



# **DIGITAL DISPATCH SYSTEMS INC.**

## **Second Quarter Report**

*For the three and six months ended June 30, 2007*

*August 14, 2007*

**Fellow shareholders:**

While we are disappointed with the Company's performance for the first half of 2007, we remain excited about our future prospects for the remainder of 2007. Revenues during this period were lower than the prior year due to the strengthening of the Canadian dollar, the timing of execution of potential customer contracts and lower sales volume experienced during the period. This reduced revenue in conjunction with project costs incurred for our initiative with the New York City Taxi and Limousine Commission and a significant foreign exchange loss due to the strengthened Canadian dollar resulted in a net loss during this period.

As communicated previously in 2007, Digital Dispatch has been primarily targeting the large taxi fleet market in North America and Europe and is the dominant player. Our significant large taxi fleet customer base provides Digital Dispatch with stable recurring revenue through system support services and periodic new system upgrade purchases. During the past quarter, we experienced strong follow on sales from our European customer base including a large sales contract with Taxis G7 for up to \$6 million for which we have commenced fulfillment. We also added several new taxi company customers during 2007 evidencing continued market penetration by Digital Dispatch.

However, this lucrative large taxi fleet market segment has become mature over the past several years resulting in Digital Dispatch now leveraging our strong position in the large taxi fleet market to drive expansion into new markets that augment our core business to fuel future revenue growth. The following new business initiatives have been launched by Digital Dispatch during the past year with incremental investment which is expected to accelerate future growth but which take time to come to fruition:

- **Application Service Provider ("ASP") Business called eFleet** with dispatch, automated vehicle location ("AVL") tracking and mobile ecommerce capability which is well above basic telematics solutions being currently adopted by the market today. The eFleet ASP solution is being targeted at specific markets which include Towing, Limos and Work trucks and we were pleased to announce that our eFleet product offering is gaining momentum with the addition of new customers during 2007.
- **In-Vehicle Advertising Offering.** This offering consists of transitioning our focus from the driver in the front seat to the back seat of the cab offering interactive multimedia content and advertising to taxi passengers.
- **Mobile credit and debit card transaction processing.** We have been working to expand this offering to our existing customer base.
- **Expansion into Transit Industry.** We are focused in our efforts to increase penetration of the transit market and are working with several value add partners to provide a complete turn-key solution to this complementary market.

We further strengthened our new management team with additional sales and business development leadership to bolster our leadership in this important area. Our new management team is now fully ramped up to drive future business success in their respective and collective areas.

Digital Dispatch continues to pursue acquisition opportunities to complement the new business initiatives above. Our balance sheet remains strong with approximately \$10 million in cash and short term investments with our treasury resources intended to fund our new recurring revenue initiatives and potential acquisitions. We are evaluating several acquisition opportunities and will exercise prudence in our acquisition criteria to ensure that we capitalize on synergistic opportunities to drive future increased shareholder value.

We remain excited about our long term prospects commencing in 2007 and have significant opportunities ahead of us. We look forward to earning the confidence of shareholders by delivering future results in both our evolving organic growth and acquisition oriented initiatives.

"Vari Ghai"

Vari Ghai,  
President and Chief Executive Officer  
August 14, 2007

*This letter to shareholders accompanies and should be read in conjunction with the Company's Management Discussion and Analysis, including the "Forward-Looking Statements" disclaimer contained therein.*

Interim Consolidated Financial Statements of

**DIGITAL DISPATCH SYSTEMS INC.**

For the Six months ended June 30, 2007 and 2006

(Unaudited)

# DIGITAL DISPATCH SYSTEMS INC.

Interim Consolidated Balance Sheets  
(Unaudited)

	June 30, 2007	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,536,936	\$ 6,712,786
Short-term investments	7,191,543	4,381,016
Accounts receivable (note 3)	6,021,192	7,627,088
Income taxes receivable	-	777,629
Future income taxes	75,790	81,087
Inventories	4,991,473	3,465,262
Prepaid expenses	539,667	387,893
Current portion of leases receivable	787,169	968,708
	<hr/> 22,143,770	<hr/> 24,401,469
Plant and equipment	662,904	491,180
Long-term leases receivable	1,986,193	1,940,441
Future income taxes	2,839,711	1,903,985
	<hr/> \$ 27,632,578	<hr/> \$ 28,737,075
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,939,254	\$ 2,604,899
Income taxes payable	26,429	-
Future income taxes	644,266	521,900
Deferred revenue	690,052	562,296
Deferred gain	191,076	191,076
	<hr/> 4,491,077	<hr/> 3,880,171
Long-term portion of deferred gain	47,769	143,308
Shareholders' equity:		
Share capital (note 4)	19,764,711	19,764,711
Contributed surplus	528,069	378,069
Retained earnings	3,697,566	5,467,430
Accumulated other comprehensive loss	(896,614)	(896,614)
	<hr/> 23,093,732	<hr/> 24,713,596
	<hr/> \$ 27,632,578	<hr/> \$ 28,737,075

See accompanying notes to interim consolidated financial statements.

# DIGITAL DISPATCH SYSTEMS INC.

Interim Consolidated Statements of Operations and Retained Earnings

Three and six months ended June 30, 2007 and 2006

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenue (note 6)	\$ 4,328,885	\$ 5,488,793	\$ 8,184,575	\$11,495,086
Cost of sales	2,176,555	2,593,157	4,037,623	5,423,757
	2,152,330	2,895,636	4,146,952	6,071,329
Operations expenses:				
Research and development	968,270	879,148	1,928,022	1,908,063
Sales and marketing (note 8)	1,127,552	781,465	2,038,425	1,450,465
General and administrative	681,663	657,850	1,359,225	1,485,233
	2,777,485	2,318,463	5,325,672	4,843,761
(Loss) earnings before undernoted	(625,155)	577,173	(1,178,720)	1,227,568
Other (income) expense:				
Amortization of plant and equipment	73,455	77,074	142,945	157,871
Foreign exchange loss	962,267	509,259	1,094,889	414,970
Stock based compensation	75,000	26,526	150,000	64,802
Other	(37,208)	(47,769)	(84,384)	(95,538)
	1,073,514	565,090	1,303,450	542,105
(Loss) earnings before income taxes	(1,698,669)	12,083	(2,482,170)	685,463
Income taxes				
Current	(221,012)	42,633	(439,669)	180,191
Future	(281,464)	(39,000)	(272,637)	22,156
	(502,476)	3,633	(712,306)	202,347
Net (loss) earnings and comprehensive (loss) income	(1,196,193)	8,450	(1,769,864)	483,116
Retained earnings, beginning of period	4,893,759	12,002,253	5,467,430	11,614,206
Excess paid on share repurchase and cancellation of common shares (note 4)	-	(734,076)	-	(820,695)
Retained earnings, end of period	\$ 3,697,566	\$11,276,627	\$ 3,697,566	\$11,276,627
Basic and diluted (loss) earnings per common share	\$ (0.10)	\$ 0.00	\$ (0.15)	\$ 0.04

See accompanying notes to interim consolidated financial statements.

# DIGITAL DISPATCH SYSTEMS INC.

Interim Consolidated Statements of Cash Flows  
 Three and six months ended June 30, 2007 and 2006  
 (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$(1,196,193)	\$ 8,450	\$(1,769,864)	\$ 483,116
Items not involving cash:				
Amortization of plant and equipment	73,455	77,074	142,945	157,871
Future income taxes	(281,464)	(39,000)	(272,637)	22,156
Amortization of gain on disposition of property	(47,769)	(47,769)	(95,538)	(95,538)
Stock based compensation	75,000	26,526	150,000	64,802
Loss on asset disposal	10,892	-	10,892	-
Unrealized foreign exchange loss	305,205	-	305,205	-
	(1,060,874)	25,281	(1,528,997)	632,407
Change in non-cash operating working capital:	346,347	699,680	514,261	2,106,409
	(714,527)	724,961	(1,014,736)	2,738,816
Investments:				
(Decrease) increase in short-term investment	(2,544,955)	621,500	(2,810,527)	386,665
Purchase of plant and equipment	(125,504)	(39,794)	(325,561)	(138,100)
Repayments on lease receivables	326,258	273,338	603,697	463,729
	(2,344,201)	855,044	(2,532,391)	712,294
Financing:				
Cash paid on share repurchase and cancellation (note 4)	-	(1,374,463)	-	(1,552,212)
	-	(1,374,463)	-	(1,552,212)
Effect of foreign currency exchange rates on cash and cash equivalents	(628,723)	(120,263)	(628,723)	(78,507)
Increase (decrease) in cash and cash equivalents	(3,687,451)	85,279	(4,175,850)	1,820,391
Cash and cash equivalents, beginning of period	6,224,387	8,506,101	6,712,786	6,770,989
Cash and cash equivalents, end of period	\$ 2,536,936	\$ 8,591,380	\$ 2,536,936	\$ 8,591,380

Supplementary cash flow information (note 7).

# DIGITAL DISPATCH SYSTEMS INC.

Notes to Interim Consolidated Financial Statements

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## 1. Consolidated financial statement presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim reporting. These interim consolidated financial statements do not include all disclosure required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, these interim financial statements should be read in conjunction with the Company’s audited financial statements as at and for the year ended December 31, 2006, accompanying notes, and management discussion and analysis filed on [www.sedar.com](http://www.sedar.com).

## 2. Significant accounting policies:

These interim financial statements follow the same accounting policies and methods of application used in the Company’s audited financial statements as at and for the year ended December 31, 2006 with the exception of the following:

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861 Financial Instruments – Disclosure and Presentation, and, Section 3865, Hedges, retroactively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except to redefine amounts previously presented in shareholders’ equity as cumulative translation account to be accumulated other comprehensive loss. The adoption of these Handbook Sections had no impact on opening retained earnings.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents, and short-term investments as held-for-trading, which are measured at fair value. Accounts receivable and income taxes receivable are classified as loans and receivables, which are measured at

# DIGITAL DISPATCH SYSTEMS INC.

Notes to Interim Consolidated Financial Statements

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amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the six months ended June 30, 2007. The Company has not designated any financial liabilities as held-for-trading.

As the Company changed the classification of its UK subsidiary to an integrated foreign subsidiary from a self sustaining foreign subsidiary as disclosed in its annual audited financial statements for the year ended December 31, 2006, the Company does not expect to recognize foreign exchange changes in other comprehensive income in the near term. Accordingly, there was no change to the Company's accumulated other comprehensive loss during the six months ended June 30, 2007 and 2006.

### 3. Accounts receivable:

	2007	2006
Accounts receivable	\$ 3,931,621	\$ 7,290,346
Unbilled receivables	2,668,571	874,473
	6,600,192	8,164,819
Less allowance for doubtful accounts	(579,000)	(537,731)
	\$ 6,021,192	\$ 7,627,088

### 4. Share capital:

#### (a) Normal course issuer bid:

During the six months ended June 30, 2006 the Company acquired and cancelled 439,086 common shares at an aggregate cost of \$1,552,212. Of this amount, \$820,695 was charged to retained earnings and \$731,517 was applied to reduce capital. The Company did not acquire or cancel any common shares under a normal course issuer bid during the six months ended June 30, 2007.

#### (b) Stock Options:

As at June 30, 2007 there were 696,295 options outstanding to purchase common shares at a weighted average price of \$3.33, of which 215,413 options having a weighted average price of \$3.53 are exercisable. Compensation expense is recognized for stock options using the fair value based method. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model and amortized over the vesting period.

The table below indicates the number of stock options granted, exercise price, calculated fair value per option using the Black-Scholes valuation model and the assumptions used in the calculation.

# DIGITAL DISPATCH SYSTEMS INC.

Notes to Interim Consolidated Financial Statements

Assumptions	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Number of stock options granted	20,000	50,000	200,000	51,000
Exercise price per option	\$ 3.00	\$3.75	\$3.00	\$3.00
Fair value per option	\$ 1.17	\$1.64	\$1.69	\$1.64
<b>Assumptions:</b>				
Risk Free interest rate	4.0%	3.4%	3.77%	3.4%
Expected Lives of options	3.0 years	3.0 years	3.0 years	3.0 years
Expected dividend yield	0%	0%	0%	0%
Expected volatility	77.4%	71.4%	74.8%	67.6%

## 5. (Loss) earnings per share:

Three months ended June 30,

	Net (Loss)	2007		Net Earnings	2006	
		Common Shares	Per Share Amount		Common Shares	Per Share Amount
Common shares outstanding at end of period		11,863,201			12,118,981	
Effect of repurchase and cancellation of common shares (note 4(a))		-			220,011	
Basic	(\$1,196,193)	11,863,201	(\$0.10)	\$8,450	12,338,992	\$0.00
Stock options		-			962	
Diluted	(\$1,196,193)	11,863,201	(\$0.10)	\$8,450	12,339,954	\$0.00

Six months ended June 30,

	Net (Loss)	2007		Net Earnings	2006	
		Common Shares	Per Share Amount		Common Shares	Per Share Amount
Common shares outstanding at end of period		11,863,201			12,118,981	
Plus proration to weighted average		-			316,069	
Basic	(\$1,769,864)	11,863,201	(\$0.15)	\$483,116	12,435,050	\$0.04
Stock options		-			962	
Diluted	(\$1,769,864)	11,863,201	(\$0.15)	\$483,116	12,436,012	\$0.04

# DIGITAL DISPATCH SYSTEMS INC.

Notes to Interim Consolidated Financial Statements

## 6. Segmented information:

(a) The Company operates in the wireless mobile data industry and all sales of its products and the services are made in this segment. The revenue of the geographic segments is as follows:

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Revenues:				
Europe	\$1,815,050	\$ 1,492,154	\$2,836,807	\$ 3,275,736
United States	1,705,956	2,304,438	3,633,324	5,070,664
Canada	774,530	1,510,495	1,454,419	2,504,253
Asia and other	33,349	181,706	260,025	644,433
	\$4,328,885	\$ 5,488,793	\$8,184,575	\$11,495,086

(b) Plant and equipment:

June 30, 2007	Cost	Accumulated amortization	Net book value
Furniture, equipment and moulds	\$ 2,625,817	\$ 2,412,151	\$ 213,666
Computer equipment and software	4,683,154	4,365,958	317,196
Intellectual property	80,585	80,585	-
Leasehold improvements	208,878	76,836	132,042
	\$ 7,598,434	\$ 6,935,530	\$ 662,904

December 31, 2006	Cost	Accumulated amortization	Net book value
Furniture, equipment and moulds	\$ 2,556,752	\$ 2,357,685	\$ 199,067
Computer equipment and software	4,583,343	4,293,816	289,527
Intellectual property	80,585	80,585	-
Leasehold improvements	83,819	81,233	2,586
	\$ 7,304,499	\$ 6,813,319	\$ 491,180

(c) The Company revenues is earned through the following activities:

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Products and services	\$4,227,727	\$5,256,301	\$7,925,106	\$11,056,707
Investments	50,161	201,575	160,085	373,329
Financing	50,997	30,917	99,384	65,050
	\$4,328,885	\$5,488,793	\$8,184,575	\$11,495,086

# DIGITAL DISPATCH SYSTEMS INC.

Notes to Interim Consolidated Financial Statements

## 7. Supplementary cash flow information:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Changes in non-cash operating working capital				
		\$		
Accounts receivable	1,258,682	\$ 879,459	\$1,929,413	\$ 2,697,589
Inc. tax recoverable & ITCs	495,009	(188,261)	427,890	(258,663)
Prepaid	(221,467)	(26,491)	(151,774)	58,119
Inventory	(1,002,360)	49,182	(1,526,211)	807,348
Sales lease	(467,909)	(312,790)	(467,909)	(312,790)
Acc. Pay. and accrued liabs.	463,184	550,277	334,358	13,816
Deferred revenue	(320,301)	(288,475)	127,756	(1,046,423)
Income taxes payable	141,509	36,779	(159,262)	147,413
	\$ 346,347	\$ 699,680	\$ 514,261	\$ 2,106,409
Other:				
Interest received	\$ 101,160	\$ 232,492	\$ 259,470	\$ 438,379
Income taxes paid	-	-	-	-
Cash and Cash equivalents				
		June 30, 2007	December 31, 2006	
Cash		\$ 1,368,725	\$ 636,882	
Short-term investments under 90 days		1,168,211	6,075,904	
		\$ 2,536,936	\$ 6,712,786	

## 8. Sales and marketing:

Included in sales and marketing, for the three and six months ended June 30, 2007, are costs totalling \$238,121 related to a project initiative with the New York City Taxi and Limousine Commission for the Company's new iView product offering.

## 9. Related Party:

The Company leases its head office land and building from a company owned by the Company's majority shareholder, under a lease expiring in September 2008. The lease payments for the three months ended June 30, 2007 is \$147,258 (2006, \$ 140,404), and for the six months ended June 30, 2007 is \$294,516 (2006, \$280,807).

A director of the Company is a partner in a legal firm that is an affiliate of a legal firm that provides legal services to the Company and its subsidiaries. The costs of these services for the three months ended June 30, 2007 is \$6,297 (2006, \$4,246), and for the six months ended June 30, 2007 is \$8,225 (2006, \$17,213).

# DIGITAL DISPATCH SYSTEMS INC.

Notes to Interim Consolidated Financial Statements

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The Company provides sales and services to a customer that is related to a director. The total sales and services provided to this customer for the three months ended June 30, 2007 is \$53,135 (2006, \$74,080), and for the six months ended June 30, 2007 is \$141,534 (2006, \$122,900). 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.

**DIGITAL DISPATCH SYSTEMS INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
Period ended June 30, 2007

This Management Discussion and Analysis (“MD&A”) of Digital Dispatch Systems Inc. (the “Company” or “Digital Dispatch”) has been prepared by management as of August 14, 2007, and should be read in conjunction with the unaudited interim consolidated financial statements and related notes thereto of the Company for the three and six months period ended June 30, 2007, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP).

**Forward-Looking statements**

This filing contains statements which, to the extent that they are not recitations of historical fact, may constitute forward-looking information. Such forward-looking statements may include financial and other projections as well as statements regarding the Company's future plans, market opportunities, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions.

Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: the need to develop, integrate and deploy applications to meet our customer's requirements; the possibility of development or deployment difficulties or delays; the dependence on our customer's satisfaction with Digital Dispatch's products; the timing of entering into significant contracts; our customers' continued commitment to the deployment of our solutions; the risks involved in developing integrated software and hardware solutions and integrating them with third-party communication and other services; the performance of the global economy and growth in software industry sales; market acceptance of the Company's products and services; customer and industry analyst perception of the Company and its technology vision and future prospects; the success of certain business combinations engaged in by the Company or by competitors; political unrest or acts of war; possible disruptive effects of organizational or personnel changes; technological change, new products and standards; risks related to acquisitions and international expansion; reliance on large customers; concentration of sales; international operations and sales; management of growth and expansion; dependence upon key personnel and hiring; reliance on a limited number of suppliers; industry growth; competition; intellectual property; product defects and product liability; currency exchange rate risk; concentration of ownership; and including but not limited to other factors described in Digital Dispatch's reports filed on Sedar, including its Annual Information Form and financial report for the year ended December 31, 2006. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information.

All forward-looking statements made in this filing are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise.

Statements in this filing about future results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in any forward-looking statements. These factors include, among others, business and economic risks and uncertainties, those described in connection with the forward-looking statements included herein and the risk factors set forth above.

In some cases, forward-looking statements can be identified by the use of words such as “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or “continue” and statements that an event or result “may,” “will,” “should,” “could,” or “might occur” or “be achieved”, or “the negative” or other variations of these words, or other comparable words or phrases. Forward-looking statements are based on estimates and opinions of management at the date the statements are made.

Although the Company believes that the expectations reflected in its forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements or other future events. Moreover, neither the Company nor anyone else assumes responsibility for the accuracy and completeness of forward-looking statements. The Company is under no duty to update any of its forward-looking statements after the date of this filing. All forward-looking statements in this filing are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. For the reasons set forth above, the reader should not place undue reliance on forward-looking statements.

## Overall Performance

### *Company Overview*

Digital Dispatch is a global provider of wireless mobile data solutions for productivity improvement in vehicle fleet and workforce management. The Company has been in operation for twenty years, and has installed over 75,000 wireless mobile data devices and over 200 wireless data systems in four continents with the majority installed in the taxi market. Digital Dispatch has offices in Canada, the United Kingdom, Sweden, Singapore and the United States.

Digital Dispatch’s products and services include dispatch software, in-vehicle mobile devices and wireless communication infrastructure. The Company is a global leader in providing wireless data capture systems for productivity improvement in the taxi market, and also provides solutions for the roadside assistance, transit/para-transit, emergency services, airport shuttle, courier, and vehicle location and tracking markets. Its solutions range from end-to-end data dispatch solutions to combinations of its mobile devices and communication infrastructure with other applications. The turnkey, end-to-end solutions provide real-time dispatching, vehicle location and tracking, and computerized routing and scheduling as well as the wireless communication infrastructure and the in-vehicle mobile devices. The Company also provides peripheral products such as printers, in-vehicle cameras, and debit and credit card interfaces.

### *Financial Performance Summary*

<b>For the six months ended June 30,</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenue	100.0%	100.0%	100.0%
Costs of sales	49.3%	47.2%	50.1%
Gross margin	50.7%	52.8%	49.9%
Operating expenses			
Research and development	23.6%	16.6%	17.0%
Sales and marketing	24.9%	12.6%	13.4%
General and administration	16.6%	12.9%	11.9%
Other	15.9%	4.7%	1.3%
Total operating expenses	81.0%	46.8%	43.6%
Net operating income	(30.3%)	6.0%	6.3%
Tax expense (recovery)	(8.7%)	1.8%	1.9%
Net (loss) earnings	(21.6%)	4.2%	4.4%

The financial performance for the six months ended June 30, 2007 compared to the same period ended June 30, 2006 is summarized as follows:

- Revenue decreased by 29% to \$8.2 million for the six months ended June 30, 2007;

- Other expense totaled \$1.3 million for the six months ended June 30, 2007, compared to \$0.5 million for the same period ended in 2006, which is primarily attributable to foreign exchange loss due to the strengthened Canadian dollar;
- The Company experienced a net loss after tax of \$1.2 million for the six months ended June 30, 2007 compared with net income of \$8,000 in the prior year; and
- Earnings per common share decreased from \$0.04 for the six months ended June 30, 2006, to a loss of (\$0.15) per common share for the six months ended June 30, 2007.

#### *Selected Financial Information*

Six months ended	June 30, 2007	June 30, 2006	June 30, 2005
Revenue	\$ 8,184,575	\$ 11,495,086	\$ 12,328,089
Revenue from outside Canada (%)	82%	78%	85%
Net (loss) income	(\$ 1,769,864)	483,116	545,134
Basic (loss) earnings per common share	(\$0.15)	\$0.04	\$0.04
Common shares outstanding (weighted average)	11,863,201	12,436,012	13,077,985
Total assets	\$ 27,632,578	\$ 37,734,053	\$ 37,354,753
Total long-term financial liabilities	Nil	Nil	Nil
Cash dividends per common share	Nil	Nil	Nil

The Company's expenses, not including foreign exchange gain or loss, are relatively stable from year to year resulting in a significant increase or decrease in earnings per share based on revenues achieved.

#### **Financial Results for the Six Months ended June 30, 2007**

##### *Revenues*

Six months ended June 30, 2007	Change	Six months ended June 30, 2006	Change	Six months ended June 30, 2005
\$ 8,184,575	(29%)	\$ 11,495,086	(7%)	\$ 12,328,089

Revenues for the period ended June 30, 2007 were \$8.2 million representing a decrease of 29% from \$11.5 million for the same period in the prior year which is mainly attributable to the strengthening Canadian dollar versus the US dollar in which the majority of the Company's revenues are generated, the timing of delivery of outstanding customer orders and to lower sales volume in the Company's primary taxi market. Revenue attributable to the non-taxi markets decreased by 41% from \$2.2 million in 2006 compared to \$1.3 million in 2007 while sales outside of Canada decreased by 25% to \$6.7 million from \$9.0 million for the same period in the prior year.

The revenue contributions for the six months ended June 30, 2005 to 2007 inclusive from the Company's respective markets are summarized as follows:

Six months ended	June 30, 2007	Percent	June 30, 2006	Percent	June 30, 2005	Percent
Taxi – North America	\$ 4,180,953	51%	\$ 6,226,318	54%	\$ 5,108,904	41%
Taxi – International	2,704,174	33%	3,084,010	27%	3,686,207	30%
Non-Taxi Markets	1,299,448	16%	2,184,758	19%	3,532,978	29%
Total Revenue	\$ 8,184,575	100%	\$ 11,495,086	100%	\$ 12,328,089	100%

The Company experienced lower revenue for its North America and international taxi markets during the six months ended June 30, 2007 compared with the prior periods although revenue attributable to the international taxi market represented a higher percentage of total revenue for this period. The Company also experienced lower sales volume in its non-taxi markets during the six months ended June 30, 2007 compared with prior years. The Company continues to pursue sales opportunities in the non-taxi market and expects revenue to fluctuate dependent upon the timing of execution of such sales opportunities.

### *Gross Margin*

<b>Six months ended</b>	<b>June 30, 2007</b>	<b>Percent</b>	<b>Change</b>	<b>June 30, 2006</b>	<b>Percent</b>	<b>Change</b>	<b>June 30, 2005</b>	<b>Percent</b>
Revenue	\$ 8,184,575	100.0%	(28.8%)	\$ 11,495,086	100.0%	(6.8%)	\$ 12,328,089	100.0%
Costs of sales	4,037,623	49.3%	(25.6%)	5,423,757	47.2%	(12.1%)	6,173,073	50.1%
Gross margin	\$ 4,146,952	50.7%	(31.7%)	\$ 6,071,329	52.8%	(1.4%)	\$ 6,155,016	49.9%

Gross margin for the six months ended June 30, 2007 (defined as total revenues less cost of sales) was \$4.1 million representing a decrease of 32% from \$6.1 million for the same period ended June 30, 2006. This decrease in total gross margin is mainly due to the 29% decrease in revenue plus the corresponding decrease in project staff utilization and other fixed costs during the six month period ended June 30, 2007. The gross margin expressed as a percentage of sales decreased to 50.7% compared to 52.8% for the same period in the prior year. Although the Company's gross margin percentage decreased for the six months ended June 30, 2007, it still exceeded the Company's target gross margin percentage of 50%.

### *Operating Expenses*

<b>Six months ended</b>	<b>June 30, 2007</b>	<b>Change</b>	<b>June 30, 2006</b>	<b>Change</b>	<b>June 30, 2005</b>
Total operating expenses	\$ 5,325,672	10%	\$ 4,843,761	(7.2%)	\$ 5,218,811
% of revenue	65%		42%		42%

Operating expenses totaled \$5.3 million for the six months ended June 30, 2007 as compared to \$4.8 million and \$5.2 million for the same periods ended 2006 and 2005, respectively. The increase of ten percent experienced by the Company for the six months ended June 30, 2007 over the same period in the prior year is due to increased costs as the Company focused on geographical expansion and diversification into new market opportunities such as its ASP eFleet product line and a project initiative for the Company's new iView product with the New York Taxi and Limousine Commission.

### *Research and Development*

<b>Six months ended</b>	<b>June 30, 2007</b>	<b>Change</b>	<b>June 30, 2006</b>	<b>Change</b>	<b>June 30, 2005</b>
Research & Development	\$ 1,928,022	1.0%	\$ 1,908,063	(9.0%)	\$ 2,096,419
% of revenue	24%		17%		17%

The Company has research and development groups located in Richmond, BC. and most recently in Gurgaon, India with the large majority of its research and development employee headcount based in Richmond, BC. The Gurgaon, India facility was closed on March 31, 2007 with all operations now concentrated in Richmond, BC. The Company's research and development team located in Richmond, BC. consists of two groups with one group focusing on hardware and the second group focusing on software. Substantially all of the research and development expenditures relate to employee compensation and facility costs. Research and development expenditures were consistent at \$1.9 million for the six months ended 2007 and 2006, respectively and lower than the \$2.1 million for the same period in 2005. The Company experienced lower project development material costs of \$11,000 for the six months ended 2007 compared to \$92,000 for the same period ending in 2006, which was offset by lower Canadian investment tax credits ("ITC's") applied against research and development expenses during the six months ended June 2007 of \$183,000 as compared to \$252,000 for the same period in the prior year. In accordance with its strategic plan, the Company intends to continue to invest a significant portion of future revenues in the enhancement of existing products and the development of new products.

### *Sales and Marketing*

<b>Six months ended</b>	<b>June 30, 2007</b>	<b>Change</b>	<b>June 30, 2006</b>	<b>Change</b>	<b>June 30, 2005</b>
Sales and marketing	\$ 2,038,425	40.5%	\$ 1,450,465	(12.3%)	\$ 1,653,588
% of revenue	25%		13%		13%

The Company maintains a direct sales force, with staff in Canada and the UK. A centralized marketing department in Richmond, BC. supports the worldwide sales organization. Sales and marketing expenses are

made up of employee compensation and related travel, trade shows, advertising, promotion, communication and facilities costs.

Sales and marketing expenses increased to \$2.0 million for the six months ended June 30, 2007 compared to \$1.5 million for the same period in the prior year. This increase is primarily due to increased sales and marketing expenses to launch the Company's new iView product offering via a project with the New York City Taxi and Limousine Commission ("TLC") for which the Company also expensed related project costs incurred prior to receipt of notice to proceed ("NTP").

*General and Administrative*

Six months ended	June 30, 2007	Change	June 30, 2006	Change	June 30, 2005
General and Administration	\$ 1,359,225	(8.5%)	\$ 1,485,233	1.1%	\$ 1,468,804
% of revenue	17%		13%		12%

General and administrative expenses include executive and administrative staff, facilities, public company costs, insurance, audit and legal fees as well as a number of minor administrative costs. General and administrative costs decreased to \$1.4 million for the six months ended June 30, 2007 compared to \$1.5 million for the same period in the prior year due a reduction in bad debt expense and professional fees.

*Other (Income) and Expense*

Six months ended	June 30, 2007	Change	June 30, 2006	Change	June 30, 2005
Other (income) and expense	\$ 1,303,450	140.4%	\$ 542,105	250.2%	\$ 154,817
% of revenue	16%		5%		1%

The increase in 2007 over the prior year is attributable to foreign exchange and stock compensation expense as follows:

- Net foreign exchange loss of \$1.1 million was experienced for the six months ended June 30, 2007, which is attributable to the strengthening Canadian dollar during 2007 on short term investments and accounts receivable denominated in US dollars, UK pounds or Euros, as compared to losses of \$415,000 for the same period ended in 2006; and
- Stock compensation expense totaled \$150,000 for the six months ended June 30, 2007 compared to \$65,000 for the same period in the prior year, which represents the estimated cost to the Company of stock options, using the Black-Scholes option-pricing model factoring in additional options granted by the Company during 2007.

Foreign currency risk is the risk to the Company's earnings that arises from fluctuations in foreign currency exchange rates and the degree of volatility of these rates. A substantial portion of the Company's sales are derived in US dollars. The Company has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

*Income Tax*

The Company's effective tax rate for the six months ended June 30, 2007 was 29% as compared to the 2006 rate of 30% for the same period. The Company is subject to corporate income tax rates in varying jurisdictions, ranging principally from 20% to 34%, and the effective rate in any given year or quarter depends on the proportion of income or losses in each jurisdiction with the expected effective tax rate to be consistent with that experienced in prior years.

**Summary of Quarterly Results (1)**

<b>Three months ended</b>	<b>Sep. 30, 2005</b>	<b>Dec. 31, 2005</b>	<b>Mar. 30, 2006</b>	<b>Jun. 30, 2006</b>	<b>Sep. 30, 2006</b>	<b>Dec. 30, 2006</b>	<b>Mar. 30, 2007</b>	<b>Jun. 30, 2007</b>
Revenue (2)	\$ 5,865	\$ 9,028	\$ 6,006	\$ 5,489	\$ 6,047	\$ 6,080	\$ 3,856	\$ 4,329
Cost of sales (2)	2,844	4,440	2,830	2,593	2,830	3,114	1,861	2,177
Gross margin (2)	3,021	4,588	3,176	2,896	3,217	2,966	1,995	2,152
Gross margin percentage	51.5%	50.8%	52.9%	52.8%	53.2%	48.8%	51.7%	49.7%
Operations expenses (2)	2,491	2,359	2,525	2,318	2,307	2,752	2,548	2,777
Net income (2)	(\$ 236)	\$ 1,824	\$ 474	\$ 8	\$ 614	\$ 1,215	(\$ 574)	(\$ 1,196)
Earnings (loss) per common share	(\$0.02)	\$0.14	\$0.04	\$0.00	\$0.05	\$0.10	(\$0.05)	(\$0.10)

(1) The above balances are unaudited

(2) Expressed in '000's.

### **Financial Results for the Three Months Ended June 30, 2007**

#### *Revenues*

Revenues for the three months ended June 30, 2007 were \$4.3 million representing a decrease of 21% from \$5.5 million for the same period in 2006, and an increase of 12% from the first quarter of 2007. The decrease in revenue from 2006 is primarily attributable to the strengthening Canadian dollar versus the US dollar in which the majority of the Company's revenues are generated, the timing of delivery of outstanding customer orders and to decreased sales order volume and related implementation projects.

#### *Gross Margin*

Gross margin (defined as total revenue less cost of sales) for the three months ended June 30, 2007 was 49.7% compared to 52.8% for the same period ending 2006. This decline is principally driven by the decline in sales volume in addition to lower project staff utilization and other fixed costs.

#### *Operating expenses*

Operating expenses for the three months ended June 30, 2007 were \$2.8 million representing an increase from \$2.3 million for the same period in 2006, and \$2.5 million for the first quarter in 2007. The increase for the three months ended June 30, 2007 over the same period in the prior year is primarily attributable to incremental costs related to the Company's diversification into new business initiatives and into non-taxi vertical markets and the new iView project initiative with the New York City Taxi and Limousine Commission.

<b>Three months ended,</b>	<b>June 30, 2007</b>	<b>March 31, 2007</b>	<b>June 30, 2006</b>
Research & Development	\$ 968,270	\$ 959,752	\$ 879,148
% of revenue	22%	25%	16%

Research and development expenses were \$968,000 in the three months ended June 30, 2007 compared to \$879,000 in the same period of the prior year and \$960,000 for the three months ended March 31, 2007. The increase from 2006 is primarily due to lower ITCs claimed in 2007. For the three months ended June 30, 2007 the Company claimed \$118,000 of ITCs compared to \$186,000 for the same period in 2006.

<b>Three months ended,</b>	<b>June 30, 2007</b>	<b>March 31, 2007</b>	<b>June 30, 2006</b>
Sales and Marketing	\$ 1,127,552	\$ 910,873	\$ 781,465
% of revenue	26%	24%	14%

Sales and marketing expenses for the three months ended June 30, 2007 were \$1,128,000 representing an increase from \$781,000 for the same period in 2006, and \$911,000 for the three months ended March 31, 2007. The increase for the three months ended June 30, 2007 over the same period in the prior year is primarily attributable to its incremental investment in sales and marketing efforts associated with the Company's new

iView business initiative with the New York City TLC during the period. In addition, the Company expensed project costs related to its TLC initiative totaling \$238,000 incurred prior to receipt of NTP during the period.

<b>Three months ended,</b>	<b>June 30, 2007</b>	<b>March 31, 2007</b>	<b>June 30, 2006</b>
General and Administrative	\$ 681,663	\$ 677,562	\$ 657,850
% of revenue	16%	18%	12%

General and administration expenses for the three months ended June 30, 2007 were \$682,000 compared to \$658,000 and \$678,000 for the three month periods in June 30, 2006 and March 31, 2007, respectively. The increase over 2006 is primarily due to higher travel and other costs related to the Company's pursuit of acquisition opportunities.

#### *Other (Income) and Expense*

Other (income) and expense costs totaled \$1.1 million in the three months ended June 30, 2007, representing an increase from \$565,000 and \$230,000 for the three months ended June 30, 2006 and March 31, 2007, respectively. The change is primarily attributable to foreign exchange loss of \$962,000 for the three months ended June 30, 2007 compared to \$509,000 and \$133,000 for the same period in 2006 and the prior quarter ended March 31, 2007, respectively due to the strengthened Canadian dollar versus the US dollar in which the Company generates the majority of its revenues. Stock compensation expense, which represents the estimated cost to the Company of stock options, using the Black-Scholes option-pricing model factoring in additional options granted by the Company during the period, was the same for the first two quarters of 2007, at \$75,000 and higher than the \$27,000 for the same period in 2006, the increase is due to more stock options granted by the Company in 2007.

#### *Income Tax*

The Company's income tax rate for the three months ended June 30, 2007 was (30%) or a recovery of (\$502,000) as compared to the 2006 rate of 30% or \$4,000 for the same period.

#### *Net Income after tax*

Net loss after tax was (\$1.2 million) or (\$0.10) per share for the three months ended June 30, 2007, as compared to \$8,000 net income or \$0.00 earnings per share, and (\$574,000) net loss or (\$0.05) per share, for the three month periods ending June 30, 2006 and March 31, 2007, respectively. The decrease experienced in the three months ended June 30, 2007, is attributable to the decrease in sales volume experienced by the Company during this period.

#### *Liquidity and Capital Resources*

The Company as at June 30, 2007 had \$9.7 million of cash and short-term investments, compared to \$11.1 million as at December 31, 2006. The June 30, 2007 decrease in cash of \$4.2 million is primarily attributable to the Company's loss from operations of \$1.5 million, and a \$2.8 million increase in short-term security investments.

The Company's working capital as at June 30, 2007 of \$17.7 million is a decrease of \$2.9 million from the \$20.5 million as at December 31, 2006. The decrease is primarily the result of the Company's loss from operations and reductions in accounts receivable and income taxes receivable, this was offset with increased inventory.

The Company's cash and short-term investments are primarily intended for use in the Company's growth strategy, which includes acquisitions, geographic expansion and product development activities. The Company continues to actively pursue potential acquisition opportunities. The Company believes that with its current working capital it will have sufficient resources to carry on operations in the short-term and the long-term and to pursue its business plan.

Operating activities for the six months ended June 30, 2007 resulted in a cash decrease of \$1.0 million compared to an increase in cash of \$2.7 million for the same period ended in the prior year. The decrease in cash is primarily the result of loss from operations, funding inventory for the project initiative with the New York City Taxi and Limousine Commission for its new iView product, and accounts receivable. For the three months ended June 30, 2007 the Company had a decrease in cash of \$700,000 compared to an increase in cash of \$700,000 for the three months ended June 30, 2006. The loss from operations and increase in inventory are the primary reasons for the decrease in cash for the three months ended June 30, 2007.

Investing activities resulted in a decrease in cash for the six months ended June 30, 2007 of \$2.5 million compared to an increase in cash of \$700,000 for the same period ended in the prior year, and a decrease of \$2.3 million for the three months ended June 30, 2007, compared to a \$900,000 increase for the three months ended June 30, 2006. The decrease in cash is the result of increased short-term investments and capital expenditures for building leasehold improvements.

There were no financing activities for the six month period ended June 30, 2007, compared to the decrease in cash of \$1.6 million and \$1.4 million for the six and three month periods ended June 30, 2006 respectively. The 2006 investing activity consisted of the repurchase of shares under the Normal course issuer bid.

The impact of foreign exchange resulted in a decrease in cash of \$629,000 for the six and three months ended June 30, 2007, compared to decreases in cash of \$79,000 and \$120,000 for the six and three month periods ended June 30, 2006, respectively.

	Payments Due by Period				
	Total	For the six months ending Dec 31/07	For the three years ending Dec 31/10	For the one year ending Dec 31/11	After Dec 31/11
<b>Contractual Obligations</b>					
Long-Term debt	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	-	-	-	-	-
Operating leases	1,004,975	349,256	626,548	29,170	-
Purchase obligations	1,551,951	1,551,951	-	-	-
Other long term obligations	-	-	-	-	-
<b>Total contractual obligations</b>	<b>\$ 2,556,926</b>	<b>\$ 1,901,207</b>	<b>\$ 515,548</b>	<b>\$ 29,170</b>	<b>\$ -</b>

The Company entered operating leases in the normal course of business which are primarily attributable to facility leases for its operations. The Company's purchase obligations are with vendors in the normal course of operations. The Company does not foresee any liquidity risk with these items which will be funded from the Company's working capital in the next twelve months.

#### *Off-Balance Sheet Arrangements*

The New York City Taxi and Limousine Commission required the Company put up a US\$250,000 performance bond. When certain conditions are met, the Company will be required to increase the performance bond amount up to US\$1.0 million.

#### *Transactions with Related Parties*

The Company leases its head office land and building from a company owned by the Company's majority shareholder, under a lease expiring in September 2008, with minimum annual lease payments under the lease agreement as follows:

2007: \$592,136  
2008: \$457,837

This lease arose as part of a sale and leaseback transaction entered into in 2003, resulting in a gain to the Company of \$955,381, which is amortized over the term of the lease. The deferred gain represented by the

unamortized portion at January 1, 2007 is \$334,384 (January 1, 2006 - \$525,460). The payments with respect to this lease are based on fair market value and total \$592,136 for the year ending December 31, 2007 compared to \$567,719 for the prior year.

A director of the Company is a partner in a legal firm that is an affiliate of a legal firm that provides legal services to the Company and its subsidiaries. The costs of these services for the six months ended June 30, 2007 were \$8,225 compared to \$17,213 for the same period in the prior year.

The Company provides sales and services to a customer that is related to a director. The total sales and services provided to this customer were \$141,534 for the six months ended June 30, 2007 compared to \$122,900 for the same period in the prior year. 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.

#### *Proposed Transactions*

The Board of Directors has not committed to proceed with any proposed asset or business acquisitions or dispositions.

#### **Critical Accounting Policies and Estimates**

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and all dollar amounts are expressed in Canadian dollars. For a complete description of the Company's significant accounting policies, please refer to note 2 to of the annual audited financial statements.

The Company's revenues come from three primary sources:

- Contracts for complete wireless dispatch systems
- Maintenance and support services related thereto,
- Sales of additional and replacement devices.

Contracts for complete wireless dispatch systems include multiple deliverables, which are separated into discrete units of accounting based on the residual method. Revenues from installation of system infrastructure are recorded using the percentage-of-completion method, which results in deferred revenue on the balance sheet when services are invoiced in advance of the revenue being earned, and unbilled receivables on the balance sheet when revenue is earned prior to invoicing the customer. Profit estimates on contracts where the percentage-of-completion method is applied are revised periodically based on changes in circumstances, and losses on contracts are recognized immediately. Revenues from system devices related to contracts for complete wireless dispatch systems are recorded when all significant acts have been completed, delivery has occurred with no substantial risk of return, and collectibility is reasonably assured. The Company maintains a security interest in systems and devices until payment has been received in full.

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.

Revenues from sales of additional and replacement devices are recognized once delivery has occurred with no substantial risk of return and collectibility is reasonably assured.

Allowance for doubtful accounts is established for estimated losses that may arise for customers unable to make required payments. The following factors are considered when determining whether collection is reasonably assured: customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. If there is no previous experience with the customer typically financial information is requested from the customer, including financial statements, to ensure that the customer has the means of making payment. If the financial condition of the customer deteriorates, the allowance may be increased.

Inventory is valued at the lower of cost and estimated net realizable value. The need for an inventory write-down or an accrual for estimated losses on inventory purchase commitments are based on an assessment of estimated market value using assumptions about future demand and market conditions. Reserve requirements generally increase as projected demand requirements decrease, due to market conditions, technological and product life cycle changes and longer than previously expected usage periods. On the event that market conditions are significantly worse than anticipated. The Company may further write-down the value of our inventory or increase the accrual for estimated losses on inventory purchase commitments.

Future income tax assets are assessed whether their realization is more likely than not. If their realization is not considered more likely than not a valuation allowance is provided. The ultimate realization of a future tax asset is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Projected future taxable income and tax planning strategies are considered when making the assessment. When the assessment indicates the ability to realize a future tax asset changes, the future tax asset may be adjusted by way of a charge to income.

Product warranty costs are accrued to accrued liabilities to provide for the repair or replacement of defective products. The accrual is based on an assessment of historical experience and management's estimates. If there is a change in product quality the accrual is adjusted accordingly.

The Company is committed to royalty payments for License agreements based on the sales of products using certain technologies. Royalty obligations are determinable in accordance with agreement terms.

#### *Changes in Accounting Policies including Initial Adoption*

There were no changes in accounting policies for the six months ended June 30, 2007.

#### *Recent Canadian Accounting Pronouncements*

The CICA issued four new accounting standards: Handbook Section 1530, Comprehensive Income ("Section 1530"), Handbook Section 3855, Financial Instruments - Recognition and Measurement ("Section 3855"), Handbook Section 3865, Hedges ("Section 3865") and Handbook Section 3861, Financial Instruments - Disclosures which become effective for the Company for periods beginning on or after January 1, 2007.

Comprehensive income: Section 1530 introduces Comprehensive income which is comprised of Net income and Other comprehensive income and represents changes in Shareholders' equity during a period arising from transactions and other events with non-owner sources. Other Comprehensive Income ("OCI") includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Digital Dispatch's Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income and the cumulative amount, Accumulated Other Comprehensive Income ("AOCI"), will be presented as a new category of Shareholders' equity in the Consolidated Balance Sheet.

Financial instruments - recognition and measurement: Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets will be measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in OCI. Investments in equity instruments

classified as available-for-sale that do not have a quoted market price in an active market will be measured at cost. Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instruments or other contracts but are not closely related to the host financial instrument or contract, respectively.

Changes in the fair values of derivative instruments will be recognized in Net income, except for derivatives that are designated as a cash flow hedge, the fair value change for which will be recognized in OCI. Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Hedges: Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in net income. The change in the fair value of the hedged item, to the extent that the hedging relationship is effective, will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion will be recognized in net income. The amounts recognized in AOCI will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments will be recognized in OCI and the ineffective portion is recognized in net income.

Impact of adopting sections 1530, 3855 and 3865. The transition adjustment will be recognized in the opening balance of AOCI as at January 1, 2007, as a result of adjustments, if any, arising due to re-measuring financial assets classified as available-for-sale.

#### *Impact of adopting sections 1530, 3855, 3861 and 3865*

Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except to redefine amounts previously presented in shareholders' equity as cumulative translation account to be accumulated other comprehensive loss. The adoption of these Handbook Sections had no impact on opening retained earnings.

Upon adoption of these new standards, on January 1, 2007, the Company designated its cash, cash equivalents, and short-term investments as held-for-trading, which are measured at fair value. Accounts receivable and income taxes receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities. The Company had neither available-for-sale, nor held-to-maturity instruments during the six months ended June 30, 2007. The Company has not designated any financial liabilities as held-for-trading.

As the Company changed the classification of its UK subsidiary to an integrated foreign subsidiary from a self-sustaining foreign subsidiary as disclosed in its annual audited financial statements for the year ended December 31, 2006, the Company's cumulative translation account is not expected to change in the near term. Accordingly, there was no change to the Company's accumulated other comprehensive loss during the six months ended June 30, 2007 and 2006, respectively.

### *Financial Instruments and Other Instruments*

The Company's use of financial instruments and other instruments is limited to highly liquid short term investments whose fair values approximate their carrying value, lease receivables resulting from the sale of certain systems using sales-type lease; and trade accounts receivable and payable.

Risks associated with financial instruments are minimal as they are fixed rate and short term.

#### **Disclosure of Outstanding Share Data**

Share capital	Issued and outstanding at August 14, 2007	Convertible
200,000,000 Common shares without par value	11,863,201	Non-convertible
50,000,000 Preferred shares without par value	None	Non-convertible

As at August 14, 2007, the Company had outstanding 683,833 options to acquire common shares at prices ranging from \$3.00 to \$3.75 per share.

#### **Disclosure Controls and Procedures and Controls Over Financial Reporting**

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as at December 31, 2006 (the "Evaluation Date") as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as at the Evaluation Date, the Company's disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company (or its consolidated subsidiaries) required to be included in the Company's periodic SEDAR filings.

In 2007, management has designed certain additional internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. These changes related to accounts receivable and allowance for doubtful accounts, foreign exchange classification, income tax expense and sales contract administration as disclosed in our December 31, 2006, MD&A.

Management has concluded that the internal controls of the Company have been adequately designed. Any weaknesses identified at the year end audit have been addressed appropriately by management. Management has determined that it will assess the need for improvements pertaining to the Company's internal controls, if any, including ensuring that the personnel implementing its internal controls have appropriate skills and training, that checklists are used to ensure that internal control processes are well defined and adhered to and that its internal controls are sufficiently documented regarding the review and evidence of operation.

#### **Changes in Internal Controls**

Other than as noted above, there were no changes made to the Company's internal controls over financial reporting during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

#### **Audit Committee Financial Expert**

The Company appointed Erik Dysthe, an independent director, as Chairman of the Audit Committee. All members of the Audit Committee are independent and meet the qualifications of financial expert.

**Code of Business Conduct**

In May 2006, the Company adopted a Code of Business Conduct. The Code of Business Conduct has been posted on our website and can be accessed at [www.digital-dispatch.com](http://www.digital-dispatch.com).

**Additional Information**

Additional information related to the Company, including the Company's Annual Information Form for the year ended December 31, 2006, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Form 52-109F2 Certification of Interim Filings**

I, **Vari Ghai, President and Chief Executive Officer of Digital Dispatch Systems Inc.**, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of **Digital Dispatch Systems** for the interim period ending **June 30, 2007**;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: August 14, 2007

"Vari Ghai"

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Vari Ghai  
President and CEO

Form 52-109F2 *Certification of Interim Filings*

I, **George Reznik, CFO of Digital Dispatch Systems Inc.**, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of **Digital Dispatch Systems** for the interim period ending **June 30, 2007**;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:
  - (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and
  - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: August 14, 2007

"George Reznik"

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George Reznik  
CFO