

**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 first quarter ended March 31, 2009. It is supplementary information and should be read in conjunction with the unaudited interim consolidated financial statements of IPICO, including the accompanying notes and with the consolidated financial statements and corresponding notes included in the annual report for the year ended December 31, 2008 which can be found at [www.sedar.com](http://www.sedar.com). All currency amounts in this MD&A are stated in Canadian dollars, unless otherwise indicated. The content of this MD&A along with the accompanying interim consolidated financial statements has been approved by the Board of Directors, on the recommendation of the Company's audit committee.

The financial information set forth in this MD&A has been derived from the unaudited interim consolidated financial statements of IPICO prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The date of this MD&A is May 20, 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 air 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".

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 several 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.

The Company has established a number of offices around the world to service its primary geographical markets, including Burlington (Canada), Atlanta (USA), Peoria (USA), Vienna (Austria), Pretoria (South

Africa), Shanghai (People's Republic of China), and Brisbane (Australia). The Company had 49 employees as of March 31, 2009 down from 55 at December 31, 2008 due to staff reductions implemented as part of the cost-savings measures initiated in the third quarter of 2008.

## 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 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.

The Company focused in the first quarter of 2009 on its core solutions and key strategic customer initiatives while continuing to implement cost savings measures and tight cash management.

Key highlights in the first quarter of 2009 were:

- Revenue increased to \$1,862,693 compared to \$1,019,113 in the prior year quarter, an increase of \$843,580 or 83%.
- IPICO's UHF rail solution was selected by Société Nationale des Chemins de fer Belges (SNCB or Belgian Rail) and the Company received the first purchase order for the deployment of IPICO's IP-X based UHF passive tags and readers in a nationwide program to automatically track, trace and secure passenger trains and rolling stock within Belgium.
- First commercial deployment of the Company's UHF Passive RFID Electronic Vehicle Identification (EVI) solution for the management, control and rationalization of Bogota, Columbia's city registered taxi pool.

Subsequent to the quarter end, the Company entered 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. 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 at present over 56 million motor vehicles in China. IPICO expects that the rollout of the joint venture solutions could commence later in 2009 and proceed province by province throughout China over the next four to five years.

Also subsequent to the quarter end, the Company entered into a strategic relationship with International Road Dynamics Inc. (TSX: IRD) under which IRD will have the exclusive right to market and sell IPICO's range of Electronic Vehicle Identification (EVI) Radio Frequency Identification Device (RFID) systems throughout Mexico, Central and South America. Under this agreement IRD will also be IPICO's preferred distributor in India and certain other countries in the Indian Subcontinent, West Africa and Nigeria. IPICO's EVI products will be offered by IRD in order to expand and diversify their own road and vehicle management solutions within certain international markets in which IRD has already established a strong presence.

## **RESULTS OF OPERATIONS**

This section discusses the financial results of IPICO for the first quarter ended March 31, 2009.

### **Revenue**

Revenue for the quarter ended March 31, 2009 was \$1,862,693 compared to \$1,019,113 in the first quarter of 2008, an increase of \$843,580 or 83% and was largely due to increased sales of the Company's Sports Timekeeping RFID products and the Columbia EVI taxi project.

### **Gross Margin**

Gross margin for the first quarter of 2009 increased 116% to \$888,568 compared to \$411,937 in the prior year quarter reflecting both the increase in revenues and an improvement in the gross margin. The gross margin percentage increased to 47.7% from 40.4% largely due to the higher margins from the Sports Timekeeping sales as a result of the acquisition in the fourth quarter of 2008 of the Company's exclusive distributor for Sports timekeeping solutions.

### **Operating Expenses**

Total operating expenses for the quarter ended March 31, 2009 were \$2,948,821 compared to \$2,756,491 for the prior year quarter. The benefits of cost savings measures realized in the first quarter were more than offset by the operating costs associated with the Company's exclusive Sports Timekeeping distributor acquired in the fourth quarter of 2008. The benefits of the ongoing cost savings measures being implemented across all of the Company's operations which include staff retrenchments, reduced spending including reductions to senior management compensation and tight cost control, will continue to be realized in the coming quarters.

Development costs for the quarter ended March 31, 2009 were \$636,217 compared to \$445,862 in the prior year quarter. Included in the prior year quarter was \$156,230 of cash received from tax concessions related to qualifying research and development expenditures, otherwise development costs were \$602,092. Development costs are comprised of 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 \$951,200 for the quarter compared to \$860,327 in the prior year quarter largely reflecting the sales and marketing costs associated with the recently acquired exclusive Sport Timekeeping distributor.

General and administration costs for the quarter were \$1,064,122 comparable to \$1,063,786 in the prior year quarter. General and administration costs include costs of the executive group, the finance and administrative function and supply chain management.

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 more moderate fluctuations in the values of the foreign currencies relative the Canadian dollar in the first quarter of 2009, the Company recorded a foreign exchange gain of \$15,863 compared to a loss of \$14,601 in the prior year quarter.

Amortization of intangibles was \$287,475 for the quarter ended March 31, 2009 down from \$349,535 in the prior year quarter due to the effect of the intangible impairment charge taken in the third quarter of 2008.

Interest expense in the first quarter of 2009 was \$83,811 down from \$150,870 in the prior year quarter reflecting the reduction in interest costs associated with the conversion of the \$5,500,000 convertible debenture to common shares on February 26, 2008.

## Net loss

The loss from operations decreased to \$2,060,253 for the quarter ended March 31, 2009 from \$2,344,554 in the prior year quarter largely reflecting the increased gross margin from the increase in revenues more than offsetting the increased operating expenses. With lower interest expense the net loss for the quarter ended March 31, 2009 declined to \$2,127,404 compared with a net loss of \$2,478,764 in the prior year quarter.

## 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 March 31, 2009. 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 solutions. The Company believes that its past operating results and period-to-period comparisons should not be relied upon as an indication of the Company's future performance.

(000's dollars except per share amounts)	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Revenue	1,863	983	702	1,181	1,019	602	1,058	1,010
Gross margin	889	550	31	518	412	176	330	338
<i>Gross margin %</i>	<i>48</i>	<i>56</i>	<i>4</i>	<i>44</i>	<i>40</i>	<i>29</i>	<i>33</i>	<i>31</i>
Total operating expenses	2,948	2,347	11,406	3,040	2,756	2,445	2,423	2,214
Total operating expenses Excluding impairment charges	2,948	2,347	3,627	3,040	2,756	2,445	2,423	2,214
Net loss	(2,127)	(1,855)	(11,397)	(2,528)	(2,479)	(2,476)	(2,352)	(2,134)
Net loss per share, basic and diluted	(0.04)	(0.04)	(0.21)	(0.05)	(0.05)	(0.06)	(0.07)	(0.07)

Revenues for the first quarter of 2009 were \$1,862,693 an 83% increase over the prior quarter due largely to the increased revenues and margins from the Company's Sports Timekeeping solutions. 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 of 2008 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. 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 generally a slower period for product shipments.

Gross margin in the first quarter of 2009 was \$888,568 or 47.7% of revenues. 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 of 2008 and first quarter of 2009 reflected the increased 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 increase over the gross margin of \$175,581 in the fourth quarter of 2007 or 29.1% of revenue is largely due to focused efforts on improving product margins along with the positive impact of the Sports Timekeeping products and royalties. The gross margin percentage in the fourth quarter of 2007 was comparable to the prior two quarters.

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 second, third and fourth 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. With the significant investments made in 2008 to move the Company's core products from development and pilots to commercialization largely completed, the Company expects these operating costs to decrease and along with the benefits of its cost savings measures, the Company expects total operating costs to decrease in the coming quarters.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents at March 31, 2009 were \$2,964,032 compared with \$4,371,557 at December 31, 2008. Cash used for operating activities for the quarter ended March 31, 2009 was \$1,407,525 down from \$2,084,425 in the prior year quarter. This decrease is due to the reduced net loss in the period of \$2,127,404 compared with \$2,478,764 in the prior year quarter together with a decrease in the net investment in working capital of \$249,346. The Company's accounts receivable increased by \$297,336 which was more than offset by the decline in inventories \$244,632 and increased in accounts payable and accrued liabilities of \$284,439.

The working capital as at March 31, 2009 was \$5,108,598 compared with \$6,765,469 as at December 31, 2008 and the current ratio (current assets to current liabilities) was 3.3 to 1 at March 31, 2009 compared with 4.6 to 1 at December 31, 2008. The decrease in working capital was largely due to the cash used for operations in the quarter of \$1,407,525.

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

	<b>March 31, 2009</b>	December 31, 2008
Working capital	\$ <b>5,108,598</b>	\$ 6,765,469
Current ratio	<b>3.3 to 1.0</b>	4.6 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.

There were no capital expenditures in the first quarter of 2009 compared to \$18,025 in the prior year quarter, which primarily related to demonstration equipment and computer equipment.

During the period ended March 31, 2009, the Company incurred a net loss of \$2,127,404 (2008 - \$2,478,764) and used cash from operations of \$1,407,525 (2008 - \$2,084,425). 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, including continued investment in the innovation and commercialization of its products and the investment in working capital to support the planned growth in revenue. Based upon its level of investment in these activities, the Company's current cash resources may be depleted in the next two quarters. Remedial funding 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 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.

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. During the first quarter of 2008 all of the outstanding debentures were converted into 6,962,024 common shares in accordance with the terms of the convertible debentures.

## **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:

	Three months ended March 31,	
	2009	2008
Legal Fees to the firm of a Company Director	\$ 55,707	\$ 131,916

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 April 5, 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**

There have been no changes in the Company's business risks described in the December 31, 2008 MD&A.

## **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.

## **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.

## SUMMARY OF OUTSTANDING SHARE DATA

	May 20, 2009	March 31, 2009	December 31, 2008
Number of common shares	55,118,522	55,118,522	54,553,718
Number of preferred Shares	5,000,000	5,000,000	5,000,000
Closing common share price	\$0.265	\$0.060	\$0.075

### Authorized

Unlimited number of common shares, voting

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

During the quarter ended March 31, 2009 1,600,000 stock options were granted and 150,834 options forfeited.

During the quarter ended March 31, 2008 the Company completed a prospectus offering of 5,212,633 units for gross proceeds of \$6,255,160. In accordance with the terms of the Debentures, all of the outstanding Debentures were converted into 6,962,024 common shares effective immediately prior to the closing of this public offering. Also during the quarter 725,000 stock options were granted and 10,000 options forfeited, 527,500 warrants were exercised for gross proceeds of \$448,375 and 278,348 exchangeable shares were exchanged for 278,348 common shares.

As of May 20, 2009, the Company has 55,118,522 common shares outstanding, 5,212,633 of warrants outstanding, 2,309,106 exchangeable shares of IPICO South Africa (Pty) Ltd. and 5,025,831 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.

### Internal Controls over Financial Reporting

During the first quarter of 2009, the Company implemented a new global ERP system, Netsuite, which included new finance systems. This change did not result from any deficiency in existing controls prior to implementation, but rather from the need to consolidate and streamline the financial reporting process. During the system implementation additional controls were put in place to ensure the ongoing effectiveness of control procedures, although the implementation did not affect the overall control effectiveness. Accordingly, there were no changes in internal controls over financial reporting during the most recent quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.