs to continue to reduce in the coming quarters.

The Company accounts for its foreign subsidiaries as integrated operations and is funding their operations and 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 devaluation of the foreign currencies relative to the Canadian dollar in 2009, the Company recorded a foreign exchange loss of \$200,476 compared to a gain of \$218,429 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.

The Company evaluated the carrying value of its goodwill and intangible assets in 2008 and 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. The Company reviews long-lived assets for impairment whenever events and circumstances indicate that the carrying amount may not be recoverable. If the total of the expected undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the carrying amount over the fair value of the asset. No impairment charge was recorded in 2009.

Amortization of intangibles was \$1,132,598 for the year ended December 31, 2009 down from \$1,336,080 in 2008 due to the reduction in the carrying value of intangibles as a result of the impairment charge in 2008.

Finance cost was \$891,788 in 2009 compared to finance cost of \$287,997 in the prior year. The increase in finance cost was due to transaction costs of \$256,600 (2008 - \$0) related to the debenture financing along with the associated interest costs of \$278,844 (2008 - \$156,022) while interest income decreased due to lower average cash balances in 2009 over 2008.

Net loss

The loss from operations declined to \$8,833,684 for the year ended December 31, 2009 down from \$18,037,653 in 2008 and down from \$10,259,025 before the impact of the \$7,168,928 non cash impairment of goodwill and intangibles, the \$609,700 impairment in accounts receivable incurred in 2008. Increase revenues supporting the increase in gross margins in 2009 along with reductions in operating costs as a result of cost savings measures contributed to the reduction in the loss from operations in 2009 over 2008 before the impact of the non cash impairment charges.

Offset slightly by the increase in finance costs, the net loss for the year ended 2009 was \$9,658,832 down from \$18,259,010 in 2008 and down from \$10,480,382 before the impact of the non cash charges for impairment of goodwill, intangibles and accounts receivable.

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, 2009. The quarterly results may continue to fluctuate as the Company continues to successfully commercialize its product offerings and secure increased sales.

(000's dollars except per share amounts)	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Revenue	1,296	2,003	1,806	1,863	983	702	1,181	1,019
Gross margin	357	596	483	889	550	31	518	412
Gross margin %	28	30	27	48	56	4	44	40
Total operating expenses	2,690	2,373	3,148	2,948	2,347	11,406	3,040	2,756
Total operating expenses Excluding impairment charges ⁽¹⁾	2,690	2,373	3,148	2,948	2,347	3,627	3,040	2,756
Net loss	(2,639)	(2,155)	(2,738)	(2,127)	(1,855)	(11,397)	(2,528)	(2,479)
Net loss per share, basic and diluted	(0.05)	(0.04)	(0.05)	(0.04)	(0.04)	(0.21)	(0.05)	(0.05)

(1) Impairment charges relating to intangible assets and goodwill

Revenue for the fourth quarter ended December 31, 2009 was \$1,295,662 down from the third quarter of 2009 of \$2,003,253 due largely to reduced sales in RTI products along with declines due to seasonality. The third quarter of 2009 revenues increased over the second quarter of \$1,806,018 reflecting increased Sports Timekeeping revenues. Revenues for the second quarter of 2009 were comparable to the first quarter of 2009 and up over the fourth quarter of 2008 due to increased Sports Timekeeping revenues and revenues from the initial shipments of the Company's RTI products which began in the second quarter of 2009. Revenue for the fourth quarter of 2008 was \$983,821 comparable with the first and second quarter of 2008 while the third quarter of 2008 was negatively impacted by a decline in sales from Sports Timekeeping but increased in the fourth quarter with the completion of the acquisition of the Company's exclusive Sports Timekeeping distributor.

Gross margin for the fourth quarter of 2009 was \$357,629 or 28% of revenues down from \$595,958 or 30% of revenues in the third quarter due to the decrease in revenues. Gross margin in the third quarter of 2009 increased from \$483,313 or 27% of revenues in the second quarter of 2009 largely due to higher Sports Timekeeping revenues. The higher gross margins as a percentage of sales from Sports Timekeeping were offset by lower margins associated with the initial sales of the Company's RTI products. Gross margin in the first quarter of 2009 was \$888,568 or 48% of revenues benefiting from the higher Sports Timekeeping revenues and related higher gross margins. Similarly, gross margin in the fourth quarter of 2008 was \$549,847 or 56% and reflected the increased gross margin from Sports Timekeeping products as a result of the acquisition in the fourth quarter of 2008. Gross margin for the third quarter of 2008 was \$30,603 or 4% of revenues and before the impact of inventory write-offs of approximately \$230,000 in the third quarter of 2008, the gross margin percentage was 37%. The second quarter of 2008 gross margin was \$518,950 or 44% of revenues up from \$411,937 or 40% of revenues in the first quarter.

Total operating expenses for the fourth quarter ended December 31, 2009 were \$2,689,462 up from \$2,372,760 in the third quarter largely due to retrenchment costs incurred due to staff retrenchments. Total operating expenses in the third quarter of 2009 were down from \$3,148,109 in the second quarter of 2009 (\$2,834,149 prior the impact of the non cash stock based compensation charges incurred the second quarter of 2009) and down from to \$2,948,821 in the first quarter of 2009 reflecting the impact of the Company's cost savings measures. Total operating costs in all four quarters of 2009 and the fourth quarter of 2008 include the additional

operating costs associated with the Company's exclusive Sports Timekeeping distributor and were lower than the prior year quarters as a result of cost savings measures. Total operating costs, excluding impairment charges increased in the second and third quarter of 2008 over the first quarter of 2008 reflecting increased product development activities on several key initiatives along with planned investment in supply chain and service delivery capabilities. The large 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 Company expects total operating costs to decrease significantly in the coming quarters.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents at December 31, 2009 totaled \$1,873,268 down from \$4,317,557 at December 31, 2008. with the decrease due to the cash used for operating activities of \$5,796,945, which was down from \$9,544,394 in the prior year, offset by the net proceeds from the \$3,500,000 million debenture financing completed during year.

The working capital as at December 31, 2009 was \$3,022,714 compared with \$6,825,352 as at December 31, 2008 and the current ratio (current assets to current liabilities) was 2.5 to 1 compared with 4.7to 1 at December 31, 2008. The decrease in working capital of \$3,802,638 was largely due to the decrease in cash and cash equivalents of \$2,498,289 along with a decrease in inventory of \$1,342,662.

Cash used for operating activities for the year ended December 31, 2009 was \$5,796,945 down from \$9,544,394 in the prior year. This decrease primarily due to the reduction in the loss from operations which declined to \$8,833,684 for the year ended December 31, 2009 down from \$10,259,025 before the impact of the \$7,778,628 non cash impairment of goodwill, intangibles and accounts receivable, and the positive cash flow contribution from the reduction in the investment in non cash operating working capital.

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

	December 31, 2009	December 31, 2008
Working capital	\$ 3,022,714	\$ 6,825,352
Current ratio	2.5 to 1.0	4.7 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 computer equipment, were \$20,256 in 2009 down from \$96,283 in 2008.

During the year ended December 31, 2009, the Company incurred a net loss of \$9,658,832 (2008 - \$10,480,382 prior to the \$7,168,928 non cash impairment of goodwill and intangibles, and the \$609,700 impairment in accounts receivable) and used cash from operations of \$5,796,945 (2008 - \$9,544,394). 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 it will require additional funding based on current plans and assumptions relating to its operations and current cash resources may be depleted late in the second quarter. The Company is pursuing remedial funding which could include incurring debt and/or issuing additional equity securities, which could result in substantial dilution to existing shareholders. However, there can be no assurance that the Company's plans will be successful and that additional funding will be available or, if available, that it will be available on acceptable terms.

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. Each holder of Preferred Shares is entitled to require the Company to redeem, at a time on or after March 30, 2014 any or all of its Preferred Shares for \$1.00 per Preferred Share redeemed plus any dividends accrued but not yet paid thereon.

On September 11, 2009 the Company completed the issuance of convertible debentures for gross proceeds of \$3,500,000 with an interest rate of 12%. As a significant portion of the convertible debenture is being treated as debt, the interest is being charged to the income statement. The debentures are secured, bear interest at a rate of 12% per annum, payable upon maturity or earlier repayment, mature on the second anniversary of closing, and are convertible at the option of the holder into common shares of IPICO at a price of \$0.25 per share.

All of the \$5,500,000 of 12% debentures issued in December 2006 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

Operating Leases

Future minimum lease payments under non-cancellable operating leases at December 31, 2009 are as follows:

2010	\$ 175,628
2011	5,315
2012	2,774
2013	2,196
Thereafter	-
Total minimum lease payments	\$ 185,913

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,	
	2009	2008
Legal Fees to the firm of a Company Director	\$ 272,597	\$ 314,080

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:

- a) \$60,000 on June 30, 2010,
- b) 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.

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 will 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 has a small direct sales force however is focusing its 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, United States dollars, and South African rand. 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 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.

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.

Tax asset valuation

Significant management judgment is required in determining the valuation allowance recorded against net future 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, 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.

Impact of recently issued accounting pronouncements

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.

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted on either a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

International Financial Reporting Standards

In March 2009, the CICA published the exposure draft, "Adopting IFRS in Canada II". The exposure draft confirms that January 1, 2011 will be the adoption date for International Financial Reporting Standards (IFRS). It also confirms that IFRS will be applied to an entity's first interim financial statements in the year of adoption. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS.

The Company has commenced the process to transition from current Canadian GAAP to IFRS with regular progress reporting to the audit committee and the board of directors on the status of the IFRS implementation.

The implementation project consists of three primary phases:

1. *Diagnostic phase* – this phase involves performing a high level impact assessment to identify key financial statement components that may be impacted by the transition to IFRS. As a result of these procedures, the potentially affected elements are ranked as high, medium or low priority.

2. *Development phase* – in this phase, each financial statement component identified from the diagnostic phase is evaluated, in order of descending priority, to determine the impact of IFRS. This includes comparing the Company’s current accounting practice & policy with IFRS. This phase also involves specification and planning of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS. The Company will then begin the preparation of IFRS adjustments, if any, a restatement of the opening balance sheet and the preparation of the Company’s first draft comprehensive IFRS financial statements.
3. *Implementation and review phase* – this phase includes execution of changes to information systems and business processes, completing formal authorization process to approve recommended accounting policy changes and training programs for the Company’s finance and other staff, as necessary. It will culminate in the collection of financial information necessary to compile IFRS compliant financial statements, embedding IFRS into business processes and audit committee approval of IFRS financial statements.

The Company completed the diagnostic phase in March of 2009 and is progressing through the second phase and preparing for the third phase. The current analysis of IFRS and comparison with currently applied accounting principles has identified a number of differences, however many of the differences identified are not expected to have a material impact on the reported results and financial position. However, there may be significant changes resulting from the implementation of IFRS accounting principles that could result in adjustments as the result of first-time adoption of IFRS on certain areas. The Company has not yet fully quantified the impact of adopting IFRS.

However, we do not expect the adoption of IFRS to impact the underlying cash flows of the Company. Adjustments required on transition to IFRS will be made, retrospectively and/or in accordance with IFRS 1 guidelines as outlined below, against opening retained earnings as at January 1, 2010. The diagnostic identified several key areas that are most likely to be impacted by the adoption of IFRS and these are as follows:

First-Time Adoption of IFRS 1

IFRS 1, provides the framework for the first-time adoption of IFRS and outlines that, in general an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion from GAAP to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. The Company has analyzed the various accounting policy choices available and will implement those determined to be most appropriate in the circumstances once the Board of Directors approval is received during interim periods of 2010. At that time, the Company will also communicate those adjustments through its interim MD&A’s.

Functional Currency Translation

Canadian GAAP does not provide guidance as to the determination of functional currency for a reporting domestic entity. It assumes that the functional currency of an entity is the currency of the entity’s country of domicile (e.g. CAD for a Canadian location). Unlike Canadian GAAP, International Accounting Standard (IAS) 21, “The Effects of Changes in Foreign Exchange rates”, defines functional currency as the currency of the primary economic environment in which the entity operates. Each individual entity must determine its functional currency and measure its results and financial position in that currency.

IAS 21 established a set of guidelines in determining the functional currency of an entity including primary indicators such as economic environment, sales and cash inflows, expenses and cash outflows and secondary indicators such as financing activities and retention of operating income. The Company, in order to comply with IAS 21, did an analysis applying the primary and secondary indicators in the standard and determined that the functional currency of each of its entities matches the currency of the country of domicile for the entity. The Company’s presentation currency will remain Canadian Dollars. IAS 21 also indicates that for financial statements of entities whose functional currency is not the presentation currency of the group, assets and liabilities are translated at the rates prevailing on the balance sheet date. Revenue and expenses, including

depreciation and amortization, are translated at average rates throughout the year. Exchange gains and losses are included in the accumulated other comprehensive income. Under Canadian GAAP, the Company has translated the accounts of its integrated foreign operations where monetary assets and liabilities are translated at the rates prevailing on the balance sheet date and non-monetary assets and liabilities are translated at historic rates. Revenue and expenses are translated at the weighted average rates throughout the year other than depreciation and amortization which are translated at the same rates as the related assets. Translation gains and losses are included in income. The translation of these integrated operations will be carried out in accordance to IFRS upon transition. On transition to IFRS, IFRS 1 allows the Company to take an exemption on applying IAS 21 retrospectively by clearing all past cumulative translation adjustments to zero through retained earnings. The Company will use this exemption.

Stock Based Compensation

The guidance provided by IFRS 2, “Share Based Payments”, is largely consistent with Canadian GAAP and requires estimates of the fair value of stock options to be made at the date of the grant and recognition of the related expense in income as the options vest. The use of the Black-Scholes model is an acceptable method to estimate the fair value of the options at the date of grant, and is consistent with the Company’s current practice. For share options that vest in installments, IFRS 2 requires the use of the attribution method, which requires that the Company treat each installment as a separate share option grant with a different fair value. Unlike Canadian GAAP, IFRS 2 does not include the straight line method as an alternative to the attribution method for awards with a service condition and graded-vesting features. The Company will need to account for its awards using the attribution method. Currently the Company records forfeitures as they occur, however upon transition to IFRS, the Company will be required to make an estimate of the forfeiture rates for use in the determination of the total share based compensation expense. These changes will result in a difference in valuation of the stock based awards and timing differences for the recognition of compensation expenses.

Impairment of Assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36, “Impairment of Assets”, uses a one-step approach testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). The Company will be required to assess for indicators of impairment assessment upon transition to IFRS and this may potentially result in more write-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. Also, as allowed under IFRS, the Company expects to remain with the cost model for its accounting policy for property, plant and equipment and intangible assets.

Business Combinations

Canadian GAAP Section 1581 differs from IFRS 3, “Business Combinations” as IFRS 3 accounts for business combinations using the acquisition method, which may result in transactions being recognized as a business combination under IFRS 3 that would not be recognized under Section 1581; requires that acquisition-related costs, such as finders’ fees and legal fees, be expensed; requires that acquisition date to be the date on which the acquirer obtains control over the acquired entity or business; requires that contingent consideration be recognized when it can be reliably measured; and requires that any gain on bargain purchase or negative goodwill be recognized immediately in net income. The Company has made prior acquisitions and expects to apply the IFRS exemption for business combinations and will not restate the accounting for past business combinations.

Convertible Debentures

Under IAS 32 “Financial Instruments: Presentation” the Company will be required to change the method currently used under Canadian GAAP for calculating the fair value of debt and equity components. Also related debt issuance costs are required under IAS 39 “Financial instruments: Recognition and Measurement”

to be offset against the fair value of the debt on initial recognition whereas the Company currently expense these debt issuance costs.

Other

Many other areas of IFRS will impact the Company, albeit to a lesser extent and based on the work completed to date, the Company does not anticipate that the transition to IFRS will have a significant impact on its information systems or internal controls. However, since all potential changes to IFRS that will be effective as at December 31, 2011 are not yet known, the impact on the Company of adopting IFRS cannot be fully determined.

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, 2009	December 31, 2008
Held for trading (1)	\$ 1,873,268	\$ 4,371,557
Loans and receivables (2)	1,095,136	852,539
Other financial liabilities (3)	10,391,145	7,151,520

(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 \$5,112,000.

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, 2009 five customers represented approximately 68% (2008 - 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, 2009, approximately 44% of accounts receivable were current with 45% in the 1 to 90 days past due and 11% 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, 2009, the Company recorded a foreign exchange loss of \$200,476 compared to a gain in 2008 of \$218,429.

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

	Canada %	United States %	South Africa %	Other %	Total %
Cash and cash equivalents	48	46	4	2	100
Accounts and other receivables	1	28	5	66	100
Accounts payable and accrued liabilities	35	7	35	23	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 \$14,500 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 28, 2010	December 31, 2009	December 31, 2008
Number of common shares	55,571,165	55,571,165	54,553,718
Number of preferred Shares	5,000,000	5,000,000	5,000,000
Closing common share price	\$ 0.09	\$ 0.23	\$ 0.075

Authorized

Unlimited number of common shares, voting

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

As of April 28, 2010, the Company has 55,571,165 common shares outstanding, 14,350,000 of warrants outstanding and 4,649,164 stock options outstanding. The Company also has 5,000,000 of 5% cumulative redeemable convertible Class A preferred shares.

Prior to the year ended December 31, 2009, the common shares issued included 3,249,000 common shares held by a trust set up by IPICO to provide incentives to key employees. During the second quarter of 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 year ended December 31, 2009 all of the remaining 2,309,106 of exchangeable shares were exchanged for 2,309,106 common shares of the Company. Also, during the year ended December 31, 2009, 1,750,000 stock options were granted and 527,501 options were forfeited.

During the year ended December 31, 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. Subsequent to the end of the year, 5,212,633 warrants issued on February 26, 2008 expired without exercise on February 26, 2010.

The Company also 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.

During the year ended December 31, 2008 1,125,000 stock options were granted and 513,335 options forfeited. In addition during the year ended December 31, 2008 the Company issued a total of 13,266,961 common shares for net proceeds of \$11,614,476.

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, 2009 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

OUTLOOK

During 2009, the Company progressed several key initiatives within each of its key target markets working closely with strategic partners including important brand owners in these markets. The Company streamlined its operations and implemented cost savings measures including staff retrenchments that reduced its operating costs in 2009 and are expected to reduce quarterly operating costs by in excess of one million dollars in the coming quarters. Despite the continued difficult business and economic climate the Company remains confident in the value of its leading RFID technology and products. Several important initiatives recently announced in the Asset and People tracking market again demonstrate the competitive and compelling nature of the Company's solutions for its core targeted markets. The Company's priorities, on securing the necessary funding to support its growth plan, will be to continue to support key customer initiatives and drive continued sales growth while enhancing stakeholder value.