

Letter to Shareholders

Dear Shareholders

In the first quarter ending December 31, 2007, Epic Data generated revenue of \$1.8 million, which was lower than revenue levels in last year's first quarter. We ended the first quarter with a cash balance of \$0.56 million and a contracted sales backlog of \$3.6 million.

As we have previously reported, in fiscal 2007 the company placed its primary focus on optimizing the productivity of its integration services and product development resources so backlog could be consistently and predictably converted to profitable revenue. We also reduced operating expenses to lower our overall break-even revenue. This was evidenced by a bottom line improvement of over \$4 million in fiscal 2007 compared to fiscal 2006. Our focus now has turned to the expansion and growth of our business through initiatives targeted to increase our opportunity pipeline, and the effectiveness of our sales resources. These efforts are directed at the areas of product marketing, marketing program execution, direct lead generation and business development.

Sustainable profitability and revenue growth in fiscal year 2008 is the targeted outcome of these programs, as well as the focus of every Epic Data employee. The success metrics for this company wide initiative is the growth in size of our sales opportunity pipeline, the growth of incoming customer orders and ultimately the growth in our backlog and revenue.

Subsequent to the end of the first quarter we entered the final stages of negotiation for our largest new contract in over five years. This MXE based system for a large U.S. defense contractor will substantially improve our contracted sales backlog in the second quarter and will significantly contribute to our revenue through the balance of the fiscal year.

With the solid progress in operational effectiveness achieved during fiscal 2007 and the current year's focus on marketing and sales, we expect our first fiscal year of sequential revenue growth in a number of years. We look forward to reporting to you on our progress in the coming quarters.

Two of our long serving directors have retired from the Board. Derek Douglas, our current chairman, and Barclay Isherwood, former CEO and chairman, are both retiring. On behalf of the company, our employees and our shareholders, I would like to sincerely thank both Barclay and Derek for their dedication, support and contributions to Epic Data over their long tenure on our board.

In building on the foundation Barclay and Derek have provided, we welcome Mark Sochan, who joined our board in December 2007. Mark brings significant industry experience in both the software and manufacturing industries and as a sales and marketing executive. Since our initial engagement with Mark, he has already contributed significant energy, guidance and council to all of our customer facing programs and initiatives.

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I also thank our director Iain Mant, who is being appointed our new board chairman, following the retirement of Derek Douglas. Iain is entering his ninth year as a director at Epic Data during which time he has made many important contributions. I am looking forward to working closely with our new chairman.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James Dodds". The signature is fluid and cursive, with a large initial "J" and "D".

James Dodds
President & Chief Executive Officer

Management Discussion & Analysis

Basis of Presentation

The following discussion and analysis should be read in conjunction with the consolidated financial statements for the period ended December 31, 2007; with the financial statements and Management Discussion and Analysis in the fiscal 2007 annual report; and with the Annual Information Form, including the sections on risks and uncertainties. The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles in Canadian dollars. Commentary in this Discussion and Analysis is based on information available to management as of February 27, 2008.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

We establish and maintain financial reporting disclosure controls and procedures to provide reasonable assurance that material information is appropriately disclosed in our financial statements. Based on our evaluation for the period ended December 31, 2007, we conclude that there are no significant weaknesses in the design or operation of these disclosure controls and procedures.

We also establish and maintain internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles. Based on our evaluation of the design of these internal controls over financial reporting as of December 31, 2007, we believe the design to be sufficient to provide such reasonable assurance.

Additional information about Epic Data, including our Annual Information Form, can be found at www.sedar.com.

Industry Trends and Recent Developments

We market automated data collection based, lean manufacturing solutions to the discrete manufacturing sector. Aerospace, defense and industrial equipment manufacturers are Epic Data's principal vertical markets. Geographically, we focus marketing and sales efforts on large companies based in North America and Europe.

Manufacturers in Epic Data's principal vertical and geographic markets are faced with increasing competition from lower cost regions of the world. These competitive cost pressures are being compounded by more demanding consumers who are continuously pressuring manufacturers to provide greater product selection with quicker delivery and higher quality. Time to market is becoming more compressed and product cycles are now measured in months or weeks, rather than in years. In response to these market conditions, manufacturers need to become more "lean" than ever before - they need to attain higher efficiency, maintain quality, reduce time to market and increase production velocity at a lower cost.

In the face of this competitive pressure, our customers' buying decisions are increasingly based on operational criteria such as how a proposed solution can increase manufacturing velocity, reduce inventory and improve product quality. IT managers using criteria such as compatibility with existing computer systems and staying current with technology, increasingly play a supporting role in the assessment of solutions.

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At the same time, technological advances, including lower cost computing power, increasing wireless network capacity and more open, internet-centric technology platforms are evolving the landscape for the data collection industry. Traditional, pure data collection systems in this environment require less specialized, lower cost skills to develop and implement; “off the shelf” hardware devices are increasingly commoditized; and interoperability with host systems has been simplified through service oriented architecture and open standards software tools such as .NET, XML and Java. However complex and robust, a data collection system that does no more than simply feed data to a host application is increasingly viewed as a lower value-added “utility” by our target market.

Faced with these structural changes in our marketplace, we observed that customers placed significantly more value on solutions that could not only reliably capture and manage data, but also provide functionality to improve the performance of their manufacturing and materials management areas. Additional functionality, such as real time visibility into manufacturing activities and the movement of material across the manufacturing supply chain, provides invaluable data at both execution and management levels.

Our **P3-CME** product strategy focuses on providing this additional functionality driven by such needs in the market. Real-time visibility provided by our products enables managers and production staff to make more effective production decisions. Two-way communication feeds critical information down and up the production line and into the manufacturing supply chain. Visibility to material movements and labour on the shop floor helps track and prioritize resources. This is an improvement over conventional data collection solutions that simply make existing host system processes more efficient and less error prone, but do not typically add significant functionality. **P3-CME** goes beyond this conventional data collection capability by providing production execution functionality that improves manufacturing performance.

P3-CME incorporates four integrated modules:

- The **Materials Management System (“P3-MMS”)**, or **Parts**, module offers full materials management capabilities, helping to manage just-in-time supply flows and production replenishment. This solution makes it easy for production staff to respond to demand pull signals and move materials to the right place on the manufacturing floor, in the right quantity, at the right time.
- The **Advanced Shipping Authorization (“P3-ASA”)** module streamlines materials handling by extending manufacturers receiving systems to their suppliers with secure internet access. It provides visibility to incoming shipments through advance shipping notices and guarantees shipping and label compliance to the manufacturer’s standards.
- The **Time & Labour Capture (“P3-TLC”)**, or **People**, module provides instant access to time and attendance information. It controls access through integrated RFID and biometric readers, tracks employee time for payroll and monitors labour, by customer order, work order, lot and serial numbers. TLC is re-sold by Epic Data through an agreement with Kaba Benzing America Inc., a leading global provider of time and attendance, access control and production data collection systems.
- Currently under development is the **Production Execution and Control System (“P3-PECS”)**, or **Process**, module that will give managers a robust tool to capture real-time production data. It will continuously track production rates, measure cell and line performance, and monitor throughput against daily targets. It will allow tracing of production by customer order, lot and serial

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number. P3-PECS will enable instant identification and response to issues on the manufacturing floor.

The foundation upon which we build these value added applications is a robust data collection middleware software solution. Middleware also forms the basis for our conventional enterprise data collection solutions specifically targeted to interface with enterprise applications such as SAP, Baan and Oracle. To strengthen our offerings in this area we released our next generation of middleware called **MXE**. **MXE** provides a service oriented architecture-based platform for integrating and accelerating lean initiatives by connecting an enterprise's workforce to its systems, suppliers, and customers in real-time. Compared to our previous generation of data collection middleware, **MXE** provides improved message reliability and remote device management. **MXE** simplifies transaction development and improves the efficiency and productivity of both our overall product development efforts and any customization required to modify our standard software products.

MXE has replaced **eXpresso** as our standardized development environment and although we will continue to support and maintain customer solutions deployed on eXpresso well into the future, all newly deployed solutions will be based on **MXE**.

Our market strategy with respect to hardware includes both OEM and proprietary devices. To enhance our complete lean manufacturing software solutions, we offer the **MPT** line of data collection and communications workstations for manufacturing environments. **MPTs** are available in both a wired, stationary, shop floor model, as well as a wireless version, which allows us to target the vehicle-mount, forklift based market. We are currently developing our next generation of **MPT** products which will feature increased processing power, larger screen size and improved RFID capabilities. The **MPT** family of workstation products is manufactured to Epic Data's specifications by third party electronic manufacturing service providers.

Results of Operations for the quarter ended December 31, 2007

Overview

Our first quarter of fiscal 2008 provided a slower than anticipated start to the financial year. This slow start was tempered somewhat by the post first quarter announcement that we entered the final stages of negotiation for our largest contract in over 5 years. The \$4.8 million **MXE** system for a US-based defense contractor is scheduled to be delivered over the next three quarters for completion by the end of our fiscal year in September 2008. While this vote of confidence from a longstanding customer will provide a solid revenue base over the balance of our year, we are continuing to focus on improving sales and marketing as management's number one priority.

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Revenue and Gross Margin

Our revenue consists of four significant components: integration services, hardware products and software licensing (collectively referred to as “systems” revenue), and ongoing customer support contracts (also referred to as maintenance or EPICare). From a business planning perspective, we focus on two separate sources of revenue; contracted sales backlog and new customer orders. Contracted sales backlog represents the value of customer orders received but not yet delivered, while future new orders become backlog once the contract is awarded. Systems backlog is generally delivered over a period one to six months, depending on the size and complexity of the individual contracts. EPICare support agreements generally cover one year of support, although in limited situations, customers purchase multi-year, or partial-year support.

Cost of sales components include employee compensation related to integration services and support as well as related costs such as travel, communications, infrastructure and operational management. The cost of manufactured and re-sold hardware products and support contracts on re-sold hardware are also included in cost of sales.

The following table provides a component breakdown of revenue and gross margin as well as contracted sales backlog for the comparative periods in fiscal 2008 and 2007 (in thousands of Canadian dollars):

	Q1 2008		Q1 2007		Variance	
Revenue						
Hardware	\$153	9%	\$809	28%	(\$656)	-81%
Software	161	9%	264	9%	(103)	-39%
Integration Services	529	30%	836	29%	(307)	-37%
Systems Total	843	48%	1,909	66%	(1,066)	-56%
EPICare Maintenance	930	52%	990	34%	(60)	-6%
Total Revenue	1,773	100%	2,899	100%	(1,126)	-39%
Cost of Sales						
Hardware	116	76%	423	52%	(307)	-73%
Software	0	0%	26	10%	(26)	-100%
Integration Services	436	82%	618	74%	(182)	-29%
Systems Total	552	65%	1,067	56%	(515)	-48%
EPICare Maintenance	386	42%	380	38%	6	2%
Total Cost of sales	938	53%	1,447	50%	(509)	-35%
Gross Margin						
Hardware	37	24%	386	48%	(349)	-90%
Software	161	100%	238	90%	(77)	-32%
Integration Services	93	18%	218	26%	(125)	-57%
Systems Total	291	35%	842	44%	(551)	-65%
EPICare Maintenance	544	58%	380	38%	164	43%
Total Gross margin	\$835	47%	\$1,222	42%	(\$387)	-32%
Contracted Sales Backlog						
Systems	\$601	17%	\$2,782	46%	(\$2,181)	-78%
EPICare Maintenance	2,997	83%	3,289	54%	(292)	-9%
Total Backlog	\$3,598	100%	\$6,071	100%	(\$2,473)	-41%

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Revenue

Our overall revenue of \$1.77 million in the first quarter of fiscal 2008 represents a 39% decline versus the first quarter of fiscal 2007. The \$1.13 million year over year decrease was primarily attributable to a shortfall in systems revenue, as support revenue was substantially unchanged from the first quarter of fiscal 2007. Systems revenue in the first quarter of fiscal 2007 was positively impacted by significant hardware deliveries to Bell Helicopter Textron, while in the first quarter of fiscal 2008, there were no equivalently sized orders replacing the overall hardware volume achieved in the first quarter fiscal 2007. Revenue from software licensing and Integration Services in the first quarter of fiscal 2008 was also lower than the first quarter of fiscal 2007 due to the lower opening contracted sales backlog combined with the low volume of new customer orders.

Although we are reporting a decline in systems backlog at the close of the of the first quarter of fiscal 2008, subsequent to quarter end our systems backlog is expected to increased significantly as a result of a \$4.8 million order from a US based defense contractor. As of our reporting date the sale is in the final stages of contract negotiation. In addition to this expected new MXE and MPT based data collection system order, the customer will also contract with us to provide 6 years of system support commencing after the installation of the new system has been completed. The aggregate value of the expected support agreement is \$2.1 million.

Our results are also impacted by fluctuations in the exchange rate between our reporting currency (Canadian dollars) and the three other primary currencies in which we transact business. Historically, the majority of our revenue is generated outside of Canada while a significant proportion of our costs in areas such as personnel, head-office facilities, IT infrastructure and support, communications, travel, insurance and corporate governance are incurred within Canada. As a result of this business structure, if these primary currencies weaken in relation to the Canadian dollar, our results will generally be negatively impacted.

In comparing the current period to the prior year's comparative period, all three other primary currencies fluctuated in relation to the value of the Canadian dollar. The following table illustrates the mix of currencies in which we transacted business and the resulting impact of fluctuations in foreign currency exchange rates (FX) for the periods ended December 31, 2007 and 2006:

Currency	Home Currency			Canadian Dollars		
	Revenue	Expense	Net	Net Cdn \$ at actual 2008 FX Rates	Net Cdn \$ at 2007 FX Rates	Net Impact of FX Fluctuation
U.S. Dollar	1,111	447	664	\$653	\$748	(\$95)
U.K. Pound	157	182	(25)	(50)	(53)	3
Euro	93	(1)	94	133	135	(2)
Canadian Dollar	234	1,313	(1,079)	(1,079)	(1,079)	-
				(\$343)	(\$249)	(\$94)

Significant customers include any customer that exceeds 10% of our overall revenue. This quarter, Komatsu America at 18%, and Bell Helicopter Textron at 13% of our overall revenue, are classified as significant customers, with no other customers generating more than 10% individually. In the first quarter of

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fiscal 2007, one customer, Bell Helicopter Textron exceeded the 10% threshold, accounting for 24% of our total revenue in the period.

Gross Margin

Our gross margin as a percentage of revenue will fluctuate from period to period as a result of a number of factors, such as overall revenue volume, the mix of various products which comprise overall revenue, the productivity of our integration service organization, systems pricing, product procurement cost and foreign exchange fluctuations. For example, systems (comprising components of hardware, software licenses and integration services) based on our P3-CME software suite include a greater proportion of relatively higher-margined license revenue compared to systems based on Epic Data's more mature ERP offerings such as Connectware for Baan. As well, systems designed for the manufacturing shop floor will generate inherently higher hardware margins than systems targeted for materials management in the warehouse. This is because our shop floor systems feature Epic Data's MPT line of workstations while our warehouse systems will generally incorporate hardware offerings from third party OEM's resold at lower gross margins compared to our proprietary products. The productivity of our integration service group is a function of a number influences including the number of hours on revenue generating activities (also known as "utilization") in a given period, the selling price for those services, and the extent to which work is completed within the budgeted number of hours.

Our overall (combined systems and support) gross margin as a percentage of revenue decreased to 47% in the first quarter of fiscal 2008 versus 50% in the first quarter of fiscal 2007. Within the overall gross margin results for first quarter of fiscal 2008, systems gross margins were 35% versus first quarter of fiscal 2007 levels of 44%, while support contracts generated gross margins of 58% compared to 62% in the first quarter of fiscal 2007. On a dollar volume basis, overall gross margin value decreased by \$0.62 million on the quarter over quarter revenue volume decline of \$1.13 million.

In recent quarters our Integration Services group has driven overall gross margin percentage improvements. In first quarter of fiscal 2008, this trend was interrupted, as lower revenues resulted in a decline in the efficiency of this area, posting an 18% gross margin versus 26% in the first quarter of fiscal 2007.

Gross margin values generated through hardware deliveries were down by \$0.35 million compared to the first quarter of fiscal 2007 on hardware revenue declines of \$0.66 million. Hardware gross margin percentages decreased from 48% in the first quarter of fiscal 2007 to 24% in the first quarter of fiscal 2008, reflecting the absence of proprietary MPT devices in our overall hardware mix of MPTs and OEM wireless devices this quarter. There were no material changes in the cost of procuring both OEM and Epic Data proprietary hardware products during the period.

Although gross margin percentages from the sale of software licenses increased versus the first quarter of fiscal 2007, the volume of license revenue in the first quarter of fiscal 2008 was not sufficient to offset margin shortfalls in other revenue categories.

We expect our gross margin percentage to continue to fluctuate from period to period primarily as a result of variations in both overall product mix and productivity performance of our Integration Services group.

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Operating Expenses

Operating expenses include costs related to selling, marketing and administration as well as product development expenditures.

We maintain a direct sales force geographically dispersed throughout North America and Great Britain. A centralized marketing department located at our Richmond, British Columbia head-office, supports the sales force. Cost of selling and marketing consists mainly of employee compensation and related travel, communications, conferences, market research, lead generation and advertising. Administrative costs include facilities, IT infrastructure and communications, executive, central support staff, insurance, public company costs, audit and legal fees as well as bad debt and foreign exchange transactions.

Product development expenditures consist primarily of employee compensation costs for the centrally managed group located at our head-office, as well as sub-contracted design and development services as required.

The following table provides a breakdown of our operating expenses for the periods ended December 31, 2007 and 2006 (in thousands of Canadian dollars):

	Q1 2008	Q1 2007	Variance	
Operating Expenses				
Sales & Marketing	\$312	\$546	(\$234)	-43%
General & Administrative	693	862	(169)	-20%
Total Sales, Marketing and Admin	1,005	1,408	(\$403)	-29%
Product Development	137	235	(98)	-42%
Total Operating Expenses	\$1,142	\$1,643	(\$501)	-30%

Operating expenses for the first quarter of fiscal 2008 were reduced by \$0.50 million, or 30% compared to the first quarter of fiscal 2007. These reductions reflect savings from reduced staffing levels, travel, communications and facilities.

The majority of our product development efforts in the first quarter of fiscal 2008 were directed towards the further enhancement and build-out of our P3-CME and MXE product lines for discrete manufacturers. Our core product development group consists of 6 team members as at December 31, 2007, down from 16 at the close of the first quarter of fiscal 2007. The reduction in resources in this area over the year reflects a general shift in focus from developing products, to marketing, selling and delivering these now mature offerings.

Internal resources, consisting of the core development team and integration services personnel as required, contributed substantially all of our development efforts, with a minimal amount of sub-contracted design and development services utilized during the period. Our product development and integration service teams work together to both develop new products and deliver solutions to our customers. On an as required basis, the core product development team is supplemented by personnel from our integration services group. When customer demands temporarily exceed the capacity of our integration services group, members of our product development team supplement our efforts in the revenue generating integration services area. In first quarter of fiscal 2008, approximately 20% of our total integration services effort was delivered by members of our product development team, representing approximately 60% of the product development team's total productive capacity.

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The following table summarizes the deployment of our staff by geographical location as at the applicable dates:

Staff Count at December 31:	Richmond BC	Fort Worth Texas	Other N. America	Newbury UK	Paris France	Total
2007	32	4	6	10	0	52
2006	42	4	6	11	2	65
2005	57	4	10	12	3	86

Other Expenses (earnings)

Other expenses (earnings) consist of three main components, as detailed in the table below (in thousands of Canadian dollars):

	Q1 2008	Q1 2007	Variance	
Other expenses (earnings)				
Amortization of capital assets	\$54	\$70	(\$16)	-23%
Unused lease facilities	-	(108)	108	-100%
Net finance charges	27	35	(8)	-23%
Other income	(45)	0	(45)	-
Total other expenses	\$36	(\$3)	\$39	-1300%

Unused leased facility income in the comparative period related to head-office facilities which exceeded our requirements. During the first quarter of fiscal 2008, we concluded terms with our head-office landlord to surrender two of the total of three floors previously included our head office facility lease. This arrangement reduces our remaining lease obligation by two thirds for the remaining term of our lease through December 2009. Under the new arrangement, we are obligated to pay rent for only one of the three floors, reflecting the amount of space we currently require for the business. The impact of this transaction was reflected in the financial results as at and for the year ended September 30, 2007, as the information regarding this fiscal 2008 first quarter event was available to us in the preparation of the financial statements as at September 30, 2007 and as such, there is no amount recorded in the first quarter of fiscal 2008.

Net finance charges consist of three components: (1) Interest income, (2) Interest expense and bank charges and (3) Accretion of related party loan warrants. The table immediately following provides a breakdown of these three components for the comparative periods ending December 31, 2007 and 2006 (in thousands of Canadian dollars):

	Q1 2008	Q1 2007	Variance	
Net finance charges (income)				
Interest income from cash and cash equivalents	(\$5)	(\$16)	\$11	-69%
Interest expense and bank charges	25	29	(4)	-14%
Amortization of related party loan warrants	7	22	(15)	-68%
Net finance charges (income)	\$27	\$35	(\$8)	-23%

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Interest income represents a net return on the approximately \$0.69 million average cash and cash equivalent balance for the first quarter of fiscal 2008 of 1.0% (fiscal 2007 Q1 – 1.5%). The majority of interest charges relates to a borrowing arrangement with a related party. Bank charges in the comparative period include costs related to the standby letter of credit provided to our head-office landlord prior to the termination of this arrangement in April 2007. Accretion of warrants associated with the related party loan made up the balance of net finance charges in the year.

Other Income

During fiscal 2007 we concluded terms of a transaction to divest our parking enforcement business line, known as TicketManager. The purchaser acquired TicketManager related intellectual property including software source code and copyrights; marketing materials; customer lists; demonstration equipment and is assuming existing support agreements and ongoing implementation projects in progress.

The terms of the agreement include the provision for three separate payments, the first of which was paid upon closing of the transaction on June 15, 2007, to be followed by two further payments which depend on certain conditions being met by both the purchaser and the seller. Until both of these latter conditions are met, the Company will retain the rights and obligations to continue to service and support certain TicketManager customers.

During the first quarter of fiscal 2008, the second of the three conditions was satisfied, and the corresponding financial impact was recognized in these financial statements as other income.

As of December 31, 2007, one of the original three conditions for the TicketManager related milestone payments remains to be satisfied.

Income Taxes

The potential value of non-capital losses along with other future tax assets has not been included in our financial results. As of December 31, 2007, the unrecognized estimated value of these future tax assets was approximately \$10 million.

Related Party Transactions

Related Party Loan

We have a loan with a company owned by a member of our Board of Directors. The principal amount of \$1.00 million was received on June 21, 2005 and is repayable June 21, 2009. The terms of the loan provide an additional \$0.50 million to be drawn on as required. The loan is secured by a first charge on all property and assets of the Company. As of December 31, 2007, this additional facility has not been drawn upon.

Subsequent to the end of the first quarter of fiscal 2008, on January 29, 2008, terms of the loan were amended whereby any of the additional \$0.50 million drawn upon by the Company is now repayable on the earlier of collection of specified customer billings, or July 31, 2008 (previously any such draw-downs were repayable on June 21, 2009). Amended terms also include a provision that the \$1.00 million principal is now repayable on the earlier of collection of specified customer billings or June 21, 2009 (previously the principal amount was repayable on June 21, 2009 with no additional provision with respect to collection of specified customer billings). These amendments, which were subsequent to quarter end, did not impact our cash position or the financial presentation of the related party loan as at December 31, 2007.

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Interest on the entire outstanding loan balance is payable in arrears, every six months, at a rate of 7% per annum.

Legal Fees

A second member of the Board of Directors is a senior partner at a firm that has been engaged to provide legal services to the Company. The costs of these services are charged to selling, marketing and administration expenses.

Capital Resources and Liquidity

At December 31, 2007, our cash balance is \$0.59 million and we have a working capital deficiency of negative \$0.73 million (September 30, 2007 – Cash of \$0.76 million and a working capital deficiency of negative \$0.54 million).

Operating

Operating activities during the first quarter of fiscal 2008 consumed net cash aggregating to \$0.15 million. The first quarter of fiscal 2008's net loss of \$0.34 million was partially offset by fluctuations in operating assets and liabilities during the quarter.

Financing

We have a loan with a company owned by a member of our Board of Directors. In addition to the principal amount of \$1.00 million, the terms of the loan provide an additional \$0.50 million to be drawn on as required. The loan is secured by a first charge on all property and assets of the Company. As of December 31, 2007, this additional facility has not been drawn upon.

At period-end, there are 961,817 stock options outstanding which are exercisable at prices between \$0.10 and \$0.87 per share and 375,000 share purchase warrants outstanding at \$0.22 per share. If all options and warrants were exercised, we would receive proceeds of \$0.41 million. These funds would be available to us as working capital.

We do not have any off-balance sheet finance or special purpose entities.

Investing

Included in our investing activities for the comparative first quarter of fiscal 2007 was the impact of a reduction of pledged cash related to our head-office lease. Lease terms on our head-office premises previously included a provision whereby we provided a standby letter of credit as security to the landlord. Security to the bank for the facility was provided by a pledge of cash equivalents and the facility was reduced through the term of the lease. During fiscal 2007, to enhance working capital available to us, we entered into an arrangement to pay the entire balance of encumbered funds in the amount of \$1.2 million to our landlord. These funds are being applied against our ongoing head office rent. As a result of this amended arrangement with the landlord, there was no comparative reduction in the first quarter of fiscal 2008.

Net capital expenditures in the current and comparative quarter were minimal.

As at December 31, 2007, the Company has a deficiency in assets of \$1.56 million and a deficit of \$60.64 million. We have reduced costs primarily through a reduction in the number of employees, and during the year we renegotiated an extended term on our related party loan and we continue pursuing opportunities to secure new financing. There can be, however, no certainty that such new financing will be available or

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be available on reasonable terms. To the extent that financing is not available, or not available on reasonable terms, the Company may not be able to continue as a going concern.

Critical Accounting Policies and Estimates

Certain accounting policies are critical to understanding our reported financial results. These critical policies, which affect the reported amounts of revenue and the more significant areas involving management estimates, are described here.

Revenue Recognition

Our arrangements with customers include the sale of automated data capture systems, which includes hardware, software license fees, implementation and modification of new and existing software, and subsequent support and maintenance of those systems. The revenue is evaluated based on the terms of each agreement with respect to multiple element arrangements.

Revenue associated with multiple element arrangements is attributed to the various elements based on its relative fair value or residual fair value of the undelivered elements and is recognized on an accrual basis in accordance with the contractual arrangements provided that collectibility is reasonably assured. The individual elements are recognized as revenue as described below:

- Revenues from the sales of hardware for which objective evidence of fair value exists, is recognized on delivery of the products as we fulfill our obligations in accordance with the contractual arrangements. We do not generally sell hardware as an integrated unpriced required element of a system implementation.
- Software includes both unmodified standardized software products as well as software products which are modified to the customer's specifications on a project by project basis. Revenue recognition for unmodified and modified software products is as follows:
 - Revenue for unmodified standard software products is recognized upon completion of any services which are not separable and are essential to the functionality of the software. In general, recognition occurs when the installation of the standard software is complete.
 - Services related to the modification of our software are not separable and are essential to the functionality for the customer. As a result, we account for the software and customization services using the percentage of completion method of contract accounting. We determine percentage of completion on fixed fee contracts using hours incurred to date compared to total estimated hours to complete the project. When the total cost estimate exceeds revenue, the estimated project loss is recognized immediately.
- Support contracts, which require our ongoing involvement are billed in advance and recorded as deferred revenue and amortized over the period of the ongoing involvement, typically one year.
- We provide separate integration services consisting of consulting, system design, project management, software customization services, software and hardware installation, system integration, bar code labeling and customer training. These services are charged on a time and materials or fixed price basis. We recognize revenue as the services are performed. Revenue is estimated by comparing the forecasted total effort required to complete the specific deliverable to the actual effort

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expended to date. These determinations are re-evaluated on a monthly basis and are typically based on a number of factors, including past experience with similar deliverables; the complexity of the solution; the skill level, knowledge and experience of the personnel assigned to the project and the maturity and applicability of the underlying standard software being utilized. When the total cost estimate exceeds revenue, the estimated project loss is recognized immediately. These estimates, in total, have a significant impact on determining our overall systems revenue; however, because revenue is derived from several individual projects at any given time, the impact of a single incorrect estimate does not generally materially impact overall revenue.

Allowance for Doubtful Accounts

The Company provides an offset to the gross value of trade accounts receivable, which represents management's estimate of the net realizable value of those receivables after eliminating uncollectible amounts. In estimating this provision, consideration is given to the age of the receivable, the credit worthiness of the customer, historical experience, and specific communications with the customer as well as many other relevant factors. Changes in any of these circumstances may necessitate an adjustment to the estimated provision, which would in turn impact the Company's financial results.

Stock Based Compensation and Other Stock Based Payments

The Company adheres to CICA Accounting Standards Board amended CICA HB section 3870 which requires entities to account for stock-based compensation awards granted to employees using the fair value based method. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period.

The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model. This model considers a number of factors, including the historical volatility of the market price for the underlying shares, the expected life of the stock options, the expected dividend yield and the current risk free rate of interest. These factors are subject to inherent variability over time in addition to some degree of estimation, which could impact the determination of the fair value of the stock options and in turn, the amount expensed in a given period. Should circumstances around the factors used in the fair value model change significantly, this could materially impact the estimated amount of stock based compensation and other stock based payment costs in the future.

Management Discussion & Analysis

EPIC DATA INTERNATIONAL INC. QUARTERLY BALANCE SHEETS

(Thousands of Canadian dollars - unaudited)

	As at							
	Mar 31 2006	Jun 30 2006	Sep 30 2006	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007
Assets:								
Current assets								
Cash and cash equivalents	\$1,122	\$466	\$618	\$119	\$1,111	\$292	\$759	\$591
Accounts receivable	2,281	2,089	2,045	4,048	2,680	2,467	1,546	1,511
Inventory	378	239	265	216	264	212	180	221
Prepaid expenses	524	430	233	376	439	927	669	590
	4,305	3,224	3,161	4,759	4,494	3,898	3,154	2,913
Cash equivalents pledged as security	1,600	1,600	1,600	1,214	1,200	-	-	-
Long-term prepaid expenses			112	129	116	389	421	289
Capital assets	931	839	471	401	367	318	271	234
	6,836	5,663	5,344	6,503	6,177	4,605	3,846	3,436
Liabilities and Shareholders' Equity (Deficiency in Assets):								
Current liabilities								
Accounts payable and accrued liabilities	2,031	2,393	2,849	2,562	2,735	2,381	1,362	1,472
Deferred revenue	2,462	1,742	1,701	3,499	3,320	2,518	2,328	2,168
	4,493	4,135	4,550	6,061	6,055	4,899	3,690	3,640
Related party loan, net of equity portion	921	919	954	970	985	949	949	956
Deferred Revenue			573	540	497	469	429	396
Provision for unused leased facilities	551	501	969	861	754	643	-	-
Shareholders' equity (deficiency in assets)								
Share capital	58,563	58,563	58,664	58,664	58,664	58,663	58,663	58,663
Contributed surplus - stock options	139	155	173	134	132	137	196	205
Contributed surplus - warrants	128	149	154	154	154	205	213	213
Deficit	(57,959)	(58,759)	(60,693)	(60,881)	(61,064)	(61,360)	(60,294)	(60,637)
	871	108	(1,702)	(1,929)	(2,114)	(2,355)	(1,222)	(1,556)
	\$6,836	\$5,663	\$5,344	\$6,503	\$6,177	\$4,605	\$3,846	\$3,436

Management Discussion & Analysis

EPIC DATA INTERNATIONAL INC.
QUARTERLY STATEMENTS OF OPERATIONS

(Thousands of Canadian dollars - unaudited)

	Quarter Ended							
	Mar 31 2006	Jun 30 2006	Sep 30 2006	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007
Revenue	\$2,535	\$2,964	\$2,458	\$2,899	\$3,010	\$2,509	\$2,677	\$1,773
Cost of sales	1,415	1,626	1,512	1,447	1,469	1,265	1,168	938
Gross margin	1,120	1,338	946	1,452	1,541	1,244	1,509	835
Gross margin percentage	44%	45%	38%	50%	51%	50%	56%	47%
Operating expenses:								
Selling, marketing & administrative	1,751	1,615	1,783	1,408	1,281	1,346	1,180	1,005
Product development	433	446	273	235	459	290	251	137
	2,184	2,061	2,056	1,643	1,740	1,636	1,431	1,142
Earnings (loss) before undernoted items	(1,064)	(723)	(1,110)	(191)	(199)	(392)	78	(307)
Other expenses (earnings):								
Amortization of capital assets	105	99	96	70	60	58	56	54
Unused leased facilities	(50)	(50)	700	(108)	(107)	(112)	(1,073)	-
Net finance charges	34	28	28	35	31	36	28	27
Other Income	-	-	-	-	-	(78)	1	(45)
	89	77	824	(3)	(16)	(96)	(988)	36
Earnings (loss) before income taxes	(1,153)	(800)	(1,934)	(188)	(183)	(296)	1,066	(343)
Income tax expense (recovery)	-	-	-	-	-	-	-	-
Net earnings (loss)	(\$1,153)	(\$800)	(\$1,934)	(\$188)	(\$183)	(\$296)	\$1,066	(\$343)

Management Discussion & Analysis

EPIC DATA INTERNATIONAL INC. QUARTERLY CASH FLOW STATEMENTS

(Thousands of Canadian dollars - unaudited)

	Quarter Ended							
	Mar 31 2006	Jun 30 2006	Sep 30 2006	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007
Cash provided by (used in):								
Operating:								
Net income (loss)	(\$1,153)	(\$800)	(\$1,934)	(\$188)	(\$183)	(\$296)	\$1,066	(\$343)
Items not involving cash:								
Amortization of capital assets	105	99	96	70	60	58	56	54
Impairment loss on leasehold improvements	-	-	270	-	-	-	-	-
Provision for unused leased facilities	(50)	(50)	469	(108)	(107)	(111)	(1,074)	-
Accretion of related party loan	16	19	40	16	15	15	8	7
Stock-based compensation expense (recovery)	21	16	18	(39)	(2)	5	59	9
Change in non-cash operating working capital:								
Accounts receivable	3,199	192	44	(2,003)	1,368	213	921	35
Inventory	63	139	(26)	49	(48)	52	32	(41)
Prepaid expenses	(134)	94	85	(160)	(50)	(761)	226	211
Non-revolving credit facility	(736)	-	-	-	-	-	-	-
Accounts payable and accrued liabilities	(1,345)	362	456	(287)	173	(354)	(588)	110
Deferred revenue	(641)	(720)	532	1,765	(222)	(830)	(230)	(193)
	(655)	(649)	50	(885)	1,004	(2,009)	476	(151)
Investing:								
Net acquisition of capital assets	(7)	(7)	1	-	(26)	(9)	(9)	(17)
Cash equivalents pledged as security	400	-	-	386	14	1,200	-	-
	393	(7)	1	386	(12)	1,191	(9)	(17)
Financing:								
Refund of share purchase	-	-	-	-	-	(1)	-	-
Proceeds on exercise of employee options	-	-	101	-	-	-	-	-
	-	-	101	-	-	(1)	-	-
Increase (decrease) in cash and cash equivalents	(262)	(656)	152	(499)	992	(819)	467	(168)
Cash and cash equivalents, beginning of period	1,384	1,122	466	618	119	1,111	292	759
Cash and cash equivalents, end of period	\$1,122	\$466	\$618	\$119	\$1,111	\$292	\$759	\$591
The company's cash position consists of:								
Cash and cash equivalents	\$1,122	\$466	\$618	\$119	\$1,111	\$292	\$759	\$591
Cash and cash equivalents pledged as security	1,600	1,600	1,600	1,214	1,200	-	-	-
Cash position	\$2,722	\$2,066	\$2,218	\$1,333	\$2,311	\$292	\$759	\$591

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for Fiscal 2007.

Management Discussion & Analysis

The following is a summary of selected audited consolidated financial information for our most recently completed fiscal year and for the two preceding fiscal years:

All in \$1,000's except Earnings (Loss) per Share and Number of Shares	Audited (Fiscal Year ended September 30)		
	2005	2006	2007
Working capital (deficiency):	848	(1,962)	(536)
Revenues:	15,546	12,099	11,095
Gross profit:	8,043	5,271	5,746
Gross profit / share:	0.64	0.42	0.45
Product Dev. expenses:	1,654	1,599	1,235
Selling, mktg. & admin. expenses:	7,888	6,866	5,216
Net income (loss):	(1,723)	(4,281)	399
Net earnings (loss) per share	(0.14)	(0.34)	0.03
Basic:	(0.14)	(0.34)	0.03
Diluted:	(0.14)	(0.34)	0.03
Total assets:	9,437	5,344	3,846
Capital assets:	1,067	471	271
Non-revolving credit facility:	733	-	-
Related party loan:	889	954	949
Prov. for unused leased facilities (long term portion):	650	969	-
Total liabilities:	7,061	7,046	5,068
Share capital:	58,789	58,991	59,072
Weighted average shares:			
Basic	12,547,214	12,903,631	12,899,175
Diluted	12,547,214	12,903,631	12,906,428
Deficit:	(56,413)	(60,693)	(60,294)

Management Discussion & Analysis

Adoption of New Accounting Policies and Changes in Existing Accounting Policies

We did not adopt any new accounting policies, nor did we change any existing accounting policies during the first quarter of fiscal 2008.

Business Risks

Epic Data is subject to numerous business risks. We prudently manage our operations to minimize the impact of areas involving risk; however investors should carefully consider the following information:

Our sales efforts target large corporations that require sophisticated data capture and production execution systems to collect and analyze data relating to various operational activities. We expend significant time and resources educating prospective customers about the features and benefits of our solutions. Our sales cycle usually ranges from 3 to 12 months and sales delays could cause our operating results to vary. The Company balances this risk by continuously assessing the condition of our sales "pipeline" and making the appropriate adjustments as far in advance as possible. Our strategy also includes a comprehensive program to build and improve relationships with our long-standing customers to better understand needs and proactively manage incoming business levels effectively.

Our revenue and profit potential depends substantially upon market acceptance of both our new products and enhanced existing products. To mitigate the risk of non-acceptance by the market, our strategy involves ongoing significant investments in product development to enhance our product line and to develop new applications and features to satisfy the increasingly sophisticated demands of our customers. Along these lines, we provide products such as MPT data capture workstations and the P3-CME Collaborative Manufacturing Execution Suite of software products. We are also ensuring our investments in this area are based on a thorough understanding of market and customer demands through a comprehensive program of market research and customer interaction.

Our success depends on the ability of our products to interface with host computer systems and to respond to changes in these systems. In many cases the needs of our customers require us to make significant custom modifications to our products. Our success will depend upon our ability to efficiently undertake and complete such customization, in most cases, under a fixed price arrangement. To minimize the risk of cost overruns, we have implemented stringent pre-contract approval processes as well as industry-leading quality control standards during implementation.

Our future success will largely depend on our ability to attract and retain key, highly skilled, technical personnel. Although the Company has initiated significant staff reductions in the past number of years, we have managed to retain our key technical personnel. The Company offers competitive compensation packages and working conditions, and invests a significant amount of its annual employee related costs in various training programs intended to attract and retain personnel.

Our sales are principally outside of Canada and are generally conducted in currencies other than the Canadian dollar while a majority of our research and development expenses, integration services, customer support costs and administrative expenses are in Canadian dollars. Fluctuations in the value of foreign currencies relative to the Canadian dollar could negatively impact our financial results. We cannot predict the effect of exchange rate fluctuations upon our future operating results.

Management Discussion & Analysis

We outsource the manufacture of our proprietary hardware products to third parties. If they do not manufacture our products properly or cannot meet our needs in a timely manner, we may be unable to fulfill our product delivery obligations and our costs may increase, and our revenue and margins could be negatively impacted. Our reliance on third party manufacturers subjects us to a number of risks, including the absence of guaranteed manufacturing capacity and the inability to control the amount of time and resources devoted to the manufacture of our products. To mitigate this dependency, we have contractual relationships with two separate manufacturing service providers and maintain contact with additional alternative suppliers in case our primary manufacturing sources should be disrupted.

The current competitive landscape in our market is fragmented and includes many small players. Bigger, more established companies with greater resources but currently not participating in this market could move into this market and negatively impact our business. Such potential competitors could include hardware OEMs, ERP providers and other supply chain and manufacturing execution software providers. If we were to be unable to compete effectively with such companies, our market share and revenues could be reduced.

We derive a significant portion of our revenue from the sale of our solutions to a relatively limited number of customers. If any of our more significant prospective customers fail to purchase our solution or our existing customers discontinue their relationship with us for any reason, our revenue may be substantially reduced. To mitigate this risk, we have implemented customer retention programs to emphasize both quality of product and superior customer service. Our sales programs also address a large base of potential customers and at any given time, we are pursuing a significant number of sales opportunities.

Our intellectual property is important to our success. Third parties may attempt to copy aspects of our products and technology or obtain information we regard as proprietary without our authorization. If we are unable to protect our intellectual property rights against unauthorized use by others, it could have an adverse effect on our competitive position. We could be required to spend significant funds and our managerial resources could be diverted in order to defend our rights, which could disrupt our operations. We rely on trademark and copyright law to protect our products. We have registered the trademark "Epic Data" in the United States, Canada and Great Britain. We do not license source code for our standard products; however, we do license source code for customized products. We request all employees to execute confidentiality agreements.

Our revenues and earnings may fluctuate from quarter to quarter, which could affect the market price of our common shares. A number of factors could cause such fluctuations, including the timing of releases of our new products, the timing of substantial orders, and possible delays in the manufacture or shipment of current or new hardware products. Because our operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in our revenues and earnings in any given quarter. Thus, our quarterly results are not necessarily indicative of our overall business, results of operations and financial condition. However, quarterly fluctuations in our revenues and earnings may affect the market price of our common shares.

We have reduced costs primarily through a reduction in the number of employees, we have renegotiated an extended term on our related party loan and we continue pursuing opportunities to secure new financing. There can be, however, no certainty that such new financing will be available or be available on reasonable terms. To the extent that financing is not available, or not available on reasonable terms, and

Management Discussion & Analysis

the Company does not achieve profitable operations, the Company may run out of cash and not be able to continue as a going concern.

Forward-Looking Statements

Our financial report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are based on current expectations of management. We caution investors that due to risks and uncertainties, actual events may differ materially from current expectations.

Notice of No Auditor Review

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Financial Statements

EPIC DATA INTERNATIONAL INC.

Consolidated Balance Sheets

(Thousands of Canadian dollars)

	As at	
	December 31 2007 (unaudited)	September 30 2007 (audited)
Assets:		
Current assets		
Cash and cash equivalents	\$ 591	\$ 759
Accounts receivable - Net	1,511	1,546
Inventory	221	180
Prepaid expenses	590	669
Total current assets	<u>2,913</u>	<u>3,154</u>
Prepaid expenses	289	421
Capital assets	234	271
	<u>\$ 3,436</u>	<u>\$ 3,846</u>
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,472	\$ 1,362
Deferred revenue	2,168	2,328
	<u>3,640</u>	<u>3,690</u>
Related party loan, net of equity portion of \$44 (September 30, 2007 - \$51)	956	949
Deferred Revenue	396	429
Deficiency in assets:		
Share capital and contributed surplus	59,081	59,072
Deficit	(60,637)	(60,294)
	<u>(1,556)</u>	<u>(1,222)</u>
	<u>\$ 3,436</u>	<u>\$ 3,846</u>

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for Fiscal 2008.

Financial Statements**EPIC DATA INTERNATIONAL INC.**

Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit
For the periods ended December 31

(Thousands of Canadian dollars except per share amounts - unaudited)

	<u>Three months ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Revenue	\$ 1,773	\$ 2,899
Cost of sales	938	1,447
Gross margin	<u>835</u>	<u>1,452</u>
Gross margin percentage	47%	50%
Operating expenses:		
Selling, marketing and administrative	1,005	1,408
Product development	137	235
	<u>1,142</u>	<u>1,643</u>
Loss before undernoted items	(307)	(191)
Other expenses (income):		
Amortization of capital assets	54	70
Unused leased facilities	-	(108)
Net finance charges	27	35
Other Income	(45)	-
	<u>36</u>	<u>(3)</u>
Net income (loss) and comprehensive income (loss) for the period	(343)	(188)
Deficit, beginning of period	(60,294)	(60,693)
Deficit, end of period	<u>\$ (60,637)</u>	<u>\$ (60,881)</u>
Weighted average number of shares	12,897	12,901
Earnings (loss) per share	\$ (0.03)	\$ (0.01)

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for Fiscal 2008.

Financial Statements**EPIC DATA INTERNATIONAL INC.**

Consolidated Statements of Cash Flows
For the periods ended December 31

(Thousands of Canadian dollars except per share amounts - unaudited)

	<u>Three months ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Cash provided by (used in):		
Operating:		
Loss for the period	\$ (343)	\$ (188)
Items not involving cash:		
Amortization of capital assets	54	70
Provision for unused leased facilities	-	(108)
Accretion of related party loan	7	16
Stock-based compensation expense (recovery)	9	(39)
Change in non-cash operating working capital		
Accounts receivable	35	(2,003)
Inventory	(41)	49
Prepaid expenses	211	(160)
Non-revolving credit facility	-	-
Accounts payable & accrued liabilities	110	(287)
Deferred revenue	(193)	1,765
	<u>(151)</u>	<u>(885)</u>
Investing:		
Net acquisition of capital assets	(17)	-
Cash equivalents pledged as security	-	386
	<u>(17)</u>	<u>386</u>
Increase (decrease) in cash and cash equivalents	(168)	(499)
Cash and cash equivalents, beginning of period	759	618
Cash and cash equivalents, end of period	<u>\$ 591</u>	<u>\$ 119</u>
The Company's cash position consists of:		
Cash and cash equivalents	\$ 591	\$ 119
Cash and cash equivalents pledged as security	-	1,600
Cash position	<u>\$ 591</u>	<u>\$ 1,719</u>
Supplementary information:		
Interest paid	\$ 35	\$ 35
Interest received	\$ 5	\$ 16

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for Fiscal 2008.

Notes to Financial Statements

The following notes have been updated for changes since the most recent audited annual financial statements and do not encompass all notes presented in those financial statements. For the most recent comprehensive presentation of the notes to our financial statements, please refer to the audited annual financial statements for the year ended September 30, 2007.

1. Nature of business and going concern:

The Company is incorporated under the laws of British Columbia and its principal business activity includes the development of transaction software and hardware interfaces between custom and enterprise resource planning systems and electronic data capture systems.

During the first quarter of fiscal 2008, the Company voluntarily delisted its shares from the TSX and listed its shares on the TSX Venture Exchange under the symbol EKD.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes the Company will continue in operation through the next fiscal year and into the foreseeable future and will be able to realize on its assets and discharge its liabilities and commitments in the normal course of business. Certain conditions, discussed below, currently exist which raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. If the Company is unable to continue as a going concern, assets and liabilities would require restatement to a liquidation basis, which would differ materially from the going concern basis.

As at December 31, 2007, the Company has a deficiency in assets of \$1,556,000, a deficit of \$60,637,000 and a working capital deficiency of \$727,000.

Management has undertaken to reduce costs primarily through a reduction in the number of employees and the Company is pursuing opportunities to secure new financing. There can be, however, no certainty that such new financing will be available or be available on reasonable terms. To the extent that financing is not available, or not available on reasonable terms, additional reductions in expenditures will be required, the Company may not be able to commercialize its products and carry out its services, and the Company may not be able to continue as a going concern.

2. Accounts receivable:

	December 31 2007	September 30 2007
Trade accounts receivable	\$ 1,265	\$ 1,264
Accrued accounts receivable	246	282
Accounts receivable - net	\$ 1,511	\$ 1,546

Notes to Financial Statements

3. **Inventory:**

	December 31 2007	September 30 2007
Raw materials and repair stock	\$ 169	\$ 126
Finished goods	52	54
	\$ 221	\$ 180

4. **Capital assets:**

December 31 2007			
	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 196	\$ 164	\$ 32
Leasehold improvements	438	339	99
Equipment	1,160	1,079	81
Software	549	527	22
	\$ 2,343	\$ 2,110	\$ 234

September 30 2007			
	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 196	\$ 160	\$ 36
Leasehold improvements	438	326	112
Equipment	1,143	1,050	93
Software	549	519	30
	\$ 2,326	\$ 2,055	\$ 271

5. **Segmented information**

(a) Geographic information:

The Company operates in a single operating industry segment: development and implementation of electronic source data capture systems.

	2008 Q1		2007 Q1	
	Revenue	Capital assets	Revenue	Capital assets
North America	\$ 1,319	\$ 224	\$ 2,279	\$ 381
Europe	454	10	620	20
	\$ 1,773	\$ 234	\$ 2,899	\$ 401

Notes to Financial Statements

5. Segmented information (continued)**(b) Significant customers:**

Significant customers include any customer that exceeds 10% of the Company's overall revenue. During this first quarter of fiscal 2008, Bell Helicopter Textron at 13%, and Komatsu America at 18% of overall revenue, are classified as significant customers, with no other customers generating more than 10% individually. In the first quarter of fiscal 2007, one customer, Bell Helicopter Textron exceeded the 10% threshold, accounting for 24% of total revenue in the period.

6. Related party transactions:**(a) Related party loan:**

The Company has a loan with a company owned by a member of the Board of Directors. The principal amount of \$1,000,000 was received by the company on June 21, 2005 and is repayable June 21, 2009. The terms of the loan provide an additional \$500,000 to be drawn on by the company as required. The loan is secured by a first charge on all property and assets of the Company. As of December 31, 2007, this additional facility has not been drawn upon.

Interest on the outstanding balance is payable, in arrears, every six months, at a rate of 7% per annum. During the first quarter of fiscal 2008, \$17,500 (fiscal 2007 Q1 - \$17,500) in interest expense was recorded in the net finance charges section of the Statement of Operations, in relation to this loan.

Terms of the loan include the issuance of 375,000 warrants, each of which entitles the holder to purchase 1 share of the Company for a price of \$0.22 per share.

Subsequent to quarter end, on January 29, 2008, terms of the loan were amended whereby any of the additional \$500,000 drawn upon by the Company is now repayable on the earlier of collection of specified customer billings, or July 31, 2008 (previously any such draw-downs were repayable on June 21, 2009). Amended terms also include a provision that the \$1.00 million principle is now repayable on the earlier of collection of specified customer billings or June 21, 2009 (previously the principal amount was repayable on June 21, 2009). These amendments, which were subsequent to quarter end, did not impact the financial presentation of the related party loan as at December 31, 2007.

(b) Legal fees:

A second member of the Board of Directors is a senior partner at a firm that has been engaged to provide legal services to the company. The cost of these services, aggregating to \$5,693 in the first quarter of fiscal 2008 (fiscal 2007 Q1 - \$1,750), were charged to selling, marketing and administrative expenses.

The above transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Notes to Financial Statements

7. Other income:

During the preceding fiscal year the Company concluded terms of a transaction to divest our parking enforcement business line, known as TicketManager. The purchaser acquired TicketManager related intellectual property including software source code and copyrights; marketing materials; customer lists; demonstration equipment and is assuming existing support agreements and ongoing implementation projects in progress.

The terms of the agreement include the provision for three separate payments, the first of which was paid upon closing of the transaction on June 15, 2007, to be followed by two further payments which depend on certain conditions being met by both the purchaser and the seller. Until both of these latter conditions are met, the Company will retain the rights and obligations to continue to service and support certain

TicketManager customers.

During the first quarter of fiscal 2008, the second of the three conditions was satisfied, and the corresponding financial impact was recognized in these financial statements as other income.

As of December 31, 2007, one of the three conditions remains to be satisfied.

8. Commitments and contingencies:

Provision for unused leased facilities:

During 2003, it was determined that the amount of space the Company leases for its head-office facilities exceeds its requirements and a provision was charged to reflect the related costs of this excess leased space. The accrued provision represented the estimated net present value of future contractual obligations that are in excess of the company's estimated future requirements. This provision took into consideration the offsetting impact of estimated future sublease income against these obligations. Management re-assesses the provision on a regular basis, considering such variable factors as the amount of office space required by the business, the current amount of vacant space and sublease market conditions.

During the first quarter of fiscal 2008, the Company amended terms with their head office landlord to surrender two of the total three floors previously included in their head office facility lease. This arrangement reduced the Company's remaining lease obligation by two thirds for the remaining term of the lease through December 2009. Under the new arrangement, the Company is obligated to pay rent for one floor only, reflecting the amount of space currently required by the business, and therefore the balance of the provision for unused leased facilities was eliminated. The financial impact of the elimination of this provision was reflected in the financial results as at and for the period ended September 30, 2007, as the information regarding this event was available to management in the preparation of the September 30, 2007, financial statements and provided additional evidence relating to the provision for unused leased facilities that existed as at September 30, 2007. The transaction reduced the provision to \$nil as at September 30, 2007. (fiscal 2007 Q1 - \$1,292,309).