

IP APPLICATIONS CORP.

Nine Months Ended September 30, 2008

**MANAGEMENT DISCUSSION AND
ANALYSIS**

November 26, 2008

This Management's Discussion and Analysis ("MD&A") dated November 26, 2008 is supplementary to, and should be read in conjunction with, the financial statements for the interim period ended September 30, 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 nine months ended September 30, 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 November 26, 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

During the third quarter of 2008, the Company continued to allocate significant staff and cash resources toward its plan to market its software assets and skills to the fast-growing Software as a Service ("SaaS") and Cloud Computing markets. The Company's existing billing, payment processing and customer support software applications provide essential services needed by software companies selling their software products as subscriptions generating recurring revenue.

The Company's application software, which itself is delivered as a service that generates monthly recurring revenue, has been used by telecom customers, independent Internet Service Providers, and online marketing companies for nearly a decade. The billing and payments applications provide a robust, comprehensive and reliable platform that its customers use to automate the administration, invoicing and payment of their service contracts. The functions and services of the Company's application software is explained in greater detail on the company's website at <http://www.ipapplications.com/index.php/resources/our-capabilities.html>.

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 targets large enterprise software hosting companies, integration services vendors and evolving platform-as-a-service companies.

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

2008 THIRD QUARTER OVERVIEW

- Revenues of \$1.3 million for the quarter ended September 30, 2008, a 29% decrease from the \$1.9 million recognized for the same quarter in 2007, was essentially unchanged from the second quarter of 2008. Gross margin was 41% in the current quarter, down from 44% for the same quarter in 2007 and up from 34% in Q2 2008.
- Operating expenses were \$0.7 million in Q3 of 2008, 22% less than the same period in 2007 and 10% less than the second quarter of 2008. The marketing and sales expense component of operating expenses was higher compared with the same quarter a year ago and with the second quarter of 2008. This increase supports the Company's move into billing services for SaaS and Cloud Computing.
- Net loss of \$0.2 million for the Q3, 2008, less than the loss in Q2 2008, was the same as that incurred in Q3 2007.
- EBITDA loss for Q3 2008 increased \$155,814 over Q3 2007.
- Awarded our second Software as a Service enabling contract.
- Continued to receive positive validation of our product and market positioning from a well recognized SaaS & Cloud Computing industry analyst
- During July 2008, the Company closed a non-brokered private placement of 3.9 million shares for total gross proceeds of \$0.8 million.

SELECTED QUARTERLY INFORMATION

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

	Sep 30 2008	Jun 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007	Jun 30 2007	Mar 31 2007	Dec 31 2006
Revenue	1,329	1,315	1,685	1,833	1,878	1,882	2,143	2,117
Direct Costs	788	863	1,036	1,098	1,043	1,080	1,145	1,264
Expenses	745	826	787	1,015	1,032	1,049	1,184	2,214
Net Loss	(204)	(374)	(138)	(280)	(197)	(247)	(186)	(1,361)
EBITDA (Loss) ⁽¹⁾	(162)	(313)	(99)	(132)	(7)	(13)	25	(307)
Net Loss per share – basic	(0.006)	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)	(0.01)	(0.09)

(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 September 30, 2008 compared to the quarter ended September 30, 2007

	2008 September 30 (three months)	% of Revenue	2007 September 30 (three months)	% of Revenue
Revenue	\$1,329,436		\$1,878,429	
Direct costs	787,739	59%	1,043,286	56%
Gross Margin	541,697	41%	835,143	44%
Amortization	46,242	3%	106,999	6%
General & administrative	311,384	23%	382,975	20%
Marketing & selling	108,515	8%	81,189	4%
Stock based compensation	20,757	2%	31,417	2%
Technical & development	258,422	19%	352,399	19%
Operating Expenses	745,320		954,979	
Loss before other expenses	(203,623)		(119,836)	
Interest accretion expense	-		77,277	
Net Loss and comprehensive loss	\$(203,623)		\$(197,113)	

Revenue

Revenues include fees for subscription management, provisioning, payment processing, customer care and third party products and services billed to clients. 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 \$1,329,436 for the three months ended September 30, 2008 represent a decrease of \$548,993 (or 29%) over the corresponding period in the prior year. The departure of one significant call centre customer in March 2008 and attrition in the volume usage and/or user base of our three largest remaining customers contributed \$525,218 towards this decline.

Management believes that the speed of the decline in revenue has and will continue to be negatively influenced by the economic conditions in its largest market, the United States. However the decline will be tempered by the increase in the value of the US dollar relative to the CDN dollar, given that approximately 81% of the Company's total revenues are invoiced in US dollars.

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 \$787,739 for the three months ended September 30, 2008 represent a decrease of \$255,547 (or 24%) over the corresponding quarter in the prior year. This decrease can be broken down primarily by key expense components: i) third-party service costs decreased by \$115,525; ii) technical support wages in the Help Desk decreased by \$90,293 and iii) commissions paid to SourceNet decreased by \$50,791.

The third-party service costs decrease is directly correlated with the continuing dial-up usage decline experienced by some customers and lower transaction processing costs due to declining subscriber base of other customers. The commission expense reduction reflects the expiration at the end of Q1 2008, of one of two commission streams paid to Sourcenet, and the declining revenue basis in the other stream.

The largest factor contributing to the deterioration of gross margin quarter over quarter (from 44% in Q3 2007 to 41% in Q3 2008) stems from the technical support wages in the customer care Help Desk. Even though wages and related benefit costs decreased by \$90,293 quarter over quarter, as a percentage of sales, however, they represented 35% in Q3 2008 as compared to 29% in Q3 2007. We identified call center headcount imbalances and inefficiencies in Q2 2008. The Company concluded the best economic solution to the issue was to shut-down our Vancouver-based call center operations and transfer the work fully to our offshore partner. Gross margin will continue to be adversely affected through most of Q4 2008 due to a necessary overlap of headcount in both locations and requisite severance costs. The transition will be complete by mid-December 2008 and margins are expected to show a marked improvement in Q1 2009.

Operating Expenses

Amortization - Amortization expense decreased \$60,757 (or 57%) during the quarter ended September 30, 2008 relative to the quarter ended September 30, 2007. This is largely because several capital assets financed under capital leases were depreciating through much of 2007, but were completely amortized by December 31, 2007.

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

The decrease of \$71,591 (or 19%) during the three months ended September 30, 2008, relative to the corresponding period in the prior year, can primarily be attributed to: i) a foreign exchange translation turnaround of \$53,704; and ii) decreases in debenture and line of credit interest partially offset by administrative wage increases.

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 \$27,326 (or 34%) during the three months ended September 30, 2008 relative to the corresponding period in the prior year, is almost exclusively related to the engagement of third-party consultants to advise on the evaluation and direction of our SaaS initiatives.

Technical & development – Salaries related to development and IT personnel comprise the bulk of these costs. The net decrease of \$93,977 (or 27%) for the quarter ended September 30, 2008 reflects the net reduction of head count in 2008 of four employees and elimination of internal consultants utilized quarter over quarter.

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 the quarter ended September 30, 2008 was \$20,757, a decrease of \$10,660 (or 34%) over the 2007 quarter.

Interest accretion expense - The Company completed two financings of convertible debentures in Q4 in each of 2005 and 2006 aggregating to \$960,130. The fair value of the common share conversion feature was valued at \$463,661 and 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 in exchange for common shares of the Company. As a result, the accretion was fully expensed by December 31, 2007, and thus no further accretion expense is recognized beyond January 1, 2008.

RESULTS OF OPERATIONS

Nine months ended September 30, 2008 compared to the nine months ended September 30, 2007

	2008	% of Revenue	2007	% of Revenue
Revenue	\$4,329,615		\$5,903,741	
Direct costs	2,686,103	62%	3,268,474	55%
Gross Margin	1,643,512	38%	2,635,267	45%
Amortization	136,988	3%	350,891	6%
General & administrative	1,009,617	23%	1,207,524	20%
Marketing & selling	281,125	6%	296,805	5%
Stock based compensation	81,337	2%	128,582	2%
Technical & development	849,617	20%	1,049,646	18%
Operating Expenses	2,358,684		3,033,448	
Loss before other expenses	(715,172)		(398,181)	
Interest accretion expenses	-		231,831	
Net Loss and comprehensive loss	\$(715,172)		\$(630,012)	

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 \$4.3 million for the nine months ended September 30, 2008 represent a decrease of \$1.6 million (or 27%) over the corresponding period in the prior year. This significant net decline can almost solely be attributed to deteriorating user base situation of several long-time customers coupled with price breaks afforded to a number of others, some of whom agreed to have their technical call center support activity moved to our offshore partner in 2008. We expect this trending on established clients to continue. The Company was successful in securing a large new call centre customer in October 2008. We project this customer to ramp up to full contribution during Q1 2009. Revenues generated from adding new SaaS customers are not expected to contribute materially until the latter stages of 2009.

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 \$2.7 million for the nine months ended September 30, 2008 represent a decrease of \$0.6 million (or 18%) over the corresponding prior nine months. This decrease can be primarily broken down by key expense components: i) third-party service costs decreased by \$483,055; ii) commissions paid to SourceNet decreased by \$163,798; offset by iii) an increase in technical support wages of \$74,211.

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 also 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 deterioration of gross margin nine month period over nine-month period (from 45% in 2007 to 38% in 2008) stems from headcount inefficiencies in technical support wages in the customer care Help Desk. Wages and related benefits increased by \$74,211 period over period despite the loss of a significant call centre customer at the end of Q1 2008. There were several factors contributing to excess headcount and costs in Q2 and Q3 2008: a) Following the loss of the key customer in late Q1, we had expected capacity to be absorbed by the imminent arrival of new customers. These new volumes fell significantly short of projections; b) the migration of our largest call centre customer from Vancouver to our offshore partner required a short term overlap of staff in each location; and c) with the decision in early Q3 2008 to permanently shut down the significant bulk of the Vancouver customer care operations, we incurred both severance costs and overlapping head counts as we began the process of migrating our remaining customers offshore. Call center services in Vancouver will be largely eliminated by mid-December 2008 and margins are expected to show a marked improvement in Q1 2009.

Operating Expenses

Amortization – Amortization expense decreased \$213,903 (or 61%) during the nine months ended September 30, 2008 relative to 2007. This is largely because several capital assets financed under capital leases were depreciated through much of 2007 but were fully amortized by December 31, 2007.

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

The net decrease of \$197,907 (or 16%) during the nine months ended September 30, 2008 relative to the prior year, can be primarily attributed to i) reduction of \$119,037 in foreign exchange translation losses and ii) with the elimination of debt in November 2007, a reduction of debenture interest of \$91,817. Further reductions in bad debt expense and professional fees were offset by increases in wages and benefits.

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

The decrease in costs of \$15,680 or (5%) during the nine months ended September 30, 2008 relative to the prior year, is explained by a combination of a) a reduction in salaries and commissions of approximately \$74,000 due to a major departmental restructuring in Q1 2007; offset by b) an increase of approximately \$59,000 in travel, trade shows costs and third party consultants associated with our growing efforts to understand and repurpose the Company towards the SaaS and Cloud Computing markets.

Operations & Development – Salaries related to operations and development personnel comprise the bulk of these costs. There was a net decrease of \$200,029 (or 19%) for the nine months ended September 30, 2008, relative to the prior year. A significant portion of this decrease represents the net savings of a reduced staff and contractor headcount. There were the equivalent of 7 more full-time staff at September 30, 2007 than at September 30, 2008.

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 that period. Stock-based compensation expense recognized during the nine months ended September 30, 2008 was \$81,337, a decrease of \$47,245 (or 37%) as compared to the prior year.

Interest accretion – 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 and 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 in exchange for common shares of the Company. As a result, the accretion had been fully expensed by December 31, 2007, and thus no further accretion expense will be recognized beyond January 1, 2008.

Divisional Segmentation

The Company has long performed subscription management and billing support for customers including AOL, Bell Mobility and Amway and presently derives approximately 20% of its consolidated revenue from this source. In effect, for some time, the Company has provided those services as Software as a Service (“SaaS”). The Company believes that strong growth is possible within this high margin segment of its business.

In January 2008, the Company began assessing and developing the opportunity to expand its subscription management and billing business by enhancing and marketing these services to other emerging SaaS companies. Throughout the year-to-date, the Company has collaborated with industry experts, attended a number of SaaS conferences, updated and broadened its website content and developed new product plans and capabilities.

As a result, the Company has chosen to heavily focus on SaaS as the primary creator of future shareholder value. Multiples and valuations of successful SaaS companies are many times higher than conventional help desk and hosted applications providers. In order to show progress in the development of our SaaS segment, the Company has decided to add an analysis of its estimated expenses and revenues derived from its subscription management services and billing support SaaS services.

The following table estimates the proportion of the Company’s activities for the first nine months of 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 relatively large amount of operating expenses (relative to revenue) have been allocated to SaaS related endeavors.

	SaaS	Help Desk & Hosted Applications	Consolidated Operations Nine-Months to September 30, 2008
Revenue	405,000	3,294,615	4,329,615
Direct Costs	<u>40,500</u>	<u>2,645,603</u>	<u>2,686,103</u>
Gross Margin	364,500	1,279,012	1,643,512
General & administrative	318,583	691,034	1,009,617
Marketing and selling	214,550	66,575	281,125
Technical & development	379,305	470,312	849,617
Amortization	56,254	80,734	136,988
Stock-based comp	<u>34,720</u>	<u>46,617</u>	<u>81,337</u>
Operating Expenses	1,003,412	1,355,272	2,358,684
Net Loss	(638,912)	(76,260)	(715,172)

As with most early stage SaaS companies, significant losses will be incurred and we would expect them to continue for some time. We don't expect appreciable revenue growth to materialize for another two to three quarters. 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.

LIQUIDITY AND CAPITAL RESOURCES

For additional detail, see the Consolidated Statements of Cash Flows in the financial statements for the periods ended September 30.

Cash received from (used for) :	2008	2007
Operating Activities	(543,365)	(415,454)
Investing Activities	(51,802)	(40,473)
Financing Activities	655,651	164,790

As at September 30, 2008, the Company had cash and short term investments totaling \$787,467, an improvement of \$577,332 as compared to June 30, 2008. As at the date of this MD&A, the Company had not drawn against its available credit facilities during 2008. The Company's improved cash position is a direct result of the private placement completed in July 2008 for net proceeds of \$718,562.

Operating Activities:

For the quarter ended September 30, 2008, the Company's negative cash flow from operating activities was \$121,865, as compared to a negative cash flow of \$221,614 for the corresponding quarter in 2007. The net improvement of \$99,749 stems primarily from a combination of i) a deterioration of operating performance in Q3 2008 relative to Q3 2007 and ii) an improvement in the value of payments made against accounts payable and accruals.

For the nine month period ended September 30, 2008, the Company's negative cash flow from operating activities was \$543,365 as compared to negative cash flow of \$415,454 for the nine months ended September 30, 2007. The components most affecting this cash flow deterioration of \$127,911 are: i) the Company incurred an EBITDA loss of \$574,325 during the current year to date versus EBITDA earnings of \$5,643 experienced during the corresponding period in 2007; mostly offset by ii) a \$322,033 reduction in the amount of payments made against accounts payable and accrued liabilities and a \$113,572 improvement in accounts receivable balances.

Investing Activities:

Expenditures on capital equipment totalled \$1,150 for the quarter ended September 30, 2008, as compared to \$473 in capital equipment investments during the quarter ended September 30, 2007.

During the nine months ended September 30, 2008, expenditures on capital equipment purchases aggregated to \$51,802; capital equipment investments of \$473 were made in the nine months ended September 30, 2007. There was an increase in restricted cash in the period ended September 2007 due to required collateral against new credit facilities.

Financing Activities:

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

For the quarter ended September 30, 2008, capital lease payments amounted to \$18,218. A private placement was also completed for net proceeds of \$718,562. In the same quarter of 2007, funds were raised through a demand loan obtained for \$250,000 and capital lease payments totaled \$67,612.

During the nine months ended September 30, 2008, capital lease payments aggregated to \$59,911, and a private placement was completed for net proceeds of \$715,562. During the nine months ended September 30, 2007, the Company raised gross proceeds of \$250,000 through the demand loan obtained, and \$40,000 through the exercise of warrants, while payments towards capital leases totaled \$221,174.

Financial Condition:

As at September 30, 2008, the Company had current assets of \$1,288,291 and current liabilities of \$704,199 for a working capital surplus of \$584,092 as compared to \$481,569 at December 31, 2007. This improvement in working capital of \$102,523 is primarily attributed to: i) the net increase in cash position of \$60,484, ii) a reduction of \$214,420 in accounts receivable; offset by iii) reduction of \$174,620 in accounts payable and accrued liabilities; and iv) a reduction of \$55,026 in the current portion of the lease commitment.

The Company encountered several adverse business conditions during the first nine months of 2008. The loss of our largest technical support customer at the end of Q1; a continuing trend of a declining user base among many of our significant customers; pricing reductions to our customers who migrated to our offshore partner; and new customer growth falling short of expectations all combined to negatively impact the top-line.

Two key cost factors also served to exacerbate the negative top-line performance. Firstly, the surplus of technical support staff identified in Q2 2008, could only be partially addressed in Q3 due to contractual customer obligations which expire in December of 2008. Secondly, the Company continued to incur greater travel, marketing and consulting costs during the period as a result of the strategic decision to enter and focus on the SaaS and Cloud computing markets.

During the first two months of Q4 2008, the Company downsized its Vancouver call centre. The transition cost of running both our Vancouver and offshore call centers in parallel will end in Q4. We anticipate margins to markedly improve in Q1 2009 with the resolution to the call center inefficiencies and the growing positive impact from a significant new call center client whose revenue began to grow in October 2008. However, we do expect that the cost of our strong effort to raise our corporate profile with our target SaaS and Cloud Computing markets will lead to monthly net cash consumption.

OUTSTANDING SHARE DATA

For additional detail, see Note 7 to the financial statements for the nine months ended September 30, 2008.

		Number Outstanding September 30 2008	Number Outstanding December 31 2007
Common Shares issued		35,628,238	31,753,238
Options to purchase Common Shares		3,058,500	3,133,500
Warrants to purchase Common Shares		2,117,100	200,000
		40,803,838	35,086,738

OFF BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

Pender Growth Fund (VCC) Inc. (“PGF”) is a shareholder owning approximately 40% of the shares of the Company. PGF participated in the private placement of Units completed on July 29, 2008 whereby they acquired 1,250,000 shares and 625,000 warrants of the Company at a price of \$0.25 per Unit, the same price offered to independent investors. A Director of the Company is a Director and Chairman of PGF. Another Director of the Company is a director and President of PGF.

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 September 30, 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 September 30, 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 nine months ended September 30, 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 historically, it has not entered into forward currency contracts or other financial derivatives in relation to this currency risk. Until recently, the strategy was to mitigate exchange risk by maintaining US dollar bank accounts for all US dollar sales and payments.

In November 2008, the Company arranged a facility with its bank to sell U. S. Dollars that are surplus to its future needs through forward contracts. This allows the Company to reduce the volatility of its foreign exchange exposure. As of the date of this document, the Company has sold forward \$US305,000.00 at an average exchange rate of 1.2113 Canadian Dollars per United States Dollar for delivery between December 1, 2008 and February 28, 2009. The Company intends to renew its forward position as it closes out contracts coming due.

RISKS AND UNCERTAINTIES

Though the Company has a working capital surplus of \$584,092 as at September 30, 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 81% 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.