

IP APPLICATIONS CORP.

Six Months Ended June 30, 2007

**MANAGEMENT DISCUSSION AND
ANALYSIS**

August 21, 2007

This Management's Discussion and Analysis ("MD&A") dated August 21, 2007 is supplementary to, and should be read in conjunction with, the consolidated financial statements for the interim period ended June 30, 2007 and the Company's MD&A and annual audited financial statements for the year ended December 31, 2006. 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 six months ended June 30, 2007 have not been reviewed by the Company's external auditors PricewaterhouseCoopers. All amounts are in Canadian dollars unless otherwise stated. Certain comparative amounts have been reclassified to conform to the current years' classifications.

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 August 21, 2007. 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

The Company provides business services to a wide range of businesses that use the Internet to deliver products and services. The Company provides three major service products to its customers: secure and certified datacenter support for subscription management, provisioning, billing and payment processing; end-user customer care via inbound and outbound telephone, email and online chat; and automated provisioning and control of third party products and services such as internet connectivity, security products and internet content.

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 uses both. The company's customer base includes both small and large-sized Internet Service Providers in Canada and the USA. The Company also provides customer care end-user support services to enterprise customers with hosted business software applications.

The Company's datacenter platform and customer care service solutions are network independent and scalable to support small and large customers alike. The Company provides standardized services and can assist customers with getting new products to market quickly and efficiently.

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

2007 SECOND QUARTER OVERVIEW

- Revenues of \$1.9M for the quarter ended June 30, 2007, represent a 19% decrease from the \$2.3M recognized for the three months ended June 30, 2006.
- Gross margin improved to 42.6% in the current quarter, as compared to 37.6% in the comparable quarter in 2006.
- Operating expenses decreased 31% to \$1.0M in the current quarter, as compared to \$1.5M for the three month period ended June 30, 2006.
- Net loss of \$247K for the quarter ended June 30, 2007, represents a 61% improvement on the net loss of \$640K incurred for the three months ended June 30, 2006.
- The company achieved positive EBITDA for the six months ended of \$12K which represents a significant improvement over the EBITDA loss of \$235K incurred during the first six months of 2006.

SELECTED QUARTERLY INFORMATION

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

Quarter Ended	Jun 30 2007	Mar 31 2007	Dec 31 2006	Sep 30 2006	Jun 30 2006	Mar 31 2006	Dec 31 2005	Sep 30 2005
Revenue	1,882	2,143	2,117	2,410	2,334	2,430	2,340	2,274
Direct Costs	1,080	1,145	1,395	1,643	1,457	1,341	1,478	1,514
Expenses	1,049	1,184	2,083	1,239	1,517	1,500	2,442	1,596
Net Loss	(247)	(186)	(1,361)	(472)	(640)	(411)	(1,580)	(836)
EBITDA (Loss) ⁽¹⁾	12	25	(307)	(49)	(221)	(14)	(489)	(482)
Net Loss per share - basic	(0.02)	(0.01)	(0.19)	(0.03)	(0.04)	(0.03)	(0.11)	(0.06)

(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 JUNE 30, 2007

At the conclusion of the 2006 fiscal year, the Company completed an amalgamation of its subsidiaries and review of its expense classifications. The expenses for the quarter ended June 30, 2006 now conform to the re-classified expense categories used in the current fiscal period.

	2007 June 30 (three months)	% of Revenue	2006 June 30 (three months)	% of Revenue
Revenue	\$1,881,816		\$2,334,144	
Direct costs	1,079,824	57%	1,457,205	62%
Gross Margin	801,992	43%	876,939	38%
Amortization	121,710	6%	317,527	14%
General & administrative	397,468	21%	439,016	19%
Interest accretion	77,277	4%	42,994	2%
Marketing & selling	63,340	3%	282,684	12%
Stock based compensation	60,357	3%	83,043	4%
Technical & development	328,949	17%	351,485	15%
Operating Expenses	1,049,101		1,516,749	
Net Loss	\$(247,109)		\$(639,810)	

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 \$1,881,816 for the three months ended June 30, 2007 represent a decrease of \$452,328 (or 19%) over the corresponding period in the prior year. The loss of one large customer in November 2006 and significant attrition in the volume usage and/or user base of two others contributed \$446,250 to this decline.

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 \$1,079,824 for the three months ended June 30, 2007 represent a decrease of \$377,381 (or 26%) over the corresponding quarter in the prior year. This decrease can be broken down by key component expenses: i) third-party service costs decreased by \$196,333; ii) technical support wages and related administrative costs in the Help Desk decreased by \$136,653; and iii) commissions paid to SourceNet decreased by \$44,395.

Tighter management of customer end user connectivity rates and volumes plus the loss of a significant technical support customer had a proportional effect on direct costs. Coupled with the realization of significant unit price savings negotiated with third party channel service providers during Q4 of 2006 and Q1 of 2007, gross margins improved to 42.6% in the current quarter versus 37.6% in Q2 of 2006.

Operating Expenses

Amortization - Amortization expense decreased \$195,817 (or 62%) during the quarter ended June 30, 2007 relative to the quarter ended June 30, 2006. Intangible assets were fully amortized by December 31, 2006 and this accounts for \$178,685 of the decrease.

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 and salaries paid to finance and administration staff of the Company.

The decrease of \$41,548 (or 9%) during the three months ended June 30, 2007, relative to the corresponding period in the prior year, can primarily be attributed to: i) a \$14,229 reduction in bad debt recognized; and ii) a \$24,337 decrease in general administrative expenses.

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

The net decrease in costs of \$219,344 (or 78%) during the three months ended June 30, 2007 relative to the corresponding period in the prior year, is almost exclusively a result of the substantial decline in headcount. There were the equivalent of five full-time sales and marketing personnel on staff in Q2 of 2006 who are no longer with the company in the current quarter.

Technical & development – Salaries related to development and IT personnel comprise the bulk of these costs. The net decrease of \$22,536 (or 6%) for the quarter ended June 30, 2007 reflects the fact that several junior positions were eliminated and more senior personnel was hired in replacement to further drive operational efficiencies, as well as cost savings achieved associated with our co-location site.

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 June 30, 2007 was \$60,357, a decrease of \$22,686 (or 27%) over the 2006 quarter due to the elimination of expense associated with the forfeiture of options stemming from the overall head count reduction in 2006.

Convertible debenture - The Company increased the convertible debenture principal balance to \$960,130 in Q4 of 2006. It was determined that the fair value of the conversion-to-common shares option of the debt was \$227,193. This amount is being accreted on a straight-line basis over the term of the debt. Accretion expense recognized during the quarter ended June 30, 2007 was \$77,277, as compared to \$42,994 recognized for the quarter ended June 30, 2006, prior to the increase in principal by \$411,144 in Q4 of 2006.

RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2007

	2007 June 30 (six months)	% of Revenue	2006 June 30 (six months)	% of Revenue
Revenue	\$4,025,312		\$4,758,059	
Direct costs	2,225,196	55%	2,798,058	59%
Gross Margin	1,800,116	45%	1,960,001	41%
Amortization	243,892	6%	629,887	13%
General & administrative	824,542	20%	901,683	19%
Interest accretion	154,554	4%	85,988	2%
Marketing & selling	215,615	5%	569,761	12%
Stock based compensation	97,165	2%	161,968	3%
Technical & development	697,247	17%	661,334	14%
Operating Expenses	2,233,015		3,010,621	
Net Loss	\$(432,899)		\$(1,050,620)	

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 \$4,025,312 for the six-months ended June 30, 2007 represent a decrease of \$732,747 (or 15%) over the corresponding period in the prior year. \$620,315 of this decrease is explained by \$567,358 in growth from three existing customers, offset by i) declining volume usage and/or user base in four customers totaling \$713,772 and ii) a decline of \$473,901 stemming from four customers who terminated services subsequent to June 30, 2006.

The growth was mitigated by declines in the value of the US dollar relative to the CDN dollar. Further, given that the percentage of US dollar based revenue increased to 83% (of total revenue) during the six months ended June 30, 2007 from 79% for the same period in 2006, the impact of exchange rate fluctuations on revenue have been substantial. For every 1% decline in the exchange rate the Company's total US dollar denominated revenue for the six months ended June 30, 2007 would have experienced a decline of approximately \$33,000.

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 \$2,225,196 for the six-months ended June 30, 2007 represent a decrease of \$572,862 (or 20%) over the corresponding period in the prior year. This decrease can be broken down by key component expenses: i) third-party service costs decreased by \$249,242; ii) technical support wages and related administrative costs in the Help Desk decreased by \$237,728; and iii) commissions paid to SourceNet decreased by \$85,892.

Overall, the decrease stems from the impact of three factors: i) the loss of a significant help desk customer care customer in November 2006 resulted in a direct and proportional decrease in customer care wages; ii) steady attrition in the end user base of two large dial up customers has the effect of reducing channel and connectivity costs, as well as reducing the commissions payable to SourceNet ; and iii) the focus on cost-saving measures in 2006 and early 2007 have begun to favorably impact the results in fiscal 2007.

Operating Expenses

Amortization – Amortization expense decreased \$385,995 (or 61%) during the six months ended June 30, 2007 relative to the period ended June 30, 2006. Intangible assets associated with the acquisitions made in 2004 and 2005 were fully amortized by December 31, 2006 and this accounts for \$357,371 of the decrease.

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 and salaries paid to finance and administration staff of the Company.

The decrease of \$77,141 (or 9%) during the six-months ended June 30, 2007 relative to the corresponding period in the prior year, can primarily be attributed to: i) a net decrease of \$24,948 in salaries and benefits due to a reduction in consulting costs incurred in 2007; ii) a decrease of \$34,538 in occupancy costs due to one-time costs incurred in the first six months of 2006, and iii) a reduction of \$18,801 in general administrative expenses.

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

The decrease in costs of \$354,146 (or 62%) during the six-month period ended June 30, 2007 relative to the June 2006 period, stems from a combination of a \$15,041 reduction in general marketing expenses and a decrease of \$339,105 in salaries and commissions. There were the equivalent of six full-time sales and marketing personnel on staff during the first six months of 2006, who were no longer with the company in 2007.

Technical & Development – Salaries related to development and IT personnel comprise the bulk of these costs. The increase of \$35,913 (or 5%) for the six months ended June 30, 2007 relative to the corresponding period in 2006, primarily reflects the increase in wages and associated benefits related to the net hiring of the equivalent of three full-time personnel. These wage increases were somewhat mitigated by the decrease in usage of consultants and contractors in 2007, as well as cost savings associated with our co-location site.

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 period was \$97,165, a decrease of \$64,803 (or 40%) over the June 2006 period due to the elimination of expense associated with the forfeiture of options stemming from the overall head count reduction in 2006.

Convertible Debenture – The Company increased the convertible debenture principal balance to \$960,130 in Q4 of 2006. It was determined that the fair value of the conversion-to-common shares option of the debt was \$227,193. This amount is being accreted on a straight-line basis over the term of the debt. Accretion expense recognized during the six months ended June 30, 2007 was \$154,554, as compared to \$85,998 recognized for the quarter ended June 30, 2006, prior to the increase in principal by \$411,144 in Q4 of 2006.

LIQUIDITY AND CAPITAL RESOURCES

For additional detail, see the Consolidated Statements of Cash Flows for the period ended June 30, 2007.

Cash received from (used for) :	2007 June 30 (six months ended)	2006 June 30 (six months ended)
Operating Activities	(129,719)	(612,527)
Investing Activities	(40,000)	226,308
Financing Activities	(113,569)	(60,477)

As at June 30, 2007, the Company had cash and short term investments totaling \$40,000, down from \$70,193 as at December 31, 2006. The \$40,000 is restricted as it has been pledged as collateral for a line of credit with a chartered bank. As at June 30, 2007, the Company was indebted to this bank in the amount of \$213,095.

Operating Activities:

For the six months ended June 30, 2007, the Company's negative cash flow from operating activities was \$(129,719) as compared to a negative cash flow of \$(612,527) for the corresponding period in 2006. The components most affecting this significant cash flow improvement of \$482,808 are: i) EBITDA improved \$247,679, ii) trade payables and accrued liabilities increased \$120,915 and iii) trade receivable balances decreased by \$306,529 due to improved collections offset by the effect of decreasing sales when comparing the six months ended June 30, 2007 to June 30, 2006.

Investing Activities:

For the six months ended June 30, 2007, the Company used cash of \$40,000 to pledge as collateral against a new line of credit. In the comparable period of 2006, the Company generated cash of \$300,000 due to the release of cash collateral pledged against a previous line of credit set-up (but not used) in 2005. No expenditures during the six months ended June 30, 2007 were incurred for capital equipment purchases as compared to \$73,692 in the same period of 2006.

Financing Activities:

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

During the six months ended June 30, 2007, \$40,000 was raised from the exercise of warrants and capital lease payments amounted to \$153,569. In the same quarter of 2006, the Company raised gross proceeds of \$100,000 from a private placement and made capital lease payments totaling \$159,223.

In March 2007, the Company concluded a banking arrangement with a Canadian chartered bank, whereby credit facilities aggregating to \$720,000 were obtained. This facility consists of a \$320,000 standby letter of credit and a \$400,000 revolving line of credit.

Financial Condition:

As at June 30, 2007, the Company had current assets of \$811,971 and current liabilities of \$1,359,486 for a working capital deficiency of \$547,515 as compared to a deficiency of \$635,643 at December 31, 2006. This modest improvement in working capital of \$88,128 can primarily be explained by reductions in capital lease obligations, accounts payable and unearned revenue balances, offset by a lower accounts receivable balance and increase in bank indebtedness.

Though the Company is exhibiting tangible signs of stability and recovery on the income statement, cash position on the balance sheet continues to be challenged. However, cash flow is expected to begin to reflect improving business conditions due to several factors: i) payments associated with two large multi-year capital leases will end during Q4; ii) operating results are expected to show stability and improvement over the latter half of 2007; and iii) the Company expects to close on a modestly sized financing in Q3.

OUTSTANDING SHARE DATA

For additional detail, see Note 8 to the financial statements for the period ended June 30, 2007.

		Number Outstanding, June 30 2007	Number Outstanding, December 31 2006
Common Shares issued		15,186,624	15,086,624
Options to purchase Common Shares		1,930,500	1,929,900
Warrants to purchase Common Shares		1,550,000	4,855,149
		18,667,124	21,871,673

OFF BALANCE SHEET ARRANGEMENTS

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

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that the appropriate decisions can be made regarding public disclosure.

The Chief Executive Officer and Chief Financial Officer of the Company have conducted an evaluation of the disclosure controls and procedures as required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. They concluded that at June 30, 2007, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.

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 interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

The Company has incurred significant losses in recent years and has a working capital deficit of \$547,515 as at June 30, 2007. 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 will be obtained from operations or external financing to meet the Company's liabilities and commitments in

- the near 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'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 not renewed upon expiry;
 - the Company obtains approximately 84% 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 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 is beginning to exhibit signs of operational stability, this pattern is not necessarily indicative of future operating results.