

**OPERATING UPDATE – DECEMBER 2008 QUARTER**

Despite the continuing difficult trading environment, WebSpy maintained a sound cash and working capital position at 31 December 2008 of \$1.5m. The Company is critically managing its operational cashflows while at the same time assessing new project opportunities.

The December Quarter was far more challenging than originally anticipated with our Seattle office experiencing a considerable drop (50%) in sales compared to the corresponding period in the previous year. This has been largely due to funds for software acquisitions being put on hold both in government and private enterprise. Performance from the London and Perth offices was up on the previous year's corresponding period so the overall drop in net sales for the quarter was contained to just 12%.

The new Vantage Ultimate product released in November 2008 enables clients to distribute analysis and reporting capability to the wider organization in a controlled and secure manner through a web interface. The subscription based Vantage Ultimate product has been well received by the market with over 12 clients purchasing since its release. The release of the new product coincided with the release of our new website which has been completely refreshed to leverage expansion of our channel program and online purchase facilities planned for release in the next quarter.

About WebSpy Ltd

WebSpy is a global vendor of software solutions that transform the raw data in log files into manageable information, providing a transparent view over organizations' Internet, email and network usage. WebSpy enables organizations to protect and maximize their Internet investment, reducing costs related to unproductive behavior, bandwidth usage and legal liability, whilst still allowing enjoyment of the benefits of a web-enabled environment.

For more information visit: <http://www.webspy.com>

Jack Andrys
Chief Executive Officer
WebSpy Ltd

Telephone: 08 9321 3322
Facsimile: 08 9321 3377

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Appendix 4C Rule 4.7B

Quarterly report
for entities admitted
on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

WEBSPY LTD

ABN

60 066 153 982

Quarter ended ("current quarter")

31 December 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 Months) \$A'000
1.1 Receipts from customers	517	1,022
1.2 Payments for (a) staff costs	(443)	(854)
(b) advertising and marketing	(62)	(251)
(c) research and development	-	-
(d) leased assets	-	-
(e) other working capital	(264)	(314)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	71	74
1.5 Interest and other costs of finance paid	2	2
1.6 Income tax credit received (R&D tax offset)	-	-
1.7 Other	-	-
Net operating cash flows	(179)	(321)

+ See chapter 19 for defined terms.

24/10/2005

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		Current quarter \$A'000	Year to date (6 Months) \$A'000
1.8	Net operating cash flows (carried forward)	(179)	(321)
Cash flows related to investing activities			
1.9	Payment for acquisition of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	(8)	(13)
	(e) other non-current assets	-	-
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Loans repaid by other entities	-	-
1.13	Other	-	-
	Net investing cash flows	(8)	(8)
1.14	Total operating and investing cash flows	(187)	(334)
Cash flows related to financing activities			
1.15	Proceeds from issues of shares, options, etc.	-	-
1.16	Proceeds from sale of forfeited shares	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	-	-
1.19	Dividends paid	-	-
1.20	Other	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(187)	(334)
1.21	Cash at beginning of quarter/year to date	1,688	1,823
1.22	Exchange rate adjustments to item 1.21	33	45
1.23	Cash at end of quarter	1,534	1,534

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Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	(103)
1.25	Aggregate amount of loans to the parties included in item 1.11	-
1.26	Explanation necessary for an understanding of the transactions	
Directors' remuneration		- (103)

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

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Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	1,534	1,688
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,534	1,688

Acquisitions and disposals of business entities

	Acquisitions <i>(Item 1.9(a))</i>	Disposals <i>(Item 1.10(a))</i>
5.1 Name of entity	Nil	Nil
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:
 Chief Executive Officer

Date: **29 January 2009**

Print name: **Jack Andrys**

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
 2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
 3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
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