

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, 2010. 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, 2009 which can be found at 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 27, 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 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) and Shanghai (People's Republic of China). The Company had 29 employees as of March 31, 2010 down from 32 at December 31, 2009 and 49 at March 31, 2009 due to staff reductions implemented as part of the Company's cost-savings measures.

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.

Key highlights in the first quarter of 2010 were:

- Revenue was \$1,231,921 compared to \$1,862,693 in the prior year quarter, a decrease of \$630,772 or 34%.
- The Company secured several important Asset & People Tracking initiatives during the quarter. As part of a recently announced five-year agreement to provide data collection technology services to all of the events in the London Marathon Ltd. portfolio, the Company's timekeeping systems were successfully deployed at the Virgin London Marathon held April 25, 2010 in London, England. 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 and expects to provide approximately 150 of its LITE systems along with 10 ELITE systems and 50,000 DF tags in the first year of the multi-year program.
- The Company commenced an initiative with Maritime Telecommunications Network, Inc. (MTN), a global service provider of communications, connectivity and content services to remote locations around the world, with respect to 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. IPICO has received the first purchase order and anticipates beginning to fill orders this summer with initial installations on the first cruise ships this fall.
- The Company secured several new customer initiatives in China and the United Kingdom with its unique passive Dual Frequency paper reel and paper management solution that has a proven return on investment (ROI) to the customer with its Mondi March (UK) Plant reference site.

RESULTS OF OPERATIONS

This section discusses the financial results of IPICO for the first quarter ended March 31, 2010.

Revenue

Revenue for the quarter ended March 31, 2010 was \$1,231,921 compared to \$1,862,693 in the first quarter of 2009, a decrease of \$630,772 or 34% as the prior year quarter benefitted from a shift in Sports related sales from the fourth quarter of 2008 into the first quarter of 2009 as the Company completed the acquisition of its exclusive distributor for Sports timekeeping systems during the fourth quarter of 2008.

Gross Margin

Gross margin for the first quarter of 2010 was \$395,287 or 32% of revenues down from \$888,568 or 48% of revenues in the prior year quarter reflecting both the decrease in revenues and reduced gross margin percentage. Included in cost of sales in the first quarter was an inventory write-off of approximately \$100,000 with no such charge in the prior year quarter.

Operating Expenses

Total operating expenses for the quarter ended March 31, 2010 were \$2,090,197 down significantly from \$2,948,821 for the prior year quarter due to cost savings measures. The cost savings measures implemented across all of the Company's operations included staff retrenchments, reduced spending including reductions to senior management compensation and tight cost control. The benefits of these measures will continue to be realized in the coming quarters.

Development costs for the quarter ended March 31, 2010 were \$382,978 down from \$636,217 in the prior year quarter. The decrease from the prior year quarter is due to cost saving measures and the completion of development activities on the Company's core products. 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 \$622,741 for the quarter ended March 31, 2010 down from \$951,200 in the prior year quarter due to savings realized as part of the Company's cost savings measures. These costs are expected to continue to decrease in the coming quarters.

General and administration costs for the quarter ended March 31, 2010 were \$717,511 down from \$1,064,122 in the prior year quarter. 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. General and administration costs are expected to continue to decrease 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 the first quarter of 2010, the Company recorded a foreign exchange loss of \$76,735 compared to a gain of \$15,863 in the prior year quarter.

Amortization of intangibles was \$277,864 for the quarter ended March 31, 2010 compared to \$287,475 in the prior year quarter.

Finance cost for the quarter ended March 31, 2010 was \$336,194 compared to finance cost of \$83,811 in the prior year quarter. The increase in finance cost was due to interest costs on the convertible debentures which were in September 2009.

Net loss

The loss from operations decreased to \$1,694,910 for the quarter ended March 31, 2010 from \$2,060,253 in the prior year quarter largely reflecting the decrease in operating expenses offset somewhat by the reduced gross margin. With the increased finance cost, the net loss for the quarter ended March 31, 2010 was \$2,014,444 compared to \$2,127,404 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 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)	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Revenue	1,232	1,296	2,003	1,806	1,863	983	702	1,181
Gross margin	395	357	596	483	889	550	31	518
Gross margin %	32	28	30	27	48	56	4	44
Total operating expenses	2,090	2,690	2,373	3,148	2,948	2,347	11,406	3,040
Total operating expenses Excluding impairment charges ⁽¹⁾	2,090	2,690	2,373	3,148	2,948	2,347	3,627	3,040
Net loss	(2,014)	(2,639)	(2,155)	(2,738)	(2,127)	(1,855)	(11,397)	(2,528)
Net loss per share, basic and diluted	(0.04)	(0.05)	(0.04)	(0.05)	(0.04)	(0.04)	(0.21)	(0.05)

(1) Impairment charges relating to intangible assets and goodwill

Revenues for the first quarter of 2010 were \$1,231,921 comparable to the fourth quarter of 2009. 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. Third quarter 2009 revenues increased over the second quarter's \$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 second quarter of 2008 while the third quarter 2008 was lower due to reduced sales from Sports Timekeeping.

Gross margin in the first quarter of 2010 was \$395,287 or 32% of revenues comparable to gross margin for the fourth quarter of 2009 of \$357,629 or 28% of revenues and 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 margin as a percentage of sales from Sports Timekeeping was offset by lower margin 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 margin. 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, the gross margin percentage was 37%. The second quarter of 2008 gross margin was \$518,950 or 44% of revenues.

Total operating expenses for the first quarter ended March 31, 2010 were \$2,090,197 down from \$2,689,462 in the fourth of 2009 due to cost reduction measures. The fourth quarter of 2009 total operating costs of \$2,689,462 were higher than the third quarter of \$2,372,760 due to costs incurred in 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 \$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 yet were lower than the second and third quarter of 2008 as a result of cost savings measures. Total operating costs, excluding impairment charges increased in the third quarter of 2008 over the second quarter of 2008 reflecting increased product development activities on several key initiatives along with a 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 continue to decrease in the coming quarters.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents at March 31, 2010 were \$1,139,425 compared with \$1,873,268 at December 31, 2009. Cash used for operating activities for the quarter ended March 31, 2010 was \$736,125 down from \$1,407,525 in the prior year quarter. This decrease is largely due to the reduced net loss in the quarter of \$2,014,444 compared with \$2,127,404 in the prior year quarter along with a decrease in the net investment in working capital of \$610,871 largely as a result of a reduction in accounts receivable of \$507,649.

The working capital as at March 31, 2010 was \$1,678,000 compared with \$3,022,714 as at December 31, 2009 and the current ratio (current assets to current liabilities) was 1.8 to 1 at March 31, 2010 compared with 2.5 to 1 at December 31, 2009. The decrease in working capital was largely due to the cash used for operations in the quarter of \$736,125 along with the reduction in accounts receivable of \$507,649.

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

	March 31, 2010	December 31, 2009
Working capital	\$ 1,678,000	\$ 3,022,714
Current ratio	1.8 to 1.0	2.5 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 2010 or 2009.

During the quarter ended March 31, 2010, the Company incurred a net loss of \$2,014,444 (2009 - \$2,127,404) and used cash from operations of \$736,125 (2009 - \$1,407,525). At March 31, 2010, the Company held \$1,139,425 in cash to support operations. 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 requires 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 are projected be depleted in the next 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 under the terms of the agreement, mature on the second anniversary of closing, and are convertible at the option of the holders into common shares of IPICO at a price of \$0.25 per share.

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,	
	2010	2009
Legal Fees to the firm of a Company Director	\$ 31,415	\$ 55,707

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. In accordance with the CICA Emerging Issues Committee – EIC 132 “*Share Purchase Financing*”, the loan receivable has been classified as an offset to the related share capital purchase and accounted for as stock based compensation. 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

There have been no changes in the Company’s business risks described in the December 31, 2009 MD&A.

CHANGES IN ACCOUNTING POLICIES

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 a 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 of the Company. 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, including First-Time Adoption of IFRS 1, Functional Currency Translation, Stock Based Compensation, Impairment of Assets, Business Combinations and Convertible Debentures.

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:

	March 31, 2010	December 31, 2009
Held for trading (1)	\$ 1,139,425	\$ 1,873,268
Loans and receivables (2)	672,449	1,095,136
Other financial liabilities (3)	10,677,687	10,391,145

(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 \$5,347,000 and the fair value of convertible debentures is estimated to be \$3,301,000.

SUMMARY OF OUTSTANDING SHARE DATA

	May 27, 2010	March 31, 2010	December 31, 2009
Number of common shares	55,571,165	55,571,165	55,571,165
Number of preferred Shares	5,000,000	5,000,000	5,000,000
Closing common share price	\$ 0.08	\$ 0.15	\$ 0.23

Authorized

Unlimited number of common shares, voting

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

As of May 27, 2010, the Company has 55,571,165 common shares outstanding, 14,350,000 of warrants outstanding and 4,277,499 stock options outstanding. The Company also has 5,000,000 of 5% cumulative redeemable convertible Class A preferred shares.

During the quarter ended March 31, 2010 no stock options were granted and 195,834 options forfeited. During the quarter ended March 31, 2009 1,600,000 stock options were granted and 150,834 options forfeited.

Internal Controls over Financial Reporting

There were no substantive changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.