

Letter to Shareholders

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Dear Shareholders

I was excited to join Epic Data as its new President & CEO in June, as the company had taken great strides forward in its stabilization initiatives under the interim leadership of James Dodds, resulting in a unique opportunity to grow a technology company with an impressive 33 year history.

The third quarter delivered positive net income of \$0.45 million on revenues of \$3.4 million, the highest quarterly revenue in two years.

The \$4.8 million contract won in our second quarter with a large US based aerospace contractor contributed significantly to our positive results in the third quarter, as the project reached approximately one-half completion by quarter end. This MXE software and MPT 9600 hardware project remains on track for completion by the end of our fiscal year.

During the quarter, we were successful in recruiting Alex Sventitsky as our new Vice President, Sales. Alex is a highly experienced manufacturing solutions sales executive, most recently as the Director of Global Strategic Sales at Invensys Wonderware, a global leader in industrial automation software solutions. Sales and marketing initiatives under Alex's leadership will remain the key focus for the company.

We also negotiated an amendment of our Richmond, BC head office lease, in which we extended the lease to December 2012 and obtained a return of \$0.30 million from the deposit held by the landlord.

As a final note, I am impressed with our team's experience and drive to deliver high value solutions for our customers. Epic Data will remain focused on providing innovative solutions for the Aerospace & Defense and Heavy Equipment industries that bridge the gap between the plant floor and the enterprise for these complex manufacturers.

Sincerely yours,



**Rob Nygren**  
President & Chief Executive Officer

**Management Discussion & Analysis**

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***Basis of Presentation***

*The following discussion and analysis should be read in conjunction with the consolidated financial statements for the period ended June 30, 2008; 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 August 7, 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 June 30, 2008, 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 June 30, 2008, 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](http://www.sedar.com).*

***Overview***

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.

Our **P3-CME** product strategy focuses on providing real-time visibility for 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 the following 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

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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.

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.

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 recently introduced the **MPT9600**, our next generation of **MPT** products, which features 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 electronics manufacturing service providers.

## Results of Operations for the period ended June 30, 2008

### **Overview**

We delivered our highest quarterly revenue in over 2 years on the strength of significant third quarter hardware device shipments under a \$4.8 million contract awarded in our previous quarter. This project, for a US based defense contractor, is continuing to progress on schedule and as of the end of the third quarter, approximately 50% of the value of the contract has been recognized. This MXE software and MPT 9600 hardware - based system is scheduled for completion by the end of our fiscal year in September 2008.

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Third quarter revenue of \$3.40 million, represents a 36% increase over revenue in the third quarter of fiscal 2007 and the current quarter's gross margin of 51% contributed to a positive net income of \$0.45 million compared to a net loss of \$0.23 million in the third quarter of fiscal 2007.

## Management Discussion &amp; Analysis

## 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 includes 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):

	Q3 2008		Q3 2007		Variance	
<b>Revenue</b>						
Hardware	\$1,390	41%	\$498	20%	\$892	179%
Software	274	8%	251	10%	23	9%
Integration Services	804	24%	700	28%	104	15%
<b>Systems Total</b>	<b>2,468</b>	<b>73%</b>	<b>1,449</b>	<b>58%</b>	<b>1,019</b>	<b>70%</b>
EPICare Maintenance	934	27%	1,060	42%	(126)	-12%
<b>Total Revenue</b>	<b>3,402</b>	<b>100%</b>	<b>2,509</b>	<b>100%</b>	<b>893</b>	<b>36%</b>
<b>Cost of Sales</b>						
Hardware	609	44%	304	61%	305	100%
Software	114	42%	14	6%	100	714%
Integration Services	496	62%	579	83%	(83)	-14%
<b>Systems Total</b>	<b>1,219</b>	<b>49%</b>	<b>897</b>	<b>62%</b>	<b>322</b>	<b>36%</b>
EPICare Maintenance	435	47%	368	35%	67	18%
<b>Total Cost of sales</b>	<b>1,654</b>	<b>49%</b>	<b>1,265</b>	<b>50%</b>	<b>389</b>	<b>31%</b>
<b>Gross Margin</b>						
Hardware	781	56%	194	39%	587	303%
Software	160	58%	237	94%	(77)	-32%
Integration Services	308	38%	121	17%	187	155%
<b>Systems Total</b>	<b>1,249</b>	<b>51%</b>	<b>552</b>	<b>38%</b>	<b>697</b>	<b>126%</b>
EPICare Maintenance	499	53%	692	65%	(193)	-28%
<b>Total Gross margin</b>	<b>\$1,748</b>	<b>51%</b>	<b>\$1,244</b>	<b>50%</b>	<b>\$504</b>	<b>41%</b>

## Management Discussion &amp; Analysis

	YTD 2008		YTD 2007		Variance	
<b>Revenue</b>						
Hardware	\$1,836	25%	\$2,183	26%	(\$347)	-16%
Software	771	11%	709	8%	62	9%
Integration Services	1,980	27%	2,364	28%	(384)	-16%
<b>Systems Total</b>	<b>4,587</b>	<b>63%</b>	<b>5,256</b>	<b>62%</b>	<b>(669)</b>	<b>-13%</b>
EPICare Maintenance	2,740	37%	3,162	38%	(422)	-13%
<b>Total Revenue</b>	<b>7,327</b>	<b>100%</b>	<b>8,418</b>	<b>100%</b>	<b>(1,091)</b>	<b>-13%</b>
<b>Cost of Sales</b>						
Hardware	829	45%	1,317	60%	(488)	-37%
Software	174	23%	61	9%	113	185%
Integration Services	1,422	72%	1,691	72%	(269)	-16%
<b>Systems Total</b>	<b>2,425</b>	<b>53%</b>	<b>3,069</b>	<b>58%</b>	<b>(644)</b>	<b>-21%</b>
EPICare Maintenance	1,279	47%	1,112	35%	167	15%
<b>Total Cost of sales</b>	<b>3,704</b>	<b>51%</b>	<b>4,181</b>	<b>50%</b>	<b>(477)</b>	<b>-11%</b>
<b>Gross Margin</b>						
Hardware	1,007	55%	866	40%	141	16%
Software	597	77%	648	91%	(51)	-8%
Integration Services	558	28%	673	28%	(115)	-17%
<b>Systems Total</b>	<b>2,162</b>	<b>47%</b>	<b>2,187</b>	<b>42%</b>	<b>(25)</b>	<b>-1%</b>
EPICare Maintenance	1,461	53%	2,050	65%	(589)	-29%
<b>Total Gross margin</b>	<b>\$3,623</b>	<b>49%</b>	<b>\$4,237</b>	<b>50%</b>	<b>(\$614)</b>	<b>-14%</b>
<b>Contracted Sales Backlog</b>						
Systems	\$2,943	57%	\$1,722	34%	\$1,221	71%
EPICare Maintenance	2,217	43%	3,415	66%	(1,198)	-35%
<b>Total Backlog</b>	<b>\$5,160</b>	<b>100%</b>	<b>\$5,137</b>	<b>100%</b>	<b>\$23</b>	<b>0%</b>

**Revenue**

Our overall revenue of \$3.40 million in the third quarter of fiscal 2008 represents a 36% increase versus the third quarter of fiscal 2007. The \$0.89 million year over year increase was attributable to a 70% increase in systems revenue offset partially by a 12% decline in support revenue versus the third quarter of fiscal 2007. Within systems revenue components, hardware revenue increased by \$0.89 million on the strength of the aforementioned deliveries to the US based defense contractor. In the third quarter of 2007 there were no equivalently sized hardware deliveries. Revenue from software licensing and integration services in the third quarter of fiscal 2008 increased marginally compared to the third quarter of fiscal 2007.

Although higher revenue levels were achieved in the third quarter of fiscal 2008, revenue for the first nine months of fiscal 2008 has declined by 13% versus the same period in 2007. Approximately \$0.67 of this decline was attributable to systems revenue with the balance resulting from a \$0.42 decline in support revenue. Within systems results, the majority of the decline in was in the areas of hardware and integration services, with software revenues increasing marginally.

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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 9 months ended June 30, 2008 and 2007 (in thousands):

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	5,532	2,127	3,405	\$3,386	\$3,837	(\$451)
U.K. Pound	468	538	(70)	(139)	(149)	10
Euro	222	36	186	280	268	12
Canadian Dollar	544	4,250	(3,706)	(3,706)	(3,706)	-
				<b>(\$179)</b>	<b>\$250</b>	<b>(\$429)</b>

Significant customers include any customer that exceeds 10% of our overall revenue. This quarter, one customer accounted for 62% of our overall revenue, while in the third quarter of fiscal 2007, one customer accounted for 16% of that period's overall revenue. On a year to date basis, one customer has accounted for 39% of overall revenue while in the 9 month period ended June 30, 2007, one customer accounted for 25% of our revenue with all other customers representing less than 10% of revenue individually.

### 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. Gross margin on software license revenue will vary depending on the nature of software license products being supplied to our customers. Our software license offerings range from 100% developed in-house, to 100% supplied by third parties. In-house developed software will produce a higher gross margin than third party supplied software. Depending on

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the mix of in-house and third party software license products sold in any given period, the software gross margin percentage will vary.

Our overall (combined systems and support) gross margin as a percentage of revenue was 51% in the third quarter of fiscal 2008 versus 50% in the third quarter of fiscal 2007. Within overall gross margin results for the third quarter of fiscal 2008, systems gross margins were 51% versus third quarter of fiscal 2007 levels of 38%, while support contracts generated gross margins of 53% compared to 65% in the third quarter of fiscal 2007. Support gross margins declined due to lower revenue levels against a relatively unchanged support cost base.

Gross margin values generated through hardware deliveries increased by \$0.59 million compared to the third quarter of fiscal 2007 on the hardware revenue volume increase of \$0.89 million. Hardware gross margin percentages increased from 39% in the third quarter of fiscal 2007 to 56% in the third quarter of fiscal 2008, reflecting a higher proportion of proprietary MPT devices in our overall hardware mix of MPTs and OEM wireless devices this quarter. On a year to date basis higher proportionate MPT deliveries have improved hardware gross margins from 40% to 55% for the 9 month period. There were no material changes in the cost of procuring both OEM and Epic Data proprietary hardware products during the period.

Although revenue from software licenses declined slightly compared to the third quarter of fiscal 2007, gross margins generated from these license sales were comparatively lower as a result of a higher proportion of third party supplied software in our overall software license revenue during the current quarter.

Stronger contracted sales backlog contributed to improved gross margins generated by our integration services group. Integration services gross margins improved to 38% in the current quarter versus 17% in third quarter of fiscal 2007.

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.

***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 June 30, 2008 and 2007 (in thousands of Canadian dollars):

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	Q3 2008	Q3 2007	Variance	
<b>Operating Expenses</b>				
Sales & Marketing	\$418	\$598	(\$180)	-30%
General & Administrative	648	749	(101)	-13%
Total Sales, Marketing and Admin	1,066	1,347	(\$281)	-21%
Product Development	153	290	(137)	-47%
<b>Total Operating Expenses</b>	<b>\$1,219</b>	<b>\$1,637</b>	<b>(\$418)</b>	<b>-26%</b>

	YTD 2008	YTD 2007	Variance	
<b>Operating Expenses</b>				
Sales & Marketing	\$1,245	\$1,661	(\$416)	-25%
General & Administrative	1,948	2,374	(426)	-18%
Total Sales, Marketing and Admin	3,193	4,035	(\$842)	-21%
Product Development	415	984	(569)	-58%
<b>Total Operating Expenses</b>	<b>\$3,608</b>	<b>\$5,019</b>	<b>(\$1,411)</b>	<b>-28%</b>

Operating expenses for the third quarter of fiscal 2008 were reduced by \$0.42 million, or 26% compared to the third quarter of fiscal 2007. These reductions reflect savings from reduced staffing levels, travel, communications and facilities.

Our core product development team consists of 6 members as of June 30, 2008. The core development team along with integration services personnel and sub-contracted third party design and development service providers work together to develop and sustain our suite of software and device offerings.

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.

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

Staff Count as at June 30	Canada	U.S.A.	Europe	Total
2008	36	8	11	55
2007	43	10	11	64
2006	52	15	14	81

**Other Expenses (Income)**

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

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	Q3 2008	Q3 2007	Variance	
<b>Other expenses (income)</b>				
Amortization of capital assets	\$43	\$58	(\$15)	-26%
Unused lease facilities	-	(112)	112	-100%
Net finance charges	35	36	(1)	-3%
Other income	-	(78)	78	-
<b>Total other expenses (income)</b>	<b>\$78</b>	<b>(\$96)</b>	<b>\$174</b>	<b>-181%</b>

	YTD 2008	YTD 2007	Variance	
<b>Other expenses (income)</b>				
Amortization of capital assets	\$144	\$188	(\$44)	-23%
Unused lease facilities	-	(327)	327	-100%
Net finance charges	95	102	(7)	-7%
Other income	(45)	(78)	33	-
<b>Total other expenses (income)</b>	<b>\$194</b>	<b>(\$115)</b>	<b>\$309</b>	<b>-269%</b>

Unused leased facility income in the comparative periods related to head-office facilities which exceeded our requirements. During 2007, we concluded terms with our head-office landlord to surrender two of the total of three floors previously included in our head office facility lease. This arrangement reduced 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 original three floors, reflecting the amount of space we 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, and as such, there is no amount recorded in the comparative first 9 months of fiscal 2008.

Subsequent to the end of the third quarter of fiscal 2008, we concluded terms with our landlord to revise our existing head office lease. The agreement includes:

- A revision of the existing termination date from December 31, 2009 to December 31, 2012;
- A \$0.30 million reduction in deposited funds held by the landlord; and
- Monthly rent previously deducted by the landlord from funds on deposit will now be remitted to the landlord by the Company from operating sources.

This subsequent event did not impact our reported financial results as at and for the period ended June 30, 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 June 30, 2008 and 2007 (in thousands of Canadian dollars):

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<b>Net finance charges (income)</b>	<b>Q3 2008</b>	<b>Q3 2007</b>	<b>Variance</b>	
Interest income from cash and cash equivalents	(\$2)	(\$12)	\$10	-83%
Interest expense and bank charges	30	28	2	7%
Amortization of related party loan warrants	7	20	(13)	-65%
<b>Net finance charges (income)</b>	<b>\$35</b>	<b>\$36</b>	<b>(\$1)</b>	<b>-3%</b>

<b>Net finance charges (income)</b>	<b>YTD 2008</b>	<b>YTD 2007</b>	<b>Variance</b>	
Interest income from cash and cash equivalents	(\$9)	(\$43)	\$34	-79%
Interest expense and bank charges	82	82	0	0%
Amortization of related party loan warrants	22	63	(41)	-65%
<b>Net finance charges (income)</b>	<b>\$95</b>	<b>\$102</b>	<b>(\$7)</b>	<b>-7%</b>

Interest income represents a net return on the approximately \$0.40 million average cash and cash equivalent balance for the third quarter of fiscal 2008 of 2.0% (fiscal 2007 Q3 – 5.6%). On a year to date basis, interest income represents a net return on the approximately \$0.64 million average cash and cash equivalent balance for the first 9 months of fiscal 2008 of 1.9% (first 9 months of fiscal 2007 – 2.0%).

The majority of interest expense relates to a borrowing arrangement with a related party. Bank charges in the comparative year to date 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 period.

**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 June 30, 2008, 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 June 30, 2008, the unrecognized estimated value of these future tax assets was approximately \$10 million.

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***Related Party Transactions******Related Party Loan***

We have borrowed funds from a company owned by a former 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.

During the second quarter of fiscal 2008, terms of the loan were amended whereby any of the additional \$0.50 million drawn upon is 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). As of June 30, 2008, \$375,000 of this additional facility has been drawn upon. Subsequent to quarter end, the Company has repaid the additional \$375,000.

Amended terms also include a provision that the \$1.00 million principal is 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).

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

***Legal Fees***

A current 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 June 30, 2008, our cash balance is \$0.19 million and we have a working capital deficiency of negative \$1.42 million (September 30, 2007 – Cash of \$0.76 million and a working capital deficiency of negative \$0.54 million).

***Operating***

Operating activities during the third quarter of fiscal 2008 expended net cash aggregating to negative \$0.37 million. The second quarter of fiscal 2008's net income of \$0.40 million was offset primarily by increases in the level of accounts receivable driven by a significant amount of customer invoicing in the latter stages of the third quarter as well as increased inventory levels related to planned 4<sup>th</sup> quarter hardware deliveries.

***Investing***

Included in our investing activities for the comparative first 9 months 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. As a result of this amended arrangement with the landlord in fiscal 2007, there was no comparative reduction in the first 9 months of fiscal 2008. Since the fiscal 2007 amendment, and up to June 30, 2008, these funds on deposit with our head office landlord have

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been applied against our ongoing head office rent. Subsequent to June 30, 2008, a further amendment to our head office lease (see "Other expenses (income)" section of this MD&A) will revise this arrangement whereby future rent will no longer be deducted by the landlord from funds on deposit and will now be remitted to landlord by the Company from operating sources

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

***Financing***

We have a loan with a company owned by a former 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 June 30, 2008, \$375,000 of this additional facility has been drawn upon. Subsequent to quarter end, the Company has repaid the \$375,000.

At period-end, there are 1,430,000 stock options outstanding which are exercisable at prices between \$0.10 and \$0.75 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 \$0.44 million. These funds would be available to us as working capital.

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

As at June 30, 2008, the Company has a deficiency in assets of \$1.44 million and a deficit of \$60.52 million. We have reduced costs primarily through a reduction in the number of employees 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, 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 collectability 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

**Management Discussion & Analysis**

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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 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.

**Management Discussion & Analysis**

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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 &amp; Analysis

**EPIC DATA INTERNATIONAL INC.**  
**QUARTERLY BALANCE SHEETS**

(Thousands of Canadian dollars - unaudited)

	As at							
	Sep 30 2006	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008
<b>Assets:</b>								
<b>Current assets</b>								
Cash and cash equivalents	\$618	\$119	\$1,111	\$292	\$759	\$591	\$390	\$190
Accounts receivable	2,045	4,048	2,680	2,467	1,546	1,511	1,295	2,243
Inventory	265	216	264	212	180	221	233	420
Prepaid expenses	233	376	439	927	669	590	637	659
	<u>3,161</u>	<u>4,759</u>	<u>4,494</u>	<u>3,898</u>	<u>3,154</u>	<u>2,913</u>	<u>2,555</u>	<u>3,512</u>
Cash equivalents pledged as security	1,600	1,214	1,200	-	-	-	-	-
Long-term prepaid expenses	112	129	116	389	421	289	222	66
Capital assets	471	401	367	318	271	234	192	225
	<u>5,344</u>	<u>6,503</u>	<u>6,177</u>	<u>4,605</u>	<u>3,846</u>	<u>3,436</u>	<u>2,969</u>	<u>3,803</u>
<b>Liabilities and Shareholders' Equity (Deficiency in Assets):</b>								
<b>Current liabilities</b>								
Accounts payable and accrued liabilities	2,849	2,562	2,735	2,381	1,362	1,472	1,511	1,626
Deferred revenue	1,701	3,499	3,320	2,518	2,328	2,168	1,865	1,911
Related party loan, current portion	-	-	-	-	-	-	125	1,346
	<u>4,550</u>	<u>6,061</u>	<u>6,055</u>	<u>4,899</u>	<u>3,690</u>	<u>3,640</u>	<u>3,501</u>	<u>4,883</u>
Related party loan, net of equity portion	954	970	985	949	949	956	963	-
Deferred Revenue	573	540	497	469	429	396	355	313
Provision for unused leased facilities	969	861	754	643	-	-	-	-
	<u>954</u>	<u>970</u>	<u>985</u>	<u>949</u>	<u>949</u>	<u>956</u>	<u>963</u>	<u>-</u>
<b>Shareholders' equity (deficiency in assets)</b>								
Share capital	58,664	58,664	58,664	58,663	58,663	58,663	58,663	58,665
Contributed surplus - stock options	173	134	132	137	196	205	198	202
Contributed surplus - warrants	154	154	154	205	213	213	213	213
Deficit	(60,693)	(60,881)	(61,064)	(61,360)	(60,294)	(60,637)	(60,924)	(60,473)
	<u>(1,702)</u>	<u>(1,929)</u>	<u>(2,114)</u>	<u>(2,355)</u>	<u>(1,222)</u>	<u>(1,556)</u>	<u>(1,850)</u>	<u>(1,393)</u>
	<u>\$5,344</u>	<u>\$6,503</u>	<u>\$6,177</u>	<u>\$4,605</u>	<u>\$3,846</u>	<u>\$3,436</u>	<u>\$2,969</u>	<u>\$3,803</u>

## Management Discussion &amp; Analysis

**EPIC DATA INTERNATIONAL INC.**  
**QUARTERLY STATEMENTS OF OPERATIONS**

(Thousands of Canadian dollars - unaudited)

	Quarter Ended							
	Sep 30 2006	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008
<b>Revenue</b>	\$2,458	\$2,899	\$3,010	\$2,509	\$2,677	\$1,773	\$2,152	\$3,402
<b>Cost of sales</b>	1,512	1,447	1,469	1,265	1,168	938	1,112	1,654
<b>Gross margin</b>	946	1,452	1,541	1,244	1,509	835	1,040	1,748
<b>Gross margin percentage</b>	38%	50%	51%	50%	56%	47%	48%	51%
<b>Operating expenses:</b>								
Selling, marketing & administrative	1,783	1,408	1,281	1,346	1,180	1,005	1,122	1,066
Product development	273	235	459	290	251	137	125	153
	2,056	1,643	1,740	1,636	1,431	1,142	1,247	1,219
<b>Income (loss) before undernoted items</b>	(1,110)	(191)	(199)	(392)	78	(307)	(207)	529
<b>Other expenses (earnings):</b>								
Amortization of capital assets	96	70	60	58	56	54	47	43
Unused leased facilities	700	(108)	(107)	(112)	(1,073)	-	-	-
Net finance charges	28	35	31	36	28	27	33	35
Other Income	-	-	-	(78)	1	(45)	-	-
	824	(3)	(16)	(96)	(988)	36	80	78
<b>Income (loss) before income taxes</b>	(1,934)	(188)	(183)	(296)	1,066	(343)	(287)	451
<b>Net earnings (loss)</b>	(\$1,934)	(\$188)	(\$183)	(\$296)	\$1,066	(\$343)	(\$287)	\$451

## Management Discussion &amp; Analysis

**EPIC DATA INTERNATIONAL INC.**  
**QUARTERLY CASH FLOW STATEMENTS**

(Thousands of Canadian dollars - unaudited)

	Quarter Ended							
	Sep 30 2006	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008
<b>Cash provided by (used in):</b>								
<b>Operating:</b>								
Net income (loss)	(\$1,934)	(\$188)	(\$183)	(\$296)	\$1,066	(\$343)	(\$287)	\$451
Items not involving cash:								
Amortization of capital assets	96	70	60	58	56	54	47	43
Impairment loss on leasehold improvements	270	-	-	-	-	-	-	-
Provision for unused leased facilities	469	(108)	(107)	(111)	(1,074)	-	-	-
Accretion of related party loan	40	16	15	15	8	7	7	8
Stock-based compensation expense (recovery)	18	(39)	(2)	5	59	9	(7)	4
Change in non-cash operating working capital:								
Accounts receivable	44	(2,003)	1,368	213	921	35	216	(948)
Inventory	(26)	49	(48)	52	32	(41)	(12)	(187)
Prepaid expenses	85	(160)	(50)	(761)	226	211	20	134
Accounts payable and accrued liabilities	456	(287)	173	(354)	(588)	110	39	117
Deferred revenue	532	1,765	(222)	(830)	(230)	(193)	(344)	4
	50	(885)	1,004	(2,009)	476	(151)	(321)	(374)
<b>Investing:</b>								
Net acquisition of capital assets	1	-	(26)	(9)	(9)	(17)	(5)	(76)
Cash equivalents pledged as security	-	386	14	1,200	-	-	-	-
	1	386	(12)	1,191	(9)	(17)	(5)	(76)
<b>Financing:</b>								
Related party loan	-	-	-	-	-	-	125	250
Refund of share purchase	-	-	-	(1)	-	-	-	-
Proceeds on exercise of employee options	101	-	-	-	-	-	-	-
	101	-	-	(1)	-	-	125	250
Increase (decrease) in cash and cash equivalents	152	(499)	992	(819)	467	(168)	(201)	(200)
Cash and cash equivalents, beginning of period	466	618	119	1,111	292	759	591	390
Cash and cash equivalents, end of period	\$618	\$119	\$1,111	\$292	\$759	\$591	\$390	\$190
The company's cash position consists of:								
Cash and cash equivalents	\$618	\$119	\$1,111	\$292	\$759	\$591	\$390	\$190
Cash and cash equivalents pledged as security	1,600	1,214	1,200	-	-	-	-	-
Cash position	\$2,218	\$1,333	\$2,311	\$292	\$759	\$591	\$390	\$190

## Management Discussion & Analysis

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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)

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**Management Discussion & Analysis**

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**Adoption of New Accounting Policies and Changes in Existing Accounting Policies**

We have not adopted any new accounting policies, nor have we changed any existing accounting policies during 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**

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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**

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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**

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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

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### EPIC DATA INTERNATIONAL INC. Consolidated Balance Sheets

(Thousands of Canadian dollars)

	As at	
	June 30 2008 (unaudited)	September 30 2007 (audited)
<b>Assets:</b>		
Current assets		
Cash and cash equivalents	\$ 190	\$ 759
Accounts receivable - Net	2,243	1,546
Inventory	420	180
Prepaid expenses	659	669
	<u>3,512</u>	<u>3,154</u>
Prepaid expenses	66	421
Capital assets	225	271
	<u>\$ 3,803</u>	<u>\$ 3,846</u>
<b>Liabilities and Shareholders' Deficiency</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,626	\$ 1,362
Deferred revenue	1,911	2,328
Related party loan, net of equity portion of \$29 (September 30, 2007 - \$51)	1,346	-
	<u>4,883</u>	<u>3,690</u>
Related party loan, net of equity portion (September 30, 2007 - \$51)	-	949
Deferred Revenue	313	429
Deficiency in assets:		
Share capital and contributed surplus	59,080	59,072
Deficit	(60,473)	(60,294)
	<u>(1,393)</u>	<u>(1,222)</u>
	<u>\$ 3,803</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

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

	Three months ended June 30		Nine months ended June 30	
	2008	2007	2008	2007
<b>Revenue</b>	\$ 3,402	\$ 2,509	\$ 7,327	\$ 8,418
<b>Cost of sales</b>	1,654	1,265	3,704	4,181
<b>Gross margin</b>	1,748	1,244	3,623	4,237
<b>Gross margin percentage</b>	51%	50%	49%	50%
<b>Operating expenses:</b>				
Selling, marketing and administrative	1,066	1,346	3,193	4,035
Product development	153	290	415	984
	1,219	1,636	3,608	5,019
<b>Income (Loss) before undernoted items</b>	529	(392)	15	(782)
Other expenses (income):				
Amortization of capital assets	43	58	144	188
Unused leased facilities	-	(112)	-	(327)
Net finance charges	35	36	95	102
Other Income	-	(78)	(45)	(78)
	78	(96)	194	(115)
<b>Net income (loss) and comprehensive income (loss) for the period</b>	451	(296)	(179)	(667)
Deficit, beginning of period	(60,924)	(61,064)	(60,294)	(60,693)
<b>Deficit, end of period</b>	\$ (60,473)	\$ (61,360)	\$ (60,473)	\$ (61,360)
Weighted average number of shares				
Basic	12,904	12,897	12,904	12,899
Diluted	12,929	12,920	12,929	12,939
Earnings per share				
Basic	\$ 0.03	\$ (0.02)	\$ (0.01)	\$ (0.05)
Diluted	\$ 0.03	\$ (0.02)	\$ (0.01)	\$ (0.05)

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

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

	Three months ended June 30		Nine months ended June 30	
	2008	2007	2008	2007
<b>Cash provided by (used in):</b>				
<b>Operating:</b>				
Profit (Loss) for the period	\$ 451	\$ (296)	\$ (179)	\$ (667)
Items not involving cash:				
Amortization of capital assets	43	58	144	188
Provision for unused leased facilities	-	(111)	-	(328)
Accretion of related party loan	8	15	22	46
Stock-based compensation expense (recovery)	4	5	6	(36)
Change in non-cash operating working capital:				
Accounts receivable	(948)	213	(697)	(421)
Inventories	(187)	52	(240)	53
Prepaid expenses	134	(761)	365	(971)
Accounts payable & accrued liabilities	117	(354)	266	(468)
Deferred revenue	4	(830)	(533)	713
	(374)	(2,009)	(846)	(1,891)
<b>Investing:</b>				
Net acquisition of capital assets	(76)	(9)	(98)	(34)
Cash equivalents pledged as security	-	1,200	-	1,600
	(76)	1,191	(98)	1,566
<b>Financing:</b>				
Related party loan	250	-	375	-
Refund of share purchase	-	(1)	-	(1)
	250	(1)	375	(1)
Increase (decrease) in cash and cash equivalents	(200)	(819)	(569)	(326)
Cash and cash equivalents, beginning of period	390	1,111	759	618
Cash and cash equivalents, end of period	\$ 190	\$ 292	\$ 190	\$ 292
The Company's cash position consists of:				
Cash and cash equivalents	\$ 190	\$ 292	\$ 190	\$ 292
Cash position	\$ 190	\$ 292	\$ 190	\$ 292
Supplementary information:				
Interest paid	\$ 35	\$ 35	\$ 70	\$ 70
Interest received	\$ 2	\$ 12	\$ 9	\$ 43

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

## Notes to Financial Statements

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*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 June 30, 2008, the Company has a deficiency in assets of \$1,443,000, a deficit of \$60,521,000 and a working capital deficiency of \$1,421,000.

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:

	June 30 2008	September 30 2007
Trade accounts receivable	\$ 1,884	\$ 1,264
Accrued accounts receivable	367	282
Accounts receivable – net	\$ 2,251	\$ 1,546

Notes to Financial Statements

3. **Inventory:**

		June 30 2008		September 30 2007
Raw materials and repair stock	\$	261	\$	126
Finished goods		156		54
	\$	417	\$	180

4. **Capital assets:**

	June 30 2008			
	Cost		Accumulated amortization	Net book Value
Furniture and fixtures	\$ 196	\$	170	\$ 26
Leasehold improvements	438		364	74
Equipment	1,239		1,123	116
Software	550		541	9
	\$ 2,423	\$	2,198	\$ 225

	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 Q3		2007 Q3	
	Revenue	Capital assets	Revenue	Capital assets
North America	\$ 2,988	\$ 218	\$ 1,806	\$ 302
Europe	414	7	703	16
	\$ 3,402	\$ 225	\$ 2,509	\$ 318

**Notes to Financial Statements**

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

Significant customers include any customer that exceeds 10% of our overall revenue. This quarter, one customer accounted for 62% of the Company's overall revenue, while in the third quarter of fiscal 2007, one customer accounted for 16% of that period's overall revenue. On a year to date basis, one customer has accounted for 39% of overall revenue while in the 9 month period ended June 30, 2007, one customer accounted for 25% of revenue with all other customers representing less than 10% of revenue individually.

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

The Company has a loan with a company owned by a former 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.

Interest on the outstanding balance is payable, in arrears, every six months, at a rate of 7% per annum. During the third quarter of fiscal 2008, \$23,000 (Q3 2007 - \$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.

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 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). As of June 30, 2008, \$375,000 of this additional facility has been drawn upon and subsequent to June 30, 2008, these additional funds borrowed have been repaid.

**(b) Legal fees:**

A current 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 \$5,400 in the third quarter of fiscal 2008 (fiscal 2007 Q3 - \$23,100), 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**

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**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 June 30, 2008, 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.

During 2007, 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 amended arrangement, the Company is obligated to pay rent for one floor only, reflecting the amount of space required by the business, and therefore the balance of the provision for unused leased facilities was eliminated. The transaction reduced the provision to \$nil as at September 30, 2007.

Subsequent to the end of the third quarter of fiscal 2008, the Company concluded terms with its landlord to further revise the head office lease. The agreement includes:

- A revision of the existing termination date from December 31, 2009 to December 31, 2012;
- A \$300,000 reduction in deposited funds held by the landlord; and
- Monthly rent previously deducted by the landlord from funds on deposit will now be remitted to landlord by the Company from operating sources.

This subsequent event did not impact our reported financial results as at and for the period ended June 30, 2008.