

IP APPLICATIONS CORP.

Three Months March 31, 2008

**MANAGEMENT DISCUSSION AND
ANALYSIS**

May 28, 2008

This Management's Discussion and Analysis ("MD&A") dated May 27, 2008 is supplementary to, and should be read in conjunction with, the financial statements for the interim period ended March 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") on a going concern basis and do not include any adjustments to the amounts and classifications that might be necessary should the Company be unable to continue business. The interim unaudited financial statements for the three months ended March 31, 2008 have not been reviewed by the Company's external auditors PricewaterhouseCoopers. All amounts are in Canadian dollars unless otherwise stated.

FORWARD LOOKING STATEMENTS

This discussion may contain forward-looking statements that are based upon current expectations, which involves risks and uncertainties associated with our business and the economic environment in which the business operates. These uncertainties may cause the Company's actual results to differ materially from those contemplated by the forward looking statements. Factors that might cause or contribute to such differences include, among others, competitive pressures, the growth rate of the Internet and telecommunications' concerns, constantly changing technology and market acceptance of the Company's products and services. Forward-looking statements contained in the MD&A represent the Company's expectations and intentions as of May 27, 2008. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

BUSINESS OVERVIEW

In the first quarter of 2008 the Company allocated significant staff and cash resources in its plan to repurpose its software assets and skills into the fast growing Software as a Service and Cloud Computing markets. The Company intends to transition as rapidly as possible into this fast-growing high-value market.

While the Company has delivered business process automation and customer care to independent Internet Service Providers, companies in the rapidly expanding Software-as-a-Service ("SaaS") and "Cloud Computing" platform are searching for technical solutions to these business problems. IP Applications' unique multi-tenant on-demand administration hub has been operating and delivering this suite of services for nearly a decade.

While the Company has traditionally marketed its services directly to enterprise customers and through Internet Service Providers in Canada and the USA, its new approach will target large enterprise software hosting companies, integration services vendors and evolving platform companies. Approximately one third of the company's customers by revenue use only its customer care services, one third use only its subscription management and payment processing services, and the remaining third use a combination of both.

Additional information related to the Company can be found at www.SEDAR.com, www.ipapplications.com and www.saasautomation.com.

2008 FIRST QUARTER OVERVIEW

- Stepped up market research efforts at SaaS software conferences in Santa Clara and Las Vegas, and engaged SaaS specialist market and business strategy consultants.
- Revenues of \$1.7M (“million”) for the quarter ended March 31, 2008, represent a 21% decrease from the \$2.1M recognized during the quarter ended March 31, 2007.
- Operating expenses decreased 29% to \$0.8M for the quarter ended March 31 2008, as compared to \$1.1M for the quarter ended March 31, 2007.
- Gross margin decreased to 39% in the quarter ended March 31, 2008, as compared to 47% during the three months ended March 31, 2007.
- Net loss of \$138K for the quarter ended March 31, 2008, represents a 26% improvement on the net loss of \$186K incurred during the quarter ended March 31, 2007.
- The company had an EBITDA loss of \$99K for the quarter ended March 31, 2008 as compared to an EBITDA profit of \$25K generated during the quarter ended March 31, 2007.

SELECTED QUARTERLY INFORMATION

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

	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007	Dec 31 2006	Sep 30 2006	Jun 30 2006
Revenue	1,685	1,833	1,878	1,882	2,143	2,117	2,408	2,334
Direct Costs	1,036	1,098	1,043	1,080	1,145	1,264	1,512	1,457
Expenses	787	1,015	1,032	1,049	1,184	2,214	1,368	1,517
Net Loss	(138)	(280)	(197)	(247)	(186)	(1,361)	(472)	(640)
EBITDA (Loss) ⁽¹⁾	(99)	(132)	(7)	(13)	25	(307)	(49)	(221)
Net Loss per share – basic	(0.004)	(0.01)	(0.01)	(0.02)	(0.01)	(0.09)	(0.03)	(0.04)

(1) - The Company reports Earnings Before Interest, Taxes, Depreciation and Amortization – and other non-cash expense items (“EBITDA”), which is an approximate measure of operating results based on selected financial data from the Company’s income statement. 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 March 31, 2008 compared to the quarter ended March 31, 2007

	2008 March 31 (three months)	% of Revenue	2007 March 31 (three months)	% of Revenue
Revenue	\$1,685,006		\$2,143,604	
Direct costs	1,035,831		1,145,372	
Gross Margin	649,175	39%	998,232	47%
Amortization	45,121	3%	122,182	6%
General & administrative	340,667	20%	427,185	20%
Marketing & selling	81,077	5%	152,275	7%
Stock based compensation	19,888	1%	36,808	2%
Technical & development	300,236	18%	368,298	17%
Operating Expenses	786,989		1,106,748	
Loss before other expenses	(137,814)		(108,516)	
Interest accretion	-		(77,277)	
Net Loss and comprehensive loss	\$(137,814)		\$(185,793)	

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 \$1.7M for the quarter ended March 31, 2008 represent a decrease of \$0.5M (or 21%) over the corresponding period in the prior year. Approximately half of this decrease is attributable to the declining value of the US\$ relative to the CDN\$. In Q1 2007, the average exchange rate was 1.17 versus an average of par during Q1 2008. Given that the percentage of US\$ denominated revenue remained static at 83% quarter over quarter, the negative impact to revenue quarter over quarter due to this devaluation of the US\$ was significant.

The other main factors influencing the decline were: i) revenue generated from new customers in Q1 2008 basically offset the loss of revenue from customers in Q1 2007 who are no longer customers; ii) revenue derived from dialup related customers' end users declined quarter over quarter as expected; and iii) market forces have altered the pricing landscape. The Company has responded by lowering the pricing on its technical support services and migrating an increasing volume of its support centre traffic to lower cost offshore jurisdictions.

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 \$1.0 million for the quarter ended March 31, 2008 represent a decrease of \$110K (or 10%) over the corresponding prior year. This decrease can be broken down by key category expenses: i) third-party service costs decreased by \$221,874; ii) commissions paid to SourceNet decreased by \$48,261, offset by iii) increases in technical support wages and related administrative costs in the Help Desk of \$164,465.

The decrease in third party service costs and commissions is primarily related to the decline in dialup usage and revenue, but is also a reflection of the cost reduction strategies initiated throughout 2007. The increase in technical support wages stems from two main factors: i) the overall headcount in the customer support increased to meet the 45% increase in handled support minutes quarter over quarter; and ii) the Company carried surplus headcount in both the Vancouver and offshore call centres in Q1 2008 as we gradually migrated our largest technical support customer offshore. There were no costs associated with the offshore call center in Q1 2007.

Operating Expenses

Amortization – Amortization expense decreased \$77,061 (or 63%) during the quarter ended March 31, 2008 relative to 2007. This is largely because several capital assets financed under capital leases were completely amortized as of March 31, 2008.

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

The net decrease of \$86,518 (or 20%) during the quarter ended March 31, 2008 relative to the prior year, can primarily be attributed to reductions of: debenture interest of \$28,804; bank fees associated with the Line of Credit set up fees of \$12,603; bad debt expense of \$17,569; and a positive, comparative foreign exchange fluctuation of \$23,290.

Sales and Marketing – These costs include travel, attendance and participation at trade shows, printed materials, and salaries and commissions paid to sales and marketing staff of the Company. A significant part of the expenses in the quarter were directed toward the repurposing of the Company as a supplier to SaaS and Cloud Computing platform providers.

The decrease in costs of \$71,198 (or 47%) during the quarter ended March 31, 2008 relative to the prior year, stems primarily from a decrease of \$72,465 in salaries and commissions. There were the equivalent of two full-time sales and marketing personnel and one consultant on staff during the period ended March 31, 2007, who were no longer with the company by Q1 of 2008. The Company expects to see an increase in participation at tradeshow and an increase in sales and marketing staff during the subsequent quarters of 2008.

Operations & Development – Salaries related to operations and development personnel comprise the bulk of these costs. There was a net decrease of \$68,062 (or 18%) for the quarter ended March 31, 2008, relative to the prior year. This decrease stems primarily from a reduction in headcount and thus a net decrease in salaries and related payroll expenses of \$30,842, combined with a reduction in consulting expenses of \$30,020.

Stock-based compensation – These costs represent the compensation 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 the period in question. Stock-based compensation expense recognized during the quarter ended March 31, 2008 was \$19,888, a decrease of \$16,920 (or 46%) as compared to the prior year. This is due to no longer recording an expense associated with outstanding options that had vested fully as of December 31, 2007.

Convertible Debenture – The Company completed two financings of convertible debentures in Q4 of 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. Effective 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. As the accretion had been fully expensed by December 31, 2007, no accretion expense is recognized for the period ended March 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash received from (used for) :	2008 March 31 (three months ended)	2007 March 31 (three months ended)
Operating Activities	(184,325)	76,108
Investing Activities	(35,738)	(40,000)
Financing Activities	(20,636)	(90,198)

As at March 31, 2008, the Company had cash and short term investments totaling \$486,284, down from \$726,983 as at March 31, 2007. As at the date of this MD&A, the Company had a restricted cash balance of \$40,000 and had not drawn against its credit facilities.

Operating Activities:

For the quarter ended March 31, 2008, the Company's negative cash flow from operating activities was \$184,325, as compared to a positive cash flow of \$76,108 for the corresponding quarter in 2007. The deterioration of \$260,433 stems primarily from the increase in EBITDA loss from operations quarter over quarter of \$123,889, a \$170,007 accounts receivable balance increase offset by a decrease in convertible debenture interest of \$28,804.

Investing Activities:

Purchases of capital equipment amounted to \$35,738 during the period ended March 31, 2008. This is compared to nil investments in capital equipment during the quarter ended March 31, 2007, and an increase in restricted cash of \$40,000.

Financing Activities:

The Company traditionally financed its cash requirements through the issuance of common shares, debt instrument or capital lease.

For the quarter ended March 31, 2008, no cash funds were raised and capital lease payments amounted to \$20,636. In the same quarter of 2007, no cash funds were raised and capital lease payments totaled \$90,198.

Financial Condition:

As at March 31, 2008, the Company had current assets of \$1,266,561 and current liabilities of \$924,869 for a working capital surplus of \$341,692 as compared to \$481,569 at December 31, 2007. This reduction in working capital of \$139,877 is primarily attributed to a combination of: cash balance reduction of \$240,699; reduction in prepaid expenses of \$14,042; offset by increased accounts receivable of \$87,915 and reductions in accounts payable and the current portion of capital leases totaling \$30,165. It should be noted that three large receivables aggregating to approximately \$155K were received a few days subsequent to March 31, 2008.

Over the past fifteen months, the Company has exhibited positive evidence of operational recovery and stability. From an EBITDA loss of \$1.0M for the nine-month period ended December 31, 2005, we have seen a steady improvement in EBITDA loss to \$591K for the year ended December 31, 2006 and \$126K for the year ended December 31, 2007. With the close of the private placement and debt conversion in Q4 2007, the balance sheet positively improved with the elimination of bank indebtedness and convertible debenture debt.

However, the Company does not yet generate sufficient revenues to solely fund operations. Further challenging the Company's efforts to achieve profitability has been the rapid decline of the value of the US dollar through 2007. The fact that over 80% of our revenue is denominated in US dollars and the exchange rate has deteriorated to around par, has served to offset many of the cost improvements generated through our cost containment successes over the past fifteen months.

Margins for the first half of 2008 have and will be further negatively impacted by three issues: 1) the need to have carried surplus agents in our Vancouver technical support center in February and March as we migrated our largest technical support customer to our offshore support provider; 2) customer sourced delays in provisioning two new technical support customers onto our systems; and 3) the loss of a significant technical support customer in mid March 2008 due to their decision to repatriate support in-house.

Though we anticipate the operating losses in our legacy business are short term in nature, the company is consuming working capital investing in repurposing itself as a supplier in a faster growing, higher value technology market.

OUTSTANDING SHARE DATA

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

		Number Outstanding March 31 2008	Number Outstanding December 31 2007
Common Shares issued		31,753,238	31,753,238
Options to purchase Common Shares ⁽¹⁾		3,233,500	3,133,500
Warrants to purchase Common Shares		-	200,000
		34,986,738	35,086,738

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

OFF BALANCE SHEET ARRANGEMENTS

The company has not engaged in off-balance sheet arrangements.

CHANGES IN ACCOUNTING POLICIES

Adoption of new accounting standards

On January 1, 2007, the Company adopted four new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”); Section 3855, “Financial instruments - recognition and measurement”, Section 3861, “Financial instruments - disclosure and presentation”, Section 3251, “Equity” and Section 1530, “Comprehensive income”. These standards were adopted on a prospective basis and as such, prior periods have not been restated.

Financial Instruments

CICA Handbook Sections 3855, 3861 and 3251 require among other things, that all financial assets, except those classified as held to maturity and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held for trading; otherwise, they are measured at amortized cost and establish how gains and losses are to be recognized and presented. For the period ended March 31, 2008, the adoption of these policies had no material impact.

Comprehensive Income

Under CICA Handbook Section 1530, comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in the statement of operations such as unrealized gains or losses on available-for-sale investments. For the period ended March 31, 2008, the Company did not have other comprehensive income or loss, therefore comprehensive loss for the period was equal to the loss for the period and accumulated other comprehensive income is nil.

Recent Canadian GAAP announcements

CICA Handbook Section 1535, Capital Disclosures

In December, 2006, the CICA issued Handbook Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the company's objectives, policies and processes for managing capital. These recommendations are effective for the company's interim and annual reporting periods beginning after October 1, 2007. The company has not evaluated the impact of this standard on the company's consolidated financial statements.

CICA Handbook Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments – Presentation

In December 2006, the CICA issued Handbook Sections 3862, Financial Instruments - Disclosures, and 3863, Financial Instruments - Presentation, which will 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 and is effective for the company's interim and annual reporting periods beginning after October 1, 2007. The company has not evaluated the impact of this standard on the company's consolidated financial statements.

International Financial Reporting Standards

In January 2006, the CICA AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with IFRS by the end of 2011. The impact of the transition to IFRS on the company's consolidated financial statements has not yet been determined.

CAPITAL RESOURCES

At the date of this MD&A, the Company has made no material commitments for capital expenditures in 2008, nor drawn upon an available \$400,000 line of credit facility.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for designing such internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No changes were made in the Company's internal control over financial reporting during the period ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

FINANCIAL INSTRUMENTS

Fair values

The fair values of the Company's cash, accounts receivable, restricted cash, accounts payable and accrued liabilities approximate their carrying amounts because of the immediate or short-term maturity of these financial instruments.

Interest and foreign exchange rate risk

The Company is required to make certain payments in US dollars and has not entered into forward currency contracts or other financial derivatives in relation to this currency risk. To mitigate exchange risk, the Company maintains US dollar bank accounts for all US dollar sales and payments.

RISKS AND UNCERTAINTIES

Though the Company has a working capital surplus of \$341,692 at March 31, 2008, it has incurred significant losses in recent years. It is expected that operating results will continue to moderately fluctuate into the foreseeable future due to a variety of factors, including but not limited to:

- 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 impeded;

- the Company's business could be adversely affected by changes in general economic conditions and specific market conditions in the telecommunications and Internet industries;
- the Company obtains approximately 83% 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;
- 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 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 product lines 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, reduce sales and reduce margins on sales made;
- the Company's future success will depend on its ability to maintain its existing products and services and to develop new products and 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;
- 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. Although the Company exhibits signs of operational stability, this pattern is not necessarily indicative of future operating results.