



Consolidated Financial Statements of

**DDS WIRELESS INTERNATIONAL INC.**

Years ended December 31, 2009 and 2008

## **Auditors' Report**

### **To the Shareholders of DDS Wireless International Inc.**

We have audited the consolidated balance sheet of **DDS Wireless International Inc.** as at December 31, 2009 and the consolidated statements of operations, comprehensive loss, changes in retained earnings (deficit) and accumulated other comprehensive income (loss) and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2008 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these financial statements on their report dated March 13, 2009.

*(signed) PricewaterhouseCoopers LLP*

### **Chartered Accountants**

Vancouver, British Columbia  
March 4, 2010

# DDS WIRELESS INTERNATIONAL INC.

Consolidated Balance Sheets  
As at December 31, 2009 and 2008

	2009	2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 17)	\$ 1,603,384	\$ -
Accounts receivable, net (note 4)	4,520,061	6,943,023
Contract work-in-progress (note 4)	4,066,082	3,241,843
Income taxes receivable	14,104	86,491
Inventories (note 5)	1,966,090	2,165,696
Prepaid expenses	508,993	831,404
Current portion of leases receivable (note 6)	541,044	501,484
Future income taxes (note 14)	650,000	19,253
	<b>13,869,758</b>	<b>13,789,194</b>
Plant and equipment (note 8)	2,315,939	3,938,256
Investment (note 9)	102,565	102,565
Long-term leases receivable (note 6)	1,592,701	1,926,872
Investment tax credit receivable	4,482,536	3,782,385
Future income taxes (note 14)	989,284	2,086,889
Acquired intangibles (note 10)	6,612,217	9,407,286
Goodwill (note 11)	3,333,973	3,533,201
	<b>\$ 33,298,973</b>	<b>\$ 38,566,648</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank overdraft (note 17)	\$ -	\$ 62,748
Lines of credit (note 12)	158,389	1,401,431
Acquisition purchase price payable	-	763,243
Accounts payable and accrued liabilities	4,286,339	5,093,321
Future income taxes (note 14)	478,844	695,336
Deferred revenue	3,085,547	1,883,984
Current portion of long-term debt (note 13)	199,043	313,666
	<b>8,208,162</b>	<b>10,213,729</b>
Long-term debt (note 13)	71,549	287,187
Future income taxes (note 14)	1,168,683	1,661,733
	<b>9,448,394</b>	<b>12,162,649</b>
Shareholders' equity:		
Share capital (note 16(b))	24,608,226	24,608,226
Contributed surplus (note 16(d))	1,118,410	814,459
(Accumulated deficit) retained earnings	(1,632,709)	628,936
Accumulated other comprehensive (loss) income	(243,348)	352,378
	<b>23,850,579</b>	<b>26,403,999</b>
	<b>\$ 33,298,973</b>	<b>\$ 38,566,648</b>

The accompanying notes form an integral part of these financial statements.

Approved on behalf of the Board:

Vari Ghai Director

Erik Dysthe Director

# DDS WIRELESS INTERNATIONAL INC.

Consolidated Statements of Operations  
Years ended December 31, 2009 and 2008

	2009	2008
Revenue (note 20)	\$ 35,626,545	\$ 33,500,429
Cost of sales		
Sales related expenses	18,226,287	17,129,620
Amortization of sales related assets	865,744	626,340
	<b>19,092,031</b>	17,755,960
	<b>16,534,514</b>	15,744,469
Operations expenses:		
Research and development	5,524,402	5,954,392
Sales and marketing	3,888,276	4,140,100
General and administrative	5,639,347	6,066,780
	<b>15,052,025</b>	16,161,272
Profit (Loss) before under noted	1,482,489	(416,803)
Other (income) expense:		
Amortization of plant and equipment	477,289	476,481
Amortization of acquired intangibles (note 10)	2,479,996	2,408,375
Foreign exchange loss (gain)	800,004	(1,120,966)
Stock-based compensation (note 16 (c))	303,951	154,228
Other	(18,249)	(70,843)
	<b>4,042,991</b>	1,847,275
Loss before income taxes	(2,560,502)	(2,264,078)
Income tax provision (recovery)		
Current income taxes	95,507	67,542
Future income taxes	(394,364)	(854,395)
	<b>(298,857)</b>	(786,853)
Net loss	<b>\$ (2,261,645)</b>	<b>\$ (1,477,225)</b>
Loss per common share:		
Basic and diluted	\$ (0.16)	\$ (0.11)
Weighted average number of shares outstanding	<b>13,789,746</b>	13,635,212

The accompanying notes form an integral part of these financial statements.

# DDS WIRELESS INTERNATIONAL INC.

Consolidated Statements of Comprehensive (Loss) Income  
Years ended December 31, 2009 and 2008

	2009	2008
Net loss	\$ (2,261,645)	\$ (1,477,225)
Other Comprehensive (Loss) Income and Unrealized (loss) gain on translation of self-sustaining foreign operations	(595,726)	1,219,649
<b>Comprehensive Loss</b>	<b>\$ (2,857,371)</b>	<b>\$ (257,576)</b>

Consolidated Statements of Changes in (Deficit) Retained Earnings and Accumulated Other Comprehensive (Loss) Income  
Years ended December 31, 2009 and 2008

	2009	2008
Retained Earnings (Deficit)		
Beginning of year	\$ 628,936	\$ 2,106,161
Net loss	(2,261,645)	(1,477,225)
	<u>(1,632,709)</u>	<u>628,936</u>
Accumulated Other Comprehensive Income (Loss) on translation of Self-sustaining Foreign Operations		
Beginning of year	352,378	(867,271)
Net unrealized (loss) gain on translation of self-sustaining foreign operations	(595,726)	1,219,649
	<u>(243,348)</u>	<u>352,378</u>
<b>Total (deficit) retained earnings and accumulated other comprehensive (loss) income</b>	<b>\$ (1,876,057)</b>	<b>\$ 981,314</b>

The accompanying notes form an integral part of these financial statements.

# DDS WIRELESS INTERNATIONAL INC.

Consolidated Statements of Cash Flows  
Years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net loss	\$ (2,261,645)	\$ (1,477,225)
Items not involving cash:		
Amortization of plant and equipment	1,547,669	1,102,821
Amortization of acquired intangibles	2,479,996	2,408,375
Future income tax (recovery)	(394,364)	(854,395)
Unrealized foreign exchange loss	481,581	156,649
Investment tax credits included in research and development expense (note 2(l))	(700,151)	(772,499)
Loss (amortization of gain) on disposition of assets	115,360	(143,308)
Gain on repayment of acquisition purchase price payable	(81,864)	-
Stock-based compensation	303,951	154,228
	<b>1,490,533</b>	<b>574,646</b>
Change in non-cash operating working capital (note 17)	<b>2,426,659</b>	<b>1,641,215</b>
	<b>3,917,192</b>	<b>2,215,861</b>
Investing:		
Purchase of plant and equipment	(676,379)	(2,285,037)
Investment	-	(25,275)
Acquisition purchase price payable	(588,000)	(1,304,439)
	<b>(1,264,379)</b>	<b>(3,614,751)</b>
Financing:		
Repayments of long-term debt	(277,490)	(175,611)
Repayment of lease receivables	637,897	347,735
Repayments of line of credit and bank overdraft	(1,305,790)	208,225
	<b>(945,383)</b>	<b>380,349</b>
Effect of foreign currency exchange rates on cash and cash equivalents	(104,046)	(56,662)
Increase (decrease) in cash and cash equivalents	<b>1,603,384</b>	<b>(1,075,203)</b>
Cash and cash equivalents, beginning of year	-	1,075,203
Cash and cash equivalents, end of year	<b>\$ 1,603,384</b>	<b>\$ -</b>

Supplementary cash flow information (note 17)

The accompanying notes form an integral part of these financial statements.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 1. Nature of operations:

DDS Wireless International Inc. (the "Company") operates in the wireless mobile data industry and is engaged in the design, development and deployment of turnkey solutions including application software, mobile devices, infrastructure products, project implementation services and maintenance. The Company is incorporated under the laws of the Province of British Columbia and is listed on the Toronto Stock Exchange under the symbol DD.

The Company changed its name to DDS Wireless International Inc. from Digital Dispatch Systems Inc. on March 4, 2008.

## 2. Significant accounting policies:

### (a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The main subsidiaries include Digital Dispatch Systems Limited Partnership, DW Digital Wireless Limited Partnership and DDS eFleet Services Limited Partnership in Canada; StrataGen Systems Inc. and Digital Dispatch Ltd. in the United States; Digital Dispatch International Ltd. in the United Kingdom; MobiSoft Oy in Finland and Digital Dispatch Scandinavia AB in Sweden. The Company has a 100% ownership interest in all subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

### (b) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to the determination of percentage of completion and estimated project costs for contract revenue recognition; the recoverability or valuation of accounts receivable; provision for obsolete inventory; goodwill and acquired intangible asset recoverability; the recoverability of future income tax assets; the determination of warranty accruals and other liabilities; and the disclosures of contingent liabilities at the date of the financial statements. Actual results may ultimately differ from those estimates.

### (c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with maturities at the date of purchase of three months or less. As at December 31, 2009 and 2008, the Company had no investments in interest bearing securities with original terms to maturity of greater than three months.

### (d) Inventories:

Inventories consist of electronic components and finished goods and are valued at the lower of cost and estimated net realizable value. The cost of finished goods includes the cost of materials, direct labour, and an appropriate allocation of overhead costs such as amortization. Occasionally, the Company will accept trade-ins of previously sold goods, in part, for the purchase of new goods. The trade-ins are valued at fair value, allowing for an appropriate margin upon resale.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

### (e) Plant and equipment:

Plant and equipment are recorded at costs less accumulated amortization. Amortization is provided over the estimated useful lives of the assets at the following rates:

Asset	Rate
Furniture, equipment and moulds	5 years
Computer equipment and software	3 years
Leasehold improvements	Over the terms of the lease

The Company assesses the carrying value of long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the total value of the estimated future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss equal to the difference between the asset carrying amount and its fair value is recognized in the period in which the impairment determination is made.

### (f) Goodwill:

Goodwill represents the excess of the purchase price of an acquired enterprise over the fair values assigned to the assets acquired and liabilities assumed in a business combination. Goodwill is not amortized and is subject to an impairment test at the reporting unit level at least annually or more frequently if events or circumstances suggest that there may be an impairment. If the carrying amount exceeds the fair value of the goodwill, an impairment loss is recognized equal to that excess through the statements of operations.

### (g) Intangible assets:

Intangible assets acquired in a business combination that meet the specified criteria for recognition, apart from goodwill, are initially recognized and measured at fair value. Intangible assets with finite useful lives, including acquired software and customer relationships, are amortized on a straight-line basis over their estimated useful lives of three years. The amortization methods and estimated useful lives of intangible assets are reviewed annually. The Company assesses the carrying value of long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable from future undiscounted cash flows. If the carrying amount exceeds the fair value of the intangible asset, an impairment loss is recognized equal to that excess through the statements of operations.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

### (h) Reporting currency and translation of foreign currencies:

The Company uses the Canadian dollar as its reporting currency since a significant proportion of the Company's revenues and expenses are recorded in Canadian dollars.

Revenue and expense transactions that are denominated in foreign currencies and entered into directly by the Company are translated into Canadian dollars at the exchange rates prevailing at the time of the transactions. Amounts receivable and payable in foreign currencies are stated in Canadian dollars at the rates of exchange prevailing at the balance sheets dates, and the resulting foreign exchange gains and losses are recognized in net loss for the period.

The Company translates the assets and liabilities of self-sustaining foreign operations to Canadian dollars at the rate of exchange prevailing at the balance sheets dates and revenues and expenses of those operations are translated using the average rates of exchange during the year. Gains and losses resulting from these translation adjustments for self-sustaining foreign operations are recorded in accumulated other comprehensive (loss) income, a component of shareholders' equity, until there is a realized reduction in the net investment in the foreign operation.

The accounts of integrated subsidiaries (those that are considered financially or operationally dependent on the Company) are translated into Canadian dollars using the temporal method. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in net loss for the period.

MobiSoft Oy and Digital Dispatch Ltd. are considered self-sustaining subsidiaries and are translated to Canadian dollars using period end rates of exchange for assets and liabilities, and average rates for the period for revenues and expenses. Gains or losses resulting from these translation adjustments are included in accumulated other comprehensive (loss) income.

### (i) Revenue recognition:

The Company's revenues come from these primary sources:

- Contracts for complete wireless dispatch, routing and scheduling, and fleet management systems
- Provision of application software provider ("ASP") services for mobile fleet management solutions
- Sales of mobile fleet management software licenses
- Maintenance and support services related thereto
- Sales of additional and replacement devices
- Software development and customization

Revenue from product sales is recorded on shipment when all significant contractual obligations have been satisfied provided evidence of an arrangement exists, the price to the customer is fixed and determinable and collection is probable. In addition, a provision for potential warranty claims is recorded at the time of sale, based on warranty terms and prior claims experience. Extended warranty contracts are sold separately from the product and the associated revenue is recognized over the term of the agreement.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

### (i) Revenue recognition (continued):

Revenue on fixed-price contracts is recognized based on the estimated percentage of completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage-of-completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the contract. The Company uses this method of revenue recognition as projected contract revenue and costs may reasonably be estimated based on the Company's business practices, methods and historical experience. This method requires estimates of costs and profits over the entire term of the contract. Management regularly reviews underlying estimates of project profitability; revisions to estimates are reflected in the statement of income in the period in which the facts that give rise to the revision become known. Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Contract losses are measured as the amount by which the estimated costs of the contract exceed the estimated total revenue from the contract. Progress billings are recorded as deferred revenue to the extent that the billings exceed revenue recognized to date. Contract work-in-progress revenue is recorded to the extent that revenue has been recognized, but not yet billed to the customer.

For contracts involving multiple deliverables, the Company applies Emerging Issues Committee ("EIC") 142, *Revenue Arrangements with Multiple Deliverables* and evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (a) whether the delivered item has value to the customer on a standalone basis, (b) whether there is objective and reliable evidence of the fair value of the undelivered item(s), and (c) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. If objective and reliable evidence of fair value exists for all units of accounting in the arrangement, revenue is allocated to each unit of accounting or element based on relative fair values.

If elements cannot be treated as separate units of accounting, the elements are combined into a single unit of accounting for revenue recognition purposes. In this case, revenue allocated to the unit of accounting is deferred until all combined elements have been delivered or, once there is only one remaining element to be delivered, based on the revenue recognition guidance applicable to the last delivered element within the unit of accounting.

Revenue for the provision of ASP service offerings is recognized proportionately over the term of the contract.

Software licenses which are perpetual in nature and sold to MobiSoft's enterprise customers are recognized upon delivery where there is persuasive evidence of an existing arrangement, the selling price is fixed or determinable and collection is reasonably assured. Software licenses sold to ASP customers are deferred and recognized over the related term of the ASP service agreement.

Revenues from sales of additional and replacement devices are net of trade discounts and allowances and recognized upon shipment when all significant contractual obligations have been satisfied and collection is reasonably assured.

Maintenance and support service revenues are recognized proportionately over the term of the contract in the case of long-term contracts and at the time of performance for other services. Revenue from embedded maintenance, both for contracts and sales orders, are deferred and recognized over the effective life of the contract.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

(j) Sales type leases:

Finance income related to sales type leases are recognized in a manner that produces a constant rate of return over the investment in the lease.

(k) Research and development costs:

Software development costs includes the costs to customize aspects of the Company's product offering for specific customers as well as the cost of generating and maintaining the Company's software used in the Company's products and software sold to customers. Costs to customize aspects of the Company's software for customers are charged to expense when incurred. For costs incurred to generate software used in the Company's product or sold to customers, the Company classifies costs into a research phase and a development phase. Costs incurred during the research phase are expensed when incurred as the Company is not able to demonstrate that the software will generate future economic benefits from the software. Costs incurred during the development phase are recognized as intangible assets only if the Company can demonstrate the technical feasibility of completing the software so it will be available for use or sale; its intention to complete the software and use or sell it; its ability to use or sell the software; how the software will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and use and sell the software; and its ability to measure reliably the expenditure attributable to the software during development. If these criteria are not met, the development costs are expensed when incurred. The cost of maintaining software for use or sale is expensed when incurred.

(l) Investment tax credits:

Investment tax credits are accounted for using the cost reduction method, whereby the benefit is recognized as a reduction in the cost of the related expenditure when there is reasonable assurance the tax credits will be utilized to reduce taxes payable. Investment tax credits for 2009 were \$700,151 (2008 - \$772,499).

(m) Stock-based compensation:

The Company grants stock options to directors and certain employees of the Company as an element of compensation. The cost of the service received as consideration is measured based on an estimate of fair value at the date of the grant. The grant-date fair value is recognized as compensation expense over the related service period with a corresponding increase in contributed surplus. On exercise of stock options, the Company issues common shares from treasury and the consideration received together with the compensation expense previously recorded to contributed surplus is credited to share capital.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option. The Black-Scholes option pricing model requires the Company to estimate the expected term of the options granted, the volatility of the Company's common shares and an expected dividend yield. The Company estimates the expected term of the options granted by calculating the average term after considering the Company's historical experience involving stock option exercise; cancellations, forfeitures and expiries; volatility is estimated with reference to historical volatility data. The Company does not currently anticipate paying any cash dividends in the foreseeable future and therefore has used an expected dividend yield of zero as detailed in note 17. The Black-Scholes model also requires the Company to input a risk-free interest rate and the Company uses the Bank of Canada marketable bond rates.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

### (n) Income taxes:

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not.

### (o) Earnings (loss) per share:

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of "in the money" stock options.

### (p) Financial instruments:

The Company accounts for its financial instruments in accordance with Canadian Institute of Chartered Accountants ("CICA") *Section 3855 Financial Instruments — Recognition and Measurement*. This standard requires that all financial instruments be classified as one of the following categories: held-for trading, held-to-maturity, loans and receivables, available-for-sale assets or other financial liabilities. All financial assets and liabilities (including derivatives) are measured at fair value on initial recognition except for loans and receivables, held-to-maturity and other financial liabilities, which are measured at amortized cost using an effective interest rate method. Transaction costs are included in the carrying value of financial instruments.

The Company has made the following classifications for its financial instruments:

Cash and cash equivalents are classified as "Held-for-trading" financial assets and are measured at fair value at the end of each period with any change in fair value recognized in the statements of operations;

Accounts receivable are classified as "Loans and receivables" and are recorded at amortized cost using the effective interest rate method. Subsequent measurement of trade receivables is at amortized cost, less an allowance for doubtful accounts;

Accounts payable and accrued liabilities are classified as "Other financial liabilities" and are measured at amortized cost using the effective interest rate method; and

Long-term debt, including accrued interest and purchase consideration payable are classified as a financial liabilities and are measured at amortized cost using the effective interest rate method.

Transaction costs incurred to acquire financial instruments are recorded through the statement of operations.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

### (q) Changes in accounting policies:

#### Goodwill and Intangible Assets

Effective October 1, 2008, the Company adopted CICA Handbook *Section 3064, Goodwill and Intangible Assets* which replaced Handbook *Section 3062, Goodwill and Other Intangible Assets* and *Section 3450, Research and Development Costs*. This revision aligned Canadian generally accepted accounting principle ("GAAP") with International Financial Reporting Standards ("IFRS") and established standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. To date, the adoption of this standard has had no impact on the Company's consolidated financial statements.

#### General Standards of Financial Statement Presentation

Effective October 1, 2008, the Company adopted the amendments included in the CICA Handbook, *Section 1400, General Standards of Financial Statement Presentation*. The amendments to this section include additional requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of the revisions had no impact on the Company's operating results or financial position.

#### Credit Risk and the Fair Value of Financial Assets and Liabilities

Effective January 1, 2009, the Company adopted Emerging Issues Committee ("EIC") *173, Credit Risk and the Fair Value of Financial Assets and Liabilities*. This EIC considers whether an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities for presentation and disclosure purposes. The adoption of this EIC has had no significant impact on the Company's consolidated financial statements.

#### Financial Instruments

On April 29, 2009, the Accounting Standards Board ("AcSB") issued an amendment to CICA Handbook *Section 3855, Financial Instruments: Recognition and Measurement* ("Section 3855") which clarified that, subsequent to the recognition of an impairment loss on a financial asset (other than a loan or receivable), interest income on the impaired financial asset is recognized using the rate of interest used to determine the impairment loss.

On July 29, 2009, the AcSB further amended Section 3855 to expand the previous definition of loans and receivables to include debt securities not quoted in an active market which are not intended to be sold immediately or in the near term. The amendment includes specific guidance on the limited circumstances in which an optional reclassification between financial instrument classifications may be permitted. Section 3855 was also amended such that any other than temporary impairment which is identified for held-to-maturity investments is recognized in the income statement only in respect of credit losses rather than the entire change in fair value. Any other than temporary impairment losses on debt securities that are classified as available-for-sale continue to be adjusted through the statement of operations in their entirety. However, other than temporary impairment losses recorded on available-for-sale debt securities are reversed through the statement of operations if the fair value subsequently recovers and the increase in value can be objectively attributed to an event occurring after the original impairment loss was recognized.

The adoption of the above changes for its fiscal 2009 financial statements did not have a significant impact on the Company's financial statements.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

(q) Changes in accounting policies (continued):

Financial Instruments: Disclosures

Effective October 1, 2009, the Company adopted amendments to the CICA Handbook *Section 3862, Financial Instruments: Disclosures* ("Section 3862"). The amendments require an entity to provide disclosure on financial instruments measured at fair value on its balance sheet using a fair value hierarchy that reflects the extent to which quoted prices or other market or non-market inputs are used in the valuation of those financial instruments. The amendments also expand existing liquidity disclosure requirements and require a maturity analysis for any derivative and non financial liabilities based on expected maturities.

(r) New accounting pronouncements:

Multiple Deliverable Revenue Arrangements

EIC 175, *Multiple Deliverable Revenue Arrangements* supersedes EIC 142. The purpose of the interpretations is to keep Canadian GAAP and US GAAP the same when recognizing revenue on a contract when the contract contains more than one product or service. The new Abstract requires a seller to allocate the contract price to all deliverables using the stand-alone selling prices of the individual deliverables. It also changes the level of evidence necessary to separate deliverables when more objective evidence of the selling price is not available. The Abstract may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted. Significant transition disclosures may be necessary.

## 3. Acquisitions in fiscal 2007:

### MobiSoft Business Acquisition

On October 8, 2007, the Company acquired 100% of the outstanding share capital of MobiSoft Oy ("MobiSoft"), a software company specializing in automated dispatching and wireless data transfer applications for passenger transport. MobiSoft's special expertise is to provide turn-key solutions to customers by using an ASP business model. The main products of MobiSoft are TaxiBook, a taxi dispatching system and MobiRouter, a demand response transit scheduling and routing system.

The aggregate purchase price was \$7.7 million as follows:

Cash	\$ 4,249,000
Common shares (1,279,990 issued by the Company)	3,072,000
Acquisition costs	379,000
	<hr/>
	\$ 7,700,000

Included in the above cash consideration was \$1.1 million payable one year after the acquisition date. \$949,053 (€675,000) of this consideration was paid during 2008 with the balance fully settled in 2009.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

## 3. Acquisitions in fiscal 2007 (continued):

### StrataGen Business Acquisition

On December 7, 2007, the Company completed the acquisition of 100% of the assets and outstanding share capital of StrataGen Systems Inc. ("Stratagen") a US based software company which provides transit management software application. The aggregate purchase price was \$7,715,000 inclusive of acquisition costs of \$257,000 and deferred consideration of \$1,980,000 payable in common shares of the Company or in cash at the option of the Company upon the delivery of contracted customer orders.

The aggregate purchase price was \$7.7 million as follows:

Cash	\$ 5,478,000
Common shares (or cash at DDS option)	1,980,000
Acquisition costs	257,000
	<hr/>
	\$ 7,715,000

Additional contingent consideration of \$297,000 was payable by the Company upon achievement of certain sales order performance factors. This contingent consideration is payable in the common shares of the Company or in cash at the option of the Company and will, if paid, be recorded as a charge to operations. The criteria for the payment of additional contingent consideration was not met and this obligation ceased to exist at December 31, 2009.

During 2008, shares valued at \$1,771,539 (note 16) were issued to satisfy the share issuance component of the purchase price. In addition, \$552,188 (\$481,000 USD) was paid in relation to the monthly cash consideration component of the purchase price during 2008, and \$595,383 (\$518,626 USD) was removed from the amounts owing as a result of a shortfall in closing working capital. During the year, the balance of the acquisition price payable was paid in full and there was no balance payable as at December 31, 2009.

## 4. Accounts receivable and contract work-in-progress:

	2009	2008
Accounts receivable	\$ 5,074,179	\$ 7,639,977
Less: Allowance for doubtful accounts	(554,118)	(696,954)
Net accounts receivable	<hr/> 4,520,061	<hr/> 6,943,023
Contract work-in-progress	4,066,082	3,241,843
	<hr/> \$ 8,586,143	<hr/> \$ 10,184,866

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

## 4. Accounts receivable and contract work-in-progress (continued):

<b>December 31, 2009</b>	Current	30-60	60-90	90-120	120+	Total
Accounts receivables	3,898,044	244,870	192,918	63,904	674,444	5,074,179
Less: Allowance for doubtful accounts	-	4,189	1,511	2,928	545,491	554,118
Net accounts receivables	3,898,044	240,681	191,407	60,976	128,953	4,520,061

  

December 31, 2008	Current	30-60	60-90	90-120	120+	Total
Accounts receivables	4,285,692	1,033,235	397,022	677,578	1,246,450	7,639,977
Less: Allowance for doubtful accounts	60,682	8,515	2,805	41,083	583,869	696,954
Net accounts receivables	4,225,010	1,024,720	394,217	636,495	662,581	6,943,023

<b>Allowance for doubtful accounts</b>	<b>2009</b>		<b>2008</b>	
Beginning of year	\$	696,953	\$	513,475
Increase in allowance for doubtful accounts		198,234		612,092
Bad debts written off		(341,069)		(428,614)
End of year	\$	554,118	\$	696,953

<b>Bad debt expenses</b>	<b>2009</b>		<b>2008</b>	
Bad debts written off	\$	78,897	\$	234,035
Allowance for doubtful accounts		198,234		612,092
Adjustments and recoveries		(45,926)		(158,310)
	\$	231,205	\$	687,817

## 5. Inventories:

	<b>December 31, 2009</b>	December 31, 2008
Raw materials	\$1,591,525	\$1,774,205
Finished goods	374,565	391,491
Total inventory	\$1,966,090	\$2,165,696

During the twelve months ended December 31, 2009 the Company charged \$3,963,036 of inventory related amounts to cost of sales, and recognized a write down of inventory of \$239,000 (2008 - \$494,197). Total inventory valued at net realizable value was \$238,134 with the balance of inventory carried at cost as of December 31, 2009. There was no reversal of write downs in the year, and no inventory was collateralized as security for liabilities other than under the lines of credit (refer to note 12).

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

## 6. Leases receivable:

	2009	2008
Leases receivable	\$ 2,458,006	\$ 2,851,072
Less unearned finance income	324,261	422,716
Net leases receivable	2,133,745	2,428,356
Current portion	541,044	501,484
Long-term leases receivable	\$ 1,592,701	\$ 1,926,872

Future minimum lease payments receivable are as follows:

Years ending December 31:

2010	541,044
2011	622,193
2012	703,024
2013	203,783
2014	63,700
	\$ 2,133,744

## 7. Financial instruments:

The Company's financial instruments consist of cash and cash equivalents (bank overdraft), accounts receivable, leases receivable, investment, accounts payable and accrued liabilities, acquisition purchase price payable, line of credit, and long-term debt.

Cash and cash equivalents (bank overdraft), is designated as "held-for-trading" and measured at fair value. Investment is designated as "available for sale" and measured at fair value. Accounts receivable, and lease receivables are designated as "loans and receivables" and measured at amortized cost. Accounts payable and accrued liabilities, line of credit, acquisition purchase price payable, and long-term debt, are designated as "other financial liabilities" and are measured at amortized cost.

All derivative instruments are recorded on the balance sheets at fair value.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

## 7. Financial instruments (continued):

The carrying value of the trade receivables, accounts payable, line of credit, acquisition purchase price payable and accrued liabilities approximate their fair values due to their immediate or short-term maturity. The Investment is recorded at cost as there is no quoted market price.

	December 31, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
<i>Held for trading</i>				
Cash	\$ 1,603,384	\$ 1,603,384	\$ (62,748)	\$ (62,748)
<i>Available for Sale</i>				
Investment	\$ 102,565	-	\$ 102,565	-
<i>Loans and receivables</i>				
Accounts receivable	\$ 4,520,061	\$ 4,520,061	\$ 6,943,023	\$ 6,943,023
Lease receivable	\$ 2,133,745	\$ 2,458,006	\$ 2,428,356	\$ 2,428,356
<b>Financial liabilities</b>				
<i>Other financial liabilities</i>				
Line of credit	\$ 158,389	\$ 158,389	\$ 1,401,431	\$ 1,401,431
Accounts payable and accrued liabilities	\$ 4,286,339	\$ 4,286,339	\$ 5,093,321	\$ 5,093,321
Acquisition purchase price payable	-	-	\$ 763,243	\$ 763,243
Long-term debt	\$ 270,592	\$ 270,592	\$ 600,853	\$ 600,853

The following financial assets and liabilities are measured at fair value on a recurring basis using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

	Carrying value	Fair value		
		Level 1	Level 2	Level 3
<b>Financial assets</b>				
Cash	\$ 1,603,384	\$ 1,603,384	-	-
Foreign exchange contracts	\$ 450	\$ 450	-	-
Investment	\$ 102,565	-	-	\$ 102,565
<b>Financial liabilities</b>				
Lines of credit	\$ 158,389	\$ 158,389	-	-
Long-term debt	\$ 270,592	-	\$ 270,592	-

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 7. Financial instruments (continued):

The Company periodically enters into foreign exchange contracts to manage foreign exchange risk and into cash swap contracts to manage interest rate risk. The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes. As at December 31, 2009 the Company had the following cash swap contracts outstanding:

	Notional value (USD)	Maturity date	Fair value
CAD/USD	\$ 1,250,000	January 7, 2010	\$ 375
CAD/USD	750,000	January 11, 2010	75
	<u>\$ 2,000,000</u>		<u>\$ 450</u>

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are described below:

### Credit risk

The Company's maximum exposure to credit risk consists of the carrying value of its cash and cash equivalents, short-term investments, accounts receivable, contract work-in-progress and leases receivable.

The Company's exposure to credit risk associated with its accounts receivable, contract work-in-progress and leases receivable is the risk that a client will be unable to pay amounts due to the Company. Allowances are provided for potential losses that have been incurred at the balance sheet date. The Company takes into consideration the customer's payment history, his creditworthiness and the then current economic environment in which the customer operates to assess impairment. The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual accounts receivable. All bad debt write-offs are charged to general and administrative expenses.

The following factors affect the credit risk of the Company's accounts receivable:

- (a) A broad customer base dispersed across various geographic locations. However, the customer base is somewhat concentrated in the taxi segment of the market and may be affected by any downturns due to prevailing economic conditions in any given geography.
- (b) Over 85% (74% in 2008) of accounts receivable are outstanding for less than 90 days. The Company retains security interests on certain products that are shipped until these are paid for by the customer and that credit is extended to customers following an evaluation of creditworthiness. In addition, the Company performs periodic credit reviews of its customers.
- (c) There is no customer that accounts for over 10% of the total revenue of the Company.

All of the Company's accounts receivable have been reviewed for collectibility. Certain accounts receivable were found to be impaired and a provision of \$554,118 (\$696,953 in 2008) has been recorded accordingly. During the year ended December 31, 2009, the Company recorded bad debt expense of \$231,205 to reflect accounts that may not be collectible. Please see note 4 for details of accounts receivable and contract work-in-progress.

The credit risk on cash and cash equivalents, short-term investments, forward exchange and swap contracts is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 7. Financial instruments (continued):

### Currency risk

The Company is exposed to foreign currency fluctuations through its operations because a substantial amount of its revenues and operating expenditures are incurred in U.S. dollars, Euros, Great Britain Pounds, and Swedish Krona. The Company mitigates this risk by matching the denomination of its revenues and expenditures.

The Company translates monetary assets and liabilities into Canadian dollars using the rates of exchange prevailing at the balance sheet date and records the resulting exchange gains and losses in the statements of operations.

At December 31, 2009 the Company is exposed to translation foreign currency risk through the following financial assets and liabilities denominated in US dollar and Euro:

	December 31, 2009		December 31, 2008	
	(EUR)	(USD)	(EUR)	(USD)
Cash	1,299,225	183,348	(56,337)	(57,585)
Accounts receivable	1,330,664	3,027,759	702,841	3,785,648
Accounts payable & accrued liabilities	(1,025,768)	(901,183)	(429,355)	(2,898,277)
Long-term debt	(112,994)	-	(386,418)	(8,382)
	<u>1,491,127</u>	<u>2,309,924</u>	<u>(169,269)</u>	<u>821,404</u>

At December 31, 2009 with other variables unchanged, a +/-10% change in the USD/CAD exchange rate would increase/decrease net translation loss for the year by +/- \$230,992 USD (\$241,750 CAD) and the impact fluctuation in the EUR/CAD exchange rate would be +/- \$149,112 EUR (\$223,658 CAD).

The impact of fluctuation in Great Britain Pounds, and Swedish Krona is immaterial.

### Interest rate risk

The Company is exposed to interest rate risk on cash balances earning interest income and to the extent that it draws on its operating lines of credit which calculate interest as a function of variable interest rates. Based on the balance drawn on the Company's lines of credit facilities at December 31, 2009 of \$158,392, a hypothetical 100 basis point change in interest rates would not have a material impact on consolidated net loss.

### Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations, borrowing under the existing credit facilities and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient committed loan facilities to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

All financial liabilities are current and due in the current fiscal year with the exception of Long-term debt (see note 13).

The Company's overall liquidity risk has not changed significantly from the prior year.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

## 7. Financial instruments (continued):

The following table summarizes the relative maturities of the financial liabilities of the Company:

Financial Liability	Maturity		
	Less than one year	One to two years	Longer than two years
Line of credit	\$ 158,389	\$ -	\$ -
Accounts payable and accrued liabilities	4,286,339	-	-
Long-term debt	199,043	71,549	-
	\$ 4,643,771	\$ 71,549	\$ -

## 8. Plant and equipment:

December 31, 2009	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 2,766,758	\$ 2,388,708	\$ 378,050
Computer equipment and software	8,322,955	6,546,021	1,776,934
Leasehold improvements	352,425	191,470	160,955
	\$ 11,442,138	\$ 9,126,199	\$ 2,315,939

December 31, 2008	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 2,595,215	\$ 2,360,328	\$ 234,887
Computer equipment and software	8,561,561	4,988,202	3,573,359
Leasehold improvements	314,436	184,426	130,010
	\$ 11,471,212	\$ 7,532,956	\$ 3,938,256

During the year, the Company invested a total of \$676,379 in plant and equipment, transferred computer equipment with a net book value of 182,237 to inventory and disposed of plant and equipment with a total net book value of \$115,360.

## 9. Investment:

During 2007 the Company acquired an investment in a private Canadian company for consideration of \$102,565, made up of \$77,290 in services and \$25,275 in cash. This investment is carried at cost as there is no quoted market price in an active market.

	2009	2008
Investment	\$ 102,565	\$ 102,565

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

## 10. Intangibles:

<b>December 31, 2009</b>	Estimated useful life	Cost	Accumulated amortization	Net book value
Acquired software	6	\$ 7,347,716	\$ 2,653,368	\$ 4,694,348
Customer relationships	6	2,037,175	726,981	1,310,194
Trademarks and brand	4	250,970	139,026	111,944
Non-compete agreements	3 to 5	489,500	271,632	217,868
Dispatch service agreements	2.5	1,180,441	1,109,378	71,063
Patent portfolio	6	316,800	110,000	206,800
Customer obligations	1	168,300	168,300	-
		\$ 11,790,902	\$ 5,178,685	\$ 6,612,217

<b>December 31, 2008</b>	Estimated useful life	Cost	Accumulated amortization	Net book value
Acquired software	6	\$ 7,701,988	\$ 1,367,183	\$ 6,334,805
Customer relationships	6	2,105,485	379,254	1,726,231
Trademarks and brand	4	265,352	72,812	192,540
Non-compete agreements	3 to 5	500,077	143,267	356,810
Dispatch service agreements	2.5	1,205,759	668,659	537,100
Patent portfolio	6	317,000	57,200	259,800
Customer obligations	1	168,000	168,000	-
		\$ 12,263,661	\$ 2,856,375	\$ 9,407,286

Intangible assets relate to amounts acquired as part of the MobiSoft and Stratagen acquisitions in 2007. See note 3.

The cost of the intangible assets includes translation adjustments related to a self-sustaining subsidiary amounting to \$146,181 (\$804,633 in 2008). Amortization charged to the consolidated statements of operations for the year amounted to \$2,479,996 (\$2,408,375 in 2008).

## 11. Goodwill

Goodwill arose as a result of the acquisitions of MobiSoft and Stratagen. Goodwill consists of the following amounts:

Acquisition of MobiSoft	\$ 2,607,000
Acquisition of StrataGen	722,000
Goodwill December 31, 2007	\$ 3,329,000
Translation adjustment for self sustaining operation	531,670
Subsequent purchase price allocation	(327,469)
Goodwill December 31, 2008	\$ 3,533,201
Translation adjustment for self sustaining operation	(199,228)
Goodwill December 31, 2009	\$ 3,333,973

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 12. Lines of Credit:

The Company signed an amendment to its \$4.0 million dollar line of credit that bears interest at prime plus 0.5% during the first quarter of 2009. The line of credit is guaranteed by Viksun Enterprise Inc., a company controlled by the Company's Chief Executive Officer, for the amount of \$2.0 million. The assets of the Company are provided as collateral for the line of credit. As at December 31, 2009, the Company had a balance of \$158,389 drawn on this line of credit (December 31, 2008 - \$1,401,431). Pursuant to the line of credit facility agreement, the Company is required to maintain a net tangible net worth of not less than \$6.5 million, a ratio between net liabilities to net tangible net worth of not greater than 2:1 and a ratio between funded debt to earnings before interest, income tax, depreciation and amortization of not greater than 2.5 times.

The Company's subsidiary, MobiSoft, has a \$244,000 (€150,000) operating line of credit available as at December 31, 2009, which bears interest at one month Euribor rate plus 1%. As at December 31, 2009, the Company has not drawn on this line of credit (December 31, 2008 - \$97,433 (€57,159)). It is secured by way of a General Security Agreement of MobiSoft.

The Company's subsidiary, StrataGen, had a \$116,000 (US\$100,000) operating line of credit which bears interest at US prime plus 0.5%. This line of credit was not renewed when it matured on July 31, 2009.

The Company is in compliance with all financial covenants as of December 31, 2009.

## 13. Long-Term Debt:

The Company has long-term debt held in its subsidiary, namely MobiSoft, as follows:

- (a) A loan from Nordea Bank bearing an interest rate of 4.86% with the balance as at December 31, 2009 of \$23,905 (€15,937). The loan has a four-year term expiring March 15, 2010 with monthly payments of \$7,968 (€5,313) excluding interest. The loan is collateralized by the assets of MobiSoft.
- (b) The Company has unsecured government loans with the State Treasury of Finland for the development of specific products totaling \$286,494 (€191,006) as at December 31, 2009 (2008 - \$454,753 and (€266,780)) as follows:
  - (i) Loan for software product development payable in the amount of \$60,506 (€40,340) as at December 31, 2009 with an interest rate of 1% with the last payment on July 4, 2010.
  - (ii) Loan for software product application service provider ("ASP") development payable in the amount of \$117,992 (€78,666) as at December 31, 2009 (2008 - €118,000) with an interest rate of 1% and repayment commencing November 24, 2009 and ending November 29, 2011 with annual payments on each anniversary date of \$8,997 (€39,334) excluding interest.
  - (iii) Loan for payment related software product development for \$107,996 (€72,000) as at December 31, 2009 with an interest rate of 1% with payment commencing December 12, 2009 and ending December 20, 2011 with annual payments on each anniversary date of \$53,997 (€36,000) excluding interest.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

## 13. Long-Term Debt (continued):

The Company determined the fair value of the loans with the State Treasury of Finland using an estimated cost of capital of 8% resulting in the related interest benefit for these low interest loans of \$41,446 with the related interest expense being recorded over the remaining loans terms.

The Company paid a total of \$8,749 (€5,520) in interest for the year ended December 31, 2009 and the balances outstanding at as at December 31 are set out below:

	2009	2008
Nordea Bank	\$ 23,905	\$ 135,835
Government loans with Finland State Treasury	245,048	454,753
Capital lease obligation	1,639	10,265
	<b>270,592</b>	600,853
Current portion	<b>(199,043)</b>	(313,666)
Long-term debt	<b>\$ 71,549</b>	\$ 287,187

Loan repayments for the years ending December 31,

2010	\$ 199,043
2011	71,549
Total	<b>\$ 270,592</b>

## 14. Income taxes:

Income tax expense varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rate of 30.0% (2008 – 31.3%) to loss before income taxes as shown in the following table:

	2009	2008
Combined Canadian income taxes at expected rate	\$ (768,151)	\$ (700,461)
Non-deductible and non-taxable items	401,149	63,615
Foreign income taxed at different rates	(40,210)	(215,543)
Change in valuation allowance	864,271	-
Change in enacted rates	(19,481)	569,101
Adjustment of prior year provisions	(522,514)	(1,045,269)
Foreign exchange and other	(213,921)	541,704
	<b>\$ (298,857)</b>	<b>\$ (786,853)</b>

The Company is subject to corporate income tax rates in varying jurisdictions, ranging from approximately 17% to 40%.

# DDS WIRELESS INTERNATIONAL INC.

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## 14. Income taxes (continued):

The tax effects of temporary differences and other items that give rise to future income tax assets and liabilities as of December 31 are presented below:

	2009	2008
Future income tax assets:		
Plant and equipment	\$ 875,635	\$ 552,034
Tax loss carry-forward	1,479,948	1,295,306
Research and development expenditures	627,460	738,290
Total gross future income tax assets	2,983,043	2,585,630
Valuation allowance	(1,343,759)	(479,488)
	\$ 1,639,284	\$ 2,106,142
Future income tax liabilities:		
Contracts in progress	-	(181,135)
Investment tax credits	(803,814)	(782,577)
Acquired intangibles and other obligations	(843,713)	(1,393,357)
Total gross future income tax liabilities	(1,647,527)	(2,357,069)
Net future income tax liabilities	\$ (8,243)	\$ (250,927)
Assets		
Future income taxes – current	\$ 650,000	\$ 19,253
Future income taxes – long-term	989,284	2,086,889
	1,639,284	2,106,142
Liabilities		
Future income taxes – current	(478,844)	(695,336)
Future income taxes – long-term	(1,168,683)	(1,661,733)
	(1,647,527)	(2,357,069)
Net future income tax liabilities	\$ (8,243)	\$ (250,927)

The Company's deduction for research and development expenditures can be carried forward indefinitely. The Company has loss carry forwards in the United States, the United Kingdom, Finland and Singapore which expire as follows:

	Net operating losses
2010 to 2014	\$ -
Thereafter	3,396,163
Indefinite	759,629
	\$ 4,155,792

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 15. Capital management:

The Company considers its share capital and contributed surplus as capital, the total book value of which is \$25,726,636 as at December 31, 2009.

The Company manages its capital structure with the objective of providing sufficient resources to meet day-to-day operating requirements; to allow it to enhance existing product offerings as well as develop new ones; and to have the financial ability to expand the size of its operations by taking on new customers. In managing its capital structure, the Company takes into consideration various factors, including the growth of its business and related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process. The Company manages its capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the debt and equity balance.

The Company is not subject to any externally imposed capital requirements.

## 16. Share capital:

### (a) Authorized:

200,000,000 common shares, without par value  
50,000,000 preferred shares, without par value

### (b) Issued and outstanding:

	Number of shares	Amount
Balance at, December 31, 2007	13,143,191	\$ 22,836,687
Shares issued during period for payment of StrataGen Business acquisition holdback	646,555	1,771,539
Balance at, December 31, 2008 and December 31, 2009	13,789,746	\$ 24,608,226

### (c) Stock options:

The Company has granted stock options to management, directors, employees and certain non-employees. Under the approved stock option plan, options may be granted for up to 2,000,000 shares of common stock in aggregate. Options generally vest over a three-year term, and have a 37 month life with one-sixth of the option grant vesting at the end of each six-month interval. As of December 31, 2009 there were 1,187,948 options granted.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

## 16. Share capital (continued):

Stock option activity is presented as follows:

	Number of options	Weighted average exercise price
Outstanding, December 31, 2007	834,834	\$ 3.23
Granted	369,400	\$ 2.65
Expired	(422,703)	\$ 3.34
Outstanding, December 31, 2008	781,531	\$ 2.90
Granted	713,000	\$ 1.97
Forfeited	(103,500)	\$ 3.50
Expired	(203,083)	\$ 2.88
Outstanding, December 31, 2009	1,187,948	\$ 2.29

The exercise price for all options granted during the year were in excess of the prevailing market prices.

The following table summarizes the stock options granted and exercisable at December 31, 2009:

Exercise prices	Number of options	Weighted average remaining life	Number exercisable
\$ 1.65	621,900	2.28	86,008
\$ 3.00	566,048	0.86	310,282
	1,187,948	1.60	396,290

The weighted average exercise price for the stock options exercisable at December 31, 2009 was \$2.71. The stock-based compensation expense in 2009 was \$303,951 (2008 - \$154,228). The weighted average fair value of options granted in the year was \$0.74 (2008 - \$1.14) per option determined using the Black-Scholes option-pricing model at the date of each grant with the following assumptions:

	2009	2008
Expected life	<b>3.0 Years</b>	3.0 Years
Risk-free interest rate	<b>1.61-2.42%</b>	2.5-3.5%
Expected dividend yield	<b>0%</b>	0%
Expected stock price volatility	<b>160-184%</b>	65-162%

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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## 16. Share capital (continued):

(d) Contributed surplus:

	2009		2008	
Balance, beginning of year	\$	814,459	\$	660,231
Stock-based compensation expense		303,951		154,228
Balance, end of year	\$	1,118,410	\$	814,459

(e) Warrants:

Part of the consideration for the acquisition of StrataGen were future maximum payments to the StrataGen shareholders of US\$2.3 million payable in the Company's common shares issued from treasury or cash at the Company's sole discretion. Such payment was based on revenue from certain contracts that StrataGen was negotiating at the time of the acquisition. As payment for such revenue was received, the Company's common shares were to be issued from treasury unless the Company chose to pay cash. The right to obtain such shares is represented by warrants issued on December 7, 2007 to the StrataGen shareholders entitling them to receive at the option of the Company, cash or the Company's common shares, which for financial reporting purposes are classified in liabilities at December 31, 2008. The number of common shares to be issued is based on the revenue and related payment received and the trading price of the shares at the time of their issuance. As at December 31, 2008, US\$300,000 was outstanding from this obligation and this has been fully paid during the current year. At December 31, 2009, there is no balance under acquisition price payable nor any obligation to issue further shares to the shareholders of StrataGen.

# DDS WIRELESS INTERNATIONAL INC.

Notes to Consolidated Financial Statements

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## 17. Supplementary cash flow information:

### Change in non-cash working capital:

	Year ended December 31,	
	2009	2008
Accounts receivable	\$ 2,422,962	\$ 453,190
Contract work-in-progress	(824,239)	84,456
Income taxes receivable	72,387	61,110
Prepaid expense	322,411	(210,960)
Inventories	381,843	751,990
Leases receivable	(343,286)	(515,896)
Accounts payable and accrued liabilities	(806,982)	593,235
Deferred revenue	1,201,563	424,090
	<u>\$ 2,426,659</u>	<u>\$ 1,641,215</u>

### Supplemental disclosure of cash flow information:

Interest received	\$ 209,611	\$ 210,126
Cash paid for interest	47,345	53,909
Cash paid for income taxes	108,607	58,608

### Non cash transactions:

Transfer of plant and equipment to inventory	347,116	-
Amortization included in sales related expenses	204,636	175,471
Purchase of investment	-	(77,290)
Adjustment to goodwill for reduction in deferred acquisition cost	77,437	327,469
Issue of shares in settlement of deferred acquisition costs	-	1,771,539

The bank overdraft automatically converts to the Company's lines of credit facility when required. Refer to note 12 for terms of the line of credit.

# DDS WIRELESS INTERNATIONAL INC.

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## 18. Related party transactions:

The Company is party to an operating lease agreement with a company controlled by the majority shareholder, as detailed in note 20. Rental paid under the agreement for the year ended December 31, 2009 amounted to \$676,306 (2008 - \$626,994).

The Company is a beneficiary of a guarantee provided by the company controlled by the majority shareholder, as detailed in note 12.

The Company provides sales and services to a customer that is related to a director. In the twelve months ended December 31, 2009 the total sales and services to this customer were \$950,316 (twelve months ended December 31, 2008 - \$297,437). As at December 31, 2009, the Company received \$307,700 in advance from this customer for goods to be shipped and has trade receivable from the customer amounting to \$63,445. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the respective parties.

## 19. Commitments and contingencies:

### (a) Operating leases and purchase obligations:

The Company has entered into various operating lease agreements for leased premises, with remaining terms of up to four years. Of the total lease obligations, approximately 87% relates to a lease agreement with a company controlled by the majority shareholder for the land and building occupied by the Company. This facility lease agreement was extended in January 2008 by the Company for a five-year period ending September 2013. Under this extension the consolidated minimum lease payments in each of the next four years total as follows:

Year ending December 31:	
2010	\$ 897,971
2011	722,750
2012	708,122
2013	732,540
	<hr/>
	\$ 3,061,383

The Company also has the following purchase obligations outstanding at December 31, 2009:

Year ending December 31:	
2010	\$ 1,556,011
2011	875,856
2012	1,263,319
	<hr/>
	\$ 3,695,186

### (b) Legal Proceedings:

In 2009, a claim was filed against the Company in the Ontario Superior Court of Justice for damages against the Company for breach of contract and damages resulting from such alleged breach. The total amount of the claim is approximately \$850,000. The Company has filed a statement of defense and counterclaim denying all allegations and counterclaiming against the plaintiff for non-payment of services rendered and goods delivered. The Company is of the view that there are no grounds for such claim against the Company and no amount has been recorded for this claim.



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## 20. Segmented information (continued):

<b>Year ended December 31, 2009</b>					
	Taxi	Transit	eFleet	Digital Wireless	Total
	\$	\$	\$	\$	\$
Revenue	24,021,891	10,087,191	838,333	679,130	<b>35,626,545</b>
Amortization of plant and equipment and sales related assets	915,987	118,243	125,874	182,930	<b>1,343,034</b>
Amortization of acquired intangibles	1,521,214	958,782	-	-	<b>2,479,996</b>
Income tax (recovery) expense	372,285	(144,488)	-	(526,654)	<b>(298,857)</b>
Income (loss)	155,184	(861,088)	(335,520)	(1,220,221)	<b>(2,261,645)</b>
Expenditures for plant and equipment	255,371	192,981	109,478	118,549	<b>676,379</b>
<b>Year ended December 31, 2008</b>					
	Taxi	Transit	eFleet	Digital Wireless	Total
	\$	\$	\$	\$	\$
Revenue	23,270,182	8,580,870	439,065	1,210,312	33,500,429
Amortization of plant and equipment and sales related assets	742,236	111,095	77,726	171,764	1,102,821
Amortization of intangibles	1,334,328	1,074,047	-	-	2,408,375
Income tax (recovery) expense	(95,257)	113,086	(188,061)	(616,621)	(786,853)
Income (loss)	240,584	328,386	(423,381)	(1,622,814)	(1,477,225)
Expenditures for plant and equipment	1,714,351	334,558	219,032	17,096	2,285,037

## 21. Subsequent events:

Subsequent to the balance sheet date, 227,500 options were granted to certain directors and employees, and 93,750 were cancelled. As at March 3, 2010, the Company had outstanding 1,321,698 options to acquire common shares at prices ranging from \$1.65 to \$3.00 per share.

## 22. Comparative figures:

Certain 2008 figures have been reclassified to conform with the financial statement presentation adopted in 2009.