LUXELL TECHNOLOGIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
November 30, 2008

INFORMATION CONCERNING LUXELL TECHNOLOGIES INC. FOR THE FOURTH QUARTER AND YEAR ENDING AUGUST 31, 2008

This Management's Discussion and Analysis ("MD&A) of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements of Luxell Technologies Inc. (the "Company" or "Luxell") and the accompanying notes for the year ended August 31, 2008 which are presented in accordance with Canadian generally accepted accounting principles. Except as otherwise indicated, all financial information has been reported according to Canadian generally accepted accounting principles (GAAP). All amounts are stated in Canadian dollars unless otherwise stated. All references to a "Fiscal Year" mean the twelve month period commencing on September 1 and ending on August 31 of the following year. This MD&A has been prepared with all information available up to and including November 28, 2008. Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at www.sedar.com

INTRODUCTION

In this report, we, us, our, Luxell and company refer to LUXELL TECHNOLOGIES INC. and unless indicated otherwise:

- This year and 2008 mean the fiscal year ending August 31, 2008
- Last year, prior year and a year ago mean the fiscal year ended August 31, 2007
- Dollar amounts are in Canadian dollars.

This report was prepared as of November 28, 2008, and includes our management's discussion and analysis (MD&A), financial statements and notes for the year and the three-month period ended August 31, 2008. We have written it to help the reader understand our business, performance and financial condition for fiscal 2008.

The MD&A provides the reader with a view of Luxell as seen through the eyes of management from a variety of perspectives and should be read in conjunction with the audited consolidated financial statements of Luxell Technologies Inc. and the accompanying notes for the year ended August 31, 2008 which are presented in accordance with Canadian generally accepted accounting principles. Except as otherwise indicated, all financial information has been reported according to Canadian generally accepted accounting principles.

It is reported that the Company achieved record revenue of $5,007,612 and incurred a loss of $1,604,811 during 2008. Cash outflow from operations was $1,490,372, and the accumulated deficit stood at $62,989,770 as at August 31, 2008.

Most significantly, the Company

(i) completed the obligations committed to through the Proposal (the "Proposal") to its creditors under the Bankruptcy and Insolvency Act (Canada) and received its release notice from BDO Dunwoody, who had been appointed as Trustee under the Notice of Intention;

(ii) concluded the windup of the Lux Operating Limited Partnership ("LOLP"); and

(iii) completed a $6.2 million financing to clear its balance sheet, retire expensive debt and obtain additional working capital.

Despite these achievements, the Company continues to experience a shortage of working capital to enable it to execute its business plan in full. This results in risks to the Company that are more completely articulated under Operation Risks in the Risk Management section of the MD&A.

For additional information, please refer to our annual consolidated financial statements for the year ended August 31, 2008 and this, along with the Management's Discussion and Analysis and Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com.

ABOUT MATERIAL INFORMATION

This report includes the information we believe is material to investors after considering all circumstances, including potential market sensitivity. We consider something to be material if it results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares, or if it is quite likely that a reasonable investor would consider the information to be important in making an investment decision.

ABOUT FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements about our markets, future financial performance, business strategy, plans, goals and objectives. Forward-looking statements normally contain words like believe, expect, anticipate, intend, continue, estimate, may, will, should, plan, forecast, project, target and similar expressions. We have based these statements on estimates and assumptions that we believed were reasonable when the statements were prepared. Our actual results could be substantially different because of the risks and uncertainties associated with our business such as shifts in customer demand, product shipment schedules, competitive products and pricing, technological changes, currency fluctuations, working capital conditions and other variables or because of events that are announced or completed after the date of this report.

The reader will find more information about the risks and uncertainties associated with our business in the business risk and uncertainty section in this MD&A. As we do not update or revise forward-looking information even if new information becomes available unless legislation requires us to do so, the reader should not place undue reliance on forward-looking statements.

OVERVIEW OF THE COMPANY

Luxell has established a world-wide reputation as a technology company with particular knowledge, expertise and patents for enhancing the contrast viewing capabilities of inorganic Thin Film Electro-luminescent ("TFEL") and Organic Electro-Luminescent ("OEL") display technologies.

The Black Layer™ technology developed by Luxell was positioned as delivering display-enhancing performance but failed to realize any end-user products in either the TFEL or OLED product segments. It is this management's view that the business potential of the Company's Black Layer Technology could depend on the evolution of the OLED technology into the mainstream marketplace. Industry experts are now suggesting this is expected to occur over the next 3 to 5 years.

For fiscal 2008, the Company's strategy was to continue to focus on its position as a recognized specialist in the ruggedized flat panel display sector transforming its past R&D efforts into marketable products and by servicing its core customers of major system integrators, expanding the customer base and strengthening its customer support and service capabilities.

A REVIEW OF THE PAST YEAR'S HIGHLIGHTS

As part of its on-going restructuring work in the current year, the Company focused on order deliveries, servicing new business acquisitions and completing the requirements imposed by the Proposal to Creditors, as has been reported.

The Company also initiated actions to establish teaming and or collaborative marketing agreements with complementary partners.

As the current product range has achieved a high degree of customer acceptance, Luxell is now a recognized specialist in ruggedized flat panel displays. This recognition is enabling the Company to capitalize on its position and benefit from the continuing trend among system integrators to outsource displays.

Through the past year, Luxell participated in major shows in the security, defense and avionics sectors and also took a first step into the commercial aviation sector as part of its plan to reaffirm it's supplier status to a specific number of prospective new customers.

Specific highlights for the year include:

- In October 2007, the Company announced that Jean-Louis Larmor, Luxell's Sr. Vice President Business Development, had accepted the position of Chief Executive Officer and in December 2007, it was announced that Gerry Hartley Lcol (Ret'd) had joined the Company as Vice President Business Development;
- Teaming and collaborative marketing arrangements were announced with (i) VECTr Systems Inc. (U.S.A), to develop new business opportunities; (ii) Symbolic Displays, Inc. (U.S.A.). to jointly pursue global sales and marketing opportunities for flat panel displays and flight and simulation systems employing Luxell displays; and (iii) with IRTS, Corp., of Toulon France, to strategically pursue global sales and marketing opportunities for flat panel displays in the aerospace, defense and industrial sectors in Europe and North America;

- The Company successfully renewed its ISO 9001:2000 certification through BSI Management Systems Canada Inc.;
- The windup and closing of the LOLP, a structured transaction which originally occurred late 2005 and has been previously reported in detail;
    - In addition, the Company received notice from BDO Dunwoody Limited, trustee in bankruptcy, that the Company had complied with all of the terms of its approved proposal to creditors (at the time it entered bankruptcy protection, the Company also received notice that the TSX had interest in reviewing Luxell's listing qualifications) and confirmation it had exited from bankruptcy protection. The Company also then moved to reduce its debt by exercising its option to convert the proposal's Promissory Notes to equity;
    - The Company closed a non-brokered private placement of approximately $6.2 million for debt reduction and working capital purposes;
    - The financing was for the issuance of units from treasury at $0.10 per unit, consisting of one common share and one/half warrant (the whole warrant entitled the holder to purchase one common share at $0.25 per share).
- During the second quarter, the Company launched its revamped website (www.luxell.com) to reinforce the Company's focus on products and new business development.
- At the Corporation's Annual and Special Meeting of Shareholders, the current directors, with the exception of Dr. Robert Bajcar who was appointed to the Research and Scientific Advisory Committee, were re-elected. The appointment of new auditors, McGovern, Hurley, Cunningham, LLP was also announced;
    - In June, the Company announced the appointment of three new directors to replace the directors who had moved on during the year, and were particularly pleased with the joining of Pierre Jeanniot, former Air Canada CEO and President of IATA, as a director.
- Luxell was also awarded a contract to supply the cockpit controls interface kit for the WheelTug system for moving aircraft on airport grounds as well as first orders resulting from its teaming agreement with Symbolic Displays (U.S.) and continued growth of the product support business with customers such as Lockheed Martin (U.S.) and Technobridge (Japan) with display products used onboard the P3 Orion Maritime Patrol aircraft as well as the CH47 helicopter; Additional orders for the Company's Loadmaster display for the Airbus 400M and a second Symbolic Displays contract for customized LCD flat panel displays were also received in the 4th quarter
- On the technology front, the Company was able to report it had been issued an additional U.S. patent specifically relating to reducing ambient light reflections off of the display face to provide OLED displays with greater sunlight legibility.

While management's financial target for the 2008 fiscal year was to achieve profit through growth of the R-FPD business and by implementing a rigorous cost control program, it was unable to realize this goal though it made considerable progress in reducing losses and improving the EBITDA results. Achieving the transition to breakeven and profit remains paramount for the 2009 fiscal year and the sales growth target now is dependent on the Company obtaining increases in its working capital and ensuring the funding of increased material purchasing that will be required to meet sales results.

It important to note that in fiscal 2008, the Company continued to obtain its revenue solely by delivering custom, high-performance display system solutions to customers in the defence and aerospace sectors. Sales in fiscal 2008 were generally new and follow-on orders.

During fiscal 2008, particularly the second quarter, the Company completed a review of its data management systems and selected a new software solution and has spent the following quarters on integration of past data and full implementation of financial process controls.

While the Company continues to produce flat panel display products to complete existing orders, follow-on orders, new orders and is working to near capacity to respond to new requests for information and proposals, there can be no assurance that in the longer term, the cash generated from its present and future operations will be sufficient to satisfy its liquidity requirements. The Company has no history of profits and it may need to continue to raise capital by selling additional equity, selling some of its assets or by obtaining credit facilities.

The Company's future capital requirements will depend on many factors, including, but not limited to the market acceptance of its products, services, and technology. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favourable to the Company.

OUTLOOK

The Company fully anticipates the flat panel display products will continue to drive the Company's growth during fiscal 2009. Essential elements to its growth plan and expectations will continue to be based upon:

- Continuing demand for (a) new military products and (b) growth in retrofit programs as some new equipment programs are deferred and or cancelled;
- controlling costs and a shift to full product orientation;
- growth in core markets:
    - focusing on North America and Europe;
    - focus on systems integrators and the growing trend in outsourcing of display products;
    - aging technologies (i.e., CRT and growing demand for insertion of new technologies;
    - increasing sales coverage and product offerings through strategic collaboration and teaming agreements;
    - expanding markets by leveraging expertise in flat panel display technologies and ruggedization of flat panel displays into commercial aerospace, industrial and related niche market segments;
- strengthening relationships with customers;
- maintaining technological leadership in display technologies and ruggedizing know-how;

- employ Luxell IP to initiate OLED display product development programs with select partner(s);
- focus on product design, quality, value and customer service/support;
- continued focus on cost control and efficiency.

The Company completed its development of its senior management, operations and engineering team through fiscal 2008 and continues to work on identifying ways to achieve further improvements in its operations and productivity, as well as operating costs.

RESULTS OF OPERATIONS

Analysis of Revenues and Expenses:

			2008	2007
REVENUES			5,007,612	3,736,933
EXPENSES				
Direct labour and materials			2,577,149	2,765,977
Research and development			1,204,242	2,314,502
General and administrative			2,116,961	3,054,632
Sales, marketing and royalty			396,137	476,850
Production support and quality assurance			100,900	135,342
Foreign exchange loss (gain)			(53,414)	(32,940)
Loss / (gain) on sale of property and equipment				158,715
Interest expense			837,520	1,099,434
Amortization of property and equipment			111,817	203,898
Amortization of licence			15,508	15,508
		$	7,306,820	10,191,918
NET LOSS Before Extra Ordinary Items		$	(2,299,208)	(6,454,985)
Extraordinary Gain				
- on Compromise of Debt	(Note 1,7)		694,397	2,160,452
Net Profit/(Loss)			(1,604,811)	(4,294,533)

Revenues

Revenues for the year ended August 31, 2008, increased 34.0% to $5,007,612 as compared to $3,736,933 for the year ended August 31, 2007. Products were shipped for programs such the Eurofighter, Airbus A400M, BAE Hawk fighter aircraft, the PS Maritime Patrol Aircraft, CH-47 Chinook heavy-lift helicopter and the Westland Lynx battlefield and maritime helicopter.

Expenses

Despite the increase in Revenues, total expenses decreased by 28.3% to $7,306,820 in fiscal 2008 from $10,191,918 in fiscal 2007. Direct labour and materials expenditures decreased by 6.8% to $ 2,577,149 compared to $2,765,977 in fiscal 2007. Gross margins improved due to product mix and the recovery of non-recurring engineering expenses from customers. The company believes it is now well balanced between manpower and operations. Research and development expenditures decreased by 48.0% to $ 1,204,242 from $2,314,502 in fiscal 2007 which reflected ongoing efforts by management to lower costs in areas of the business that are not providing a direct short term revenue benefit.

General and administrative expenditures decreased by 30.7% to $ 2,116,961 from $3,054,632 in fiscal 2007. The reduction was primarily the result of the elimination of extensive legal and consulting costs which arose from the restructuring activities in the previous year.

Sales, marketing and royalty expenditures decreased by 16.9% to $396,137 from $476,850 in fiscal 2007. This reflected lower overall commissions resulting from higher repeat sales and sales being generated from internal sales personnel with lower reliance on more expensive external agents.

Production support and quality assurance decreased 25.4% in fiscal 2008 to $ 100,900 from $135,342 in fiscal 2007, which reflects a concentration of repeat sales across a smaller product line.

The Company recorded a foreign exchange gain of $53,414 versus a gain of $32,940 in fiscal 2007. The Company maintains a US accounts payable which result in partial offsetting of exchange impacts against sales into the US. About half of the Company's foreign currency sales are to the US while the other half is predominantly Euro based.

Depreciation and amortization expense in fiscal 2008 was $ 127,325 compared to $219,406 last year. This decrease is attributable to assets becoming fully depreciated or amortized. It should be noted that the company believes that there is substantial useful life remaining in the capital equipment despite it having become fully amortized and that no significant new capital expenditures are required to maintain the existing level of sales. As sales continue to grow, some capital additions may be required for different types of equipment but no major replacements are currently required.

Interest expense decreased by 23.8% in fiscal 2008 to $837,520 from $1,099,434 in fiscal 2007. Only $25,000 of the amount of interest cost was paid in cash and the balance was paid through the issuance of common shares. During the year, equity funding through a private placement replaced the debt structure of the company.

Loss for the period and loss per share

The net loss for fiscal 2008 was $1,604,811 ($0.02 loss per share) compared to a loss of $4,294,533 ($0.09) for fiscal 2007. This represents a reduction in losses of 62.6%. The loss before interest, taxes, depreciation and amortization (EBITDA) and gain on compromise of debt for 2008 was $1,334,363 compared to a loss of $5,136,145 in 2007.

This represents a reduction in losses from operations of 74.0%.

Quarterly Financial Information

	4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
($ thousands)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Total revenues	1647	1315	1002	894	902	801	1457	727
Net operating gain (loss) for the period	713	-1473	-1260	-1213	-867	-1678	-890	-2091
Operating Gain (Loss) per share $	0.01	-0.03	-0.02	-0.03	-0.02	-0.04	-0.02	-0.04

Foreign Currency Translation

The Company recognizes "Foreign Currency Translation" gains and losses on monetary items denominated in a foreign currency in income as incurred. The following table reflects the period end foreign exchange rates between the two foreign currencies in which Luxell conducts business. Significant changes in these foreign exchange rates impact the reported amounts of the Company's revenues and expenses.

Period End Foreign Exchange Rates

Year Ended	August 31, 2008	August 31, 2007	Change
1 US Dollar to 1 Canadian Dollar	1.0625	1.0564	-0.061%

Active currencies:
Fiscal 2007; sales: U.S. dollar & Canadian dollar, expenses: U.S. dollar & Canadian dollar
Fiscal 2006; sales: U.S. dollar & Canadian dollar, expenses: U.S. dollar & Canadian dollar
Recorded foreign exchange gains for fiscal 2008 was $53,414 gain and $32,940 for fiscal 2007.

Commitments and Obligations

Royalty commitments:
Under the technology license agreement with the National Research Council of Canada (NRC), the Company is obligated to pay royalties on products and services that incorporate NRC technology, subject to minimum annual obligations. The royalty expense for the fiscal year 2008 amounted to $75,000 (2007 - $75,000). The future minimum royalty payments to the NRC are $75,000 for each of the years ending June 30, 2005 through June 30, 2009.

Operating lease:
The Company signed a two year lease extension in March 2006 for its head office and production facilities that was to expire on August 31, 2008. The minimum obligations under the lease were $380,386 in both 2007 and 2008.

In September 2006, Luxell disclaimed its lease obligation in accordance with the bankruptcy and

Insolvency Act. An agreement was subsequently reached that the landlord would submit a claim of $599,438 as an ordinary creditor for the remaining lease obligation as part of the Proposal Negotiations are ongoing for a new lease between the Company and the landlord.

Leasehold reconstruction obligation:

Effective September 1, 2004, the Company adopted CICA Handbook Section 3110 Asset Retirement Obligations", retroactively with restatement. The effect of the retroactive adoption of this accounting policy was a leasehold reconstruction obligation of $200,000, with a subsequent reduction in the estimate to $113,000. The Company has not recognized any accretion expense in the current year for this obligation

Liquidity and Capital Resources

On December 14, 2007 the Company received a bridge loan of US$275,000 and on January 23, 2008 a second loan of $300,000 was received.

In May 2008, the Company closed a private placement financing for gross proceeds of $6,191,000 to eliminate debt financing and to provide additional working capital. The Series A Notes totaling $3.75 million were retired and the bridge loans were converted into equity. Directors MacDonald, Pasieka, Vitali and Carl participated in this financing.

TRANSACTIONS WITH RELATED PARTIES

The Company has entered into a series of financing and business transactions with shareholders or entities that are deemed to be related parties in accordance with Section 3860 of the CICA Handbook.

a. In 2007, the Company entered into a series of transactions including term loans and debtor in possession financing directly with shareholders, members of the Board of Directors, or entities that they actively manage. The balance outstanding for these loans is $29,843 (2007 - $313,237). Terms of the transactions are detailed in Note 3 under Due to Shareholders.

b. During the year ended August 31, 2008 the Company hired an organisation controlled by a Board Member to provide services related to Chief Restructuring Officer work and temporary staffing for the Finance Department. Compensation for the services was $86,868 (2007 - $94,787).

c. During the 2007 fiscal year, the Company hired a Corporation controlled by a Board Member to provide services related to Interim Chief Executive Officer work. Compensation for the services was $48,750 (2007 - $51,675).

DESCRIPTION OF SECURITIES

The Company is authorized to issue an unlimited number of common shares. As at August 31, 2008 and November 28, 2008 there were 130,361,108 common shares issued and outstanding (2007 – 59,036,610).

There are no other classes of shares issued. The increase of common shares resulted from the following:

- On November 28, 2007, the Company issued an aggregate of 2,750,001 with a value of $385,000 in connection with a 10% coupon on the Class A Notes (see Note 13).
- On December 5, 2007 the Company issued an aggregate of 2,145,126 with a value of $300,317 in connection with residual interest payable on the Bridge Financing (see Note 3).
- On May 10, 2008, the Company issued an aggregate of 61,911,000 with a value of $5,656,330 net of fees and value of warrants for a combination of cash, exchange of Class A notes and interest thereon, settlement of amounts owed to Creditors, and Finders fees.
- On May 14, 2008 the Company issued 84,000 with a value of $9,240 for finders fees.
- On June 4, 2008 the Company issued an aggregate of 3,409,096 with a value of $375,000 in connection with the final 10% coupon on Class A Notes.
- On July 7, 2008 the Company issued an aggregate of 1,025,275 with a value of $112,780 in connection with a finder's fee on the private placement.

Risk Management

Operations Risk

While the Company is successfully increasing revenues and reducing costs, the Company remains challenged due to insufficient cash to implement its full business plan. This has created a need to conserve cash wherever possible and has put stress on the supplier relationships and staff of the Company that is not normally associated with a profitable company. These risks include:

1) No history of profits – Luxell has not earned profits to date, and there is no assurance that it will earn profits in the future, or that profitability, if achieved, will be sustained. With the emphasis of the company strategy solely focused on building and servicing Flat Panel displays and de-emphasizing its efforts in Black Layer R&D, Management is committed to achieving profitability. Significant progress has been made during 2008 as evidenced by the improved EBITDA performance, albeit still in a loss position.
2) Uncertainty of financing –The Company is currently seeking additional financing to support working capital needs and to execute its business plans.

3) Shortage of Working Capital - while the Company continues to produce flat panel display products to complete existing orders, follow-on orders, and new orders ,it is accepted that the cash generated from its present and future operations will be not be sufficient to satisfy its liquidity requirements and that it will need to continue to raise capital by selling additional equity, selling some of its assets or by obtaining credit facilities.

5) Reliance on Key personnel – The Company is dependent on a number of key personnel to execute its plan. In Q4 2007, the Board revisited the compensation structure of the top 12 managers within the organization. A new bonus structure was implemented and additional (initial) stock options were added to these critical employee compensation plans. Management is confident that these important changes will have the desired impact on ensuring critical personnel remain focused and engaged in the profitable turn-around of Luxell.

6) Dependence on supplier of key suppliers – Luxell relies on its suppliers to deliver important components necessary for the construction of its products. Through the BIA process, a number of suppliers were financially affected by the restructuring of company debt. Consequently a number of suppliers are now demanding more significant payment terms then before. Management has increased its supplier management program by introducing more frequent discussions and meeting to insure critical congruence. For critical parts, the company is establishing alternative sources of supplier to ensure that there is no disruption in the delivery process. During 2008 some progress was made in terms of obtaining supplier credit, but overall supplier terms remain less favourable than generally enjoyed by the industry.

7) Market Acceptance of products - The Company's future capital requirements will depend on many factors, including, but not limited to, the market acceptance of its products, services, and technology. No assurance can be given that the necessary additional funding will be available or that, if available, it can be obtained on terms favorable to the Company.

Credit Risk

The Company is subject to credit risk on its accounts receivable. Credit risk is minimized by dealing with large and reputable customers, as well as credit risk insurance from Export Development C, which covers certain accounts receivable.

Currency Risk

The Company is exposed to currency risk as export sales are denominated primarily in U.S. dollars. The Company does not actively manage its currency risk.

Fair Value of Financial Instruments

Canadian generally accepted accounting principles require the Company to disclose information about the fair value of financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Derivative Financial Instruments

The Company does not utilize any derivative financial instruments or hedging instruments.

Stock-Based Compensation

The Company's stock option plan is designed to help the Company attract and retain the best employees, and to better align employee interests with those of our shareholders. On May 17, 1996, the Company adopted a stock option plan (the "1996 Plan") authorizing the granting of options to directors, officers and employees of the Company to purchase common shares. Under the 1996 Plan, including its amendments, options to purchase an aggregate of up to 3,800,000 common shares may be granted. These options will expire if not exercised within a period not exceeding ten years commencing from the date they are granted. As at August 31, 2008 there were 3,793,000 (2007- 3,698,000) options outstanding. During the fiscal year, the Board of Directors approved additional options as described in the companies AIF. Amendments to the Stock Option Plan will be put before the Annual General meeting.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the Company's financial statements includes estimates used in the calculation of the fair value of stock-based compensation, inventory obsolescence and allowance for doubtful accounts.

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted during the period. This model requires the Company to make reasonable assumptions in order to derive parameters such as expected volatility of the Company's shares, the expected life of the option and interest rates, all of which are based on historical information.

Future behaviors of these parameters are beyond the Company's control, and thus, may be significantly different from the Company's estimates. Management has reviewed the inventories at year end and has provided for obsolescence and slow moving items. This review involves estimates with regards to general economic conditions, customer demand and market acceptance of our finished goods.

In reviewing the allowance for doubtful accounts management bases estimates and assumptions on historical experience and on other factors that we believe to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

Disclosure Control Risks

Disclosure control and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management to allow timely decisions to be made regarding disclosure of said matters in the Company's financial reporting products. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of the Company's disclosure controls and procedures as of the date of this Management's Discussion and Analysis, that the disclosure controls and procedures in place provide reasonable assurance that material information is made known to them by others within the Company. Certain weaknesses have been identified and the Company's Chief Executive Officer and Chief Financial Officer do not expect that the disclosure controls and procedures will prevent or detect, on a timely basis, all errors and fraud that may arise. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Management believes that the disclosure controls and procedures that are presently in place are effective.

Internal Control Risks

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with Canadian GAAP. The design of the Company's internal control over financial reporting was assessed as of the date of this Management's Discussion and Analysis.

While the Company has improved its internal control over financial reporting, as discussed below, there is always the more than remote likelihood that a material misstatement may not be prevented or detected on a timely basis. Management and the Board of Directors, including the audit committee thereof, work to mitigate the risk of any potential material misstatement in the Company's financial reporting however, there can be no assurance that the risk can be reduced to less than a remote likelihood of a potential material misstatement.

1. Segregation of duties

Segregation of duties in the structure of internal control over financial reporting reduces the likelihood of errors and irregularities when one individual does not have responsibility for more than one of the three components of financial reporting -selecting and applying accounting policies, recording transactions and preparing financial statements, including the notes thereto. When the work of one employee is not checked by another and when the responsibility for recording transactions is not separate from the responsibility for preparing the financial statements, including the notes thereto, there is no appropriate segregation of duties.

The company continued to improve its internal controls throughout 2008 and hired additional staff to further reduce the likelihood of material errors and improve its internal control over financial reporting to prevent and detect errors on a timely basis and deter improper activities.

Due to the small number of individuals employed, the Chief Executive Officer and the Chief Financial Officer oversee all material transactions and related accounting records. In addition, the audit committee of the board of directors reviews, on a quarterly basis, the consolidated financial statements of the Company and queries management about significant transactions.

The result is that the Company is highly reliant on the performance of mitigating procedures during its financial close process and in order to ensure the consolidated financial statements present fairly in all material respects. Management will review the current assignment of responsibilities and where possible improve on segregation.

2. Information Technology General Controls

The Company had previously determined that many of its information systems were subject to general control deficiencies and that management was taking steps to remedy these issues. Although the general control deficiencies did not result in a misstatement of the consolidated financial statements, when aggregated, the deficiencies represented a potential material weakness in the Company's control environment. Specifically the deficiencies were as follows:

- Change management procedures were not well defined and implemented.
- Access controls were not well maintained.
- Business Continuity Plan was incomplete and insufficiently documented.

To address and rectify these general control deficiencies, the Company hired an Information Technology Manager and implemented a new financial control system and reviewed its entire operations reporting system with the goal of completely eliminating any previously noted issues.

The Company has now also completed and documented procedures for the Business Continuity Plan.

Changes in accounting policies

On September 1, 2007, the Company adopted Canadian Institute of Chartered Accountant ("CICA") Handbook Sections 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments - Recognition and Measurement*; and Section 3861, *Financial Instruments - Disclosure and Presentation*. These new standards resulted in no changes to amounts previously reported.

(i) Financial Instruments

Under the new standards, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held- for- trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

The Company has classified accounts receivable as loans and receivables, accounts payable, amounts due to shareholders, notes, and government loans as other financial liabilities.

(ii) Comprehensive income (loss)

Section 1530 establishes standards for reporting and presenting comprehensive income (loss). Comprehensive income (loss), composed of net income (loss) and other comprehensive income (loss), is defined as the change in shareholders' equity (deficiency) from transactions and other events from non-owner sources. The components of comprehensive income are disclosed in the statement of operations and comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity. At August 31, 2008, there is no effect on the Company's consolidated financial statements as a result of the adoption of this standard. As the Company has no comprehensive income (loss) items, no statement of comprehensive income (loss) or AOCI category have been presented in these consolidated financial statements. Net loss for the year is equal to comprehensive loss for the year.

Future accounting changes

(i) On September 1, 2008, the Company will adopt CICA Handbook Sections 1535, *Capital Disclosures*; Section 3862, *Financial Instruments - Disclosures*; and Section 3863, *Financial Instruments - Presentation.*

Capital Disclosures

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Financial Instruments - Disclosures and Presentation

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

(ii) International Financial Reporting Standards ("IFRS")

On February 13, 2008, the CICA Accounting Standards Board confirmed that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company is assessing the impact of the conversion from Canadian generally accepted accounting principles to IFRS on its consolidated financial statements and will develop a conversion implementation plan.