

IP APPLICATIONS CORP.

Year Ended December 31, 2008

**MANAGEMENT DISCUSSION AND
ANALYSIS**

April 23, 2009

This Management's Discussion and Analysis ("MD&A") dated April 23, 2009 is supplementary to, and should be read in conjunction with, the audited financial statements for the year ended December 31, 2008 and the Company's MD&A and annual audited financial statements for the year ended December 31, 2007. The Company's consolidated financial statements and the notes thereto have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and have been audited by the Company's external auditors PricewaterhouseCoopers. The statements and MD&A were reviewed by the Company's Audit Committee and approved by the Board of Directors. All amounts are in Canadian dollars unless otherwise stated.

FORWARD LOOKING STATEMENTS

This MD&A contains forward-looking statements that relate to our current expectations and views of future events. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs.

These forward-looking statements include, among other things, statements relating to:

- The Company's revenues, expenses and cash flows
- its expectation of generating positive cash flows from our traditional Customer Care and Hosted Services business segments
- its expectation of continuing to allocate significant resources to, and incur negative cash flows from, advancing its billing and payment hosted application business segment
- its expectation that in order to execute overall business strategy, the Company must raise additional equity in the near term through the capital markets.

These forward-looking statements are based on assumptions, which include but are not limited to:

- continuing the Company's strong relationships with existing key customers and suppliers
- effectively managing foreign exchange risks
- continuing to sign new customers for its billing and payments application in the fast-growing Software as a Service ("SaaS") market
- continuing to enhance and solidify the billing and payment platform and product
- effectively monitoring and managing the monthly cash usage
- complying with applicable governmental regulations and standards.

Such forward-looking statements are subject to risks, uncertainties and other factors, including those described in "Risks and Uncertainties," many of which are beyond the Company's control and each of which contributes to the possibility that our forward-looking statements will not occur or that actual results, performance or achievements may differ materially from those expressed or implied by such statements.

The impact of any risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these risks, uncertainties and factors are interdependent and management's future course of action depends upon our assessment of all information available at the time.

The forward-looking statements made in this MD&A relate only to events or information as of the date indicated above. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. The reader should review this MD&A in its entirety and with the understanding that our actual future results may be materially different from what we expect.

CORPORATE OVERVIEW: HISTORY AND STRATEGY

IP Applications (“IPA” or “the Company”) delivers billing, payments processing and technical support services. The Company’s application software, which itself is delivered as a service, generates monthly recurring revenue and has been used by telecom customers, independent Internet Service Providers (“ISP”), and on-line marketing companies for nearly a decade. The core billing and payments application provides a robust, comprehensive and reliable platform that our customers use to automate the administration, invoicing and payment of their service contracts. In essence, IPA’s products and services allow its customers to focus on their product technology and marketing while we reduce the burden of solving their subscription management, payment processing and end-user satisfaction issues.

History

Listed on the Toronto Venture Exchange (TSX-V:IPX), IPA was founded in 1998 as a regional ISP. As the ISP market first expanded and then consolidated, the Company developed into a multi-tenant, white-labeled provider of Internet services and Operation Support System (“OSS”) support to telecom and other Internet service marketing companies. In 2004 the Company acquired technical support and payment processing companies to broaden and complement its existing suite of products and services.

In 2005, the Company purchased two significant blocks of customer contracts from US-based companies. These purchases served to generate record revenues of \$9.3 million in 2006. Two of the customers acquired remain today among our top five revenue generating customers. 2006 and 2007 proved to be a challenging period for the Company as it struggled to stabilize and overcome the impacts of steadily declining subscribers and end-users from its core customers, consistently tightening gross margins and a declining US dollar.

Beginning in 2007 and culminating in 2008, management explored many avenues in an effort to identify higher margin lines of business and markets with strong growth potential. By mid-2008, the Company decided to focus and leverage its experience and existing technology to offer its billing and payments services to the emerging SaaS and Cloud Computing markets.

Market and Strategy

In the eleven years since inception, IPA has always been in the business of supporting and responding to the needs of companies delivering services over the Internet. What services the Company provides and to whom, has evolved constantly over that span as well.

Today, the Company believes that growth opportunities within the SaaS and Cloud Computing markets are sizeable and ideally suited for IPA's expertise and products. This overall market is forecast by International Data Corporation ("IDC") to grow from \$16 billion today to over \$42 billion by 2012. IPA is well positioned to penetrate a specific segment of this market, as it has identified a target niche of providing a billing and payments solution to software companies delivering Cloud-based software. Cloud computing is a style of computing in which dynamically scalable and often virtualised resources are provided as a service over the Internet to customers, whose end users are not required to have knowledge, expertise or control over the technology infrastructure.

As high-speed Internet connections have become common-place, there is a rapidly expanding opportunity for software companies to transform sales of their traditional installed software product, to a new distribution model where users subscribe to "rent" the software rather than buying and installing it outright. Delivery of software by subscription over the Internet is referred to as SaaS. The projected rapid growth in this market is driven by the simple facts that SaaS deployment and delivery results in significantly reduced IT costs and increased IT flexibility to the purchasing consumer or enterprise. From the software company's perspective, in order to transition quickly to this new delivery model, they need a payments and billing engine that they don't have to design and build themselves.

Extensive expertise in working with on-line products and customers, coupled with the technology that IPA has compiled over the last decade, give the Company unique capabilities to enable and support this software delivery process. For the past year, the Company has endeavoured to validate the target markets, refine its technology and identify future customers and key partnerships. We feel that IPA has the most mature and capable billing and payments solution for this SaaS/Cloud market. Though appreciable revenues derived from this segment will likely not manifest before 2010, the Company is committed to this strategy and continues to focus and allocate a majority of its product development and sales and marketing resources towards it.

Over the past fifteen months, IPA has dramatically shifted its business strategy. It has begun the transition away from its old telecom and ISP-focused roots, whereby the Company inevitably inherited the problems systemic to that model; namely steady downward price pressures; constant subscriber churn; and shrinking margins. With the move towards SaaS and its high margin, high growth prospects, IPA has effectively repositioned itself from being a solution to its customers' cost problems to being a solution for its growth problems.

FISCAL 2008 OVERVIEW

- Revenues of \$5.7M (“Million”) for the year ended December 31, 2008, represent a 26% decrease from the \$7.7M recognized for the year ended December 31, 2007.
- Gross margin decreased to 38% in the current year, as compared to 44% in 2007.
- Operating expenses decreased 23% to \$3.1M in 2008, as compared to \$4.0M in 2007
- Net loss of \$1.0M represents a 5% increase on the net loss of \$0.9M incurred in 2007.
- During Q4 2008, with a goal to further improve margins, completed an orderly shutdown of the Vancouver call center and migrated all technical support calls to our offshore call center partner.
- During Q3 2008, closed a non-brokered private placement of 3.9M shares for total net proceeds of \$0.7M.
- Achieved certification to Payment Card Industry Data Security Standard (“PCI-DSS”) and completed the implementation of a new transaction interface to the Canadian and US banking systems. IPA now processes all of its customers’ payments through its own PCI-DSS compliant data centre.
- Engaged specialist SaaS market and business strategy consultants to assist in clarifying and validating the Company’s product positioning and value proposition.
- Repurposed its already developed products and services to address the emerging, high value SaaS and Cloud computing markets.

SELECTED ANNUAL INFORMATION

The table below details selected information for the past three audited fiscal and calendar year end periods.

| | 2008 | 2007 | 2006 |
|--------------------------------|-------------|-------------|---------------|
| Statement of Operations | | | |
| Revenue | \$5,703,748 | \$7,736,544 | \$9,283,182 |
| Direct Costs | 3,564,647 | 4,366,524 | 5,542,523 |
| Operating Expenses | 3,094,283 | 4,025,694 | 5,799,822 |
| Non-recurring Items | 1,533 | (254,351) | (824,290) |
| Net Loss | \$(953,649) | \$(910,025) | \$(2,883,453) |
| Loss per share - basic | (0.03) | (0.05) | (0.19) |

| | | | |
|---------------------------------|-------------|-------------|-------------|
| Balance Sheet | | | |
| Current Assets | \$1,140,902 | \$1,433,387 | \$1,045,193 |
| Capital Assets | 414,029 | 528,941 | 911,077 |
| Current Liabilities | 740,455 | 951,818 | 1,680,836 |
| Obligations under capital lease | - | 41,938 | 60,541 |
| Convertible debentures | - | - | 646,379 |
| Other long-term liabilities | 178,363 | 208,298 | 293,259 |
| Shareholder's Equity | 636,113 | \$760,274 | \$(724,745) |

After reaching a historical peak of \$9.3 million in 2006, overall revenues have steadily declined. 2008 revenues of \$5.7 million are 26% below 2007 levels and 39% less than the peak revenues achieved in 2006. Though the Company has experienced some customer turnover and market dynamics have necessitated price reductions to key customers, the most significant influence on revenue decline has been the steadily deteriorating user/subscriber base of our long-time customers. This resulted in a correspondingly reduced demand for our traditional technical support and hosted applications service offerings. To illustrate, 2008 billed customer support minutes declined 22% over 2007 levels.

Further influencing revenues and cash flow have been the dramatic swings in the C\$/US\$ exchange rate. As approximately 80% of revenues are invoiced in US dollars, the devaluation of the US\$ relative to the C\$, has had primarily negative ramifications to the Company over the past three years.

While the exchange rate was relatively steady at an average rate of 1.15 throughout 2006, the Company had to contend with the negative cash flow implications of a strengthened C\$ throughout 2007 and most of 2008.

| | Dec 31 2008 | Sep 30 2008 | Jun 30 2008 | Mar 31 2008 | Dec 31 2007 | Sep 30 2007 | Jun 30 2007 | Mar 31 2007 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| Average US/C\$ exchange rate as a % of Q1 2007 FX rates | 103% | 89% | 86% | 86% | 84% | 89% | 94% | 100% |
| Average Q FX rate | 1.2125 | 1.0418 | 1.0100 | 1.0041 | 0.9818 | 1.0446 | 1.0981 | 1.1716 |

Despite the materially negative influences of fluctuating exchange rates and a continually deteriorating user/subscription base in a majority of customers, the Company still managed to improve upon, (or at least maintain) gross margin and net operating results. Through a continuous process of rationalization of key operating expenses, gross margin improved to 44% in 2007 as compared to 40% in 2006 and operating expenses (as a % of revenue) decreased to 52% in 2008 as compared to 62% in 2006. In 2008, operating expenses increased marginally to 54% but gross margins suffered a setback to 38% principally as a result of the one-time shutdown costs associated with migrating over customer technical support fully offshore. Severance costs and costs involved with the labor overlap and operation of two call facilities during the transition in Q4 2008 aggregated to approximately \$220,000.

Our net loss improved from \$2.9 million in 2006 and stabilized in the \$0.9 million range for 2007 and 2008. We steadily achieved the goal of improving the operating margins stemming from our traditional business segment of Customer Support and Hosted Applications. However, with a significant portion of resources being allocated towards the SaaS billing and payments segment (which contributed modest revenues in 2008), our overall monthly cash usage from operations remained consistent with those incurred in 2007.

With respect to the balance sheet, multiple cash financings totaling \$2.6M over the fiscal periods 2006-2008, were utilized to cover operating losses as well as to reduce current liability obligations by 56% to \$0.7 million in 2008 from \$1.7 million in 2006.

RESULTS OF OPERATIONS

Year ended December 31, 2008 compared to the year ended December 31, 2007

| | 2008 | % of Revenue | 2007 | % of Revenue |
|----------------------------|--------------------|--------------|--------------------|--------------|
| Revenue | \$5,703,748 | | \$7,736,544 | |
| Direct costs | 3,564,647 | | 4,366,524 | |
| Gross Margin | 2,139,101 | 38% | 3,370,020 | 44% |
| Amortization | 184,303 | 3% | 462,008 | 6% |
| General & administrative | 1,296,391 | 23% | 1,619,319 | 21% |
| Marketing & selling | 394,138 | 7% | 362,599 | 5% |
| Stock based compensation | 113,926 | 2% | 165,614 | 2% |
| Technical & development | 1,105,525 | 19% | 1,416,154 | 18% |
| Operating Expenses | 3,094,283 | | 4,025,694 | |
| Loss before other expenses | (955,182) | | (655,674) | |
| Interest accretion | - | | (257,401) | |
| Interest and other income | 1,533 | | 3,050 | |
| Net Loss | \$(953,649) | | \$(910,025) | |

Revenue

Revenues include fees for subscription management, provisioning, payment processing, customer care and third party products and services. These fees are primarily recurring monthly and are earned on a per-end-user or per-minute basis. The Company also charges additional fees to clients for adding new end-users and new services onto the Company's platform.

Revenues of \$5.7 million for the year ended December 31, 2008 represent a decrease of \$2.0 million (or 26%) over the corresponding period in the prior year. This net decline can be substantially attributed to the departure of a key technical support customer in Q1 2008 and a decrease in revenue derived from our four largest customers in 2008, relative to 2007. The decision by our then largest technical support customer to repatriate their support services back in-house resulted in a year over year decline of approximately \$0.7 million. Through a combination of pricing concessions afforded to three of our four largest customers, and the steadily attriting user base and/or volume usage experienced by those same customers, revenues declined an aggregate of approximately \$1.3 million.

Direct Costs

Direct costs include expenses related to providing subscription management, provisioning, payment processing, customer care and third party products and services. The majority of these costs are proportionate to connection time for third-party connection services and customer care technical support to the customers' subscribers.

Direct costs of \$3.6 million for the twelve months ended December 31, 2008 represent a decrease of \$0.8 million (or 18%) over the corresponding prior twelve months. This decrease can be primarily broken down by key expense components: i) third-party service costs decreased by \$505,707; ii) commissions paid decreased by \$192,166; and iii) technical support wages decreased by \$79,823.

The decrease in third party service costs is directly correlated with the continuing dialup usage decline and subscriber base decline experienced by many of our established customers. Commissions declined due to the reduced dial-up revenue, but also due to the expiration, at the end of Q1 2008, of one of two commissions streams paid to Sourcenet.

The largest factor contributing to the decline in gross margin (from 44% in 2007 to 38% in 2008) stems from headcount inefficiencies in technical support wages in the customer care call centers. IPA experienced an expected net decline in overall call center wages as a result of i) handled billable minutes declined 22% in 2008 from 2007; and ii) we increased the proportion of minutes handled by our lower cost offshore partner from 30% in 2007 to 60% in 2008 (this figure rose to 99% by December 31, 2008). However the 2008 gross margin was negatively impacted as we absorbed the non-recurring shutdown costs of approximately \$220,000 associated with the Vancouver call centre.

Operating Expenses

Amortization – Amortization expense decreased \$277,705 (or 60%) during the year ended December 31, 2008 relative to 2007. This is largely because several capital assets financed under capital leases were depreciating through much of 2007, but were completely amortized by Q1 2008.

General & administrative – These costs include general office expenses, rent and occupancy fees, insurance, regulatory costs, director's fees, consulting fees, professional fees, realized foreign exchange gain/losses and salaries paid to finance and administration staff of the Company.

Headcount was unchanged and key administrative expenses were relatively stable year over year. The net decrease of \$322,928 (or 20%) during 2008 relative to the prior year can be primarily attributed to i) significant fluctuations in the foreign exchange rate resulting in a net positive variance of \$182,956; and ii) debenture interest of \$100,699 was incurred only in 2007.

Marketing & selling – These costs include travel, attendance and participation at trade shows, printed material, consulting costs and salaries and commissions paid to sales and marketing staff of the Company.

There was a net increase in costs of \$31,539 (or 9%) during 2008. A net reduction in salary costs from 2007 levels was offset by a relatively equal increase in third-party consultant costs in 2008. The bulk of the increase derives from costs associated with travel and increasing attendance at trade shows.

Technical & development – Salaries related to Development and Operations staff comprise the significant portion of these costs. The decrease of \$310,629 (or 22%) for 2008 reflects the net reduction of one Development and five Operations employees. Further, there was a reduction in the usage of development related third-party consultants in 2008, relative to 2007.

Stock based compensation – These costs represent the expense associated with stock options granted to employees, directors and consultants. The amount recorded in a particular period is directly related to the number of options that have vested with recipients during that period. Stock-based compensation expense recognized during 2008 was \$113,926, a decrease of \$51,688 (or 31%) over 2007.

Convertible Debenture interest accretion – The Company completed two financings of convertible debentures in each of 2005 and 2006 aggregating to \$960,130. The fair value of the common share conversion feature was valued at \$463,661. This amount was being accreted on a straight line basis over the term of the debt. Accretion expense recognized during 2007 was \$257,401. Effective in October 2007, holders of the convertible debenture agreed to convert the principal and accrued interest of \$1,086,736 in exchange for 7,762,400 common shares of the Company. Thus the accretion had been fully expensed by December 31, 2007.

Divisional Segmentation

The Company has long performed subscription management and billing support for customers including AOL, Bell Mobility and Amway. In effect, for some time, the Company has provided those services as SaaS. The Company believes that strong growth is possible within this high margin segment of its business and as a result, the Company has chosen to focus on SaaS as the primary creator of future shareholder value.

The following table estimates the proportion of the Company's activities for 2008 attributable to SaaS subscription management and billing services, compared with those related to the rest of its operations. Expenses have been largely apportioned based on an estimate of the time spent on SaaS related pursuits by various company personnel. Given that management of the Company is largely focused on understanding and developing this new value creation opportunity, a large amount of operating expenses (relative to revenue) have been allocated to SaaS related endeavors.

| | SaaS | Help Desk & Hosted Applications | Consolidated Operations Twelve Months to December 31, 2008 |
|---------------------------|---------------|---------------------------------------|---|
| Revenue | 585,000 | 5,118,748 | 5,703,748 |
| Direct Costs | <u>58,500</u> | <u>3,506,147</u> | <u>3,564,647</u> |
| Gross Margin | 526,500 | 1,612,601 | 2,139,101 |
| General & administrative | 420,163 | 874,695 | 1,294,858 |
| Marketing and selling | 318,629 | 75,509 | 394,138 |
| Technical & development | 542,927 | 562,598 | 1,105,525 |
| Amortization | 83,663 | 100,640 | 184,303 |
| Stock-based comp | <u>53,602</u> | <u>60,324</u> | <u>113,926</u> |
| Operating Expenses | 1,418,984 | 1,673,766 | 3,092,750 |
| Net Loss | (892,484) | (61,165) | (953,649) |

Significant losses will be incurred and we would expect them to continue for some time, as the Company completes the transformation into a SaaS company. We don't expect appreciable SaaS revenue growth to manifest before 2010. As well, expenses will not diminish, as a majority of personnel and operating costs will continue to be focused on advancing our SaaS products and customer base.

SELECTED QUARTERLY INFORMATION

The table below details selected operating results for the past eight fiscal quarters (in \$ thousands, except per share figures)

| | Dec 31 2008 | Sep 30 2008 | Jun 30 2008 | Mar 31 2008 | Dec 31 2007 | Sep 30 2007 | Jun 30 2007 | Mar 31 2007 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,374 | 1,329 | 1,315 | 1,685 | 1,833 | 1,878 | 1,882 | 2,143 |
| Direct Costs | 878 | 788 | 863 | 1,036 | 1,098 | 1,043 | 1,080 | 1,145 |
| Expenses | 734 | 745 | 826 | 787 | 1,015 | 1,032 | 1,049 | 1,184 |
| Net Loss | (238) | (204) | (374) | (138) | (280) | (197) | (247) | (186) |
| EBITDA (Loss) ⁽¹⁾ | (166) | (162) | (313) | (99) | (132) | (7) | (13) | 25 |
| Net Loss per share - basic | (0.007) | (0.006) | (0.01) | (0.00) | (0.01) | (0.01) | (0.02) | (0.01) |

(1) - The Company discloses Earnings Before Interest, Taxes, Depreciation and Amortization – and other non-recurring and non-cash expense items (“EBITDA”), which is an approximate measure of operating results based on selected financial data from the Company’s Statements of Cash Flows. The Q4 2008 EBITDA figure excludes the impact from realized and unrealized foreign exchange (gains)/losses. EBITDA is not a measure that is governed and defined by generally accepted accounting principles. Readers are cautioned that EBITDA as calculated by the Company may not be comparable to similarly titled amounts reported by other companies. The disclosure of EBITDA is intended to add to and not replace the discussion of financial results or cash flow from operations.

RESULTS OF OPERATIONS

Quarter ended December 31, 2008 compared to quarter ended December 31, 2007

| | 2008 December 31 (three months) | % of Revenue | 2007 December 31 (three months) | % of Revenue |
|----------------------------|--|-------------------------|--|-------------------------|
| Revenue | \$1,374,134 | | \$1,832,802 | |
| Direct costs | 878,543 | | 1,098,049 | |
| Gross Margin | 495,591 | 36% | 734,753 | 40% |
| Amortization | 47,314 | 3% | 111,115 | 6% |
| General & administrative | 285,395 | 21% | 409,364 | 22% |
| Marketing & selling | 113,013 | 8% | 65,793 | 4% |
| Stock based compensation | 32,589 | 2% | 37,032 | 2% |
| Technical & development | 255,908 | 19% | 366,507 | 20% |
| Operating Expenses | 734,219 | | 989,811 | |
| Interest accretion | - | | (25,570) | |
| Loss before other expenses | (238,628) | | (280,631) | |
| Interest and other income | 151 | | 615 | |
| Net Loss | \$(238,477) | | \$(280,013) | |

Revenue

Revenues include fees for subscription management, provisioning, payment processing, customer care and third party products and services. These fees are primarily recurring monthly and are earned on a per-end-user or per-minute basis. The Company also charges additional fees to clients for adding new end-users and new services onto the Company's platform.

Revenues of \$1.4 million for the three months ended December 31, 2008 represent a net decrease of \$458,668 (or 25%) over the corresponding quarter in the prior year. Revenues derived from new customers and growth in some existing customers substantially offset the declines experienced by other existing customers. The significant reason for the overall decrease pertains to the departure of a large call center customer early in 2008 resulting in a quarter over quarter decline of approximately \$0.4 million.

Direct Costs

Direct costs include expenses related to providing subscription management, provisioning, payment processing, customer care and third party products and services. The majority of these costs are proportionate to connection time for third-party connection services and customer care support to the customers' subscribers.

Direct costs of \$0.9 million for Q4 2008 represent a decrease of \$219,506 (or 20%) over the corresponding quarter in the prior year. This decrease can be broken down by key category expenses: i) third-party service costs and commissions decreased a combined \$42,632 as user dialup hours declined; and ii) technical support wages in the customer care call centers decreased by \$154,034 quarter over quarter.

Wages related to the Vancouver call centre decreased substantially as the FTE headcount dropped from an average of 59 in Q4 2007 to 15 in Q4 2008. Concurrently, expenses associated with our

lower cost offshore call centre steadily increased as they began to field 99% of the total call volume by late Q4 2008. Further, restructuring costs of approximately \$220,000 were incurred during the transition.

Operating Expenses

Amortization - Amortization expense decreased \$63,801 (or 57%) during the quarter ended December 31, 2008 relative to the quarter ended December 31, 2007. This decrease is primarily due to a one-time depreciation adjustment booked in December 2007.

General & administrative – These costs include general office expenses, rent and occupancy fees, insurance, bad debt expense, regulatory costs, director's fees, consulting fees, professional fees, realized foreign exchange gain/losses, and salaries paid to finance and administration staff of the Company.

There was a net decrease of \$123,969 (or 30%) during Q4 2008 relative to the corresponding quarter in the prior year. The two largest contributors to this decline were: i) significant foreign exchange fluctuations during the respective quarters which resulted in a positive variance of \$64,854, and ii) a large, one-time administrative payroll accrual of \$42,000 was incurred in Q4 2007.

Marketing & selling – These costs include travel, attendance and participation at trade shows, printed material, consulting costs and salaries and commissions paid to sales and marketing staff of the Company.

The net increase in costs of \$47,220 (or 72%) during Q4 2008 relative to 2007, is related to consultant costs incurred in Q4 2008 directly associated with developing strategy for our SaaS initiative.

Operations & development – Salaries related to Development and Operations personnel comprise the bulk of these costs. There was a net decrease of \$110,599 (or 30%) for Q4 2008. This reduction reflects the head count reductions of four full-time personnel quarter over quarter, and takes into account some severance costs incurred in Q4 2007.

Stock based compensation – These costs represent the expense associated with stock options granted to employees, directors and consultants. The amount recorded in a particular period is directly related to the number of options that have vested with recipients during that period. Stock-based compensation expense recognized during Q4 2008 was \$32,589, a decrease of \$4,443 (or 12%) over the 2007 quarter.

LIQUIDITY AND CASH FLOWS

For additional detail, see the Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007.

| Cash received from (used for) : | 2008 | 2007 |
|---------------------------------|-------------|-------------|
| Operating Activities | (817,425) | (285,816) |
| Investing Activities | (69,391) | (44,917) |
| Financing Activities | 622,371 | 968,617 |

As at December 31, 2008, the Company had cash and short term investments totaling \$575,773, a reduction of \$151,210, when compared to \$726,983 at December 31, 2007. As at the date of this MD&A, the Company had not drawn against its available credit facilities during 2008.

Operating Activities:

Excluding the impact from realized and unrealized foreign exchange (gains)/losses in 2008 and 2007, the Company's negative cash flow from operating activities was \$704,189. This represents a deterioration of \$397,279 from the operating cash usage of \$306,910 in 2007. The components contributing most to this increased cash usage were: i) increased EBITDA operating loss year over year of \$614,836; ii) reduced source of cash from accounts receivable of \$73,633 due to decreased 2008 revenue; offset by iii) reduced levels of payments of accounts payable and accrued liabilities, year over year, of \$353,229.

Investing Activities:

There was minimal cash used in investing activities in 2007 and 2008. In 2007, as a requirement of our credit facility set-up, we placed \$40,000 in a restricted cash account. Investment in capital equipment increased to \$69,391 in 2008 from \$4,917 in 2007.

Financing Activities:

Cash provided by financing activities for 2008 was \$622,371, compared to \$968,617 in 2007. Net proceeds received from private placements decreased \$472,284 to \$715,562 in 2008. Net payments under capital leases decreased \$166,038 to \$93,191 in 2008.

Financial Condition:

As at December 31, 2008, the Company had current assets of \$1,140,902 and current liabilities of \$740,455 for a working capital surplus of \$400,447. This represents a decline of \$81,122 from \$481,569 at December 31, 2007. While our current liabilities declined by \$211,363, our accounts receivable and cash balances deteriorated a combined \$265,518 as IPA's sales declined and cash was consumed to fund operations.

Since inception, the Company has financed operations and expansion through the issuance of equity or debt instruments. In mid-2008, IPA raised gross proceeds of \$775,000 in advance of the global economic crisis. IPA must raise additional capital in the near term to continue funding operations and advance its penetration into the SaaS billing and payments' realm.

The Company will remain disciplined and carefully monitor its monthly operating cash usage to adjust as necessary to the changing business environment. Despite the current general malaise of the economy and equity markets, IPA is confident that its strategic repurposing into the SaaS and Cloud Computing markets will generate sufficient interest to allow it to raise funds and meet its budget goals and obligations for at least the remainder of 2009.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We have no material off-balance sheet arrangements other than those disclosed in this section.

In 2008 we began to use forward foreign exchange contracts to manage our foreign exchange risk. As at December 31, 2008, there were three forward contracts outstanding to sell US dollars aggregating to US \$260,000. These contracts all expired by March 31, 2009.

The following table lists our material contractual obligations at December 31, 2008.

| | Total | Next year (2009) | 2-3 years | 4-5 years | After 5 years |
|-------------------------------------|------------------|-------------------------|------------------|------------------|----------------------|
| Premise lease | 3,330,768 | 470,844 | 938,965 | 972,114 | 948,845 |
| Equipment (capital leases) | 28,019 | 28,019 | - | - | - |
| Equipment (operating leases) | 30,965 | 9,722 | 18,446 | 2,797 | - |
| Purchase obligations ⁽¹⁾ | 55,684 | 52,077 | 3,607 | - | - |
| Total | 3,445,436 | 560,662 | 961,018 | 974,911 | 948,845 |

⁽¹⁾Our purchase obligations relate to our financed insurance policy annual premiums and equipment maintenance agreements.

GLOBAL MARKET AND ECONOMIC CONDITIONS

Through the second half of 2008, market and economic conditions faced unprecedented challenges with the tighter credit conditions and severe market declines. Into the first quarter of 2009, continued concerns about the systematic impact of these difficult economic times, geopolitical issues, the availability and cost of credit, and decline real estate markets have contributed to increased market volatility and diminished expectations for global economies. These conditions, combined with declining business and consumer confidence and increased unemployment, are contributing to volatility of unprecedented levels. Continued turbulence in our primary market, the United States, may adversely affect our liquidity and financial condition of our customers which may adversely affect results of operations.

To the date of this report, the Company does not appear to have been materially negatively affected by the poor North American economic condition and outlook. We have received positive feedback concerning new 2009 financing(s), our revenues from key customers have remained relatively stable and/or deteriorated at an anticipated pace, there are no concerns at present over the collectability of any of our material accounts receivable, and market and customer interest in our new billing and payments application has been strong.

TRANSACTIONS WITH RELATED PARTIES

Pender Growth Fund (“PGF”), a shareholder owning 39% of the shares of the Company, participated in the private placement of shares completed in July 2008. PGF acquired 1,250,000 shares of the Company at a price of \$0.20 per share, the same price offered to independent investors. A Director of the Company is a Director and Chairman of PGF.

CHANGES IN ACCOUNTING POLICIES

Adoption of new accounting standards

Capital Disclosures

Effective January 1, 2008, the Company adopted the CICA Handbook Section 1535, “Capital Disclosures,” which requires disclosure of information that enables users of financial statements to evaluate the Company’s objectives, policies and processes for managing capital including disclosures of externally imposed capital requirements and the consequences for non-compliance. This standard relates only to disclosure and presentation and has had no impact on the Company’s financial results.

Financial Instrument Disclosures

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, “Financial Instruments – Disclosures” and section 3863, “Financial Instruments – Presentation.” Collectively they replace section 3861, “Financial Instruments – Disclosure and Presentation.” The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. These new standards have been applied prospectively from the date of adoption.

General Standards of Financial Statement Presentation

In June 2007, the CICA amended Handbook section 1400, “General Standards of Financial Statement Presentation”, to include additional requirements to assess and disclose an entity’s ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1, 2008. The adoption of this standard has expanded the Company’s going concern note disclosure without impacting the Company’s operating results or financial position.

Financial Instruments

On January 1, 2007, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections 1530, “Comprehensive Income”; 3251, “Equity”; 3855, “Financial Instruments – Recognition and Measurement”; and 3861, “Financial Instruments – Disclosure and Presentation”.

Section 1530 requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income is the change in a Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with GAAP. The adoption of this standard had no impact on the Company’s financial statements for the period ended December 31, 2008.

Section 3251 requires that a company present separately the changes in and the balances of the following components of equity: retained earnings, accumulated other comprehensive income, contributed surplus, capital stock and reserves. Sections 3855 and 3861 establish the standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities

and non-financial derivatives. These standards prescribe when to recognize a financial instrument in the balance sheet and at what amount. On initial recognition, all financial instruments included in the scope of section 3855 are measured at fair value. Depending on their balance sheet classification, fair value or cost-based measures are used to measure financial instruments after initial recognition. Adoption of these standards had no material effect on the Company's financial statements.

The Company, through its financial assets and liabilities, is exposed to various risks related to changes in foreign exchange rates, collection of accounts receivable, settlement of liabilities and management of cash and cash equivalents.

Market Risk

The following table summarizes the carrying values of the Company's financial instruments in US dollars as at December 31, 2008 and 2007:

| | 2008 | 2007 |
|---|-------------|-------------|
| Cash | \$ 81,790 | \$ 331,382 |
| Accounts receivable | 303,729 | 479,007 |
| Accounts payable | (208,135) | (220,347) |
| | <hr/> | <hr/> |
| Net identifiable assets and liabilities | \$ 177,384 | \$ 590,042 |

Interest rate risk

The only financial instruments at present which expose the Company to interest rate risk are its cash and cash equivalents. The Company's objectives of managing its cash and cash equivalents are to ensure sufficient funds are maintained on hand at all times to meet operating requirements and to place amounts in excess of operating requirements in short-term deposits with the Company's banks to earn interest. When placing amounts of cash and cash equivalents in short-term deposits, the Company only uses high quality commercial banks, utilizes low risk instruments and ensures that access to the amounts placed can be obtained on short notice.

The Company has access to credit facilities consisting of a \$400,000 demand revolving loan and a \$160,000 Standby Letter of Credit. Should the revolving loan be utilized, interest is paid at the Bank's prime rate + 1.25% per annum. As of the date of this MD&A, the Company had not drawn against its credit facilities.

Foreign Exchange risk

The Company is exposed to foreign exchange risk on its cash balances, accounts receivable and payable balances and derivative instruments which are denominated in foreign currencies.

As the Company generates revenues primarily in US dollars and incurs expenditures in Canadian and US dollars, it is exposed to risk from changes in foreign currency rates. The Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the nature of the cash held or by entering into forward foreign exchange contracts with a Canadian chartered bank as hedges against the sales and purchases denominated in foreign currencies. The Company has not adopted hedge accounting and forward foreign exchange

contracts are only entered into for purposes of managing foreign exchange risk and not for speculative purposes. As at December 31, 2008, the Company had entered into forward foreign exchange derivative contracts to convert a total of \$260,000 US dollars to Canadian dollars from January 1 to March 31, 2009. The Company is obligated to convert US dollars at foreign exchange rates which ranges from 1.2110 to 1.2482 Canadian dollars.

The Company also has the ability to reduce currency risk by structuring natural hedges which match the inflow and outflow of foreign currency. This objective is being pursued by outsourcing future US dollar expenditures to more closely match the inflow of US dollars from sales revenue.

The Company has completed a sensitivity analysis to estimate the impact on net loss for the period. The following table compares the Company's financial instruments at actual translated values versus an increase or decrease of 10% in the foreign exchange rate utilized at December 31, 2008.

| | US dollars at December 31, 2008 | Translation at December 31, 2008 | Translation increase 10% | Translation decrease 10% |
|---------------------|--|---|---|---|
| Cash | \$ 81,790 | \$ 100,160 | \$ 10,016 | \$ (10,016) |
| Accounts receivable | 303,729 | 368,401 | 36,840 | (36,840) |
| Accounts Payable | (208,135) | (254,882) | (25,488) | 25,488 |
| Total value | <u>\$ 177,384</u> | <u>\$ 213,679</u> | <u>\$ 21,368</u> | <u>\$ (21,368)</u> |

Credit Risk

Credit risk is the risk that the Company will incur a loss due to the failure by one of its customers or other parties to meet their contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable.

The Company's cash and cash equivalents consist of deposit investments that are highly liquid and held only with a Canadian chartered bank. They are not considered a material credit risk for the Company.

Credit risk with respect to accounts receivable is considered to be limited due to the fact a significant majority of our revenues derive from long-standing customers and the Company has experienced only nominal credit losses/bad debts over the past two fiscal periods (2008 - \$23,714; 2007 - \$24,732). Of the total accounts receivable balance of \$512,731 as at December 31, 2008, 37% relates to 2 customers. Though the Company does not presently believe that there is significant credit risk arising from any of the Company's individual customers, there is however, a concentration of credit risk. If any one of our ten key customers is unable to settle amounts due, the impact on the Company could be significant.

The Company is subject to a concentration of credit risk and concentration of sales as it earns revenues from a limited number of customers. The following table summarizes the extent to which the Company's receivables are concentrated with a limited number of customers:

| | Number of customers | Related amount \$ |
|---------------------|--------------------------------|----------------------------------|
| Accounts receivable | | |
| December 31, 2008 | 2 | 189,664 |
| December 31, 2007 | 3 | 316,308 |

Financial assets past due

The following table provides information regarding the aging of accounts receivable balances as at December 31:

| | 2008 | 2007 |
|---------------------------------------|-------------------|-------------------|
| Not past due | \$ 417,877 | \$ 499,578 |
| Past due 1-30 days | 102,021 | 95,285 |
| Past due 31-60 days | 10,358 | 24,165 |
| Past due 61-90 days | 4,607 | 409 |
| Over 91 days past due | 24 | 7,602 |
| Less: Allowance for doubtful accounts | (22,156) | - |
| | <hr/> | <hr/> |
| Total accounts receivable | \$ 512,731 | \$ 627,039 |

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective company to determine the reason for delay in payment and to establish an agreement to rectify the breach in contractual terms. At December 31, 2008 the Company had a provision for doubtful accounts of \$22,156 which was made against receivables in excess of at least 60 days past due and where collection efforts to-date have been unsuccessful. The Company is not aware of any other information suggesting that the collectability of current amounts is impaired.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The following are the contractual maturities of financial liabilities as at December 31, 2008:

| | Contractual cash outflows | 0 to 12 months | 12 to 24 months | Subsequent months |
|---------------------------------------|--|---------------------------|----------------------------|------------------------------|
| Financial liabilities | | | | |
| Bank debt | \$ - | \$ - | \$ - | \$ - |
| Accounts payable, accrued liabilities | 636,281 | 636,281 | - | - |
| Premise lease | 3,330,768 | 470,844 | 456,371 | 2,403,553 |
| Obligations under capital lease | 28,019 | 28,019 | - | - |
| Total value | \$ 3,995,068 | \$ 1,135,144 | \$ 456,371 | \$ 2,403,553 |

It is the Company's intention to meet these obligations through the collection of accounts receivable, and the receipt of future payments on amounts not yet invoiced, as well as from cash and cash equivalents. In addition, the Company has an available line of credit of \$400,000 at December 31, 2008.

The Company manages its liquidity needs through regular assessment of its short-term requirements through cash management procedures and through weekly and monthly cash flow forecasts. A longer annual forecast model is maintained to project operating results and financing requirements. This is regularly updated for changes in our operating environment and planned initiatives that may materially change forecast results from time to time. Management reviews and assesses these monitoring and forecast tools on a regular basis to plan the timing of future financing initiatives and suitability of various financing options and operating initiatives available to the Company.

The Company will need additional financing to meet its future growth plan objectives and maintain sufficient capital to meet its liquidity requirements. The Company's ability to obtain additional financing will depend on its ability to carry out its business plan, and the status of prevailing financial markets with regards to the current economic conditions.

CAPITAL DISCLOSURES

The Company considers its shareholder equity components, cash and cash equivalents, and, if applicable, debenture debt as capital.

| | December 31, 2008 | December 31, 2007 |
|---------------------------|------------------------------|------------------------------|
| Shareholder Equity | \$ 636,113 | \$ 760,274 |
| Cash and cash equivalents | \$ 575,773 | \$ 726,983 |
| Restricted cash | \$ 40,000 | \$ 40,000 |

The Company manages its capital structure in order to ensure sufficient resources are available to meet day to day operating requirements; to allow it to enhance existing product offerings as well as develop new ones; to have the financial ability to expand the size of its operations by taking on new customers; and to maintain its ability to continue as a going concern in order to provide long term returns for shareholders and benefits for other stakeholders.

In managing its capital structure, the Company takes into consideration: changes in the Company's operating performance; changes in economic conditions; growth of its business and related infrastructure; estimated penetration of target markets; and the upfront costs of taking on new customers.

The Company's Officers and senior management take full responsibility for managing the Company's capital and do so through weekly meetings and regular review of financial information. The Company's Board of Directors are responsible for overseeing this process.

Methods used by the Company to manage its capital include the issuance of new share capital and debenture debt, which has historically been completed through private placements primarily with institutional investors. Additionally, the Company has access to a line of credit with a Canadian chartered bank should short-term circumstances warrant its use.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the period ended December 31, 2008.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) CHANGEOVER PLAN

On February 18, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. At this time, the impact on the Company’s future financial position and results of operations is not reasonably determinable or estimable.

The Company’s finance team have attended ongoing professional development sessions provided by the Institute of Chartered Accountants and are currently assessing the impact of the conversion on our business activities, including the effect on information technology, internal controls over financial reporting and disclosure controls.

We do not anticipate that required changes in accounting policies will materially impact our financial operating results, though there may be an impact in terms of disclosure and presentation.

OUTSTANDING SHARE DATA

For additional detail, see Note 7 to the financial statements for the year ended December 31, 2008.

| | | Number Outstanding December 31 2008 | Number Outstanding December 31 2007 |
|--|--|--|--|
| Common Shares issued | | 35,628,238 | 31,753,238 |
| Options to purchase Common Shares ⁽¹⁾ | | 3,054,500 | 3,133,500 |
| Warrants to purchase Common Shares | | 2,117,100 | 200,000 |
| | | 40,799,838 | 35,086,738 |

⁽¹⁾ The total number of options granted and outstanding at respective year ends.

RISKS AND UNCERTAINTIES

The Company is subject to a number of risks and uncertainties that can significantly affect the financial condition and future financial performance. Key risks are outlined below:

- the Company has no history of profit and no foreseeable earnings;
- while management is of the opinion that sufficient working capital exists (and more can be obtained from external sources) to meet the Company's liabilities and commitments over the medium term, there is a risk that additional financing may not be available on a timely basis or on terms acceptable to the Company. If the Company is unable to obtain additional funds when needed, its ability to continue to operate and grow the business could be seriously impeded;

- the Company obtains approximately 80% of its monthly revenue in US dollars. Significant variations in exchange rates may have an adverse impact on operating results;
- the Company's business could be adversely affected if the Company's current and future competitors will be able to develop infrastructure expertise comparable or superior to those developed and offered by the Company or if they may adapt more quickly than the Company to new technologies, third party offerings, evolving industry standards or customer requirements;
- because the markets in which the Company competes are highly competitive and many of our competitors have greater resources than us, we may not be able to compete successfully and we may lose or be unable to gain market share;
- our business may suffer if the Company does not continue to penetrate new markets and continue to grow;
- the timing and magnitude of operating expenses, capital expenditures and expenses related to the expansion of sales, development, operations and acquisitions;
- the Company's business could be adversely affected if existing key customer contracts are cancelled or not renewed upon expiry;
- the Company's business could be adversely affected if key customers experience financial difficulties resulting in collection delays and/or loss of business;
- the Company's business could be adversely affected if key suppliers of third-party services experience financial and/or technical difficulties resulting in service disruptions to the Company's customers; further, if the Company is denied access to premises, electricity supply or communications services due to circumstances beyond its control and it is unable to secure replacement services on a timely basis, it could incur indefinite delays in providing services to its customers;
- the Company's services and customer base are not broadly diversified and the Company derives the majority of its revenue from sales of a narrow range of services and capabilities to a small number of customers. The Company's business and operating results would be adversely affected by factors within this range of products and customers that could not be offset with diversification;
- competition within the Company's markets may reduce its ability to win new contracts, thereby reducing sales and reducing margins on sales made;
- the Company's future success will depend on its ability to maintain its existing services and to develop new services that attain market acceptance;
- the Company depends on the recruitment and retention of qualified personnel. If it cannot attract and retain staff, it could hamper its ability to provide products and services under existing contracts and to new contracts;
- the Company's business could be adversely affected if it fails to manage its growth effectively;
- the impact of geopolitical and other global or local events may have a significant effect on our operations;
- third parties may claim that the Company infringes their proprietary rights; and
- the Company may not be able to protect its proprietary information.

Any of the foregoing factors could have a material adverse effect on the Company's business, results of operations or financial condition.