

Diversinet

2008 Annual Report



To Our Shareholders:

2008 marked an important year for Diversinet as we continued to successfully transition from a product development focused company towards a sales and marketing enterprise. In 2008 we continued to develop customer relationships, notably in the healthcare sector. This was highlighted by our five year, \$40 million worldwide exclusive license and revenue share agreement with AllOne Mobile Corporation, a subsidiary of AllOne Health Group, Inc., who in turn is a subsidiary of Hospital Service Association of Northeastern Pennsylvania. The second half of 2008 also saw another Diversinet first, profitability in each of the third and fourth quarters.

Our significant 2008 business and product achievements included:

- In April, AllOne launched its mobile application that uses our secure MobiSecure Wallet and Vault product line to place personal health records (PHR) at consumers' fingertips through their mobile phones. AllOne Mobile accesses an individual's PHR in a secure environment and links to the users' mobile phones, giving them well-organized, easy-to-use, 24/7 mobile access. Users can manage and share their PHRs with physicians, hospitals, clinics and emergency personnel helping to improve medical outcomes. AllOne data is stored behind a password-protected encrypted channel through a partnership with Diversinet. The application is downloaded wirelessly to phones and is automatically updated with the most current security and features available. This level of security and control gives users the confidence and comfort to create, manage and enhance their PHRs using the mobile phone or the Web.
- In April Diversinet launched the MobiSecure™ USBToken. The MobiSecure USBToken is a One Time Password (OTP) authentication technology contained within a durable, portable USB device which is driverless and leaves no residual footprint on the user's computer.
- In June, Intersections launched Mobile Lockbox, a major enhancement to the Identity Guard® Total Protection service. MobiSecure™ Wallet and Vault mobile secure encrypted access solution is at the heart of the offering. MobiSecure Wallet and Vault provides Intersections with a mobile security platform to extend its core Identity Guard offering by creating a host of new services that build closer, more personal and "sticky" relationships with new and existing customers.
- In June, CEO and Chairman Albert Wahbe exercised 2,300,000 share purchase warrants at \$0.75 per common share for gross proceeds of US\$1,725,000.
- In September, Diversinet signed an exclusive worldwide license and revenue share agreement with AllOne Mobile Corporation to cross license certain software and to share revenues from the secure mobile access to personal health records and information. During the five year agreement, Diversinet is to receive a minimum commitment fee of \$5.5 million in the first year, \$7 million per year in years two and three and \$10 million per year in years four and five from AllOne. The agreement may be cancelled after the third year if, through no fault of either party, there are changes in market conditions, law or regulation, or technology obsolescence. In addition, Diversinet also completed a \$500,000 statement of work for AllOne, bringing the combined total to \$40 million. This agreement replaces the agreement with AllOne Health Group, Inc. signed in August 2007.
- During the third quarter of 2008, Diversinet refocused its sales efforts primarily towards mobile personal health records and related secured payments and identity protection.

While there is increased uncertainty in the global economy as we head into 2009, we are excited by the many new opportunities being created in the healthcare sector. We will continue to focus our efforts with healthcare leaders and develop exciting new products and services to meet the growing needs of consumers and businesses for security in a mobile world.

I would like to again thank our shareholders, our dedicated staff and our business partners for their support over this past year. I look forward to working together to build upon on the significant gains we accomplished during 2008.

Regards,



Albert Wahbe,
Chairman and Chief Executive Officer

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A"), is intended to help the reader understand the results of operations and financial condition of Diversinet Corp. ("Diversinet" or the "Company"). The MD&A should be read in combination with our audited consolidated financial statements and the accompanying notes. We report our audited consolidated financial statements in accordance with Canadian generally accepted principles ("GAAP"). All dollar amounts in this MD&A are in United States, or U.S. dollars unless otherwise stated.

Certain statements in this MD&A contain words such as "could", "expects", "may", "anticipates", "believes", "intends", "estimates", "plans", and other similar language and are considered forward-looking statements or information under applicable securities laws. These statements are based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate which we believe are reasonable but which are subject to important assumptions, risks and uncertainties and may prove to be inaccurate. Consequently, our actual results could differ materially from our expectations set out in this MD&A. In particular, see the Risk and Uncertainties section of this report and our annual report for the year ended December 31, 2008 for factors that could cause actual results or events to differ materially from those contemplated in forward-looking statements. Unless required by applicable securities laws, we disclaim any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this report which is as at March 2, 2009.

Please find enclosed the Consolidated Balance Sheets as at December 31, 2008 and 2007, the Consolidated Statements of Loss, Comprehensive Income (Loss) and Deficit and the Consolidated Statements of Cash Flows for the years ending December 31, 2008, 2007 and 2006, and the Notes to Consolidated Financial Statements for Diversinet Corp. Our financial statements have been prepared in accordance with Canadian generally accepted accounting principals (GAAP). These principles conform in all material respect with U.S. GAAP except as described in Note 12 to our consolidated statements. All financial figures are in U.S. dollars unless otherwise noted. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this annual report.

The differences between line items under Canadian GAAP and those under U.S. GAAP are not significant. These differences relate to differences in accounting for stock-based compensation.

Overview: Our Business and Strategy

Founded in 1997 and based in Toronto, Canada, Diversinet is a provider of personal authentication and security solutions for the wireless world. Our software and solutions protect user identity and provide secure access for consumer and business applications using a variety of mobile phones, Personal Digital Assistants ("PDA") and personal computers. Our scalable, open mobile security platform enables enterprises and service providers to rapidly develop, deploy and manage next-generation wireless security services. Our technology simplifies what had previously been a complex set of technical problems in both information security and wireless data communications. In January 2007, Diversinet introduced new application solutions, MobiSecure Wallet and Vault, to focus on the evolving protection and trust needs of mobile users. These financial results reflect this shift in focus and the time required to build up a customer base under this new strategy and a rebuilding of the sales and marketing strategy of the Company.

Diversinet's MobiSecure soft tokens and MobiSecure Authentication Service Center ("MASC") enable health care service providers, identity management service providers, financial service providers, mobile network operators and security service providers to rapidly develop, deploy and manage secure on-line services for mobile device and personal computer users worldwide. Our MobiSecure soft tokens are securely provisioned and managed by MASC and are available on the leading intelligent mobile device platforms, including Symbian, Microsoft, RIM, Palm and Java-based phones as well as on personal computers running Microsoft Windows.

Diversinet's MobiSecure Wallet is a client-side secure container application, which can access or hold confidential personal information, such as user identification and access information via fax, email and SMS. It operates in concert with the MobiSecure Vault, a server-side secure container application, and allows a user to access a host of personal information files. Personal health records, financial information, payment information, entertainment or loyalty information can be accessed in real time, directly from a user's mobile phone or other hand-held access device. The MobiSecure Vault provides large file storage and backup to the MobiSecure Wallet and is accessible through web service interfaces and adaptors.

Diversinet's combination of client software and wireless provisioning services enables the issuance and management of mobile device authentication tokens and also creates a technology platform from which we can provide an entirely new and powerful set of capabilities in the mobile e-commerce environment in the form of digital identities, digital permissions and wireless wallets. In addition to providing mobile device security and provisioning solutions, Diversinet deploys an experienced professional services team for application development, consulting, training and technical support.

In September 2008, Diversinet entered into a five year license and revenue sharing agreement with AllOne Mobile Corporation ("AllOne"), a wholly owned subsidiary of AllOne Health Group, Inc. ("AHG"), who in turn is a wholly owned subsidiary of Hospital Service Association of Northeastern Pennsylvania ("HSA") to cross license certain software and share revenues from the worldwide sales. (HSA currently owns approximately 15% of Diversinet's common shares.) The parties have agreed to work exclusively on a worldwide basis with each other in sales activities for the combined software in the mobile personal health records and information market. Under the five year agreement, Diversinet will receive \$39.5 million as a minimum commitment from AllOne. The agreement may be cancelled after the third year if, through no fault of either party, there are changes in market conditions, law or regulation, or technology obsolescence. This agreement replaces the agreement with AllOne Health Group, Inc. signed in August 2007. Also during the third quarter of 2008, Diversinet completed a \$500,000 statement of work for AllOne in regards to work done for the TEPR (Towards the Electronic Patient Record) conference in May 2008.

In July 2008, Diversinet's common shares were posted for trading on the TSX Venture Exchange on Tier 1 as a technology issuer under the symbol DIV. Diversinet continues to trade on the OTCBB under the symbol of DVNTF.

During the second quarter two of our customers successfully launched their applications that are using Diversinet's Wallet and Vault technology. Intersections Inc., a leading global provider of consumer and corporate identity risk management services announced Mobile Lockbox, a major enhancement to the Identity Guard® Total Protection service. MobiSecure™ Wallet and Vault mobile secure encrypted access solution is at the heart of the offering. AHG, a leading health productivity and services company, offering integrated health and information solutions to improve the health and well being of individuals, businesses and organizations announced the AllOne MobileSM service for initial use by AllOne's parent company, HSA and its health plans. The new service offering was demonstrated at the 24th annual TEPR (Towards Electronic Patient Records) Conference in May.

In May 2007 we entered into a three year license and value added reseller ("VAR") agreement with Intersections Inc. ("Intersections") for our MobiSecure Wallet and MobiSecure Vault mobile secure access solutions. In December 2008, we amended the license and VAR agreement to change the contract term to November 2010. This amendment provides for decreased minimum license fees over the next two years of \$850,000 and \$1,310,000 respectively, payable quarterly in advance. The minimum license fees clause is cancellable after March 1, 2010 upon 90 days notice. Therefore the last two payments of \$325,000 in each of June and September 2010 could be terminated upon written notice from Intersections.

During the second quarter of 2007, Albert Wahbe, the Company's Chairman, was appointed Chief Executive Officer. In April 2008, Mr. Wahbe entered into a three year employment agreement, renewable for a further one year period at the discretion of the Board of Directors. Mr. Wahbe's compensation consists of salary of up to Cdn\$300,000 in the first year and up to Cdn\$450,000 in subsequent years and is payable through the issuance of up to 300,000 Diversinet common shares annually and bonus of up to up to Cdn\$200,000 in the first year and up to Cdn\$300,000 in subsequent years and is payable through the issuance of up to 200,000 Diversinet common shares annually as determined by Diversinet's Board of Directors. Mr. Wahbe is also entitled to reimbursement of up to Cdn\$6,000 per month in expenses. Furthermore in April 2008, Mr. Wahbe received options to purchase 1,500,000 common shares at \$0.55 per share, vesting annually in arrears over a four year period. During the first quarter of 2008 Mr. Wahbe received 50,000 options. During 2008 Mr. Wahbe received 300,000 common shares (75,000 per quarter) in compensation as CEO and 200,000 common shares as a bonus. On June 30, 2008 Mr. Wahbe exercised 2,300,000 share purchase warrants at \$0.75 per share for gross proceeds of \$1,725,000. A further 2,300,000 share purchase warrants at \$0.90 expired unexercised.

In August 2007 we completed a private placement of 6,756,757 Diversinet common shares at \$0.74 per share, for gross proceeds of \$5,000,000 to Hospital Service Association of Northeastern Pennsylvania, d/b/a Blue Cross of Northeastern Pennsylvania ("BCNEPA"). William Reed, executive vice president of BCNEPA has joined the Diversinet board of directors. As at December 31, 2008, BCNEPA owned 6,856,757 common shares, representing approximately 15% of the issued and outstanding common shares of the Company.

On June 30, 2006, we completed a private placement of 6,680,001 units, at \$0.60 per unit, for gross proceeds of \$4,008,000. Each unit was comprised of one common share and one common share purchase warrant. One half of the warrant was exercisable to purchase one common share for each whole warrant at a price of \$0.75, the other half warrant at \$0.90, and expired in June 30, 2008. This transaction was effected as a private placement in accordance with Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended. We used the net proceeds for working capital and general corporate purposes.

On July 26, 2006, we completed a private placement of 1,538,463 units, at \$0.65 per unit, for gross proceeds of \$1,000,000 and issued 96,154 units for consulting services related to the private placement. Each unit was comprised of one common share and one common share purchase warrant. The warrants were exercisable to purchase one common share for each whole warrant at a price of \$1.00 and expired unexercised on July 26, 2008. This transaction was effected as a private placement in accordance with Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended. We used the net proceeds for working capital and general corporate purposes.

Selected Annual Information

The selected annual information presented below is based on the audited consolidated financial statements.

For the year ended December 31	2008	2007	2006
Revenue	\$4,614,790	\$4,536,983	\$1,666,965
Loss for the year	(1,949,333)	(3,432,971)	(3,450,717)
Basic and diluted loss per share	(0.04)	(0.09)	(0.12)
Weighted average number of common shares	44,454,008	36,872,086	28,740,174
Dividends declared per share	—	—	—
As at December 31	2008	2007	2006
Cash and cash equivalents	12,075,422	8,394,286	5,146,315
Total assets	12,388,032	8,960,071	5,830,228
Total liabilities	3,326,395	1,111,924	1,744,502

Operating Results

Year ended December 31, 2008 compared to year ended December 31, 2007

For the years ending December 31, 2008 and 2007, we reported revenue of \$4,615,000 and \$4,537,000, respectively. We generated 96% (92% in 2007) of our revenues from the United States, 3% (3% in 2007) from the Asia Pacific region, 1% (1% in 2007) from Canada and nil% (4% in 2007) from other areas during the year ended December 31, 2008. During 2008, we generated 22% (35% in 2007) of our revenue from consulting services and 78% (65% in 2007) from licensing. We currently generate our revenues from a small

number of customers. The timing of signing customer contracts and the revenue recognition associated with the customer contracts results in volatility in our revenues and operating income. In December 2006 we entered into a consulting and licensing agreement with BCNEPA. During 2007, this agreement has generated revenue of \$1,000,000 for the delivery of the solution to BCNEPA, including 100,000 tokens. This agreement was superseded concurrently with the signing of the AllOne agreement. In May 2007 we entered into a license and VAR agreement to provide our MobiSecure Wallet and MobiSecure Vault mobile secure access solution to Intersections. During 2008 this agreement generated revenues of \$1,407,000 (\$844,000 in 2007). In August 2007 we entered into a license and revenue sharing agreement with AllOne Health Group Inc. to bundle certain software and share revenues from the sales of the combined software and a statement of work to develop certain features for the product. During 2008 these agreements generated revenues of \$833,000 (\$2,093,000 in 2007).

In September 2008 we entered into a license and revenue share agreement with AllOne Mobile Corporation. The Agreement replaces a three year licensing agreement entered into with AllOne Health Group Inc. in August 2007. AllOne is a subsidiary of AHG who in turn is a subsidiary of HSA. Under the terms of the Agreement, Diversinet has provided an exclusive worldwide right to AllOne to sub-license certain Diversinet software in combination with AllOne's software, in the mobile personal health record market. The Agreement has a term of five years and may be cancelled after the third year if, through no fault of either party, market conditions, law or regulation, or technology make the combined software product obsolete or unable to be sold. Over the term of the Agreement, Diversinet is required to provide second and third level support as well as two major product upgrades per year. Under the terms of the Agreement, Diversinet is to receive a minimum commitment fee of \$5.5 million in the first year, \$7 million in years two and three and \$10 million in years four and five. The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2, Software Revenue Recognition, issued by the American Institute of Certified Public Accountants ("AICPA") in October 1997 as amended by SOP 98-9 issued in December 1998. The Company has concluded that the Company's commitment to deliver major product upgrades meets the definition of an unspecified additional software product under SOP 97-2. If an arrangement includes unspecified additional software products, SOP 97-2 specifies that the entire arrangement would be accounted for as a subscription. Under subscription accounting, the relevant total fee would be recognized ratably over the non-cancelable term of the arrangement not to exceed amounts received or receivable, beginning with the delivery of the first product. During 2008 this agreement generated \$2,167,000 in revenue.

During 2008, 95% of our revenue came from three customers (87% in 2007). While we are endeavouring to increase our customer base, the market that we operate in is still in an evolving stage and our revenue base is still quite small. Therefore, it is reasonable to expect that our revenue may continue to be concentrated among relatively few customers for the near future. For 2009, we expect to have minimum revenues from AllOne of \$6,500,000 and from Intersections of \$955,000, for a total of \$7,455,000. For health care sales, initial amounts received are allocated to AllOne until the minimum commitment fee is met, after which Diversinet and AllOne share revenues according to the agreement.

Our cost of revenues primarily represents the direct costs associated with customer support, training and implementation, and consulting services related to services performed under contract with our customers. There are no significant costs associated with the manufacturing of our software. The Company does not allocate any indirect costs such as facilities, sales commissions and administrative costs to cost of revenues. Costs of revenues were \$308,000 (gross margin of 93%) for the year ended December 31, 2008 compared to \$240,000 (gross margin of 95%) for 2007. The Company is able to effectively redeploy its employees between its research and development projects, sales and marketing activities and customer service contracts on a continuous basis, thereby the cost of revenues only represents costs related to employees while they are actively involved in performing services under contracts.

Research and development expenses includes compensation of software development teams working on the continuing enhancement of our products, quality assurance and testing activities as well as legal costs incurred for patent registration activities and direct administrative costs incurred by the department. The Company does not include an allocation of general operating expenses to its research and development expenses. Research and development expenses were \$2,602,000 for the year ended December 31, 2008 compared to \$2,266,000 for 2007. The increase in research and development costs in 2008 was largely due to the increase of 12% in head count (from 25 to 28 people) in this department. In 2008, product developments costs of \$252,000 (\$165,000 in 2007) were reallocated from research and development to cost of revenues as the development department redeployed its resources to perform professional services work to modify our products as required under our customer agreements.

Sales and marketing expenses include compensation of sales (salary and commissions) and marketing personnel, public relations and advertising, trade shows, marketing materials and direct operating expenses incurred by the sales and marketing department. The Company does not include an allocation of general operating expenses in its sales and marketing expenses. Sales and marketing expenses were \$1,862,000 for the year ended December 31, 2008 compared to \$1,781,000 for 2007. The increase in sales and marketing expenses in 2008 is partly due to a \$110,000 termination fees for a Director's consulting agreement, \$203,000 in contractor's fees, offset by a decrease of \$275,000 in commission expenses.

General and administrative expenses include compensation expenses for corporate personnel and other general and administrative expenses such as facilities, travel and professional costs. Corporate personnel include executive officers, financial planning and control, legal, human resources and corporate administrative staff. General and administrative expenses were \$2,512,000 for the year ended December 31, 2008 compared to \$3,739,000 for 2007. Included in the December 31, 2008 general and administrative expenses is \$1,389,000 (\$1,543,000 for 2007) relating to stock-based compensation expenses. Under GAAP, the Company is required to estimate the fair value of stock-based compensation granted to employees and to expense the fair value over the estimated vesting period of the stock options and warrant grants. The year over year decrease is partially due to the \$512,000 severance payment to our former CEO and \$391,000 relating to the Instant Publisher litigation settlement in 2007.

Depreciation and amortization expense was \$155,000 for the year ended December 31, 2008 compared to \$120,000 for 2007. The increase in depreciation in 2008 is due to the write down of certain assets.

Foreign exchange gains were \$655,000 for the year ended December 31, 2008 compared to a loss of \$71,000 for the year ended December 31, 2007. During 2008, the U.S./Canadian dollar exchange rate fluctuated from approximately 0.99 to 1.21. During October 2008, we exchanged \$10,000,000 into Cdn\$12,940,000. From the conversion date to year end, the Canadian dollar appreciated \$0.048, largely resulting in the gain. As the majority of our expenses are in Canadian dollars, and with the appreciation of the US/Cdn foreign exchange rate, we believe that this exchange was a prudent decision to match the longer term requirement for Canadian dollars to meet ongoing Canadian dollar expenses. We earned interest and other income of \$220,000 during 2008 compared to \$246,000 for 2007 through investing our excess cash.

We reported a net loss for the year ended December 31, 2008 of \$1,949,000 compared to \$3,433,000 for 2007. These net losses include stock-based compensation expense relating to the issuance of options and warrants of \$1,389,000 and \$1,543,000 during 2008 and 2007, respectively. The 2008 net loss includes the gain from foreign exchange of \$655,000. The net loss of 2007 includes the one time severance expense of \$512,000 related to the former CEO and \$391,000 relating to a litigation settlement. Loss per share for 2008 was \$0.04 compared to \$0.09 in 2007 based on a diluted weighted average of 44,454,000 and 36,872,000 common shares, respectively.

Unaudited quarter ended December 31, 2008 compared to the unaudited quarter ended December 31, 2007

For the quarter ending December 31, 2008, we reported revenue of \$1,924,000 compared to \$1,352,000 for the quarter ended December 31, 2007. During the quarter, we generated 3% (23% in 2007) of our revenue from consulting services and 97% (77% in 2007) from licensing. The higher revenue for the 2008 quarter was due to the delivery of tokens to AllOne under the September 2008 license and revenue sharing agreement representing \$1,625,000 in revenue.

Cost of revenues were \$2,000 (gross margin of 100%) for the quarter ended December 31, 2008 compared to \$73,000 (gross margin of 95%) for the same quarter in 2007. The decrease is due to the allocation of development costs to cost of revenues related to the redeployment of employees to complete customer projects of \$1,900 in Q4 2008 and \$55,000 in Q4 2007 respectively.

Research and development expenses were \$823,000 for the quarter ended December 31, 2008 compared to \$696,000 for the same period of 2007. The Q4 2008 results include an increase of the headcount from 25 to 28 and an employee bonus accrual of \$244,000 (2007 - \$164,000). Sales and marketing expenses were \$474,000 for the quarter ended December 31, 2008 compared to \$801,000 for the same period of 2007. The decrease in sales and marketing expenses in Q4 2008 was due primarily to the decrease in salaries and commission of \$394,000. The Q4 2008 expenses were \$971,000 compared to \$1,181,000 for the same period in 2007. The decrease of general and administrative expenses is largely due to \$271,000 in 2007 bonuses paid in shares included in G&A.

Depreciation and amortization expense was \$76,000 for the quarter ended December 31, 2007 compared to \$33,000 for the same period of 2006. The increase of depreciation in Q4 2008 is the result of the write off of certain computer assets.

We reported a net income of \$272,000 for the quarter ended December 31, 2008 compared to a net loss of \$1,326,000 for the quarter ended December 31, 2007. The net income per share was \$0.01 for the quarter ended December 31, 2008 and \$(0.03) quarter ended December 31, 2007 based on a weighted average of 46,125,000 and 42,075,000 common shares, respectively.

Year ended December 31, 2007 compared to year ended December 31, 2006

For the years ending December 31, 2007 and 2006, we reported revenue of \$4,537,000 and \$1,667,000, respectively. We generated 92% (84% in 2006) of our revenues from the United States, 3% (12% in 2006) from the Asia Pacific region, 1% (2% in 2006) from Canada and 4% (2% in 2006) from other areas during the year ended December 31, 2007. During 2007, we generated 35% (94% in 2006) of our revenue from consulting services and 65% (6% in 2006) from licensing. With the launch of MobiSecure Wallet and Vault product suite in early 2007, we were able to increase product license revenues compared to 2006. In December 2006 we entered into a consulting and licensing agreement with BCNEPA. During 2007, this agreement generated revenue of \$1,000,000 for the delivery of the solution to BCNEPA, including 100,000 tokens. This agreement was terminated concurrently with the signing of the AllOne agreement. In May 2007 we entered into a license and VAR agreement to provide our MobiSecure Wallet and MobiSecure Vault mobile secure access solution to Intersections. During 2007 this agreement generated revenues of \$844,000. In August 2007 we entered into a license and revenue sharing agreement with AllOne to bundle certain software and share revenues from the sales of the combined software and a statement of work to develop certain features for the product. During 2007 these agreements have generated revenues of \$2,093,000. During 2006 we began and completed work on the RSA Security development product. We applied a zero gross margin percentage of completion method for this development agreement, providing us with \$845,000 in revenues and \$845,000 in cost of revenues in fiscal 2006. During Q4 2006 we signed an agreement with BCNEPA under which we had invoiced \$900,000 included in 'deferred revenue' on the balance sheet. This agreement was terminated with the signing of the AllOne agreement, however we recognized this revenue during 2007 as we delivered the MASC license and the associated tokens to BCNEPA.

During 2007, 87% of our revenue came from three customers (78% in 2006 from three different customers). While we are endeavouring to increase our customer base, the market that we operate in is still in an evolving stage and our revenue is still quite small. Therefore, it is reasonable to expect that our revenue may continue to be concentrated among relatively few customers for the near future.

Our cost of revenues primarily represents the direct costs associated with customer support, training and implementation, and consulting services related to services performed under contract with our customers. There are no significant costs associated with the manufacturing of our software. The Company does not allocate any indirect costs such as facilities, sales commissions and administrative costs to cost of revenues. Cost of revenues were \$240,000 (gross margin of 95%) for the year ended December 31, 2007 compared to \$1,041,000 (gross margin of 38%) for 2006. This represents the direct costs associated with completing the

software solutions and consulting services revenue. The Company's lower cost of revenues in 2007 is the result of a higher level of license revenues in 2007. The higher level of cost of revenues and therefore lower gross margin in 2006 primarily represents the significant costs incurred to perform the consulting services with RSA Security. The Company is able to effectively redeploy its employees between its research and development projects, sales and marketing activities and customer service contracts on a continuous basis, thereby the cost of revenues only represents costs related to employees while they are actively involved in customer projects.

Research and development expenses includes compensation of software development teams working on the continuing enhancement of our products, quality assurance and testing activities as well as legal costs incurred for patent registration activities and direct administrative costs incurred by the department. The Company does not include an allocation of general operating expenses to its research and development expenses. Research and development expenses were \$2,266,000 for the year ended December 31, 2007 compared to \$832,000 for 2006. The increase in research and development costs in 2007 was largely due to the cost for outsourcing starting in January 2007 and the year over year increase of 19% in head count (from 21 to 25 people) in this department and the reduction in cost reallocations to cost of revenues. In 2007, product developments costs of \$165,000 were reallocated from research and development to cost of revenues as the development department redeployed its resources to perform professional services work to modify our products as required under our customer agreements. Costs were further reduced in 2007 by the receipt of \$87,000 from our scientific research and experimental development (SRED) claim for 2006 fiscal year. Starting in Q1 2006, the development department focused a portion of their work effort towards completing modifications to our products for RSA Security. In the past, this department's time has been spent conducting research and developing our products for general availability. During 2006, product development costs of \$730,000 were reallocated from research and development to cost of revenues. Costs were further reduced in 2006 by \$288,000 from the receipt of funds for our scientific research and experimental development (SRED) claim for the 2003, 2004 and 2005 fiscal years.

Sales and marketing expenses include compensation of sales and marketing personnel, public relations and advertising, trade shows, marketing materials and direct operating expenses incurred by the sales and marketing department. The Company does not include an allocation of general operating expenses in its sales and marketing expenses. Sales and marketing expenses were \$1,781,000 for the year ended December 31, 2007 compared to \$701,000 for 2006. The increase in costs in this department was due to a 100% year over year increase in head count (from 5 to 10), as well as higher sales commissions as a result of higher revenues. Further increases in costs included an increase in travel costs of \$102,000, and consulting services of \$212,000. Included in the December 31, 2006 sales and marketing expenses is \$33,000 relating to stock-based compensation expenses. In addition, \$107,000 of salary expense was reallocated to cost of revenues in 2006 for the RSA Security work.

General and administrative expenses include compensation expenses for corporate personnel and other general and administrative expenses such as facilities, travel and professional costs. Corporate personnel include executive officers, business development, financial planning and control, legal, human resources and corporate administrative staff. General and administrative expenses were \$3,739,000 for the year ended December 31, 2007 compared to \$2,485,000 for 2006. Included in the December 31, 2007 general and administrative expenses is \$1,543,000 (\$874,000 for 2006) relating to stock-based compensation expenses. Under GAAP, the Company is required to estimate the fair value of stock-based compensation granted to employees and to expense the fair value over the estimated vesting period of the stock options and warrant grants. Also, the year over year increase is partially due to the \$512,000 severance payment to our former CEO and \$391,000 relating to the Instant Publisher litigation settlement. During 2007, we entered into a settlement and release whereby we agreed to pay Instant Publisher \$625,000 as full and complete settlement in the matter. During 2006, the Company had accrued Cdn\$250,000 in regards to the lawsuit.

Depreciation and amortization expense was \$120,000 for the year ended December 31, 2007 compared to \$159,000 for 2006. This is consistent with the reduction in net capital assets.

Foreign exchange losses were \$71,000 for the year ended December 31, 2007 compared to \$18,000 for 2006. During 2007, the U.S./Canadian dollar exchange rate changed from approximately 1.17 to 1.01. As we have the majority of our expenses in Canadian dollars, these foreign exchange swings negatively impact our operating results. We earned interest and other income of \$246,000 during 2007 compared to \$118,000 for 2006 through investing our excess cash.

We reported a net loss for the year ended December 31, 2007 of \$3,433,000 compared to \$3,451,000 for 2006. These net losses include stock-based compensation expense relating to the issuance of options and warrants of \$1,543,000 and \$906,000 during 2007 and 2006, respectively. Due to the significant increase in our revenues, the net loss has decreased despite increased expenses. The large increase in expenses is due primarily to (i) the increase in our number of employees from 29 to 36 as the Company focuses on activities to generate and service revenues from our new product offerings, (ii) the one time severance expense of \$512,000 related to the former CEO and (iii) \$391,000 relating to litigation settlement. Loss per share for 2007 was \$0.09 compared to \$0.12 in 2006 based on a diluted weighted average of 36,872,000 and 28,740,000 common shares, respectively.

Liquidity and Capital Resources

Year ended December 31, 2008 compared to year ended December 31, 2007

Cash and cash equivalents at December 31, 2008 were \$12,075,000 compared with \$8,394,000 at December 31, 2007. The net change in cash and cash equivalents for 2008 was an increase of \$3,681,000 compared to \$3,248,000 for 2007. The fiscal 2008 increase was largely due to the exercise of warrants in an amount of \$1,773,000 and cash provided by operations of \$1,938,000. Of the \$5,000,000 invoiced to AllOne in September 2008, \$2,400,000 has been recognized as revenue, with the remaining \$2,600,000 shown in deferred revenue on the balance sheet. The fiscal 2007 increase over 2006 was largely due to the \$5,000,000 BCNEPA private placement discussed below. This was offset by operating activities which used cash in an amount of \$2,200,000, including the reversal of \$808,000 in deferred revenues from the recognition of the Q4 2006 BCNEPA cash receipt of \$900,000 into revenues in

2007. Cash used in investing activities for 2008 and 2007 is solely the result of the purchase of capital assets of \$30,000 and \$111,000, respectively.

In June 2008, Mr. Wahbe exercised 2,300,000 shares purchase warrants at \$0.75 per share for gross proceeds of \$1,725,000. In August 2007 we completed a private placement of 6,756,757 Diversinet common shares to BCNEPA at \$0.74 per share, for gross proceeds of \$5,000,000.

We are not subject to material financial market risk exposures, except for risks related to interest rate fluctuations and foreign currency exchange rates. Our exposure to market rate risk for changes in interest rates relates primarily to our cash equivalents and short-term investments, created by our past financings. We have not used derivative financial instruments in our short-term investments. We invest in high quality money market instruments and bonds with terms of less than 90 days. We are averse to principal loss and ensure the safety and preservation of our invested funds by limiting default, market and reinvestment risk. We do not make use of a bank line of credit and do not have any long-term debt. The impact of inflation has not been material to our business over the past five years.

We believe that our cash and cash equivalents as at December 31, 2008 of \$12,075,000 is sufficient to meet our short-term working capital requirements beyond the next twelve months. We may need to raise additional amounts to meet future working capital requirements through private or public financings, strategic relationships or other arrangements. However, additional funding may not be available on terms attractive to us, or at all. If we enter into strategic relationships to raise additional funds, we may be required to relinquish rights to certain of our technologies. Our failure to either raise capital when needed or to generate revenues could leave us with insufficient resources in the future to sustain our operations beyond the next twelve months.

The following table presents unaudited selected financial data for each of the last eight quarters ending December 31, 2008:

	Revenue for the period (\$000's)	Net income (loss) for the period (\$000's)	Net income (loss) per share (\$)
December 31, 2008	1,924	272	0.01
September 30, 2008	1,784	142	0.00
June 30, 2008	565	(1,205)	(0.03)
March 31, 2008	342	(1,159)	(0.03)
December 31, 2007	1,352	(1,326)	(0.03)
September 30, 2007	1,262	(730)	(0.02)
June 30, 2007	1,017	(1,045)	(0.03)
March 31, 2007	905	(331)	(0.01)

Quarter ended December 31, 2008 compared to quarter ended December 31, 2007

The net change in cash and cash equivalents for the fourth quarter of 2008 was \$71,000 compared to \$(524,000) for the fourth quarter of 2007. The Q4 2008 increase is largely due to cash provided by operations of \$76,000, including a foreign exchange gain of \$616,000, offset by a reduction in working capital of \$(869,000). The Q4 2007 decrease includes the \$625,000 litigation settlement payment with Instant Publisher.

Year ended December 31, 2007 compared to year ended December 31, 2006

Cash and cash equivalents at December 31, 2007 were \$8,394,000 compared with \$5,146,000 at December 31, 2006. The net change in cash and cash equivalents for 2007 was \$3,248,000 compared to \$3,791,000 for 2006. The fiscal 2007 increase was largely due to the \$5,000,000 BCNEPA private placement discussed below. This was offset by operating activities which used cash in an amount of \$2,200,000, including the reversal of \$808,000 in deferred revenues from the recognition of the Q4 2006 BCNEPA cash receipt of \$900,000 into revenues in 2007. The fiscal 2006 increase was largely due to the June and July private placements in which aggregate gross proceeds of \$5,008,000 were raised. This was offset by operating activities which used cash in an amount of \$1,210,000 which includes the receipt from BCNEPA of \$900,000 included as part of the deferred revenues. Cash used in investing activities for 2007 and 2006 is solely the result of the purchase of capital assets of \$111,000 and \$75,000, respectively.

In August 2007 we completed a private placement of 6,756,757 Diversinet common shares to BCNEPA at \$0.74 per share, for gross proceeds of \$5,000,000.

On July 26, 2006, we completed a private placement of 1,538,463 units, at \$0.65 per unit, for gross proceeds of \$1,000,000 and issued 96,154 units for consulting services related to the private placement. Each unit is comprised of one common share and one common share purchase warrant. The warrant will be exercisable to purchase one common share for each whole warrant at a price of \$1.00 and will expire on July 26, 2008.

On June 30, 2006, we completed a private placement of 6,680,001 units, at \$0.60 per unit, for gross proceeds of \$4,008,000. Each unit is comprised of one common share and one common share purchase warrant. One half of the warrant will be exercisable to purchase one common share for each whole warrant at a price of \$0.75, the other half warrant at \$0.90, and will expire on June 30, 2008.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal year covered by this annual report. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, due to the material

weakness in internal controls over financial reporting set out below, the Company's disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act and Canadian securities laws is recorded, processed, summarized and reported as and when required and that it is accumulated and communicated to management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In light of this conclusion, we have applied compensating procedures and processes as necessary to ensure the reliability of our financial reporting including a review of all non routine and complex transactions with external advisers. Accordingly, management believes, based on its knowledge, that (i) this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were, not misleading with respect to the period covered by this report and, (ii) the financial statements, and other financial information included in this report, fairly present in all material respects our financial condition, results of operations and cash flows at, and for, the periods presented in this report.

In connection with the evaluation referred to in the foregoing paragraph, we have identified no change in our disclosure controls and procedures that occurred during the year ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our disclosure controls over financial reporting.

Internal Controls over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles and the requirements of the Securities and Exchange Commission in the United States, as applicable. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the design and operating effectiveness of internal controls over financial reporting as at December 31, 2008. In making this assessment, we used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that internal control over financial reporting is ineffective, as of December 31, 2008, because of the following material weakness. Due to the limited number of staff, Diversinet's finance staff does not have sufficient technical accounting knowledge to address all complex and non-routine accounting transactions that may arise. These transactions are sometimes extremely technical in nature and require an in-depth understanding of GAAP. As a result of this pervasive deficiency, these types of transactions may not be recorded correctly, potentially resulting in material misstatements of the financial statements of the Company. To address this risk, the Company has a control whereby it consults with its auditors and advisors, as needed, in conjunction with the recording and reporting of complex and non-routine accounting transactions. Management has concluded that this control was not operating effectively during the year as the Company did not consult with external advisors on certain complex and non-routine transactions and on certain of these transactions, errors were identified by our auditors. All material misstatements detected by the audit have been corrected by the Company. Any changes in the staff complement will be dependant upon the growth of our operations and the number of our staff to allow further technical accounting knowledge to address all complex and non-routine accounting transactions. Management will continue to review consultation controls and, if appropriate, implement changes to its current internal control processes whereby more effective consultation will be adopted.

Changes in Internal Controls over Financial Reporting

During the year ended December 31, 2008, there were no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have had, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Tabular Disclosure of Contractual Obligations

We are committed under operating leases for a total amount of approximately \$650,087. The minimum payments due in each of the following years are as follows:

Contractual obligations	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Operating lease obligations	650,087	195,304	390,210	64,573	—
Total	\$650,087	\$195,304	\$390,210	\$64,573	—

Related Party Transactions

During the second quarter of 2007 Albert Wahbe was appointed Chief Executive Officer. In April 2008, Mr. Wahbe entered into a three year employment agreement, renewable for a further one year period at the discretion of the Board of Directors. Mr. Wahbe's compensation consists of salary of up to Cdn\$300,000 in the first year and up to Cdn\$450,000 in subsequent years and is payable through the issuance of up to 300,000 Diversinet common shares annually and bonus of up to up to Cdn\$200,000 in the first year and up to Cdn\$300,000 in subsequent years and is payable through the issuance of up to 200,000 Diversinet common shares annually as determined by Diversinet's Board of Directors. Mr. Wahbe is also entitled to reimbursement of up to Cdn\$6,000 per month in expenses. Furthermore in April 2008, Mr. Wahbe received options to purchase 1,500,000 common shares at \$0.55 per share, vesting annually in arrears over a four year period. During the first quarter of 2008 Mr. Wahbe received 50,000 options. During 2008 Mr. Wahbe received

500,000 common shares and Cdn\$72,000 in compensation as CEO. On June 30, 2008 Mr. Wahbe exercised 2,300,000 share purchase warrants at \$0.75 per share for gross proceeds of \$1,725,000. A further 2,300,000 share purchase warrants at \$0.90 expired unexercised. As of December 31, 2008, Albert Wahbe owns 7,875,000 common shares and 1,600,000 options, representing approximately 19% of the issued and outstanding common shares of the Company, assuming the exercise of such options.

During 2008 BCNEPA received 50,000 options and 80,645 Diversinet common shares in regards to compensation for William Reed's participation on the Diversinet Board of Directors. As part of the August 2007 private placement, BCNEPA acquired 6,756,757 common shares. As at December 31, 2008, BCNEPA owns 6,937,402 common shares and 50,000 options representing approximately 15% of the issued and outstanding common shares of the Company, assuming the exercise of such options.

During the second quarter of 2007, Mr. Wigdale began performing services for the Company in a sales capacity for a period of one year to March 31, 2008. From April to October 2008, Mr. Wigdale has provided services on a monthly retainer basis. During October 2008 Mr. Wigdale completed his services to Diversinet and the parties entered into a Termination and Release Agreement. During 2008, the Company paid Mr. Wigdale \$370,000 in salary, commissions and severance. During the first quarter of 2008 Mr. Wigdale received 50,000 options. During the second quarter of 2008 Mr. Wigdale was allocated options to purchase 600,000 common shares at \$0.60 per share, vesting annually in arrears over a four year period. These options were cancelled in October 2008 upon the completion of Mr. Wigdale's services to the Company. On June 30, 2008 666,667 share purchase warrants at \$0.75 and \$0.90 expired unexercised. As at December 31, 2008, a company controlled by Mr. Wigdale owns 3,909,462 common shares, and Mr. Wigdale owns 1,151,872 common shares and 100,000 options, together representing approximately 11% of the issued and outstanding common shares of the Company, assuming the exercise of such options.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates are used in determining, but not limited to, the allowance for doubtful accounts, income tax valuation allowances, stock based compensation, the useful life of depreciable assets and the recoverability of fixed assets. In making such estimates and assumptions, management consults with employees knowledgeable in the area; gathers relevant information; where appropriate, seeks advice from qualified third parties, and, makes judgments, which in their opinion at the time, represent fair, balanced and appropriate conservative estimates and assumptions. Actual results could differ from those estimates.

Allowance for doubtful accounts

The Company has an accounts receivable balance of \$nil at December 31, 2008 (2007 – \$123,000). The valuation of accounts receivable requires significant estimates to be made by management and the valuation of these balances could have an impact on the Company's consolidated financial statements. These accounts receivable are comprised of amounts arising from contractual arrangements with major health care, identity management, financial and mobile network and security service providers. The Company determines an allowance for doubtful accounts based on knowledge of the financial conditions of its customers, the aging of the receivables, customer and industry concentrations, the current business environment and historical experience. At December 31, 2008, management has consistently applied this methodology and the Company has had a history of minimal bad debt loss. A change in any of the factors impacting the estimate of the allowance for doubtful accounts will directly impact the amount of bad debt expense recorded in general and administrative expenses.

Income tax estimates

Management continually reviews the estimates of the valuation of future income tax assets. This involves the use of judgment in the estimation of future income projections, actual tax exposures, assessing temporary differences that result from differing treatments in items for accounting purposes versus tax purposes, and in estimating the recoverability of the benefits arising from tax loss carry-forwards. The Company is required to assess whether it is more likely than not that future income tax assets will be realized prior to the expiration of the related tax loss carry forwards.

Changes in the forecasts of future profitability, the utilization of income tax loss carry forwards, the valuation allowance, and changes in tax rates could have a material impact on the reported amounts for future income tax assets and future income tax expense. The Company currently has a 100% valuation allowance against its future tax assets.

Stock based compensation

The Company records stock based compensation expense over the vesting period of the options based on the estimated fair value of the stock options granted. The Company's policy is to determine the exercise price of an option based on the average trading price for five days prior to the grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options on the grant date and the amount is expensed over the vesting period of the stock options. The assumptions used in the calculation of fair value include the risk free interest rate, dividend yield, volatility factor and expected life of the options.

The risk free interest rate is based on the then current risk free interest rate for the expected life of the option. The dividend yield is based on the Company's historical practice of dividend payments. The volatility factor is based on analysis of the history of the Company's share price and management's estimate of the expected volatility over the respective terms of the options. The expected life of the option is based on the expected length of time options are estimated to remain outstanding.

Useful lives of depreciable assets

The Company depreciates the cost of fixed assets over their respective estimated useful lives. These estimates of useful lives involve estimation and judgment. In determining the estimates of useful lives, the Company considers industry trends and changing

technologies. On an annual basis, the Company reassesses the estimated useful lives to ensure they correspond with the anticipated life of the respective assets. If a technological change happens more quickly than anticipated, the Company may have to revise the estimates of useful lives of fixed assets which could result in higher depreciation expense in future periods or an impairment charge to write-down the value of the fixed assets.

Recoverability of long-lived assets

Long lived assets, including fixed assets and intangible assets with finite useful lives, are depreciated over their estimated useful lives. The Company reviews for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of undiscounted cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. These analyses involve estimates of future cash flows and estimated periods of use. If the undiscounted net cash flows associated with a group of long-lived assets exceed the carrying amounts, impairment losses are measured as the excess of the carrying amount over the fair value

In the year ended December 31, 2008, we did not make any significant changes in, nor take any corrective actions regarding, our internal controls or other factors that could significantly affect these estimates. We periodically review our internal controls for effectiveness and we plan to conduct an evaluation of our disclosure controls and procedures each quarter. Other important accounting policies are described in note 1 to our consolidated financial statements.

Adoption of New Accounting Pronouncements

In December 2006, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1535, Capital Disclosures, which provides standards for disclosures regarding a company's capital and how it is managed. Enhanced disclosure with respect to the objectives, policies and processes for managing capital and quantitative disclosures about what a company regards as capital is required. These recommendations were effective for the Company beginning January 1, 2008. The additional disclosures required as a result of adoption of this standard, is included in note 11.

In December 2006, the CICA issued Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These new standards were effective for the Company beginning January 1, 2008. Section 3862 requires disclosure about the significance of financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset. The additional disclosures required as a result of adoption of these standards, are included in notes 2 and 13.

Recently Issued Pronouncements

International Financial Reporting Standards (IFRS): In February 2008, the Canadian Accounting Standards Board announced the adoption of International Financial Reporting Standards for publicly accountable enterprises. IFRS will replace Canadian GAAP effective January 1, 2011. IFRS is effective for our first quarter of 2011 and will require that we restate our 2010 comparative numbers. We cannot at this time reasonably estimate the impact of adopting IFRS on our consolidated financial statements.

Consolidated financial statements: In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements. This standard is effective for 2011. Earlier adoption is permitted. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Risks and Uncertainties

Our Company is subject to a number of risks and uncertainties that could cause actual results to differ materially from those predicted or anticipated. These risks are described in our annual Form 20-F filed with the SEC in the United States at www.sec.gov and filed on SEDAR in Canada at www.sedar.com. We encourage you to review these filings in order to evaluate an investment in our securities. Some key risks that could cause actual results to differ materially from those predicted or anticipated are listed below.

Impact of current economic conditions: The current unfavorable economic conditions may negatively impact the Company's financial viability. Unfavorable economic conditions could also increase the Company's financing costs, negatively affect profitability, limit access to capital markets and negatively impact the ability to maintain or attract customers. The Company often enters into multi-year contracts with customers that often have minimum threshold amounts due to us. These contracts, including the AllOne and Intersections agreements have a risk of cancellation if there is slow customer adoption. Due to the economic uncertainty, our customers may default on their obligations under these agreements or seek to renegotiate certain of their financial obligations.

Financial resources: The attached consolidated financial statements are prepared on a going concern basis that assumes that the Company will continue in operation in the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. Although we have made progress in developing our solutions and have completed initial consumer deployments, our revenue from operations may not be sufficient to cover our operating expenses at present. We have historically obtained funding for operations from private placements, but there is no assurance we will be able to do so again in the future or on terms favourable to the Company, despite the progress of the business. Our failure to either raise capital when needed or to generate revenues would leave us with insufficient resources to continue our business.

Variability of performance: Our quarterly and annual operating results have varied substantially in the past and are likely to vary substantially from quarter to quarter and year to year in the future due to a variety of factors. In particular, our period-to-period

operating results are significantly dependent upon the sale of license agreements and the continued success in providing professional services. In this regard, the purchase of our solutions often requires our customers to make a significant capital investment, which customers may view as a discretionary cost and, therefore, a purchase that can be deferred or cancelled due to budgetary or other business reasons. Furthermore, our ability to continue providing professional services is dependent upon being able to provide value added resources at reasonable rates. Estimating future revenues is also difficult because we ship our products upon receipt of a signed license agreement and, therefore, we do not have a backlog. Thus, quarterly and annual license revenues are heavily dependent upon agreements finalized and software shipped within the same quarter or year. We expect these revenue patterns to continue for the foreseeable future, until recurring revenue becomes a significant portion of total revenue. Despite the uncertainties in our revenue patterns, our operating expenses are based upon anticipated revenue levels and such expenses are incurred on an approximately rateable basis throughout the quarter. As a result, if expected revenues are delayed or otherwise not realized in a quarter for any reason, our business, operating results and financial condition would be adversely affected in a significant way.

Liquidity of our common shares: If our common shares should become ineligible for continued quotation on the Over the Counter Bulletin Board or a public trading market does not continue for any reason, holders of our common shares may have difficulty selling their shares. Our common shares may continue to be penny stock, which may adversely affect the liquidity of our common shares. The United States Securities and Exchange Commission has adopted regulations that define a penny stock to be any equity security that has a market price, as defined in those regulations, of less than \$5.00 per share, subject to certain exceptions. Our common shares are currently penny stock. In July 2008, our common shares were also posted for trading on the TSX Venture Exchange on Tier 1 as a technology issuer under the symbol DIV.

Commercial deployment: The ability of the Company to continue operations is also dependent on the acceptance of its security, identity management solutions, secure application platform solutions in the health care market and the adoption of transaction-based applications over wireless networks as an accepted method of commerce in sufficient volume for us to generate enough revenues to fund our expenses and capital requirements. The wireless mobile commerce market is in a very early stage and it may not develop to a sufficient level to support our business.

Dependence on key customers; concentration of credit: The loss of any key customer and our inability to replace revenues provided by a key customer may have a material adverse effect on our business and financial condition. Our customer base includes large healthcare providers, financial institutions and security providers. As a result, we maintain individually significant receivable balances due from them. If these customers fail to meet their payment obligations, our operating results and financial condition could be adversely affected. As at December 31, 2008, three customers accounted for 47%, 30% and 18% of our total 2008 consolidated revenues.

Foreign exchange: Our functional currency is the U.S. dollar. Sales generated outside Canada are generally denominated in U.S. dollars. During fiscal 2008, we incurred a portion of our expenses in U.S. dollars and Canadian dollars. Changes in the value of the Canadian currency relative to the U.S. dollar may result in currency losses that may have an adverse effect on our operating results. During fiscal 2008 and 2007 we maintained a portion of our cash resources in both U.S. and Canadian dollar term deposits. During October 2008, we exchanged \$10,000,000 into Cdn\$12,940,000. As the majority of our expenses are in Canadian dollars, and with the appreciation of the US/Cdn foreign exchange rate, we believe that this exchange was a prudent decision to match the longer term requirement for Canadian dollars to meet ongoing Canadian dollar expenses. The Company does not have any foreign currency derivative instruments outstanding at December 31, 2008.

Litigation: Our Company has previously been named as a defendant in various proceedings arising in the course of our Company's activities and arising from transactions relating to a previous business operated by our Company. Litigation arising from these matters may be time consuming, distracting and expensive. An adverse resolution to any of these proceedings may have a material adverse impact on our business and financial condition.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all information in the annual report have been prepared by management and have been reviewed and approved by the Board of Directors of the Company. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the annual report with that contained in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls and systems designed to provide reasonable assurance that its assets are safeguarded, that only valid and authorized transactions are executed and that accurate, timely and comprehensive financial information is prepared and disclosed. The internal control systems and financial records are subject to reviews by external auditors during the examination of the financial statements. Management recognizes its responsibility for conducting the Company's affairs to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Company's Audit Committee is appointed by the Board of Directors annually and is comprised of three non-management directors. The Audit Committee meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The Audit Committee has responsibility for engaging or re-appointing the Company's independent auditors. The independent auditors have direct and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Company's financial reporting.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, Licensed Public Accountants, on behalf of the shareholders, in accordance with generally accepted auditing standards. Their report outlines the scope of their audit and expresses their opinion on the consolidated financial statements of the Company.



Albert Wahbe, *Chief Executive Officer*
March 2, 2009



David Hackett, *Chief Financial Officer*

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Diversinet Corp. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive income (loss) and deficit and cash flows for each of the years in the three year period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from US generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in Note 12 to the consolidated financial statements.



Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 2, 2009

DIVERSINET CORP.

Consolidated Balance Sheets
(In United States dollars)

As at December 31	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,075,422	\$ 8,394,286
Accounts receivable	-	122,687
Prepaid expenses	57,346	63,105
Total current assets	12,132,768	8,580,078
Property and equipment, net (note 3)	255,264	379,993
Total assets	\$ 12,388,032	\$ 8,960,071

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable	\$ 168,078	\$ 249,502
Accrued liabilities (note 4)	511,961	731,461
Deferred revenue	2,646,356	130,961
Total current liabilities	3,326,395	1,111,924
Shareholders' equity:		
Share capital (note 5):		
Authorized:		
Unlimited common shares		
Issued and outstanding:		
47,031,935 (43,167,783 – 2007)		
common shares	68,099,993	65,370,707
Contributed surplus	7,596,686	5,621,383
Share purchase warrants (note 5)	13,687	1,555,453
Deficit	(65,128,008)	(63,178,675)
Accumulated other comprehensive income:		
Cumulative translation adjustment	(1,520,721)	(1,520,721)
Total shareholders' equity	9,061,637	7,848,147
Total liabilities and shareholders' equity	\$ 12,388,032	\$ 8,960,071

Commitments and contingencies (note 9)

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Albert Wahbe, Chairman



Gregory Milavsky, Director

DIVERSINET CORP.

Consolidated Statements of Loss, Comprehensive Income (Loss) and Deficit
(In United States dollars)

Year ended December 31	2008	2007	2006
Revenue	\$ 4,614,790	\$ 4,536,983	\$ 1,666,965
Cost of revenues	307,946	239,878	1,041,096
Gross margin	4,306,844	4,297,105	625,869
Expenses:			
Research and development	2,601,833	2,265,755	831,925
Sales and marketing	1,862,337	1,780,991	700,870
General and administrative	2,512,454	3,738,545	2,484,556
Depreciation and amortization	154,881	119,647	159,048
	7,131,505	7,904,938	4,176,399
Loss before the following:	(2,824,661)	(3,607,833)	(3,550,530)
Foreign exchange gain (loss)	655,020	(71,106)	(18,291)
Interest income and other income	220,308	245,968	118,104
Loss for the year and comprehensive loss	(1,949,333)	(3,432,971)	(3,450,717)
Deficit, beginning of year	(63,178,675)	(59,745,704)	(56,294,987)
Deficit, end of year	\$(65,128,008)	\$(63,178,675)	\$(59,745,704)
Basic and diluted loss per share (note 6)	\$ (0.04)	\$ (0.09)	\$ (0.12)
Weighted average number of common shares	44,454,008	36,872,086	28,740,174

See accompanying notes to consolidated financial statements.

DIVERSINET CORP.

Consolidated Statements of Cash Flows
(In United States dollars)

For the year ended December 31	2008	2007	2006
Cash provided by (used in):			
Operating activities:			
Loss for the year from continuing operations	\$ (1,949,333)	\$ (3,432,971)	\$ (3,450,717)
Items not involving cash:			
Depreciation and amortization	154,881	119,647	159,048
Stock-based compensation expense	1,389,323	1,542,743	906,444
	(405,129)	(1,770,581)	(2,385,225)
Change in non-cash operating working capital:			
Accounts receivable	122,687	31,422	(86,804)
Prepaid expenses	5,759	77,976	(23,836)
Accounts payable	(81,424)	77,211	19,191
Accrued liabilities	(219,500)	190,900	406,982
Deferred revenue	2,515,395	(807,589)	859,550
Cash provided by (used in) operations	1,937,788	(2,200,661)	(1,210,142)
Financing activities:			
Issue of common shares, common share purchase options and warrants for cash	1,773,500	5,559,548	5,075,656
Cash provided by financing activities	1,773,500	5,559,548	5,075,656
Investing activities:			
Property and equipment additions	(30,152)	(110,917)	(74,761)
Cash used in investing activities	(30,152)	(110,917)	(74,761)
Increase in cash and cash equivalents	3,681,136	3,247,970	3,790,753
Cash and cash equivalents, beginning of year	8,394,286	5,146,315	1,355,562
Cash and cash equivalents, end of year	\$ 12,075,422	\$ 8,394,286	\$ 5,146,315
Supplemental cash flow information:			
Interest received	220,308	245,968	118,104
Supplemental disclosure relating to non-cash financing and investing activities:			
Issuance of shares to employees	425,283	516,409	84,543
Issuance of shares for public relations services	-	61,545	-
Cash and cash equivalents is comprised of :			
Cash	762,266	857,609	674,421
Cash equivalents	11,313,156	7,536,677	4,471,894
	\$ 12,075,422	\$ 8,394,286	\$ 5,146,315

See accompanying notes to consolidated financial statements.

DIVERSINET CORP.

Notes to Consolidated Financial Statements
(In United States dollars)

Years ended December 31, 2008, 2007, and 2006

Diversinet Corp. (the "Company"), an Ontario corporation, develops, markets and distributes wireless security infrastructure solutions and identity management solutions and professional services to the health services, financial services, software security, storage and memory manufacturers and telecommunications marketplaces.

1. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, except as described in note 14, conform in all material respects with accounting principles generally accepted in the United States. Significant accounting policies adopted by the Company are as follows:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

(b) Adoption of new accounting standards:

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures. This new Handbook Section establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and processes for managing capital. These new disclosures are included in note 11.

Effective January 1, 2008, the Company adopted the new recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures and Handbook Section 3863, Financial Instruments – Presentation.

Section 3862 requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset. The adoption of these standards had no impact on the classification of the Company's financial instruments nor on the Company's loss for the year ended December 31, 2008. The new disclosures pursuant to these new Handbook Sections are included in notes 2 and 13.

In May 2007, the CICA amended Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. These amendments were effective for the Company on January 1, 2008. The amendments did not have a material impact on the annual consolidated financial statements.

(c) Recently Issued Pronouncements:

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly impact financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for public accountable companies to convert from Canadian GAAP to IFRS. The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, this new standard will apply to the Company effective for the fiscal year commencing January 1, 2011. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(d) Impairment or disposal of long-lived assets:

The Company reviews capital and intangible assets (long-lived assets) for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Absent any triggering factors during the year, the Company conducts its long-lived asset assessment in the fourth quarter to correspond with its planning cycle. An impairment loss is recognized when the carrying amount of an asset that is held and used exceeds the projected undiscounted future cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value which is measured by discounted cash flows when quoted market prices are not available. For assets available-for-sale, an impairment loss is recognized when the carrying amount exceeds the fair value less costs to sell.

(e) Revenue recognition:

The Company recognizes revenue in accordance with Statement of Position ("SOP") 97-2, Software Revenue Recognition, issued by the American Institute of Certified Public Accountants ("AICPA") in October 1997 as amended by SOP 98-9 issued in December 1998. The Company derives revenue from licensing its products and providing related services, including installation, integration, and maintenance.

(i) License revenue:

The Company recognizes product revenue when it has an executed license agreement with the customer, the software product has been delivered, the amount of the fees to be paid by the customer is fixed and determinable, and collection of these fees is deemed probable. The Company considers fees related to arrangements with significant payments due beyond its normal trading terms not to be fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as the payments become due from the customer. If collectibility is not considered probable, revenue is recognized when the fee is collected.

The Company enters into software license agreements that provide for future license payments to be made based on the number of users. Customers who exceed their licensed fixed level of users are required to pay additional license fees. Revenue associated with additional users is recognized when the amount becomes determinable, and when the requirements of revenue recognition as set out above have been met. Fees related to contractors that require the company to deliver unspecified additional products are deferred and recognized ratably over the contract term.

(ii) Service revenue:

Typically, software license agreements are multiple element arrangements as they also include consulting, related maintenance and/or implementation services fees. Arrangements that include consulting services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangements. The Company's software products are generally fully functional upon delivery and implementation and do not require any significant modification or alteration for customer use, however, for larger customers, customization services may be significant. Customers generally purchase consulting services to facilitate the adoption of the Company's technology and may contract with the Company to have dedicated personnel to participate in the services being performed, but the customer may also decide to use their own resources or appoint other professional service organizations to provide these services.

In determining whether the services are essential to the functionality of its software, the Company applies the criteria in SOP 97-2. When the services are considered essential to the functionality of the software, the Company recognizes both the software product revenue and services revenue under the proportional performance method based on direct labour costs incurred to date as percentage of total estimated direct labour costs to complete the project as this better reflects the pattern in which the Company's obligations to its customers are fulfilled and revenue is earned. When services are not considered essential, the entire arrangement fee is allocated to each element in the arrangement based on the respective vendor specific objective evidence ("VSOE") of the fair value of each element. VSOE used in determining the fair value of license revenue is based on the price charged by the Company when the same element is sold in similar quantities to a customer of similar size and nature. VSOE used in determining fair value for installation, integration and training is based on the standard daily rates for the type of service being provided multiplied by the estimated time to complete the task. VSOE used in determining the fair value of maintenance and technical support is based on annual renewal rates. The revenue allocable to the software license is recognized when the product revenue criteria are met. The revenue allocable to the consulting services is recognized as the services are performed. In instances where VSOE exists for undelivered elements but does not exist for delivered elements of a software arrangement, the Company uses the residual method of allocation of the arrangement fees for revenue recognition purposes. For arrangements containing multiple elements wherein VSOE of fair value does not exist for all undelivered elements, revenue for the delivered and undelivered elements is deferred until VSOE of fair value exists or all elements have been delivered.

Consulting, implementation and training revenues are recognized as the services are performed, generally on a time and materials basis. Consulting revenues attributed to fixed price arrangements are recognized using the proportional performance method based on direct labour costs incurred to date as a percentage of total estimated direct labour costs to complete the project as this better reflects the pattern in which the Company's obligations to its customers are fulfilled and revenue is earned. When total cost estimates exceed revenues in a fixed price arrangement, the estimated losses are recognized immediately based upon an average fully burdened daily cost rate applicable to the consulting individuals delivering the services.

(iii) Maintenance revenue:

Maintenance and support revenues paid in advance are non-refundable and are recognized ratably over the term of the agreement, which typically is twelve months.

Maintenance generally includes the right to receive unspecified updates and upgrades, determined solely by the Company, after the software license period begins. These unspecified update and upgrade rights generally provide for the customer to receive bug fixes and future enhancements, respectively, to the existing software. Maintenance revenue is recognized ratably over the term of the maintenance contract.

(iv) Deferred revenue:

Product and services revenues that have been prepaid but do not yet qualify for recognition as revenue under the Company's revenue recognition policy are reflected as deferred revenue on the consolidated balance sheets.

(f) Cash and cash equivalents:

Cash and cash equivalents include cash on account and short-term investments in money market instruments with original maturities of 90 days or less when acquired.

(g) Investment tax credits:

Investment tax credits are accrued when qualifying expenditures are made and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the consolidated statements of earnings and deficit as a reduction of related expenses in the year the refund is received. In 2008, the Company reduced research and development expenses by \$88,000 (2007 - \$87,000, 2006 - \$288,000) for refunds received during the year in relation to the prior year's scientific research and development claims. Assistance related to the acquisition of capital assets used for research and development is credited against the related capital assets.

(h) Research and development costs:

Research costs are expensed as incurred. Software development costs are deferred once costs meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Such deferred costs are amortized, commencing when the product is commercially released, on a straight-line basis over two years. The recoverability of any unamortized deferred development costs is reviewed on an ongoing basis.

(i) Foreign currency translation:

The Company uses the U.S. dollar as its measurement and reporting currency in the preparation of its consolidated financial statements.

Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the exchange rates prevailing at the consolidated balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Transactions in foreign currencies are translated into United States dollars at the approximate rates prevailing at the dates of the transactions. Foreign exchange gains and losses are included in the loss for the period.

(j) Capital assets:

Capital assets are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is provided over the estimated useful lives of the assets at the following annual rates and bases:

Asset	Basis	Rate
Computer hardware	Declining balance	30%
Computer software	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Leasehold improvements	Straight-line	Over term of lease

(k) Income taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recognized at the enacted or substantively enacted tax rate expected to be applicable at the date of reversal for all significant temporary differences between the tax and accounting bases of assets and liabilities and for certain tax carry forward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the substantive enactment of the change.

(l) Earnings per share:

Basic earnings per share is computed using the weighted average number of common shares that are outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental number of common shares issuable upon the exercise of stock options and warrants and are calculated using the treasury stock method.

(m) Stock-based compensation:

The Company estimates the fair value of stock-based compensation granted to employees and nonemployees since November 1, 2002 and expenses the fair value on a straight line basis over the vesting period of the stock options.

(n) Measurement uncertainty:

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the year. Significant estimates are used in determining, but not limited to, the allowance for doubtful accounts income tax valuation allowance, stock based compensation, the useful lives of depreciable assets and the recoverability of fixed assets. Actual results could differ from those estimates.

2. Financial instruments:

a) Classification of financial instruments:

	2008	2007
Financial assets:		
Held for trading, measured at fair value:		
Cash and cash equivalents	\$ 12,075,422	\$ 8,394,286
Loans and receivables measured at amortization cost:		
Accounts receivables	-	\$122,687
Financial liabilities, measured at amortized cost:		
Accounts payable	168,078	249,502
Accrued liabilities	511,961	731,461
	\$ 680,039	\$ 980,963

The Company had neither available for sale, nor held to maturity financial instruments during the period ended December 31, 2008 and 2007.

b) Investment income: The Company has recorded investment income in relation to the following financial instruments:

	2008	2007
Financial assets held for trading:		
Interest income earned on cash and cash equivalents	\$220,308	\$245,968
	\$220,308	\$245,968

(c) Accounts receivable: The Company's accounts receivable is comprised of the following:

	2008	2007
Trade receivables	-	\$108,004
Allowance for doubtful accounts	-	-
Other	-	14,683
	\$-	\$122,687

3. Property and equipment:

December 31, 2008	Cost	Accumulated depreciation and amortization	Net book value
Computer hardware	\$ 1,128,638	\$ 1,002,911	\$ 125,727
Computer software	511,618	468,018	43,600
Furniture and fixtures	232,036	168,035	64,001
Leasehold improvements	36,060	14,124	21,936
	\$ 1,908,352	\$ 1,653,088	\$ 255,264
December 31, 2007	Cost	Accumulated depreciation and amortization	Net book value
Computer hardware	\$ 1,276,022	\$ 1,089,351	\$ 186,671
Computer software	535,107	470,611	64,496
Furniture and fixtures	321,301	220,992	100,309
Leasehold improvements	36,060	7,543	28,517
	\$ 2,168,490	\$ 1,788,497	\$ 379,993

Depreciation expense for the year ended December 31, 2008 amounted to \$154,881 (2007 - \$119,647).

4. Accrued liabilities:

	2008	2007
Compensation	\$ 350,882	\$ 522,029
Professional fees	103,528	131,658
Miscellaneous	57,551	77,774
	\$ 511,961	\$ 731,461

5. Share capital, warrants and common share purchase options:

There are an unlimited number of authorized common shares with no par value.

The following details the changes in issued and outstanding shares, compensation options and warrants:

	Compensation options and warrants (1)		Common shares	
	Number	Amount	Number	Amount
Balance December 31, 2005	2,213,250	\$ 2,500,977	24,316,691	\$ 54,347,652
Private Placement (a)	6,680,001	1,139,741	6,680,001	2,848,259
Private Placement (b)	1,634,617	266,616	1,634,617	722,670
Professional services (c)	113,179	25,254	95,179	61,457
Board compensation (d)	–	–	300,000	186,000
Warrants cancelled and expired (e)	(597,000)	(640,756)	–	–
Employee bonus (f)	–	–	159,642	84,543
Stock options and warrants exercised (g)	–	–	226,875	163,455
Balance December 31, 2006	10,044,047	\$ 3,291,832	33,413,005	\$ 58,414,036
Private Placement (i)	–	–	6,756,757	4,965,253
Professional services (c)	80,000	16,432	511,250	368,358
Board compensation (d)	–	–	375,000	280,750
Warrants cancelled and expired (e)	(888,179)	(1,455,207)	–	–
Employee bonus (f)	–	–	846,708	516,409
Stock options and warrants exercised (a)	(650,000)	(307,140)	1,265,063	825,901
Balance December 31, 2007	8,585,868	\$ 1,555,453	43,167,783	\$ 65,370,707
Professional services (c)	–	–	75,000	29,499
Board compensation (d)	–	–	322,580	154,516
Warrants cancelled and expired (e)	(6,149,618)	(1,203,968)	–	–
Employee bonus (f)	–	–	780,000	296,400
Stock options, warrants exercised (g)	(2,421,250)	(337,798)	2,421,250	2,111,298
Shares issued (h)	–	–	265,322	137,573
Balance December 31, 2008	15,000	\$13,687	47,031,935	\$68,099,993

(1) These compensation options and warrants exclude the options issued under our share option plan (note 10).

Shares issued for other than cash consideration are valued at their market price at the date of agreement for issuance.

- (a) On June 30, 2006, the Company completed a private placement of 6,680,001 units, at \$0.60 per unit, for gross proceeds of \$4,008,000. Each unit is comprised of one common share, one-half common share purchase warrant at \$0.75 and one-half common share purchase warrant at \$0.90. Each whole warrant will be exercisable to purchase one common share and will expire on June 30, 2008. The Company allocated \$1,139,741 of the net proceeds to the warrants and \$2,868,000 less costs of \$19,741 to share capital based on their estimated relative fair value..
- (b) On July 26, 2006, the Company completed a private placement of 1,538,463 units, at \$0.65 per unit, for gross proceeds of \$1,000,000 and issued 96,154 units for consulting services related to the private placement. Each unit is comprised of one common share and one common share purchase warrant. The warrant will be exercisable to purchase one common share for each whole warrant at a price of \$1.00 and will expire on July 26, 2008. The Company allocated \$266,616 of the net proceeds to the warrants and \$754,000, less costs of \$31,330, to share capital based on their estimated relative fair value.
- (c) Professional services:

The following chart summarizes the activity during the year ended December 31, 2006:

	Compensation options and warrants		Common shares	
	Number	Amount	Number	Amount
Consulting services (i)	95,179	\$ 20,873	95,179	\$ 61,457
Consulting services (ii)	18,000	4,381	–	–
	113,179	\$ 25,254	95,179	\$ 61,457

- (i) On January 1, 2006, the Company entered into an agreement for public relations services. In consideration for the services to be rendered in accordance with the agreement, a combination of common shares and common share purchase warrants were issued each quarter. Of the common share purchase warrants issued, 30,000 are exercisable at \$1.00 and vested on March 30, 2006, 25,000 are exercisable at \$1.20 and vested on June 30, 2006, 21,429 are exercisable at \$1.40 and vested on September 30, 2006 and the remaining 18,750 are exercisable at \$1.60 and vested on December 31, 2006. These common share purchase warrants expired on December 31, 2007.

- (ii) On September 6, 2006, the Company entered into an agreement for marketing consulting services. In consideration for the services to be rendered in accordance with the agreement, a warrant to purchase 25,000 common shares at \$0.56 was issued with equal vesting on each of October 6, November 6 and December 6, 2006. During 2006, 7,000 warrants were exercised. These warrants expired on September 6, 2007.

The following chart summarizes the activity during the year ended December 31, 2007:

	Compensation options and warrants		Common shares	
	Number	Amount	Number	Amount
Consulting services (i)	80,000	\$ 16,432	80,000	\$ 61,545
Consulting services (ii)	–	–	375,000	265,750
Consulting services (iii)	–	–	56,250	41,063
	80,000	\$ 16,432	511,250	\$ 368,358

- (i) On January 1, 2007, the Company entered into an agreement for public relations services. In consideration for the services to be rendered in accordance with the agreement, a combination of common shares and common share purchase warrants were issued each quarter. Of the common share purchase warrants issued, 15,000 are exercisable at \$1.50 and vested on March 30, 2007, 18,000 are exercisable at \$1.65 and vested on June 30, 2007, 22,000 are exercisable at \$1.80 and vested on September 30, 2007 and the remaining 25,000 are exercisable at \$2.00 and vested on December 31, 2007. These common share purchase warrants expired unexercised on December 31, 2008.
- (ii) On April 2, 2007, Albert Wahbe entered into a consulting agreement to serve as Chief Executive Officer until at least June 30, 2008. Compensation under this agreement includes 25,000 common shares per month. Share compensation for 2007 was \$168,250 representing the issuance of 225,000 common shares. Under the same agreement, Mr. Wahbe is entitled a bonus of up to an additional 200,000 common shares of the Company annually, based on meeting targets established by the Board of Directors. In December 2007 Mr. Wahbe received a bonus of 150,000 common shares valued at \$97,500.
- (iii) On April 15, 2007, James Wigdale entered into a consulting agreement to provide services in a sales capacity. Compensation under this agreement is \$15,000 per month as well as participating in sales commissions based on revenues. In the first three months of his consulting agreement, in lieu of cash, Mr. Wigdale accepted 56,250 common shares.

Under the April 2, 2007 agreement, Albert Wahbe received 75,000 shares valued at \$29,499 on the Company's common share price on the date of issuance. This agreement was replaced by the employment agreement dated April 2, 2008.

- (d) On July 31, 2006, August 2, 2007, October 3, 2007 and November 4, 2008 the Company issued common shares to each non-management board member in lieu of cash compensation.
- (e) Amount related to warrants expiring during the period unexercised. The value of warrants that have vested prior to the cancellation or expiration date has been reclassified to contributed surplus.
- (f) During 2006, 2007 and 2008 common shares were issued to employees in lieu of cash bonuses.
- (g) During 2006, 2007, and 2008 the Company granted options to certain employees, officers and directors under a share option plan (note 10), enabling them to purchase common shares of the Company. During 2008, Mr. Wahbe exercised 2,300,000 warrants having fair value of \$291,041 into common shares for gross proceeds of \$1,725,000. One employee and two consultants exercised 121,250 warrants having a fair value of \$46,757 into common shares for gross proceeds of \$48,500.
- (h) On April 2, 2008, Mr. Wahbe entered into a three year employment agreement to continue to serve as Chief Executive Officer. The Company has the option of paying Mr. Wahbe through the issuance of common shares to a maximum of 300,000 annually. Share compensation during 2008 under this agreement was \$122,250 representing the issuance of 225,000 shares. The share compensation is based on the Company's common share price on or about the last day of the quarter.
- (i) On August 31, 2007, the Company completed a private placement with Hospital Service Association of Northeastern Pennsylvania ("HSA") of 6,756,757 common shares at \$0.74 per common share, for gross proceeds of \$5,000,000. Cost of the transaction totalled approximately \$35,000 and was netted against share capital as they were direct and incremental to the share offering. The related share agreement provides HSA with a number of put rights that would require the Company to repurchase all or a portion of its shares. These rights include (i) change of control put right whereby HSA has the right, at its option, to require the Company to repurchase the shares at a price of \$0.74 per share, if upon a change of control event, the consideration offered is less than \$0.74 per share; (ii) termination by the Company of the License and Revenue Share Agreement; (iii) issuance of any class of shares of the Company with rights or preferences superior to the common shares issued to the purchaser; and (iv) breach by the Company of any material covenants contained in the share purchase agreement. The common share subject to the put right have been classified as an equity award as the put rights do not give rise to a contractual obligation to deliver cash under conditions that are potentially unfavourable to the Company.

6. Basic and diluted loss per share:

Common shares issuable upon the exercise of options and warrants that could dilute basic loss per share in the future were not included in the computation of diluted loss per share because to do so would have been anti-dilutive for all periods presented. Anti-dilutive options amounted to 6,483,850 at December 31, 2008, 3,352,850 at December 31, 2007 and 2,174,349 at December 31, 2006. Anti-dilutive warrants amounted to 15,000 at December 31, 2008, 8,585,868 at December 31, 2007, and 10,044,047 at December 31, 2006 respectively.

7. Income taxes:

Total income tax expense varies from the amounts that would be computed by applying the statutory rate to income before taxes for the following reasons:

	2008	2007
Statutory income tax rate	33.5%	36.12%
Income tax expense (recovery) on income (loss) before income taxes	\$ (653,027)	\$ (1,239,989)
Increase (decrease) in income taxes) resulting from:		
Taxable capital gain on expiry of warrants	171,974	211,005
Capital loss carryforwards previously not recognized	(171,974)	(211,005)
Change in tax rate, foreign exchange rate	-	(478,118)
Permanent differences	472,430	564,239
	(180,597)	(1,153,868)
Change in valuation allowance	180,597	1,153,868
	\$ -	\$ -

The tax effects of significant temporary differences representing future tax assets are as follows:

Future tax assets:	2008	2007
Operating loss carryforwards	\$8,582,477	\$9,675,222
Capital loss carryforwards	260,978	432,952
Share issue costs	27,605	120,446
Research and development costs	3,616,951	3,616,951
Deferred revenue	749,167	-
Capital assets, accounting basis less than tax basis	3,425,273	3,244,304
	16,662,451	17,089,875
Valuation allowance	(16,662,451)	(17,089,875)
Net future tax assets	\$ -	\$ -

The net valuation allowance decrease of \$427,424 (2007 - \$3,474,643) is comprised of an increase of \$180,597 (2007 - \$1,153,868) in the current year statutory rate reconciliation offset by a decrease related to the expiry of operating loss carryforwards in the amount of \$608,021 (2007 - \$4,628,511). Certain attributes of 2007 tax assets have been reclassified to conform to current year presentation.

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment.

At December 31, 2008, the Company has non-capital losses available for carryforward for Canadian income tax purposes amounting to \$15,893,000. These losses expire in the following fiscal years:

2009	475,000
2010	5,084,000
2014	3,128,000
2015	3,997,000
2026	1,949,000
2027	1,260,000
	<u>\$ 15,893,000</u>

The Company also has non-capital losses available for carryforward for United States income tax purposes amounting to \$3,418,000, expiring between 2018 and 2028.

8. Segmented information:

The Company operates in a single reportable operating segment. This segment derives its revenue from the sale of secured wireless and identity management solutions and related products and services. As at December 31, 2008, 100% (2007 - 100%, 2006 - 100%) of the property and equipment were located in Canada.

A summary of sales to major customers that exceeded 10% of total sales and the approximate amount due from these customers during each of the years in the three-year period ended December 31, 2008 are as follows:

	Sales			Accounts Receivable	
	2008	2007	2006	2008	2007
Customer 1	47%	22%	0%	—	—
Customer 2	30%	19%	11%	—	108,000
Customer 3	18%	46%	0%	—	—
Customer 4	0%	0%	56%	—	—
Customer 5	0%	0%	11%	—	—

Revenue is attributable to geographic location based on the location of the customer during each of the years in the three-year period ended December 31, 2008 are as follows:

Sales:	2008	2007	2006
United States	\$ 4,438,736	\$ 4,157,869	\$ 1,396,543
Canada	40,204	65,412	33,872
Asia	135,500	129,702	203,550
Other	350	184,000	33,000
	\$ 4,614,790	\$ 4,536,983	\$ 1,666,965

During each of the years in the three-year period ended December 31, 2008 revenue is attributable as follows:

Sales:	2008	2007	2006
Consulting services	\$ 1,307,773	\$ 1,579,248	\$ 1,576,965
Licensing	3,307,017	2,957,735	90,000
	\$ 4,614,790	\$ 4,536,983	\$ 1,666,965

9. Commitments and contingencies:

(a) Litigation: During fiscal 2000, the Company and its wholly owned Barbados subsidiary, The Instant Publisher Ltd., were sued by a company that alleged that the Company breached a dealer agreement entered into in 1995 by the Company's former printing business. During 2007, the parties entered into a settlement and release whereby the Company agreed to pay the plaintiff \$625,000 as full and complete settlement in the matter, including a court order dismissing the case.

(b) Lease commitments:

Total future minimum lease payments including operating costs are as follows:

2009	195,304
2010	195,304
2011	194,906
2012	64,573
2013	—
	\$ 650,087

Rental expense was \$223,932 for the year ended December 31, 2008 (2007 - \$209,569, 2006 - \$155,000).

10. Share option plan:

The Company grants options to certain employees, officers, directors and consultants under a share option plan (the "Plan"), enabling them to purchase common shares of the Company. The exercise price of an option under the Plan may not be less than the current market price of common shares on the day immediately preceding the day the share option was granted. The Plan provides that the number of common shares reserved for issuance under the Plan shall not exceed 8,500,000 common shares (being 9,558,476 options reserved for issuance less 1,058,476 exercised to date). As at December 31, 2008, the number of common shares reserved for future issues of stock options amounts to 2,016,152.

Assumptions used when valuing the options and warrants at their date of grant using the Black-Scholes option pricing model include: risk-free interest rate of 3.85% (2007 - 4%, 2006 - 4%), weighted average expected life of five years, expected dividend yield of 0% and average volatility of 89% (2007 - 117%, 2006 - 150%).

The following table summarizes information about stock options outstanding at December 31, 2008:

Options outstanding	Options vested
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Range of exercise price	Number outstanding	Weighted average remaining contractual life – years	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.36 – \$0.49	1,984,673	2.71	\$ 0.44	1,330,298	\$ 0.42
\$0.50 – \$0.60	2,883,928	4.25	0.57	777,053	0.57
\$0.85 – \$1.90	1,615,249	3.31	0.88	874,530	0.90
	6,483,850	3.55	\$ 0.61	2,981,881	\$ 0.60

Changes for the employee stock option plan during the years ended December 31 are as follows:

	Year ended 2008		Year ended 2007	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Options outstanding, beginning of year	3,352,850	\$ 0.83	2,174,349	\$ 0.83
Options granted	4,770,000	0.56	2,001,952	0.84
Options exercised	–	–	(615,063)	0.43
Options forfeited	(1,639,000)	0.85	(208,388)	2.60
Options outstanding, end of year	6,483,850	0.61	3,352,850	0.83
Options exercisable, end of year	2,981,881	0.60	1,723,835	0.78
Weighted average fair value of options granted during the year		\$ 0.45		\$ 0.69

The following table summarizes information about warrants outstanding at December 31, 2008:

Warrants outstanding		
Range of exercise price	Number outstanding	Weighted average remaining contractual life – years
\$1.90	15,000	0.53
	15,000	0.53

During the year ended December 31, 2008, the Company recorded stock-based compensation expense of \$1,389,000 (2007 - \$1,543,000; 2006 - \$906,000) related to common shares, stock options and warrants granted to employees, officers, directors and consultants.

11. Related party transactions:

During the second quarter of 2007 Albert Wahbe was appointed Chief Executive Officer. In April 2008, Mr. Wahbe entered into a three year employment agreement, renewable for a further one year period at the discretion of the Board of Directors. Mr. Wahbe's compensation consists of salary of up to Cdn\$300,000 in the first year and up to Cdn\$450,000 in subsequent years and is payable through the issuance of up to 300,000 Diversinet common shares annually and bonus of up to up to Cdn\$200,000 in the first year and up to Cdn\$300,000 in subsequent years and is payable through the issuance of up to 200,000 Diversinet common shares annually as determined by Diversinet's Board of Directors. Mr. Wahbe is also entitled to reimbursement of up to Cdn\$6,000 per month in expenses. Furthermore in April 2008, Mr. Wahbe received options to purchase 1,500,000 common shares at \$0.55 per share, vesting annually in arrears over a four year period. During the first quarter of 2008 Mr. Wahbe received 50,000 options. During 2008 Mr. Wahbe received 500,000 common shares and Cdn\$72,000 in compensation as CEO. On June 30, 2008 Mr. Wahbe exercised 2,300,000 share purchase warrants at \$0.75 per share for gross proceeds of \$1,725,000. A further 2,300,000 share purchase warrants at \$0.90 expired unexercised. As of December 31, 2008, Albert Wahbe owns 7,875,000 common shares and 1,600,000 options, representing approximately 19% of the issued and outstanding common shares of the Company, assuming the exercise of such options.

During 2008 BCNEPA received 50,000 options and 80,645 Diversinet common shares in regards to compensation for William Reed's participation on the Diversinet Board of Directors. As part of the August 2007 private placement, BCNEPA acquired 6,756,757 common shares. As at December 31, 2008, BCNEPA owns 6,937,402 common shares and 50,000 options representing approximately 15% of the issued and outstanding common shares of the Company, assuming the exercise of such options.

During the second quarter of 2007, Mr. Wigdale began performing services for the Company in a sales capacity for a period of one year to March 31, 2008. From April to October 2008, Mr. Wigdale has provided services on a monthly retainer basis. During October 2008 Mr. Wigdale completed his services to Diversinet and the parties entered into a Termination and Release Agreement. During 2008, the Company paid Mr. Wigdale \$370,000 in salary, commissions and severance. During the first quarter of 2008 Mr. Wigdale received 50,000 options. During the second quarter of 2008 Mr. Wigdale was allocated options to purchase 600,000 common shares at \$0.60 per share, vesting annually in arrears over a four year period. These options were

cancelled in October 2008 upon the completion of Mr. Wigdale's services to the Company. On June 30, 2008 666,667 share purchase warrants at \$0.75 and \$0.90 expired unexercised. As at December 31, 2008, a company controlled by Mr. Wigdale owns 3,909,462 common shares, and Mr. Wigdale owns 1,151,872 common shares and 100,000 options, together representing approximately 11% of the issued and outstanding common shares of the Company, assuming the exercise of such options.

12. Capital risk management:

The Company manages its capital to maintain its ability to continue as a going concern. The capital structure of the Company consists of cash and cash equivalents and equity comprising of issued capital, contributed surplus, share purchase warrants and deficit. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company's primary objective with respect to its capital management is to ensure it has sufficient cash resources to pursue its commercialization efforts and maintain its ongoing operations. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2008.

13. Financial risk management:

a) Overview: The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee reviews the Company's risk management policies on an annual basis. The finance department identifies and evaluates financial risks and is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

b) Credit risk: Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from the Company's accounts receivables and cash and cash equivalents. The carrying amount of financial assets represents the maximum credit exposure. Our customer base is limited to a few large financial institutions, health service enterprises and security providers. As a result, we often maintain individually significant receivable balances due from them. The majority of the Company's customers are located in the United States with the remaining located in Canada and Asia. At December 31, 2008 the accounts receivable balance was nil. At December 31, 2007, one customer represented 89% of the accounts receivable balance.

The Company invests its excess cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations and future planned capital expenditures and with the secondary objective of maximizing the overall yield of the portfolio. The Company's cash is not subject to any external restrictions. Investments must be rated at least investment grade by recognized rating agencies. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations.

c) Liquidity risk: Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risk by continuously monitoring forecast and actual revenues and expenditures and cash flows from operations. Senior management is also actively involved in the review and approval of planned expenditures. All of the Company's financial liabilities have contracted maturities of less than one year.

d) Market risk: Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its financial instruments.

(i) Interest rate risk: Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk. Interest rate risk is remote as interest rates on the Company's cash equivalents are fixed with maturity dates of less than 90 days. A change of 1% in interest rates at December 31, 2008 would not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

(ii) Currency risk: The Company operates internationally with the U.S. dollar as its functional currency and therefore is exposed to foreign exchange risk from various currencies, primarily Canadian dollars. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies. The Company's main objective in managing its foreign exchange risk is to maintain Canadian cash on hand to support Canadian forecasted obligations and cash flows. To achieve this objective the Company monitors forecasted cash flows in foreign currencies and attempts to mitigate the risk by modifying the nature of cash and cash equivalents held. During the fiscal 2008 and 2007 the Company maintained a portion of its cash resources in both U.S. and Canadian dollar cash and cash equivalents. The Company does not have any foreign currency derivative instruments outstanding at December 31, 2008.

Balances in foreign currencies at December 31, 2008 are as follows:	Canadian Dollars
Cash and cash equivalents	\$10,063,316
Accounts payable and accrued liabilities	\$656,034

Fluctuations in the Canadian dollar exchange rate could have a potentially significant impact on the Company's results from operations. However, they would not impair or enhance the ability of the Company to pay its foreign currency-denominated expenses as such items would be similarly affected.

e) Fair value of financial instruments: For cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities carrying amounts approximate fair value due to the relatively short periods to maturity of these financial instruments.

14. Reconciliation of Canadian and United States generally accepted accounting principles ("GAAP"):

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. Material differences between Canadian and United States generally accepted accounting principles are described below.

	2008	2007	2006
Share capital:			
Canadian GAAP	\$67,965,060	\$65,370,707	\$58,414,036
Elimination of reduction of share capital (a)	30,089,054	30,089,054	30,089,054
Reclassification of shares as redeemable preferred stock (b)	(4,965,253)	(4,965,253)	–
U.S. GAAP	\$93,088,861	\$90,494,508	\$88,503,090
Deficit:			
Canadian GAAP	\$(65,128,008)	\$(63,178,675)	\$(59,745,704)
Elimination of reduction of share capital (a)	(30,089,054)	(30,089,054)	(30,089,054)
Compensation expense (c)	(991,696)	(991,696)	(991,696)
Compensation expense (c)	1,016,799	1,016,799	1,016,799
U.S. GAAP	\$(95,191,959)	\$(93,242,626)	\$(89,809,655)
Consolidated statements of loss:			
Loss under Canadian GAAP	\$(1,949,333)	\$(3,432,971)	\$(3,450,717)
Loss under U.S. GAAP	\$(1,949,333)	\$(3,432,971)	\$(3,450,717)
Basic and diluted loss per share under U.S. GAAP	\$(0.04)	\$(0.09)	\$(0.12)
Comprehensive loss under U.S. GAAP	\$(1,949,333)	\$(3,432,971)	\$(3,450,717)

(a) Share capital and deficit:

On March 1, 1999, the shareholders approved a resolution to reduce the stated capital of the Company by \$30,089,054 to eliminate the deficit as at October 31, 1999. Under Canadian GAAP, a reduction of the carrying amount of share capital of outstanding common shares is allowed with a corresponding offset to deficit. This reclassification, which the Company made in 2000 to eliminate the deficit that existed at October 31, 1999, did not meet the criteria specified by U.S. GAAP and results in an increase to share capital with a corresponding increase in deficit of \$30,089,054.

(b) Reclassification of shares:

The August 31, 2007 private placement of 6,756,757 common shares at \$0.74 per common share for gross proceeds of \$5,000,000 included a change of control put right whereby the holder has the right, at its option to require the Company to repurchase the shares at a price of \$0.74 per share, if upon a change of control event, the consideration offered is less than \$0.74 per share. SEC Regulation 210.5-02 requires the Company to classify the shares as redeemable preferred stock (or temporary equity) as the shares are redeemable at the option of the holder and the conditions for redemption are not solely within the control of the Company. As at December 31, 2008 the redemption value of the shares is equal to the value the Company would have to pay to the holder to redeem the shares is \$0.74 per share.

(c) Compensation expense:

Effective January 1, 2006, the Company is required to apply the provisions of FASB Statement No. 123R ("SFAS 123R"), which requires all share based payments to be recognized in the financial statements based on their fair values using either a modified – prospective or modified – retrospective transition method. The Company has adopted this standard using the modified - prospective method and, therefore recognizes share-based compensation for any new share-based awards and awards modified, repurchased or cancelled after the required effective date, January 1, 2006. Under SFAS 123R, the company is required to determine the grant date fair value of the stock-based awards granted to employees. The company is continuing to use the Black-Scholes option pricing model to value these options. The related grant date fair value is subsequently recognized as stock-based compensation expense over the requisite service period. As a result, stock-based compensation expense recognized under U.S. GAAP after December 31, 2005 equals the amount recognized under Canadian GAAP when the fair value method has been applied since 2003. Previously, the Company adjusted compensation cost for actual forfeitures at the time forfeitures occurred. SFAS 123R requires the Company to estimate forfeitures as part of the initial measure of the grant date fair value of the award. The cumulative effect of the change in accounting policy for the adjustment related to the forfeitures for the prior periods is not material at January 1, 2006.

(d) Recent US accounting pronouncements:

In June 2008, the FASB issued a proposed statement that would require companies to disclose more information about loss contingencies including a table showing the effect of recognized loss contingencies on financial statements. This proposed statement would apply to loss contingencies that are within the scope of SFAS 5 or are recognized in accordance with SFAS 141R at the acquisition date in a business combination, except for guarantees within the scope of FIN 45, loss contingencies that are asset impairments, liabilities for unpaid claim costs related to insurance or reinsurance contracts, liabilities for insurance related assessments within the scope of SOP 97-3 and liabilities for employment related costs, including pensions and other post retirement benefits.

Executive Officers

Albert Wahbe, Chairman & Chief Executive Officer has served as a Director and Chairman since July 2006 and CEO since April 2007. Mr. Wahbe was previously Executive Vice President and Group Head, Global Transaction Banking at Scotiabank, where he led the evolution of e-commerce and e-banking to provide Global Business solutions. Mr. Wahbe was also CEO of e-Scotia, where he developed Scotiabank's Internet banking, e-commerce, wireless, telephone banking and smart card technologies for consumers. Prior to Scotiabank, Mr. Wahbe held senior management positions in marketing and technology operations at I.B.M. Canada. Mr. Wahbe graduated from the Harvard University Graduate School of Business in 1998, completing the Advanced Management Program and International Senior Management Program.

David Hackett, Chief Financial Officer and Corporate Secretary

David Hackett joined Diversinet in 2002 having most recently been the Chief Financial Officer and Corporate Secretary of Aucxis Corp. Prior to that Mr. Hackett was Chief Financial Officer, Director and Corporate Secretary of EveryWare Development Inc. Mr. Hackett was instrumental in raising numerous financing rounds and acquisitions, including the eventual sale of EveryWare to Pervasive Software Inc. Mr. Hackett began his professional career at as a Chartered Accountant at Ernst & Young. He also holds a MBA from the Richard Ivey School of Business at The University of Western Ontario and a Bachelor of Arts (Honours) degree in Economics from Queen's University.

Board of Directors

Albert Wahbe has served as Diversinet's Chief Executive Officer since April 2007.

Ravi Chiruvolu has served as a director since July 2006. Mr. Chiruvolu runs Top Shelf Capital, a fund focused on increasing shareholder value for small cap public companies. Prior to this, Mr. Chiruvolu was a managing general partner of Charter Venture Capital, with \$400 million under management. He holds an MBA from Harvard Business School and a Bachelor of Science and a Master of Science in Engineering from MIT. Mr. Chiruvolu is a thought leader in the venture capital industry as well as PIPE investing, and has written numerous articles in the Venture Capital Journal and spoken at several conferences on the topics.

Gregory Milavsky has served as a Director since April 2007. Mr. Milavsky has over 20 years of corporate finance, investment banking and private equity experience in Toronto, London, New York and Tokyo. He was Associate Director of Corporate Finance with CIBC Limited, Investment Banker with James D. Wolfensohn Incorporated, Senior Vice President and Director with Rothschild Canada, Chief Executive of Rothschild Quantico Capital, Managing Director and Group Head of Scotiabank Private Equity Investments and is currently Senior Advisor of Canterbury Park Capital. He holds an MBA with distinction from the Harvard Graduate School of Business Administration and a bachelor of applied science degree in civil engineering from the University of Toronto.

William Reed has served as a Director since August 2007. Mr. Reed is executive vice president for Hospital Service Association of Northeastern Pennsylvania (HSA of NEPA) d/b/a Blue Cross of Northeastern Pennsylvania (BCNEPA), and President and Chief Executive Officer of AllOne Health Group (AHG), a wholly-owned subsidiary of HSA of NEPA. Prior to joining BCNEPA, Mr. Reed held numerous management positions in healthcare provider organizations including Gentiva Health Services, Quantum Health Resources, and Geisinger Health System. Mr. Reed received his Bachelor of Science in business administration from Drexel University and his Master of Science in computer science from Rutgers University.

Philippe Tardif has served as a Director since March 2007. Mr. Tardif is a partner at the law firm Borden Ladner Gervais LLP and specializes in securities law and capital markets transactions. He also advises on corporate governance matters and acts as advisor to special committees and boards of directors. A past member of the Securities Advisory Committee to the Ontario Securities Commission and a member of the Securities Law Subcommittee of the Ontario Bar Association, Mr. Tardif was called to the Ontario Bar in 1987.

James ('Jay') Wigdale has served as a Director since January, 2005 and a consultant from April 2007 to October 2008. Mr. Wigdale founded Lakefront Partners, LLC, a money-management firm, in 1998 and is the firm's Chief Investment Officer. Prior to founding Lakefront, he was senior VP of Institutional Sales and Regional Manager for Robert W. Baird & Co. Mr. Wigdale was also the VP of Corporate Banking from 1984 to 1990 at Barnett Bank, Inc. (now Bank of America). He holds a Bachelor of Science (Marketing) degree from Miami University of Ohio.

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Traded on:

TSX Venture
Exchange
OTC Bulletin Board

Symbols:

DIV (TSXV)
DVNTF (OTC BB)