

**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 second quarter ended June 30, 2008. 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, 2007 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 August 12, 2008.

**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 55 employees as of June 30, 2008 consistent with March 31, 2008 and December 31, 2007 and up from 50 at June 30, 2007 and has offices in seven locations including Burlington (Canada), Atlanta

(USA), Valence (France), Pretoria (South Africa), Shanghai (People's Republic of China), Beijing (People's Republic of China), and Brisbane (Australia).

## **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 service line solutions targeted for these strategic markets include Electronic Vehicle Identification (EVI); Returnable Transport Items (RTI), Paper & Packaging, and Sports Timekeeping.

The Company continued in the second quarter to progress on several key initiatives spanning four continents in each of its core solutions. This included EVI with China's National Academy of Transportation Sciences ("CNATS") to address China's demand for cost-effective traffic management systems; Paper & Packaging with Sonoco Products Co. ("Sonoco") to co-develop and commercialize RFID technology for Sonoco's paper making tube and core business; RTI with CHEP Australia Limited ("CHEP") to test and develop IPICO's passive dual-frequency RFID tags in CHEP Australia's packaging solutions for the Australian and New Zealand returnable plastic container market; and Sports Timekeeping where the Company's cost effective RFID Sports Timekeeping solution is being delivered to the global sports timekeeping market through an exclusive distributor, Mercury Sports Group Inc. ("Mercury") under the "IPICO SPORTS" brand.

Key highlights in the second quarter of 2008 were:

- Revenue of \$1,180,958 compared to \$1,010,367 in the prior year quarter.
- The Company announced the availability of the world's first RFID (Radio Frequency Identification) enabled core solution specifically designed for the paper industry. Using IPICO's dual frequency technology, the new fiber cores allow customers to automatically identify, track, and locate paper rolls at any point in the supply chain. Leading paper manufacturers have long sought reliable and cost-effective tools to help their customers instantly track exact paper roll location, recognizing that paper grade identification, storage visibility and waste reduction are key opportunities for cost savings and profit enhancement. This new technology shows potential to deliver important financial and environmental benefits to customers around the world in the management of the hundreds of millions of rolls produced annually. The solution is designed as an end-to-end management solution dedicated to improving the user's bottom line and assist in tracking.

## **RESULTS OF OPERATIONS**

This section discusses the financial results of IPICO for the second quarter and six month period ended June 30, 2008.

### **Revenue**

Revenue for the second quarter ended June 30, 2008 was \$1,180,958 compared to \$1,010,367 in the second quarter of 2007. Revenue for the six months ended June 30, 2008 was \$2,200,071 up from \$1,510,873 in the prior six month period. Revenue included contributions from several of the Company's product offerings including Sports Timekeeping RFID tag and reader products and royalties.

### **Gross Margin**

Gross margin for the second quarter of 2008 was \$518,950 compared to \$337,894 in the prior year quarter reflecting an increased contribution from royalty revenue. Gross margin for the year-to-date increased to \$930,887 from \$491,208 in the prior year period. The increases largely reflect the increased contribution from

royalty revenue. The gross margin as a percentage of revenue in the second quarter increased to 43.9% from 33.4% largely due to the increased contribution from royalties and the approximate 35% margin from the Sports Timekeeping revenue.

## **Operating Expenses**

Total operating expenses for the quarter ended June 30, 2008 were \$3,040,469 compared to \$2,214,192 for the prior year quarter while total operating expenses for the year-to-date 2008 were \$5,796,960 compared to \$4,483,256 for the prior year-to-date. The increases reflect the additional investment in development, sales and marketing and general and administrative functions. This included investment in supply chain management, along with increased employee related costs to support the continued commercialization of the Company's products and solutions and the achievement of its business plan.

Development costs for the quarter ended June 30, 2008 were \$589,294 up from \$352,595 in the prior year quarter and were \$1,035,156 for the year to date 2008 up from \$824,549 in the prior year-to-date. Development costs are comprised of internal development costs, which are largely engineering staff costs, and external, third party, development costs, which include costs for the certification of IPICO's RFID products. Development costs can fluctuate from quarter to quarter depending on the timing of activities and the Company expects development costs to increase in support of product development and certification activities.

Sales and marketing costs were \$871,024 for the second quarter and \$1,731,351 for the year to date up from \$540,143 in the prior year quarter and \$1,221,032 in the prior year-to-date as the Company increased its spending in support of the commercialization of its products and the achievement of its revenue growth objectives. The Company expects its sales and marketing costs to continue at these levels in with continued investment in service delivery capabilities to support key initiatives in several of its targeted service lines.

General and administration costs for the quarter were \$1,221,602 up from \$776,716 in the prior year quarter and \$2,285,388 for the current year-to-date up from \$1,449,987 for the prior year-to-date. General and administration costs include costs of the executive group, the finance and administrative function and the management of manufacturing and logistics and the increase reflects increases in staffing to support supply chain capabilities along with increases in other general corporate costs including stock-based compensation expense along with the start of the implementation of a new global ERP system and are expected to continue at current levels.

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 two quarters of 2008, the Company recorded a foreign exchange gain of \$18,593 and \$3,992 in the second quarter and year-to-date respectively. This compares to a loss of \$166,746 in the prior year quarter and a loss of \$237,145 in the prior year-to-date.

Amortization of intangibles was \$349,535 for the quarter ended June 30, 2008 and \$699,070 for the year to date which is consistent with the prior year quarter and year-to-date.

Interest expense in the second quarter of 2008 was \$23,192 compared to interest expense of \$275,189 in the prior year quarter and \$174,062 for the current year-to-date compared to \$516,719 in the prior year-to-date largely 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 increased to \$2,521,519 for the quarter ended June 30, 2008 from \$1,876,298 in the prior year quarter largely reflecting the increased operating expenses offset by the increase in gross margin. Similarly, the loss from operations for the year-to-date increased to \$4,866,073 compared to \$3,992,048 for the prior year-to-date.

The lower interest expense resulted in a net loss for the quarter ended June 30, 2008 of \$2,528,051 compared with a net loss of \$2,134,827 in the prior year quarter and a net loss of \$5,006,815 for the year-to-date compared to \$4,475,447 in the prior year-to-date.

## 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 June 30, 2008. 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 increase 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)	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Revenue	1,180	1,019	602	1,058	1,010	501	343	262
Gross margin	518	412	176	330	338	153	221	87
Gross margin %	44	40	29	33	31	30	64	33
Total operating expenses	3,040	2,756	2,445	2,423	2,214	2,269	2,393	2,228
Net loss	(2,528)	(2,479)	(2,476)	(2,352)	(2,134)	(2,341)	(2,201)	(2,164)
Net loss per share, basic and diluted	(0.05)	(0.05)	(0.06)	(0.07)	(0.07)	(0.09)	(0.09)	(0.09)

Revenue for the second quarter of 2008 were \$1,180,958 up from \$1,019,113 in the previous quarter, comparable with the second and third quarters of 2007 with the fourth quarter of 2007 being somewhat lower reflecting generally a slower quarter for product shipments. The quarterly revenues for the latest five quarters were up over the previous quarters due largely to the contribution from the Sports Timekeeping product sales which began in Q2 of 2007.

Gross margin in the second quarter of 2008 was \$518,950 or 43.9% of revenues up from \$411,937 or 40.4% of revenues in the first quarter reflecting increased contribution from royalties. This compares to \$175,581 in the fourth quarter of 2007 or 30.6% of revenue reflecting the increase in revenues including increased contribution from royalties over the fourth quarter of 2007. While the gross margin percentage may fluctuate from quarter to quarter it was approximately 31% for the four quarters of 2007 which is consistent with the Company's near term business model. During the two quarters of 2006, the Company was in the early stages of its product commercialization and experienced fluctuations in its gross margin percentage.

During the four quarters of 2007, total operating expenses continued at levels comparable to the last two quarters of 2006 and experienced some moderate fluctuations due to the timing of expenditures on trials, pilots and the continued development and certification of its RFID products. Total operating costs increased in the first two quarters of 2008 reflecting the Company's planned increased investment in product development along with supply chain and service delivery capabilities.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents at June 30, 2008 were \$9,313,508 compared with \$7,914,550 at December 31, 2007. The increase is largely due to the net proceeds of \$6,037,684 from the issuance of common shares and common share warrants in the first quarter while cash used for operating activities for the two quarters ended June 30, 2008 was \$4,668,163.

The working capital as at June 30, 2008 was \$11,947,316 compared with \$9,747,126 as at December 31, 2007 and the current ratio (current assets to current liabilities) was 6.6 to 1 at June 30, 2008 compared with 7.3 to 1 at December 31, 2007. The increase in working capital of \$2,200,190 was largely due to the increase in cash and cash equivalents of \$1,398,958 and the increased investment in accounts receivable of \$1,216,342 offset by the increase in accounts payable and accrued liabilities of \$509,755.

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

	June 30, 2008	March 31, 2008	December 31, 2007
Working capital	\$ 11,947,316	\$ 13,894,428	\$ 9,747,126
Current ratio	6.6 to 1.0	8.5 to 1.0	7.3 to 1.0

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

Capital expenditures, primarily related to computer equipment in the second quarter of 2008, were \$12,538 compared to \$32,927 in the prior year quarter.

During the six months ended June 30, 2008, the Company incurred a net loss of \$5,006,815 (2007 - \$4,475,447) and used cash from operations of \$4,668,163 (2007 - \$4,506,614). To date, the Company has relied primarily upon the proceeds from private placements and public offerings of its common shares to fund its operations. The Company anticipates that, based on current plans and assumptions relating to its operations, including continued investment in the innovation and commercialization of its products and the investment in working capital to support the planned growth in revenue, it may require additional funding. This funding could include incurring debt and issuing additional equity securities, which could result in substantial dilution to existing shareholders. However, there can be no assurance that Company's plans will be successful and that additional funding will be available or, if available, that it will be available on acceptable terms.

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

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

On March 30, 2006 the Company, as part of the purchase price of certain assets of iPico Holdings (Pty) Ltd., issued \$4,475,772 in a 3% per annum interest-bearing purchase debenture which matured on March 30, 2007 and was converted, by IPICO, into 4,475,772 Common Shares. As the debentures were treated as share capital, the interest expense during each quarter was treated as a dividend. The dividend accrued on the purchase debentures during the quarter ended March 31, 2007 was \$33,568 and the full dividend of \$134,273 was paid shortly after March 31, 2007.

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		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Legal Fees to the firm of a Company Director	<b>\$48,044</b>	\$93,999	<b>\$179,960</b>	\$158,623

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

- a) \$60,000 on April 5, 2008,
- b) \$60,000 on April 5, 2009
- c) \$60,000 if on or prior to March 30, 2009 the Company has successfully raised additional capital of no less than an aggregate of \$15,000,000 at a price per share at least equivalent to \$1.50 per share of the date of completion of such raise
- d) \$60,000 if on or prior to March 30, 2009 the 20 day weighted average closing trading price of the Company's shares on the TSXV exceeds \$2.50 per share
- e) With the remainder due on December 31, 2011.

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

## RISKS AND UNCERTAINTIES

There have been no changes in the Company's business risks described in the December 31, 2007 MD&A and Annual Information Form.

## CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

### **Impact of recently issued accounting pronouncements**

In February 2008, the CICA approved Handbook Section 3064 Goodwill and Intangible Assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. Standards concerning goodwill are unchanged. This new standard is applicable to fiscal years beginning on or after October 1, 2008. The Company is evaluating the impact of the new section on the consolidated financial statements.

### **SUMMARY OF OUTSTANDING SHARE DATA**

	<b>June 30, 2008</b>	December 31, 2007	December 31, 2006
Number of common shares	<b>54,832,066</b>	41,851,561	24,633,136
Number of preferred shares	<b>5,000,000</b>	5,000,000	5,000,000
Closing common share price	<b>\$ 0.45</b>	\$ 1.64	\$ 0.75

### **Authorized**

Unlimited number of common shares, voting

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

During the second quarter ended June 30, 2008 300,000 stock options were granted and 160,000 stock options were forfeited.

As of August 12, 2008, the Company had 54,832,066 common shares, 18,257,175 warrants, 2,595,562 exchangeable shares of IPICO South Africa (Pty) Ltd. and 3,670,000 stock options outstanding. The Company also has 5,000,000 of 5% cumulative redeemable convertible Class A preferred shares.

### **Internal Controls over Financial Reporting**

There have been no substantive changes in the Company's internal controls over financial reporting during the most recent quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.