

# **DDS WIRELESS INTERNATIONAL INC.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Three and Six months ended June 30, 2009

This Management Discussion and Analysis (“MD&A”) of DDS Wireless International Inc. (the “Company” “DDS Wireless” or “DDS”) has been prepared by management as of August 5, 2009, 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 ended June 30, 2009, 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 DDS Wireless' 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 its 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 DDS Wireless' reports filed on Sedar, including its Annual Information Form and financial report for the most recent fiscal year. 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.

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.

**Fellow shareholders:**

I am pleased to report that we delivered revenues of \$9.1 million for the second quarter of 2009, representing 11.3% growth over the prior year. This performance is a direct result of our strategic efforts to drive expansion into new verticals and geographies, and increase our base of recurring revenues. These important developments to our business have enabled DDS Wireless International to prosper and grow despite the challenging economic environment. As we progress throughout this year and the next we expect our businesses to show the benefits of additional strategic initiatives:

- The acquisition of StrataGen Systems Inc. completed late in 2007, will continue to drive diversification, growth and cross selling opportunities. Last year StrataGen sold close to one million dollars of DDS wireless mobile devices and this year that number is expected to double. We expect this trend to continue into the next year.
- Localizing the Taxi-Book product acquired as part of MobiSoft OY and launching it in North America. This segment represents more than 85% of the taxi vehicles in North America and is a very significant market opportunity for the Company.
- Investing in the development of eFleet product for hosted fleet management services which is now widely used in Limousine and waste management vertical markets.

Our recurring revenues continue to represent a growing and stabilizing force in our business and accounted for 65% of our revenue in the quarter ended June 30, 2009. Growth was experienced in both our traditional maintenance revenue stream and in subscription and transaction revenues from the growth in our Bundled Subscription Solutions.

Geographically, we demonstrated great success in Europe in Q2, with revenue growth in the region of 34% over the prior year. 49% of our revenues in Q2 were from outside of North America, and during the second half of 2009 we plan to undertake further initiatives to continue to drive the geographic expansion of our business.

Digital Dispatch, our Taxi business unit, saw its Q2 revenues grow by 10% from the same period in 2008. Digital Dispatch's enterprise business also showed good strength in Q2, with the shipment of a large order to one of Company's largest customers in France, and the signing of a contract to upgrade a longstanding customer to the Company's latest generation wireless fleet management solution.

StrataGen Systems, our business unit serving the transit market, secured a contract for additional upgrades and professional services to MTA New York Transit, one of the largest para-transit operators in the world. In addition, the business garnered several new contract wins which included the Regional District of Nanaimo in British Columbia, Allen County, Ohio, and Tuolumne County, California. These new customer wins were the result of our additional focus on the mid-market, and we are particularly pleased by these successes.

During Q2, StrataGen also made good progress toward completion of the \$3.2 million Access Services (ASI), Los Angeles contract signed last year and toward the MTA New York Transit order placed in the first quarter of 2009. In Europe, our Transit business closed an important contract with Tampere, Finland for the Company's demand response routing and scheduling system, which follows the City of Helsinki contract win in Q1. StrataGen also recently announced significant orders for the delivery of additional licenses, services, and support to Massachusetts's Bay Transit Authority, further strengthening its position as one of the leading suppliers of scheduling and fleet management applications to the largest transit authorities in the world.

Our eFleet unit, announced a number of key deals that will add significant new subscribers in the waste management, limousine, ground transportation and work fleet markets. Revenues from the eFleet™ hosted fleet management subscription solution continued to show tremendous growth in the second quarter with revenue up by 117% over the same period in the prior year albeit from a small base. Our greater emphasis on the heavy equipment industry has started to show some good opportunities in the second quarter which will serve to further extend eFleet's presence in other verticals.

We are reaffirming our previously issued guidance of revenues in the \$35 million to \$36 million range and positive earnings before interest, stock compensation, taxes, foreign exchange, and amortization for the year ending December 31, 2009. Actual revenues may vary significantly from guidance given due to economic conditions, foreign exchange and other factors.

“Vari Ghai”

Vari Ghai  
Chairman and Chief Executive Officer

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.

## **Overall Performance**

### *Company Overview*

DDS Wireless is a global provider of wireless mobile data solutions to multiple markets using state of the art technologies in real-time dispatching, vehicle location and tracking, as well as computerized routing and scheduling. Its offerings include mobile data computers, fleet management applications, communications infrastructure, project management, long-term customer support as well as multimedia mobile commerce systems for fleets. Previously known as Digital Dispatch Systems Inc., the Company has been a world leader in providing wireless data dispatch systems to the taxi market for over 20 years.

In 2008, the Company reorganized itself to operate as four market focused businesses: Taxi, Transit, eFleet and Wireless Devices and Communications - each committed to providing the best in class solutions for its specific market with a clear customer focus and dedicated resources. With a presence in Canada, the U.S., the U.K., Sweden, Finland, India and Singapore, the Company services the needs of its customers on a worldwide basis. Prior to 2008, the Company primarily focused on the taxi industry.

Today, DDS Wireless offers a range of solutions for diverse market segments through the following four different businesses. Primary revenue streams are revenues from system installation and implementation projects and recurring revenues, which include revenues from long-term customer maintenance service agreements, transaction based revenue (credit cards, debit cards and trip dispatch), Bundled Subscription Solutions (“BSS”) and sale of accessories to its existing customer base. For the three months ended June 30, 2009 approximately 65% of the Company’s revenue is recurring.

### *Taxi Business Unit: Digital Dispatch*

The Company's most established and largest business operates under the names of Digital Dispatch and MobiSoft.

Digital Dispatch is a global provider of computerized dispatching and turnkey wireless fleet management solutions for taxi fleets ranging in size from ten to several thousand vehicles. The addition of MobiSoft’s bundled subscription solution for fleet management has further expanded Digital Dispatch’s portfolio of offerings, and has enabled it to address the needs of small taxi fleets. In 2008 Digital Dispatch launched MobiSoft’s bundled subscription solution in North America under the TaxiBook™ name. In addition, Digital Dispatch provides mobile commerce (credit and debit cards) and interactive multimedia solutions, provides information, entertainment and advertising for taxis through a passenger information monitor called SmartCab™. Working with taxi companies and advertising partners, this business is focused on leveraging the Company’s strong taxi fleet management heritage to introduce new leading-edge services and solutions to the taxi industry.

### *Transit Business Unit: StrataGen Systems Inc. (“StrataGen”)*

Boasting a customer base that includes 4 of the top 5, and 10 of the top 20 transit authorities in North America, as well as numerous small demand response operators in Europe, the Transit operations of StrataGen combine DDS Wireless’ ongoing business as a supplier of mobile devices and wireless communications infrastructure with StrataGen’s advanced scheduling, dispatching and client management software and MobiSoft’s bundled scheduling and dispatching solution. This has positioned StrataGen as a premier solutions provider in the transit market with an end-to-end solution using core mobile data technologies from DDS Wireless. The combination of DDS Wireless’ transit business with that of MobiSoft and StrataGen has provided critical mass to this business unit under a dedicated and focused team.

### *Dispatch Fleet Management Business Unit: eFleet*

Catering to commercial fleets like limousines and work trucks, eFleet™ extends some of the core functionalities of computerized dispatching to commercial fleet operators without the upfront costs of maintaining an in-house

solution. The eFleet™ system is a bundled subscription solution that includes software, hardware and data networks that are securely accessible via any Internet web browser. The eFleet™ system provides dispatching and management functionality for fleets of commercial vehicles. It integrates computer-aided wireless dispatch, GPS fleet tracking, GPS navigation, two-way text messaging, and point-of-sale payment processing into a single hosted system that is available as a subscription service. It is particularly successful in extending other third party applications to provide wireless capability by interfacing to eFleet™ services.

*Wireless Devices and Communications Business Unit: Digital Wireless*

Dedicated to developing a wide range of in-vehicle wireless data computers and communications infrastructure products, the Digital Wireless division is the hardware manufacturing, quality control and hardware development hub of the Company. Digital Wireless provides each of the other DDS Wireless businesses with the devices used in their solutions. Digital Wireless is pivotal in positioning the Company as a transit and taxi solutions provider offering end-to-end developed solutions. Digital Wireless also markets its products as an original equipment manufacturer ("OEM") directly to customers and third-party solution providers.

**Financial Results**

*Summary of Quarterly Results*

(in \$'000's except for margin and per share data)	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Revenue	\$5,096	\$7,278	\$7,001	\$8,216	\$7,636	\$10,648	\$7,107	\$9,140
Gross Margin %	51.2%	43.5%	45.4%	48.4%	45.8%	47.9%	43.0%	43.8%
Gross Margin	\$2,610	\$3,169	\$3,175	\$3,976	\$3,497	\$5,096	\$3,055	\$4,006
Operating Expenses	\$2,568	\$3,972	\$3,487	\$4,109	\$3,995	\$4,570	\$3,834	\$3,726
Net (loss) income	(\$592)	(\$999)	(\$646)	(\$602)	(\$766)	\$536	(\$1,056)	(\$672)
(Loss) earnings per share (EPS)	(\$0.05)	(\$0.08)	(\$0.05)	(\$0.05)	(\$0.06)	\$0.04	(\$0.08)	(\$0.05)

*The Company's quarterly financial statements are not reviewed by the Company's auditor with the exception of the three months ended June 30, 2009 and September 30, 2008. The quarterly financial statements are the responsibility of management and are reviewed by the Company's audit committee.*

**Selected Quarterly Information**

For the three months ended	June 30, 2009	March 31, 2009	June 30, 2008
Revenue	\$9,140,393	\$7,106,507	8,215,978
Net income	(\$672,206)	(\$1,056,143)	(\$601,761)
Basic earnings per common share	(\$0.05)	(\$0.08)	(\$0.04)
Common shares outstanding (weighted average)	13,789,746	13,789,746	13,789,746
Total assets	\$34,337,032	\$34,578,274	\$38,079,776
Total long-term financial liabilities	\$207,038	\$320,569	\$500,422

## Results of Operations

For the three months ended	June 30, 2009	March 31, 2009	June 30, 2008
Revenue	100.0%	100.0%	100.0%
Cost of sales	56.2%	57.0%	51.6%
Gross margin (with amortization of sales related assets)	43.8%	43.0%	48.4%
Gross margin (without amortization of sales related assets) (non-GAAP measure)	46.2%	46.2%	49.7%
Operations expenses			
Research and development	14.1%	20.1%	20.7%
Sales and marketing	11.8%	13.2%	13.1%
General and administrative	14.9%	20.7%	16.2%
Other expenses	14.5%	9.7%	7.7%
Earnings (loss) before income taxes	-11.4%	-20.7%	-9.3%
Income taxes	4.0%	5.8%	2.0%
Net (loss) earnings	-7.4%	-14.9%	-7.3%

## Non-GAAP Measurements

The following are non-GAAP measurements and investors are cautioned not to place undue reliance on them and are urged to read all GAAP accounting disclosures present in the audited consolidated financial statements and accompanying notes for the year ended December 31, 2008 and the unaudited consolidated financial statements and accompanying notes for the six months ended June 30, 2009.

These non-GAAP measures are used by the Company to manage and evaluate operating performance of the Company. The non-GAAP measurements are reconciled to GAAP in the below tables.

### Reconciliation of Non-GAAP Measures

<b>EBITDAS (1)</b>	<b>Three months ended</b>			<b>Six months ended</b>	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
EBITDAS	\$ 155,621	\$ (459,970)	\$ 11,951	\$ (304,349)	\$ 3,099
Amortization of plant and equipment	(118,942)	(113,733)	(88,510)	(232,675)	(232,446)
Amortization of acquired intangibles	(653,902)	(657,236)	(574,181)	(1,311,138)	(1,207,181)
Amortization of sales related assets	(220,474)	(226,017)	(104,012)	(446,491)	(227,561)
Stock compensation	(188,344)	-	(23,984)	(188,344)	(57,524)
Other	(15,202)	(8,996)	13,284	(24,198)	54,880
Loss before income taxes	\$ (1,041,243)	\$ (1,465,952)	\$ (765,452)	\$ (2,507,195)	\$ (1,666,733)

(1) Earnings before interest, taxes, depreciation, amortization and stock compensation is a non-GAAP measure.

	<b>For three months ended</b>						<b>For six months ended</b>			
	June 30, 2009		March 31, 2009		June 30, 2008		June 30, 2009		June 30, 2008	
Revenue	\$9,140,393		\$7,106,507		\$8,215,978		\$16,246,901		\$15,216,978	
Gross margin without amortization of sales related assets	\$4,226,914	46.2%	\$3,280,542	46.2%	\$4,080,391	49.7%	\$7,507,457	46.2%	\$7,379,360	48.5%
Less: Amortization of sales related assets	220,474	2.4%	226,017	3.2%	104,012	1.3%	446,491	2.7%	227,561	1.5%
Gross margin per financial statement	\$4,006,440	43.8%	\$3,054,525	43.0%	\$3,976,379	48.4%	\$7,060,966	43.5%	\$7,151,799	47.0%

## Financial Results for the Six Months Ended June 30, 2009

The financial performance for the six months ended June 30, 2009 relative to the corresponding period in the prior year is as follows:

- Revenues of \$16.2 million represent an increase of 6.8% from \$15.2 million in the same six month period in the prior year; and
- Net operating loss increased to \$2.5 million from \$1.7 million for the same six month period in the prior year.

The increase in revenues for the six months ended June 30, 2009 from the prior year is primarily due to growth in recurring revenues in the Taxi and Transit business units. These increases were partly offset by lower revenue from the Digital Wireless business.

Recurring revenues accounted for 72.5% of total revenues in the six months ended June 30, 2009, compared to 65.0% in the same period in the prior year.

Gross margin decreased to 43.5% for the six months ended June 30, 2009, from 47.0% over the same period in the prior year. The decrease in gross margins is partially attributable to an increase in the amortization of sales related assets which is a result of a significant increase in the deployment of the Company's Bundled Subscription Solutions. The decrease in gross margin excluding amortization relative to the same period in the prior year is attributed to inventory reserves and product trade-ins taken in the period, and one particular project that experienced higher than expected costs to complete in the first quarter of 2009.

The Company's operating expenses were \$7.6 million for the six months ended June 30, 2009 and are comparable to the same period in the prior year. Operating expenses stayed relatively flat over the six months ended June 30, 2009. General and administrative expenses increased \$0.2 million which is attributed to an increase in legal fees and additional bad debt expenses, offset by a decrease of \$0.2 million in research and development expenses attributed to technical personnel deployed to revenue producing projects and to specialized R&D costs incurred in the 6 months ended June 30, 2008 which did not recur in the 6 months ended June 30, 2009.

Net operating loss before income taxes for the six months ended June 30, 2009 was \$2.5 million compared to a net loss of \$1.7 million for the six months ended June 30, 2008. The increase in net loss is the result of unfavorable foreign exchange losses of \$0.3 million as compared to a gain of \$0.2 million in the prior year, lower gross margin, a \$0.1 million increase in amortization of acquired intangible assets over the prior year and a \$0.1 million increase in stock compensation over prior year.

EBITDAS (defined as earnings before interest, tax, depreciation, amortization and stock compensation expense – a non-GAAP measure) was a loss of \$304,000 for the six months ended June 30, 2009 compared to earnings of \$3,100 in the same period of last year.

The Company generated cash flow from operations of \$1.9 million during the six months ended June 30, 2009, compared to negative \$0.1 million for the same period in the prior year. The increase is primarily attributed to an increase in accounts receivable collection.

As at June 30, 2009, the Company had a cash balance of \$0.4 million as compared to an overdraft of \$0.1 million as at December 31, 2008. The Company maintained a line of credit facility during 2009 which had a balance payable of \$0.2 million as at June 30, 2009 as compared to \$1.4 million outstanding as of December 31, 2008. The Company had long-term debt of \$0.5 million (including short-term portion) as at June 30, 2009 compared to \$0.6 million as at December 31, 2008.

The weighted average of the number of shares outstanding during the quarter was 13,789,746. There were no share issuances during the current period.

## Detailed Results of Operations for Six Months Ended June 30, 2009

### Revenues

Six months ended June 30, 2009	Six months ended June 30, 2008
16,246,901	\$15,216,978

Revenues for the 6 months ended June 30, 2009 increased by \$1.0 million or a 6.8% over the same period of the prior year. The increase in revenue is primarily attributed to increases in recurring revenues in the Taxi business unit mainly due to growth in customer base (\$1.0 million increase), project revenues in the Transit business unit mainly due to successes in securing more projects (\$0.3 million increase) and recurring revenues in the eFleet business unit as a result of growth in waste disposal, limousine, ground transportation and work fleet markets (\$0.2 million increase). These increases were off-set by a decline in revenue for the Digital Wireless business unit attributable to a reduction of direct hardware sales to third-party customers as compared with prior year.

The revenue contributions of the respective business units compared to the prior periods are summarized in the following table.

For the six months ended	June 30, 2009	June 30, 2008
Taxi	\$11,546,683	\$10,532,535
Transit	\$4,064,872	\$3,691,036
eFleet	\$388,386	\$159,234
Digital Wireless <sup>(1)</sup>	\$246,960	\$834,173
Total Revenue	\$16,246,901	\$15,216,978
% Recurring	72.5%	62.0%

(1) Includes some corporate level revenues

### Gross Margins

For the six months ended June 30, 2009	Taxi	Transit	eFleet	Digital Wireless <sup>(1)</sup>	Total
Revenue	\$11,546,683	\$4,064,872	\$388,386	\$246,960	\$16,246,901
Gross Margin	\$4,740,914	\$1,920,849	\$195,079	\$204,124	\$7,060,966
Gross Margin %	41.1%	47.3%	50.2%	82.7%	43.5%
Gross Margin without amortization of sales related assets (non- GAAP measure)	\$5,130,786	\$1,920,849	\$251,699	\$204,124	\$7,507,458
Gross Margin % without amortization of sales related assets (non- GAAP measure)	44.4%	47.3%	64.8%	82.7%	46.2%

(1) Includes some corporate level revenues

<b>For the six months ended June 30, 2008</b>	<b>Taxi</b>	<b>Transit</b>	<b>eFleet</b>	<b>Digital Wireless<sup>(1)</sup></b>	<b>Total</b>
<b>Revenue</b>	\$10,532,535	\$3,691,036	\$159,234	\$834,173 <sup>(1)</sup>	\$15,216,978
<b>Gross Margin</b>	\$4,886,100	\$2,051,129	\$42,076	\$172,495	\$7,151,800
<b>Gross Margin %</b>	46.4%	55.6%	26.4%	20.7%	47.0%
<b>Gross Margin without amortization of sales related assets (non- GAAP measure)</b>	\$5,091,375	\$2,051,129	\$64,361	\$172,495	\$7,379,361
<b>Gross Margin % without amortization of sales related assets (non- GAAP measure)</b>	48.3%	55.6%	40.4%	20.7%	48.5%

(1) Includes some corporate level revenues

<b>For the six months ended</b>	<b>June 30, 2009</b>		<b>June 30, 2008</b>	
<b>Revenue</b>	\$16,246,901	100.0%	\$15,216,978	100.0%
<b>Costs of sales</b>	\$9,185,935	56.5%	\$8,065,179	53.0%
<b>Gross Margin</b>	\$7,060,966	43.5%	\$7,151,799	47.0%
<b>Gross Margin without amortization of sales related assets (non-GAAP measure)</b>	\$7,507,458	46.2%	\$7,379,360	48.5%

Gross margin decreased to 43.5% for the six months ended June 30, 2009, from 47.0% over the same period in the prior year. The decrease in gross margins is partially attributable to an increase in the amortization of sales related assets which is a result of a significant increase in the deployment of the Company's Bundled Subscription Solutions. The decrease in gross margin excluding amortization relative to the same period in the prior year is attributed to inventory reserves and product trade-ins taken in the period, and one particular project that experienced higher than expected costs to complete in the first quarter of 2009.

#### *Operating Expenses*

<b>For the six months ended</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
Total operating expenses	\$7,559,867	\$7,595,886
% of revenue	46.5%	49.9%

Total operating expenses were relatively unchanged for the six months ended June 30, 2009 compared to the same period in the prior year. General and administrative expenses increased \$0.2 million which is attributed to additional legal costs and bad debt expenses incurred in the last quarter. These increases were offset by a decrease of \$0.2 million in research and development expense.

#### *Research and Development ("R&D")*

Substantially all of the research and development expenditures relate to employee compensation and facilities costs. All R&D costs stated are net of investment tax credits available from the Canadian government for R&D activities in Canada.

<b>For the six months ended</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>Research &amp; development</b>	\$2,715,478	\$2,968,133
<b>% of revenue</b>	16.7%	19.5%

Research and development expenditures decreased to \$2.7 million in the six months ended June 30, 2009 as compared to the \$3.0 million incurred in the same period in the prior year. The decrease in research and

development expenses in the current period as compared to the same period in the prior year is attributed to higher proportion of technical personnel deployed to revenue producing projects and to one-time R&D costs incurred in the 6 months ended June 30, 2008 which did not recur in the 6 months ended June 30, 2009.

#### *Sales and Marketing*

<b>For the six months ended</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>Sales &amp; marketing</b>	\$2,011,653	\$2,014,971
<b>% of revenue</b>	12.4%	13.2%

Sales and marketing expenditures were consistent with those incurred in the same period in the prior year. The Company expects to increase investment in sales and marketing activities in the future and therefore expects sales and marketing costs to increase marginally for the remainder of the year.

#### *General and Administrative*

<b>For the six months ended</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>General &amp; administration</b>	\$2,832,736	\$2,612,782
<b>% of revenue</b>	17.4%	17.2%

General and administrative expenses include executive and administrative staff, facilities, public company costs, insurance, bad debt expense, audit and legal fees as well as administrative costs. General and administrative expenses increased to \$2.8 million for the six months ended June 30, 2009 as compared to \$2.6 million for the same period in the prior. The increase from prior year is attributed to increases in legal fees incurred and additional bad debt expenses.

#### *Other Expenses*

<b>For the six months ended</b>	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>Other expenses</b>	\$2,008,294	\$1,222,646
<b>% of revenue</b>	12.4%	8.0%

The change in other expense for the six months ended June 30, 2009 over the prior period is attributable to changes in amortization, foreign exchange and stock compensation expense as follows:

- Amortization of intangible assets related to the acquisition of MobiSoft and StrataGen increased by \$0.1 million;
- Net foreign exchange loss of \$0.3 million incurred in the six months ended June 30, 2009 was attributable to the impact of the weakening of the US dollars, Euros, and UK pounds relative to the Canadian dollar, as compared to a gain of \$0.2 million in the prior year; and
- Stock compensation expense (which represents the estimated cost to the Company of stock options, using the Black-Scholes option-pricing model factoring for Company options granted and vesting during the period) totaled \$188,344 compared to \$57,524 in 2008.

#### *Income Tax*

The Company is subject to corporate income tax rates in varying jurisdictions, ranging from 20% to 40%, 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. Given the Company's statutory tax rate, the Company would expect to have a tax recovery in the six months ended June 30, 2009 of approximately \$723,468. The actual recovery of approximately \$778,846 was a result of significant portions of the Company's income and loss being generated in foreign jurisdictions where tax rates vary from the blended statutory rate.

### *Net Income after tax*

Net loss after tax for the six months ended June 30, 2009 was \$1,728,349 or a \$0.13 loss per share compared with \$1,247,315 net loss after tax or a \$0.09 loss per share for the same period in the prior year.

### **Financial Results for the Three Months Ended June 30, 2009**

The financial performance for the three months ended June 30, 2009 relative to the comparative period in the prior year is as follows:

- Revenues of \$9.1 million represent an increase of \$2 million or 28.6% over the previous quarter and \$0.9 million or 11.3% over the same quarter in the prior year; and
- Net operating loss reduced to \$1.0 million as compared to \$1.5 million incurred in the previous quarter and \$0.8 million for the same quarter in the previous year.

The increase in revenues for the three months ended June 30, 2009 from the prior year is primarily due to growth in the Taxi and Transit businesses which was partially offset by declines in the Digital Wireless business. Revenue compared to prior quarter increased by \$2 million or 28.6%, mainly due an increase in project installation and implementation. There was also growth in sales orders in the Taxi business unit. Transit business unit recognized additional revenues from the renewal of two main transit maintenance agreements, and had increases in project and sales order revenues over the previous quarter.

Recurring revenues accounted for 65.0% of total revenues in the second quarter of 2009 an increase from 61.2% in the same period in the prior year. Recurring revenue as a percentage of total revenues for the three months ended June 30, 2009 of 65.0% represented a decline from 82.1% recorded in the previous quarter mainly due to lower levels of project revenues recorded in the three months ended March 31, 2009.

Gross margin of 43.8% improved marginally from the 43.0% reported in the previous quarter but narrowed from 48.4% over the same quarter in the prior year. The decrease in gross margins from the same quarter in the previous year is partially attributable to an increase in the amortization of sales related assets which is a result of a significant increase in the deployment of the Company's Bundled Subscription Solutions. The balance of the decrease is attributable to an increase in inventory reserves and product trade-ins taken in the period.

The Company's operating expenses were \$3.7 million for the three months ended June 30, 2009, compared to \$3.8 million for the previous quarter and \$4.1 million for the same period in the prior year. The decrease in operating expenses over the three months ended June 30, 2009 of \$0.4 million is attributed to a decrease in research and development expenses as technical personnel were deployed to revenue producing projects. The decrease in research and development expenses is also attributed to specialized R&D costs incurred in the three months ended June 30, 2009 which did not recur in the 3 months ended June 30, 2008.

Net operating loss before income taxes for the three months ended June 30, 2009 was \$1.0 million compared to \$1.5 million for the previous quarter and \$0.8 million for the three months ended June 30, 2008. The increase in net operating loss is the result of adverse foreign exchange fluctuations generating a loss of \$0.3 million as compared to minor gains reported in the previous quarter as well as the corresponding period in the prior year. The net loss for the three months ended June 30, 2009 includes amortization and stock compensation expenses of \$188,344 compared to \$23,984 for the same period in the prior year.

EBITDAS (defined as earnings before interest, tax, depreciation, amortization and stock compensation expense – a non-GAAP measure) was \$155,621 for the three months ended June 30, 2009 compared to a loss of \$459,970 reported in the previous quarter and \$11,951 for the same period of last year.

## Results of Operations

### Revenues

Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended June 30, 2008
\$9,140,393	\$7,106,507	\$8,215,978

Revenues for the 3 months ended June 30, 2009 increased by \$2.0 million or 28.6% over the previous quarter and by \$0.9 million or 11.3% over the same period in the prior year. The growth in revenues over the previous quarter is mainly attributable to growth in recurring revenues (\$0.1 million increase), an increase in project revenues for the Taxi business unit (\$1.0 million increase), and an increase in Transit project revenues (\$0.8 million increase). These were offset by lower hardware sales in the Digital Wireless business to third-party customers. The increase in revenues over the same period in the prior year is attributable to increases in recurring revenue in the Taxi business unit (\$0.8 million increase), an increase in project revenue in the Transit business (\$0.7 million increase) and the eFleet business (\$0.1 million). These increases were off-set by a decline in revenue for the Digital Wireless business unit (\$0.5 million decrease) relating to lower external customer orders for hardware units.

The revenue contributions of the respective markets compared to the prior periods are summarized in the following table.

For the three months ended	June 30, 2009	March 31, 2009	June 30, 2008
Taxi	\$6,371,188	\$5,175,493	\$5,805,214
Transit	\$2,471,975	\$1,592,700	\$1,709,637
eFleet	\$198,893	\$189,493	\$91,635
Digital Wireless <sup>(1)</sup>	\$98,337	\$148,821	\$609,492
Total Revenue	\$9,140,393	\$7,106,507	\$8,215,978
% Recurring	65.0%	82.1%	61.2%

(1) Includes minor corporate level revenues

### Gross Margins

For the three months ended June 30, 2009	Taxi	Transit	eFleet	Digital Wireless <sup>(1)</sup>	Total
Revenue	\$6,371,188	\$2,471,975	\$198,893	\$98,337	\$9,140,393
Gross Margin	\$2,413,566	\$1,418,370	\$105,314	\$69,190	\$4,006,440
Gross Margin %	37.9%	57.4%	53.0%	70.4%	43.8%
Gross Margin without amortization of sales related assets (non-GAAP measure)	\$2,605,901	\$1,418,370	\$133,453	\$69,190	\$4,226,914
Gross Margin % without amortization of sales related assets (non-GAAP measure)	40.9%	57.4%	67.1%	70.4%	46.2%

(1) Includes minor corporate level revenues

For the three months ended June 30, 2008	Taxi	Transit	eFleet	Digital Wireless <sup>(1)</sup>	Total
Revenue	\$5,805,214	\$1,709,637	\$91,635	\$609,492 <sup>(1)</sup>	\$8,215,978
Gross Margin	\$2,854,083	\$911,938	\$30,593	\$179,765	\$3,976,379
Gross Margin %	49.2%	53.3%	33.4%	29.5%	48.4%
Gross Margin without amortization of sales related assets (non-GAAP measure)	\$2,946,634	\$911,938	\$42,054	\$179,765	\$4,080,391
Gross Margin % without amortization of sales related assets (non-GAAP measure)	50.8%	53.3%	45.9%	29.5%	49.7%

(1) Includes minor corporate level revenues

For the three months ended	June 30, 2009		March 31, 2009		June 30, 2008	
Revenue	\$9,140,393	100.0%	\$7,106,507	100.0%	\$8,215,978	100.0%
Costs of sales	\$5,133,953	56.2%	\$4,051,982	57.0%	\$4,239,599	51.6%
Gross Margin	\$4,006,440	43.8%	\$3,054,525	43.0%	\$3,976,379	48.4%
Gross Margin without amortization of sales related assets (non-GAAP measure)	\$4,226,914	46.2%	\$3,280,542	46.2%	\$4,080,391	49.7%

Gross margin for the three months ended June 30, 2009 of 43.8% is comparable to that in the previous quarter and decreased from 48.4% in the same period in the prior year. The decrease in gross margins from the same period in the previous year is partially attributable to an increase in the amortization of sales related assets which is a result of a significant increase in the deployment of the Company's Bundled Subscription Solutions. The balance of the decrease is attributable to an increase in inventory reserves and product trade-ins taken in the period.

#### Operating Expenses

For the three months ended	June 30, 2009	March 31, 2009	June 30, 2008
Total operating expenses	\$3,725,556	\$3,834,310	\$4,109,295
% of revenue	40.8%	54.0%	50.0%

Operating expenses for the three months ended June 30, 2009 are comparable to those in the previous quarter and decreased by \$0.4 million compared to the same period in 2008. The decrease over the three months ended June 30, 2008 of \$0.4 million is attributed a decrease in research and development overhead.

#### Research and Development ("R&D")

Substantially all of the research and development expenditures relate to employee compensation and facilities costs. All R&D costs stated are net of investment tax credits available from the Canadian government for R&D activities in Canada.

For the three months ended	June 30, 2009	March 31, 2009	June 30, 2008
Research & development	\$1,288,631	\$1,426,847	\$1,697,686
% of revenue	14.1%	20.1%	20.7%

Research and development expenditures decreased by \$0.1 million over the previous quarter and decreased by \$0.4 million from the same period in the prior year. The decrease from the three months ended June 30, 2008 is a result of an increase in technical personnel deployed in revenue producing projects in addition to specialized one time research and development costs incurred in the three months ended June 30, 2008 which did not recur.

#### *Sales and Marketing*

<b>For the three months ended</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>June 30, 2008</b>
<b>Sales &amp; marketing</b>	\$1,075,683	\$935,971	\$1,076,668
<b>% of revenue</b>	11.8%	13.2%	13.1%

Sales and marketing expenditures for the three months ended June 30, 2009 remained largely unchanged from the comparative period in the prior year. Expenses are back to normal level compared to the previous quarter as open headcounts were filled. The Company expects to continue investing in sales and marketing activities in the future and therefore expects sales and marketing costs to increase marginally in the remainder of the year.

#### *General and Administrative*

<b>For the three months ended</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>June 30, 2008</b>
<b>General &amp; administration</b>	\$1,361,243	\$1,471,492	\$1,334,941
<b>% of revenue</b>	14.9%	20.7%	16.2%

General and administrative expenses include executive and administrative staff, facilities, public company costs, insurance, bad debt expense, audit and legal fees as well as administrative costs. General and administrative expenses decreased by \$0.1 million for the three months ended June 30, 2009 as compared to the previous quarter mainly due to lower legal and professional fees.

#### *Other Expense*

<b>For the three months ended</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>June 30, 2008</b>
<b>Other (income) and expense</b>	\$1,322,127	\$686,167	\$632,536
<b>% of revenue</b>	14.5%	9.7%	7.7%

The change in other expense for the three months ended June 30, 2009 over the prior periods is attributable to changes in amortization, foreign exchange and stock compensation expense as follows:

- Amortization of intangible assets related to the acquisition of MobiSoft and StrataGen increased by \$0.1 million for the current quarter as compared to the same quarter in the prior year;
- As a result of the weakening of the US dollars, Euros, and UK pounds relative to the Canadian dollar, a net foreign exchange loss of \$0.3 million was incurred during the three months ended June 30, 2009 as compared to a gain of \$94,000 in the previous quarter and a gain of \$41,000 in the same quarter in the prior year; and
- Stock compensation expense (which represents the estimated cost to the Company of stock options, using the Black-Scholes option-pricing model factoring in additional Company options granted and vesting during the period) totaled \$188,344 compared to \$nil in the previous quarter and \$23,984 in the same quarter in 2008.

#### *Income Tax*

The Company is subject to corporate income tax rates in varying jurisdictions, ranging principally from 20% to 40%, 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. Given the Company's statutory tax rate the Company would expect to have recorded a tax recovery in the three months

ended June 30, 2009 of approximately \$283,682. The actual recovery of approximately \$369,037 was a result significant portions of the Company's income and loss being generated in foreign jurisdictions where tax rates vary from the blended statutory rate.

#### *Net Income after tax*

Net loss after tax for the three months ended June 30, 2009 was \$672,206 or \$0.05 loss per share compared to a net loss of \$1,056,143 or a loss of \$0.08 per share reported in the previous quarter and to a net loss of \$601,761 or a loss of \$0.04 per share for the same period in the prior year.

#### *Liquidity and Capital Resources*

As at June 30, 2009, the Company had cash and short-term investments of \$0.4 million as compared with an overdraft of \$0.1 million as at December 30, 2008. The Company maintains a line of credit facility with an outstanding balance of \$0.2 million as at June 30, 2009 as compared to an outstanding balance of \$1.4 million as at December 31, 2008. The increase in cash and cash equivalents as at June 30, 2009 over December 31, 2008 is mainly attributable to an increase in cash flow from operations during the six months ended June 30, 2009. The Company had long-term debt of \$0.5 million (including short-term portion) as at June 30, 2009 compared to \$0.6 million as at December 31, 2008.

For the three months ended June 30, 2009, cash flow used in operations was \$0.4 million compared to \$2.4 million cash flow generated from operations in the previous quarter and \$0.9 million cash flow used in operations for the three months ended June 30, 2008. The positive cash flow generated from operations in the previous quarter was a result of an increase in collection of accounts receivable.

The total short-term borrowings (excluding long-term debt) reduced from \$1.5 million in the beginning of the six months period to approximately \$0.2 million as at June 30, 2009. As of the date of this report, with a total short-term bank facility of \$4.2 million, the Company believes it has sufficient capital to fund its operations.

The Company is in compliance with financial covenants in the amended agreement as of June 30, 2009.

	<b>Payments Due by Period</b>				
	Total	Less than 1 year	1 – 3 Years	4 – 5 Years	After 5 years
Contractual Obligations					
Long-term Debt	\$528,070	\$321,032	\$207,038	-	-
Operating Leases	3,563,418	489,683	1,633,073	\$1,440,662	-
Purchase Obligations	2,728,373	724,768	2,003,605	-	-
Acquisition Purchase Price Payable - MobiSoft	144,317	144,317	-	-	-
Acquisition Purchase Price Payable - StrataGen	465,009	465,009	-	-	-
Total Contractual Obligations	\$7,429,187	\$2,144,809	\$3,843,716	\$1,440,662	-

The Company entered operating leases in the normal course of business which are primarily attributable to facility leases for its operations. The Company also has purchase obligations with vendors in the normal course of business. 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.

#### *Current global market conditions*

Given the significant uncertainty surrounding the global markets, it is extremely difficult to forecast the impact they will have on future business. Management does, however, expect the adverse economic conditions to continue to pose a challenge in 2009 as customers defer expenditures of a capital nature. Management has and will continue to monitor the market and the results of each of its product lines and regions and take additional measures as appropriate to maximize earnings.

### *Off-Balance Sheet Arrangements*

For certain contracts, the Company was required to post performance bonds totalling \$2,289,584 (USD\$1,969,535). The Company arranged the bonds with Canada Export Development Corporation (“EDC”) and has agreed to indemnify EDC.

### *Legal Proceeding*

In 2008 a claim was filed against the Company in the United States District Court of New York for damages against DDS for infringement of copyright and breach of partnership agreement. The Company filed its answer to the claim, denying it in its entirety and counterclaiming against the plaintiff for breach of contract. During the three months ended March 31, 2009, the claim and counter claim were dismissed. The dismissal did not result in a material gain or loss to the Company.

### *Transactions with Related Parties*

The Company leases its head office land and building located in Richmond, BC, Canada, from a company controlled by the Company’s majority shareholder, under an operating lease expiring in September 2013.

On November 9, 2007 the Company increased its line of credit to \$4.0 million which bears interest at prime plus 0.5%. The Company is the beneficiary of a guarantee provided by Viksun Enterprises Inc., a company controlled by the Company’s Chief Executive Officer in the amount of \$2.0 million. The assets of the Company are provided as collateral for the line of credit. As at June 30, 2009, the Company had a balance payable of \$197,000 (December 31, 2008 – \$1,401,431) drawn on this line of credit.

The Company provides sales and services to a customer that is related to a director. In the three and six months ended June 30, 2009 the total sales and services to this customer were \$216,768 and \$365,680, respectively (2008 - \$145,213 and \$207,975, respectively). 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*

As of August 5, 2009, the Board of Directors had not committed to proceed with any proposed asset or business acquisitions or dispositions.

### **Critical Accounting 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 estimates, please refer to note 2 to the financial statements.

The Company’s critical accounting estimates are as follows:

#### *Revenue recognition*

The Company’s revenues come from these primary sources:

- Contracts for complete wireless dispatch and software development systems
- Provision of application service 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

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 contract work-in-progress 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 and delivery has occurred with no substantial risk of return and collectability is reasonably assured. While the Company maintains a security interest in certain systems and devices until payment has been received in full, such right does not preclude the buyer from full use in the ordinary course of business or rights thereto.

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.

Contracts for software development systems include multiple deliverables, which are separated into discrete units of accounting based on the residual method. Revenues from installation and customization of system infrastructure and sales of third party hardware and software are recorded using the percentage-of-completion method. Where reliable input measures and estimates for completion exist, the input method is used to determine the percent complete, otherwise, the output method, using contract milestones to estimate percentage completion is used. These estimates result in deferred revenue on the balance sheet when services are invoiced in advance of the revenue being earned, and contract work-in-progress 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.

Revenue for the provision of taxi dispatch services and ASP service offerings are recognized as these services are provided with any related costs recorded as cost of sales.

Software licenses which are perpetual in nature and sold to MobiSoft's enterprise customers are recognized upon delivery where persuasive evidence of an arrangement exists, 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 recognized once delivery has occurred with no substantial risk of return and collectability is reasonably assured.

Revenue from embedded maintenance both for contracts and sales orders are deferred and recognized over the effective life of the contract.

Revenue associated with devices shipped but not yet delivered to the customer's location is deferred and recognized when delivery occurs. There was no deferred revenue in respect of such goods in transit at June 30, 2009 (December 31, 2008 – \$nil).

#### *Valuation of Goodwill and Intangible Assets*

The purchase method of accounting for acquisitions requires estimates and assumptions to allocate the purchase price to the fair value of net tangible and intangible assets acquired. The amounts allocated to, and the useful lives estimated for, other intangible assets, affect future amortization. There are a number of generally accepted valuation methods used to estimate fair value of intangible assets, and we use primarily a discounted cash flow method, which requires significant management judgment to forecast the future operating results and to estimate the discount factors used in the analysis. If assumptions and estimates used to allocate the purchase price or used to assess impairment prove to be inaccurate, future asset impairment charges could be required.

Goodwill and intangible assets determined to have indefinite lives are not amortized, but are subject to an annual impairment test. To determine any goodwill impairment, we perform a two-step process on an annual basis, or more frequently if necessary, to determine 1) whether the fair value of the relevant reporting unit exceeds carrying value and 2) the amount of impairment loss, if any. We review our intangible assets for impairment whenever events or changes in circumstances indicate that their carrying value may not be

recoverable. Measurement of an impairment loss is based on the fair value of the asset compared to carrying value.

We performed an annual test for impairment of goodwill and intangible assets in the fourth quarter of 2008 and determined that there was no impairment. The assumptions used to test for impairment, including expected revenues, discount rates, and terminal values, are highly subjective. Valuation models are sensitive to changes in assumptions, and therefore changes in these assumptions in the future could result in significant impairment charges or changes to our expected amortization.

#### *Income Taxes*

In estimating our annual effective tax rate we review our forecasted net income for the year by geographic area and apply the appropriate tax rates. We also consider the income tax credits and net operating losses, if any, available in each tax jurisdiction. Our operations are conducted in a number of countries with complex tax legislation and regulations pertaining to our activities. We have recorded income tax liabilities based on our estimates and interpretations of those regulations for the countries we operate in. However, our estimates are subject to review and assessment by the tax authorities and the courts of those countries. The timing of any such review and final assessment of our liabilities by local authorities is substantially out of our control and is dependent on the actions by those authorities in the countries we operate in. Any re-assessment of our tax liabilities by tax authorities may result in adjustments of the income taxes we pay or refunds that are due to us. In certain jurisdictions we have incurred losses and other costs that can be applied against future taxable earnings to reduce our tax liability on those earnings. We believe that we will realize the future benefit of those losses and expenditures. If our forecast of taxable income changes, we may record a valuation allowance against these future income tax assets which may result in a charge to net income.

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

All accounting policies remain consistent with those in effect for the year ended December 31, 2008 with the exception of the following:

- (a) New accounting policies:

##### **CICA Handbook Section 3064 – Goodwill and Intangible Assets**

The CICA has issued new accounting recommendations for goodwill and intangible assets which establish standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets (including internally developed intangible assets). These recommendations are effective for the Company beginning January 1, 2009. Goodwill and intangible assets that are not assets as defined by GAAP will be derecognized and charged to equity at that date. Adoption of this section did not have any impact on the Company's financial statements.

- (b) Canadian GAAP developments:

##### **Business Combination and Related Sections**

The CICA has issued new accounting recommendations related to business combinations and minority interests effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under GAAP and IFRS. The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued new accounting recommendations that provide revised guidance on the preparation of consolidated financial statements and accounting for non-controlling interests in

consolidated financial statements subsequent to a business combination. The Company is evaluating the effect of these recommendations on its financial statements.

#### *Transition to International Financial Reporting Standards (IFRS)*

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the changeover date for Canadian publicly accountable enterprises to start using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

As a result of the IFRS transition, changes in accounting policies are likely and may materially impact our consolidated financial statements. The IASB will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on our consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

The Company has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations implementation and post implementation. The detailed assessment phase (“phase 2”) will result in accounting policies and transitional exemptions decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted. The operations implementation phase (“phase 3”) includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at January 1, 2010, fiscal 2010 and thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures. Post implementation (“phase 4”) will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond.

During the three months ended June 30, 2009, the Company continued with the scoping and planning phase of its changeover plan. The Company has identified appropriate leadership of the team to manage the transition and additional members to be made up of management and external consultants as required will be added. The Company will continue to monitor changes in IFRS throughout the duration of the implementation process and assess their impacts on the Company and its reporting. The Company will continue to provide updates on the status of key activities for this convergence project in our quarterly and annual Management’s Discussion and Analysis throughout the convergence period to January 1, 2011.

#### *Financial 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 values; lease receivables resulting from the sale of certain systems using sales-type leases; line of credit; long-term debt; and trade accounts receivable and payable.

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

Cash (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 receivables, and lease receivables are designated as “loans and receivables” and measured at fair value. Accounts payable and accrued liabilities, line of credit, acquisition purchase price payable are designated as “other financial liabilities” and are measured at fair value. Long-term debt is also “other financial liabilities” and is measured at amortized cost.

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

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 it is private and there is no quoted market price.

The Company periodically enters into foreign exchange contracts to manage foreign exchange 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 June 30, 2009 the Company did not have any foreign exchange contracts outstanding.

The nature of these instruments and the Company's operations expose the Company to the following risks:

#### *Credit risk*

Financial instruments that potentially expose the Company to concentration of credit risk consist primarily of cash (bank overdraft), accounts receivable, contract work-in-progress, and lease receivable. Cash consists primarily of deposits with major commercial banks. Credit risk with respect to accounts receivable reflects the risk that the Company may be unable to collect amounts due to the Company from customers for its products or for other transactions that may be entered by the Company. The extent of the risk depends on the credit quality of the party from which the amount is due.

The Company has a large diversified customer base, and is not dependent on any single customer or group of customers. Credit risk is minimized because of the diversification of the company's operations as well as its large customer base and its geographical dispersion.

The Company employs established credit approval and monitoring practices to mitigate this risk, including reviewing the creditworthiness of new customers to establish credit limits, monitoring customer payment performance and, where considered appropriate, reviewing the financial condition of its existing customers and other debtors. The Company establishes an allowance for impairment that represents its estimate of potential losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets, adjusted for current economic conditions.

During the three and six months ended June 30, 2009, the Company recorded bad debt expense of \$46,841 and \$105,606, respectively, and has a total reserve against accounts receivable totalling \$613,589.

#### *Currency risk*

The Company generates revenues and incurs expenses and expenditures primarily in Canada, the United States and Europe and is exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risks. The Company also utilizes foreign currency contracts to mitigate the risks arising from changes in foreign currency rates.

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 statement of operations. The Company translates to Canadian dollars using period end rates for assets and liabilities, and average rates for the period for revenues and expenses for its self-sustaining subsidiary companies. Gains or losses resulting from these translation adjustments are included in accumulated other comprehensive income (loss).

At June 30, 2009 the Company is exposed to translation foreign currency risk through the following financial assets and liabilities denominated in US dollars and Euros:

	June 30, 2009		December 31, 2008	
	(EUR)	(USD)	(EUR)	(USD)
Cash	173,461	139,499	(56,337)	(57,585)
Accounts Receivable	795,965	3,244,656	702,841	3,785,648
Accounts Payable & Accrued Liabilities	(1,068,407)	(1,209,758)	(429,355)	(2,898,277)
Long Term Debt	(354,543)	(4,586)	(386,418)	(8,382)
	<u>(453,524)</u>	<u>2,169,812</u>	<u>(169,269)</u>	<u>821,404</u>

At June 30, 2009 with other variables unchanged, a +/-10% change in the USD/CAD and Euro/CAD exchange rate would decrease/increase pre-tax translation loss for the six month period by +/- \$178,333. (USD \$216,981 net of Euro 45,352).

The impact of fluctuation in other currencies is not material.

#### *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 amounts drawn on the Company's line of credit facilities at June 30, 2009, a hypothetical 100 basis point change in interest rates would not have a material impact on net loss.

#### *Liquidity risk*

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.

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

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	Greater than two years
Line of credit	\$ 196,868	\$ -	\$ -
Accounts payable and Accrued Liabilities	\$ 4,374,800	\$ -	\$ -
Acquisition price payable	609,326	-	-
Long-Term debt	321,032	152,414	54,624
	<u>\$ 5,502,026</u>	<u>\$ 152,414</u>	<u>\$ 54,624</u>

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

Share capital	Issued and outstanding	Convertible
200,000,000 Common shares without par value	13,789,746	Non-convertible
50,000,000 Preferred shares without par value	None	Non-convertible

The Company has a broadly distributed stock option plan for management, directors and employees. The maximum authorized number of common share options that can be granted under the plan is 2,000,000. As at August 5, 2009, the Company had outstanding 1,164,198 options to acquire common shares at prices ranging from \$1.65 to \$3.50 per share.

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

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system reflects the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. The Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon the results of that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by the report, the Company disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

Management has also designed 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.

The Company's management, under the supervision of the Chief Executive Officer and Chief Financial Officer, has evaluated the design and effectiveness of the Company's internal control over financial reporting, as required by applicable Canadian securities law, based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the design of the Company's internal control over financial reporting is appropriate, however, the operation of the Company's internal control over financial reporting was not effective as of December 31, 2008, as a result of the weaknesses noted below.

There were several instances identified in which the internal controls relating to accounts receivable and allowance for doubtful accounts, income tax expense and inventory valuation were not operating effectively. Management has determined that these instances in which internal controls did not operate effectively are primarily due to a change in personnel, lack of secondary review and segregation of duties. During the three months ended June 30, 2009, a project plan was initiated with the identification of key business processes, definition of various tasks and their respective time lines. The project plan has been communicated to all key finance personnel and has a targeted completion date of before the end of the current financial year.

Management has also designed additional internal controls over accounts receivable and allowance for doubtful accounts by implementing a weekly review of outstanding receivables by Finance personnel in conjunction with employees from Sales and Marketing and Customer Service functions. Actions taken and to be taken resulting from the review are documented and reviewed by management on a weekly basis. The periodic assessment on adequacy over allowance of doubtful accounts and provision for slow moving and obsolete inventory are formalized as at June 30, 2009. These processes include documenting basis and recommendations made by business units and these were reviewed at the corporate level and approved by management. Additionally, management has designed specific procedures around income taxes to include review and approval by the appropriate level of management. Management will continue to monitor and where needed, fine-tune the internal controls over these specific areas identified.

## **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 a 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.ddswireless.com](http://www.ddswireless.com).

## **Additional Information**

Additional information related to the Company, including the Company's Annual Information Form for the year ended December 31, 2008, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Business Risks and Uncertainties**

In addition to the other information set forth elsewhere in this Management Discussion and Analysis, the following risk factors could materially affect DDS Wireless business, results of operations and financial condition and should be carefully reviewed.

### *a) Risks Related to Acquisitions and International Expansion*

DDS Wireless intends to expand its business, including expansion into new vertical and geographic markets, by acquiring or investing in additional businesses, products or technologies or opening new international offices. There can be no assurance that DDS Wireless will be able to do so or to profitably manage or successfully integrate any acquired businesses, products or technologies into DDS Wireless or open new international offices without substantial expenses, delays or other operational or financial problems. Expansion may involve a number of special risks, including diversion of management's attention, failure to retain key personnel and entry of DDS Wireless into markets with which it has not previously been familiar, some or all of which could have a material adverse effect on DDS Wireless. In addition, there can be no assurance that this expansion, if any, will achieve anticipated revenues and income. Acquisitions or investments could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization of goodwill and the write-off of restructuring costs and acquired research and development costs. The failure of DDS Wireless to manage its expansion strategy successfully could have a material adverse effect on DDS Wireless. DDS Wireless intends, in part, to expand into new vertical and geographic markets through partnerships and joint ventures. To the extent such partnerships or joint ventures are not successful, there could be a material adverse effect on DDS Wireless.

### *b) Currency Exchange Rate Risk*

DDS Wireless results are reported in Canadian dollars. DDS Wireless has significant foreign operations and substantially all of DDS Wireless revenues are denominated in foreign currencies, principally U.S. dollars and Euros. Fluctuations in the exchange rate may result in variations in the sales and earnings of DDS Wireless expressed in Canadian dollars and may have a material effect on DDS Wireless.

A summary of the Company's estimates of the impact of a 10% change in the exchange rates on its revenues and net current monetary assets in the current period is presented below:

	Sensitivity Analysis as at June 30, 2009		
	USD	Euro	Total
<b>Effect of a +/- 10% change in the foreign currency exchange rate</b>			
Revenue +/- (Canadian dollars and in thousands)	\$871	\$528	\$1,399
Net monetary assets +/- (Canadian dollars and in thousands)	\$235	\$72	\$307

*c) Technological Change, New Products and Standards*

Generally, the wireless mobile data market is characterized by rapidly changing technology and evolving industry standards. A significant portion of DDS Wireless sales are to customers using private data networks. The expansion and development of public data networks may reduce the use of private data networks by DDS Wireless customers and may result in increased competition and create commodity based pricing for DDS Wireless products. The development of Internet dispatching is reducing barriers to entry in the wireless data dispatch market and increasing competition. Failure or delays by DDS Wireless to develop products in a timely and cost-effective manner, to meet or comply with the requisite and evolving industry or user standards, or to develop products for or utilize new or emerging technologies, could have a material adverse effect on DDS Wireless. In addition, there can be no assurance that products or technologies developed by others will not render DDS Wireless products or technologies non-competitive or obsolete.

*d) Reliance on Large Customers*

In the three months ended June 30, 2009 and 2008, none of DDS Wireless revenue was attributable to large customers (defined as customers representing in excess of 10% of the Company's total revenue for the year). In the future DDS Wireless revenue may depend on a few large customers. If any such customer reduces, postpones or discontinues current or expected purchases for DDS Wireless products, DDS Wireless could be materially adversely affected.

*e) Concentration of Sales*

During the three months ended June 30, 2009, DDS Wireless revenue from sales of wireless data solution products and services to the taxi market accounted for approximately 70% of DDS Wireless total revenue (2008 -71%). DDS Wireless expects sales in this vertical market to continue to account for a significant portion of DDS Wireless sales in the foreseeable future. A decline in demand for DDS Wireless products in this vertical market as a result of competition, technological change or other factors could have a material adverse effect on DDS Wireless.

*f) International Operations and Sales*

DDS Wireless currently operates in and intends to expand into new international markets. There are a number of risks inherent in international operations, including the costs and risks of customizing products and business practices to local requirements, compliance with foreign regulatory requirements, tariffs and other trade barriers, limitations on the repatriation of earnings, potential adverse tax consequences and various political and other country-specific risks. In addition, there are internal risks relating to the control over foreign offices and employees in foreign offices. To the extent DDS Wireless is unable to manage its international operations or expand international sales in an effective manner, DDS Wireless could be materially adversely affected.

*g) Management of Growth and Expansion*

Success of DDS Wireless in achieving its planned growth, including expansion into new vertical and geographic markets, will place significant strains on DDS Wireless management, administrative, operational and financial resources, as well as increase demands on its internal systems, procedures and controls. The ability of DDS Wireless to manage growth will require DDS Wireless to continue to improve its financial and management controls and reporting systems on a timely basis, and to implement new systems as necessary to expand, train, motivate and manage its sales and technical personnel. Failure to successfully manage expansion may have a material adverse effect on DDS Wireless business, results of operations and financial condition. There can be no assurance that DDS Wireless will be able to manage its recent or any future expansion successfully.

*h) Dependence upon Key Personnel and Hiring*

The success of DDS Wireless is largely dependent upon the abilities and experience of its executive officers and technical and sales personnel. Expansion will require DDS Wireless to hire additional managerial, technical and sales personnel. Competition for such employees is intense and there can be no assurance that DDS Wireless can retain its current key employees or attract and retain additional key employees as needed. The inability to hire or retain such employees could have a material adverse effect on DDS Wireless, including its proposed expansion into new vertical and geographic markets.

*i) Reliance on a Limited Number of Suppliers*

DDS Wireless currently purchases several key components used in the manufacture and operation of its products from single or limited sources. DDS Wireless depends on these sources to meet its needs. Moreover, DDS Wireless depends on the quality and reliability of the products supplied to it over which DDS Wireless has limited control. A supplier could discontinue or restrict supplying a component to DDS Wireless with or without penalty. If a supplier discontinued or restricted supplying a component, DDS Wireless could be materially adversely affected.

*j) Industry Growth*

The overall market for wireless mobile data solutions has experienced significant growth in recent years. There can be no assurance that DDS Wireless existing vertical and geographic markets will grow, or that DDS Wireless will be successful in establishing itself in new vertical and geographic markets. If the various markets in which DDS Wireless products compete fail to grow, or grow more slowly than DDS Wireless currently anticipates, or if DDS Wireless is unable to establish itself in new markets, DDS Wireless could be materially adversely affected.

*k) Competition*

The market for mobile data solutions is highly competitive. Numerous factors affect DDS Wireless competitive position, including price, product features, product performance and reliability, and ease of use. New and emerging technologies, including the expansion of public data networks and the development of Internet based solutions, are and will continue to result in increased competition in DDS Wireless current and future target markets. Current and future competitors may develop products that are superior to DDS Wireless products or achieve greater market acceptance due to pricing, sales channels or other factors. In addition, DDS Wireless will face new competitors as it enters new geographic and vertical markets. Certain of DDS Wireless current and potential competitors have substantially greater financial, technical, marketing and disposition resources than DDS Wireless.

*l) Intellectual Property*

DDS Wireless relies on a combination of patent and trademark laws, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. Despite DDS Wireless best efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of DDS Wireless products or to obtain information DDS Wireless regards as proprietary. Policing unauthorized use of DDS Wireless proprietary technology, if required, may be difficult, time-consuming and costly. In addition, the laws of certain countries in which DDS Wireless products are sold or licensed do not protect its products and related intellectual property rights to the same extent as the laws of Canada and the United States. There can be no assurance that DDS Wireless will be successful in protecting its proprietary rights, which may materially adversely affect DDS Wireless.

*m) Product Defects and Product Liability*

DDS Wireless products are highly complex and sophisticated and, from time to time, may contain design defects that are difficult to detect and correct. There can be no assurance that errors will not be found in DDS Wireless products or, if discovered, that DDS Wireless will be able to successfully correct such errors in a timely manner or at all. Correcting such errors and failures could require significant expenditure of capital by DDS Wireless. DDS Wireless products are generally critical to DDS Wireless customers' businesses. The sale and support of these products may entail the risk of substantial product liability or warranty claims in the event of errors or failures. The consequence of such errors, failures or claims could have a material adverse effect on DDS Wireless.

*n) Concentration of Ownership*

The President and CEO of DDS Wireless maintains effective control of DDS Wireless through direct or indirect ownership of 56.2% of the issued and outstanding common shares as at December 31, 2008. The President and CEO of DDS Wireless will be able to continue to exercise significant influence over all matters requiring shareholder approval, including the ability to elect all of the directors and approve fundamental changes to DDS Wireless. This concentration of ownership may have the effect of delaying or preventing a change in control of DDS Wireless, or a change in the composition of its board of directors or management.

*o) Sales Cycles*

Traditionally the Company has experienced higher revenue in the last two quarters of each year because of the business and purchasing cycles of its customers and the Company plans its operations accordingly. If these cycles were to alter the Company might be adversely affected.

*p) Liquidity*

The Company has losses from operations in the last six months and in the previous fiscal year, and, where required, uses cash provided by bank facilities and cash raised in equity markets to partially fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities, and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering will result in dilution to ownership interests of shareholders and may result in dilution of the value of such interests.