

# THIRD QUARTER REPORT

Nine months ended September 30, 2007



**Wireless Data is Our Business**

**DDS**  
DIGITAL DISPATCH

## About Digital Dispatch

**Digital Dispatch Systems Inc.** (TSX: DD) is a global provider of wireless mobile data solutions for remote or location-based productivity improvement in vehicle fleet and workforce management.

- Founded in 1987, we have an installed base of approximately 75,000 wireless mobile data devices and nearly 200 wireless data systems in four continents.
- We support customers from our offices in Canada, the United States, Singapore, Sweden and the United Kingdom.
- We offer products and services to manage vehicle fleets and mobile workforces, including dispatch software, wireless communication infrastructure and a range of in-vehicle mobile devices.
- Our customers include many of the largest taxi companies in North America and the world, and the largest automobile association in North America.
- We also provide solutions for transit/paratransit, emergency services, black car, roadside assistance, airport shuttle, and vehicle location and tracking markets.
- Customers can choose from our end-to-end solutions or combine our devices and infrastructure with their existing applications. We also offer Internet-based wireless solutions for smaller workforces.
- Our innovative mobile data solutions give our customers the edge they need to optimize their operations and stay ahead of the competition.

# Letter to Shareholders

## Fellow Shareholders,

The financial performance for the nine months ended September 30, 2007 was lower than the prior year due to the significant strengthening of the Canadian dollar, lower sales volume experienced during the period and large one time investment in the Taxi and Limousine Commission of New York ("TLC") project. These issues are being addressed as shown below:

- We recently announced the acquisitions of two software companies located in Finland and the USA for which the negotiations had been ongoing for the past several months. We have completed the Finland acquisition with the USA acquisition expected to close shortly. In anticipation of these acquisitions, we maintained our investments in foreign denominated currencies which due to lengthened closing process resulted in significant foreign exchange loss due to fluctuations in the Canadian dollar exchange rate in recent months. With the completion of one acquisition and the pending completion of the other, we no longer plan to maintain investments in foreign currencies.
- We have recently announced several new contracts and these contracts provide significant customer backlog for the next several quarters.
- Our investment in the New York City Taxi and Limousine Commission technology development and project implementation has been made with revenue commencing from this strategic project.

Digital Dispatch today is a global (systems in five continents) and diversified (taxi, transit, trucking, mobile media and roadside assistance) wireless software technology solutions company. To optimize the progress of our strategic diversification plan, we are segregating the Company into five distinct business units as follows to achieve the market focus required to drive future aggressive growth:

1. Integrated Digital Dispatch and MobiSoft business unit servicing the taxi market;
2. Integrated StrataGen and MobiSoft demand response transit business unit servicing the transit market;
3. eFleet ASP hosted business unit for the trucking, towing and limo markets;
4. Mobile computers ("MDT's") and related radio infrastructure in a hardware business unit; and
5. The mobile media business unit comprised of advertising and eCommerce.

### Taxi Market

Despite our success in the global large taxi market, until our recent acquisition of MobiSoft Oy we have not been able to expand into the small taxi fleet market which comprises the large majority of taxi fleets. While the acquisition of MobiSoft results in immediate increased market share in Europe more importantly it enables the Company to distribute MobiSoft's small fleet orientated ASP solution in both North America and globally to penetrate this large market opportunity. We have had strong customer interest in this solution since announcing the acquisition of MobiSoft. The integration of MobiSoft's small fleet management software with our MDT leverages Digital Dispatch's strong brand and reputation to provide complete solutions for the global taxi market, regardless of fleet size.

# Letter to Shareholders

## **Transit Market**

Our acquisition of StrataGen is expected to expand the Company beyond its core taxi market to the transit market by providing a complete solution through the integration of StrataGen's market leading scheduling software with our MDT's with Mobisoft's hosted routing and Scheduling software. StrataGen's strong customer base of large transit authorities in North America, with Mobisoft's transit customers in Europe, and Digital Dispatch's transit customers, results in strong combined market share in this complementary market. Further, Suburban Mobility Authority for Regional Transportation (SMART) of Michigan and Access Services Inc. (ASI) of Los Angeles, California recently selected the offering provided by Digital Dispatch which incorporates StrataGen's technology for sales totalling \$5.6 million validating our diversification strategy.

## **eFleet & Mobile Media**

The eFleet and mobile media business units are expected to provide significant growth for the company in the future. Though today the revenues from these businesses are relatively small, we expect that in 2008 and beyond that these two business units will contribute significant recurring revenue to the Company.

Our plan is to evolve into a global, international multi-faceted wireless solutions company by diversifying into several synergistic business units focused on distinct vertical markets to drive future significant revenue growth and shareholder value.



Vari Ghai,  
President and Chief Executive Officer  
November 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.*

# Management Discussion and Analysis

This Management Discussion and Analysis ("MD&A") of Digital Dispatch Systems Inc. (the "Company" or "Digital Dispatch") has been prepared by management as of November 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 nine month periods ended September 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 customers' requirements; the possibility of development or deployment difficulties or delays; the dependence on our customers' satisfaction with Digital Dispatch's products; 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; integration of acquisitions; 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. 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

# Management Discussion and Analysis

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. 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 20 years, and has installed over 75,000 wireless mobile data devices and over 200 wireless data systems in five continents with the majority installed in the taxi market. Digital Dispatch has offices in Canada, the United Kingdom, Sweden, Singapore, India 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, bar code scanners and debit and credit card interfaces.

### Financial Performance Summary

## Financial results for the three months ended September 30

### Summary of Quarterly Results (1)

3 months ended	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
Revenue (2)	\$9,028	\$6,006	\$5,489	\$6,047	\$6,080	\$3,856	4,329	5,096
Cost of sales (2)	4,440	2,830	2,593	2,830	3,114	1,861	2,177	2,486
Gross margin (2)	\$4,588	\$3,176	\$2,896	\$3,217	\$2,966	\$1,995	\$2,152	2,610
Gross margin %	50.8%	52.9%	52.8%	53.2%	48.8%	51.7%	49.7%	51.2%
Operating expenses (2)	\$2,359	\$2,525	\$2,318	\$2,307	\$2,752	\$2,548	2,777	2,567
Net income (2)	\$1,824	\$474	\$8	\$614	\$1,215	(\$574)	(\$1,196)	(\$592)
Earnings per (loss) common share	\$0.14	\$0.04	\$0.00	\$0.05	\$0.10	(\$0.05)	(\$0.10)	(0.05)

(1) Summary quarterly results for the quarters ended December 2005 to March 2007 have not been audited or reviewed by the company's auditors. (2) Expressed in '000's.

### Revenues

3 months ended	Q3 2007	Q2 2007	Q3 2006
Revenue	\$ 5,096,077	\$ 4,328,885	\$ 6,047,441

# Management Discussion and Analysis

Revenues for the three months ended September 30, 2007 were \$5.1 million representing a decrease of 1.6% from \$6.0 million for the same period in 2006, and an increase of 18% from the second quarter of 2007. The decrease in revenue from 2006 is primarily attributable to decreased sales order volume and related implementation of projects, the significant increase in the Canadian dollar relative to the US dollar (in which the large majority of revenue are generated) and lower sales volume in the Company's primary taxi market.

## Gross Margin

3 months ended	Q3 2007	Q2 2007	Q3 2006
Gross margin	\$2,610,090	\$2,152,330	\$3,217,075
% of revenue	51.2%	49.7%	53.2%

Gross margin (defined as total revenue less cost of sales) for the three months ended September 30, 2007 was 51.2% compared to 53.2% 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. The September 30, 2007 gross margin exceeded the Company's target gross margin of 50%.

## Operating expenses

3 months ended	Q3 2007	Q2 2007	Q3 2006
Operating expenses	\$2,567,560	\$2,777,485	\$2,307,307
% of revenue	50.4%	64.2%	38.2%

Operating expenses for the three months ended September 30, 2007 were \$2.6 million representing an increase from \$2.3 million for the same period in 2006 and a decrease from \$2.8 million for the second quarter in 2007. The increase for the three months ended September 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 a project initiative with the New York City Taxi and Limousine Commission.

## Research & Development

3 months ended	Q3 2007	Q2 2007	Q3 2006
R & D	\$918,861	\$968,270	\$871,207
% of revenue	18.0%	22.4%	14.4%

Research and development expenses were \$919,000 in the three months ended September 30, 2007 compared to \$871,000 in the same period of the prior year and \$968,000 for the three months ended June 30, 2007. The increase from 2006 is primarily due to increased salaries offset by higher ITCs claimed in 2007. For the three months ended September 30, 2007 the Company claimed \$134,000 of ITCs compared to \$84,000 for the same period in 2006. The decrease from the three months ended June 30, 2007 is primarily due to lower salaries and higher ITCs recognized in the three months ended September 30, 2007.

## Sales and Marketing

3 months ended	Q3 2007	Q2 2007	Q3 2006
Sales and Marketing	\$831,079	\$1,127,552	\$692,609
% of revenue	16.3%	26.0%	11.5%

Sales and marketing expenses for the three months ended September 30, 2007 were \$831,000 representing an increase from \$693,000 for the same period in 2006, and a decrease from \$1,128,000 for the three months ended June 30, 2007. The increase for the three months ended September 30, 2007 over the same period in the prior year is attributable to the incremental investment in sales and marketing efforts associated with the Company's diversification into new business initiatives such as its iView product and ASP eFleet offering as well as into non-taxi vertical markets and related costs including travel and entertainment expenses. The decrease for the three months ended September 30, 2007 over the prior quarter is attributable to the Company incurring expenses totaling \$238,000 related to a project initiative with the New York City Taxi and Limousine Commission for its new iView product offering during the period ended June 30, 2007.

# Management Discussion and Analysis

## General and Administrative

3 months ended	Q3 2007	Q2 2007	Q3 2006
G & A	\$817,620	\$681,663	\$743,491
% of revenue	16.0%	15.7%	12.3%

General and administration expenses were at \$818,000 for the three months ended September 30, 2007 compared to \$743,000 for the three months ended 2006 and higher than the \$682,000 for the three months ended June 30, 2007. The increase over the three months ended June 30, 2007 is primarily due to higher professional fees.

## Other (Income) and Expense

3 months ended	Q3 2007	Q2 2007	Q3 2006
Other (Income) & expense	\$ 836,724	\$1,073,514	\$27,424
% of revenue	16.4%	24.8%	0.5%

Other expense costs totaled \$837,000 in the three months ended September 30, 2007, compared to \$27,000 and \$1,074,000 for the three months ended September 30, 2006 and June 30, 2007, respectively. The change is primarily attributable to foreign exchange loss of \$731,000 for the three months ended September 30, 2007 compared to \$84,000 gain and \$962,000 loss for the same period in 2006 and the prior quarter ended June 30, 2007, respectively. 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, for the three months ended September 30, 2007 was consistent at \$75,000 compared to \$81,000 for the same period in 2006.

## Income Tax

The Company's income tax rate for the three months ended September 30, 2007 was 25% or a recovery of (\$202,000) as compared to the rate of 30% or \$268,000 and a recovery of (\$502,000) for the three months ended September 30, 2006 and June 30, 2007 respectively.

## Net Income after tax

Net loss after tax was (\$592,000) or (\$0.05) earnings per share ("EPS") for the three months

ended September 30, 2007, as compared to \$614,000 net income or \$0.05 earnings per share, and (\$1,196,000) net loss or (\$0.10) earnings per share, for the three month periods ending September 30, 2006 and June 30, 2007, respectively. The decrease experienced in the three months ended September 30, 2007, is attributable to the decrease in sales volume experienced by the Company during this period.

## Financial results for the nine months ended September 30

### Financial Performance Summary

9 months ended September 30	2007	2006
Revenue	100%	100%
Costs of sales	49.1%	47.0%
Gross margin	50.9%	53.0%
Operating expenses		
R & D	21.4%	15.8%
Sales and marketing	21.6%	12.2%
General and administration	16.4%	12.7%
Total operating expense	59.4%	40.7%
Other	16.1%	3.3%
Tax expense	75.5%	44.0%
Net operating income	(24.6%)	9.0%
Tax (recovery) expense	(6.9%)	2.7%
Net (loss) earnings	(17.7%)	2.3%

### Selected Financial Information

9 months ended September 30	2007	2006
Revenue	\$ 13,280,652	\$ 17,542,527
Revenue from outside Canada (%)	83.5%	79.1%
Net (loss) income	(\$2,362,3434)	\$ 1,097,465
Basic (loss) earnings per common share	(\$ 0.20)	\$ 0.09
Weighted average common shares	11,863,201	12,295,166
Total assets	\$ 26,428,590	\$ 37,311,528
Total long term financial liabilities	Nil	Nil
Cash dividends per common share	Nil	Nil

# Management Discussion and Analysis

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

- Revenue decreased by 24% to \$13.3 million for the nine months ended September 30, 2007;
- Gross margin decreased by 27% to \$6.8 million for the nine months ended September 30, 2007 compared with the prior year;
- Total operating expenses were higher by 10% for the nine months ended 2007 than the prior year due primarily to increased investment in sales and marketing by the Company and lower revenue;
- Other (income) expense totaled \$2.1 million for the nine months ended September 30, 2007, compared to \$0.6 million for the same period ended in 2006, which is primarily attributable to foreign exchange loss; and
- Earnings per common share decreased from \$0.09 for the nine months ended September 30, 2006, to a loss of (\$0.20) per common share for the nine months ended September 30, 2007.

The majority of the Company's sales are made into non-Canadian markets and is primarily denominated in US dollars. As a result, the strengthening Canadian dollar during 2007 significantly impacted the Company's sales which are reported in Canadian dollars and resulted in a foreign exchange loss of \$1.8 million for the nine months ended September 30, 2007, as compared to a foreign exchange loss of \$331,000 for the same period in the prior year.

## Revenue

9 months ended	Q3 2007	Change	Q3 2006
Revenue	\$ 13,280,652	(24.3%)	\$ 17,542,527

Revenues for the period ended September 30, 2007 were \$13.3 million representing a decrease of 24% from \$17.5 million for the same period in the prior year which is mainly attributable to the significant increase in the Canadian dollar relative to the US dollar (in which the large majority of revenue is generated) and lower sales volume in the Company's primary taxi market. Revenue attributable to the combination of foreign exchange and non-taxi markets decreased by 28% from \$4.6 million in 2006 compared to \$3.4 million in 2007 while sales outside of Canada decreased by 20% to \$11.0 million from \$13.8 million for the same period in the prior year.

The revenue contributions for the nine months ended September 30, 2006 and 2007 from the Company's respective markets are summarized as follows

9 months ended	Q3 2007	%	Q3 2006	%
Taxi – North America	\$ 5,914,174	44.5%	\$ 8,883,568	50.6%
Taxi – International	4,014,347	30.2%	4,034,087	23.0%
Non-Taxi Markets	3,352,131	25.3%	4,624,872	26.4%
Total Revenue	\$ 13,280,652	100%	\$ 17,542,527	100%

## Gross Margin

9 months ended	Q3 2007	%	Change	Q3 2006	%
Revenue	\$ 13,280,652	100%	(24.3%)	\$ 17,542,527	100%
Costs of sales	6,523,610	49.1%	(21.0%)	8,254,123	47.1%
Gross margin	\$ 6,757,042	50.9%	(27.3%)	\$ 9,288,404	52.9%

Gross margin for the nine months ended September 30, 2007 (defined as total revenues less cost of sales) was \$6.8 million representing a decrease of 27% from \$9.3 million for the same period ended September 30, 2006. This decrease in total gross margin is mainly due to the 24% decrease in revenue plus the corresponding decrease in project staff utilization and other fixed costs during the nine month period ended September 30, 2007. The gross margin expressed as a percentage of sales decreased

# Management Discussion and Analysis

to 50.9% compared to 53.0% for the same period in the prior year. Although the Company's gross margin percentage decreased for the nine months ended September 30, 2007, it still exceeded the Company's target gross margin percentage of 50%.

## Operating Expenses

9 months ended	Q3 2007	Change	Q3 2006
Total operating expenses	\$7,893,232	10.4%	\$7,151,068
% of revenue	59.4%		40.8%

Operating expenses, research and development, sales and marketing, general and administrative, totaled \$7.9 million for the nine months ended September 30, 2007 as compared to \$7.2 million for the same period ended 2006. The increase of 10% experienced by the Company for the nine months ended September 30, 2007 over the same period in the prior year is primarily due to the Company's significant non-recurring sales, marketing and project management investment of approximately \$350,000 for the launch of its new iView product offering to establish its presence in the New York City market through a project with the Taxi and Limousine Commission during the nine months ended September 30, 2007.

## Research and Development

9 months ended	Q3 2007	Change	Q3 2006
R&D	\$ 2,846,883	2.4%	\$2,779,270
% of revenue	21.4%		16.8%

The Company has research and development groups located in Richmond, BC. The Company had a research and development group in Gurgaon, India which was closed on March 31, 2007 with all operations 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 \$2.8 million for the nine months ended 2007 and 2006, respectively. The Company experienced

lower project development material costs of \$47,000 for the nine months ended 2007 compared to \$121,000 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 nine months ended September 2007 of \$317,000 as compared to \$336,000 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

9 months ended	Q3 2007	Change	Q3 2006
Sales & marketing	\$ 2,869,504	33.9%	\$2,143,074
% of revenue	21.6%		13%

The Company maintains a direct sales force, with staff in Canada, the UK and India. 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 costs increased to \$2.9 million for the nine months ended September 30, 2007 compared to \$2.1 million for the same period in the prior year. The increase is primarily due to the Company's significant non-recurring investment in sales and marketing and project management for the launch of the new iView product offering with the Taxi and Limousine Commission in New York City of approximately \$350,000 during the nine months ended September 30, 2007.

## General and Administrative

9 months ended	Q3 2007	Change	Q3 2006
G&A	\$2,176,845	(2.3%)	\$ 2,228,724
% of revenue	16.4%		12.6%

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

# Management Discussion and Analysis

costs decreased to \$2.1 million for the nine months ended September 30, 2007 compared to \$2.2 million for the same period in the prior year due to a reduction in bad debt expense and professional fees.

## Other (Income) and Expense

9 months ended	Q3 2007	Change	Q3 2006
Other (income) & expense	\$2,140,174	275.8%	\$569,529
% of revenue	16.1%		3.3%

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

- Net foreign exchange loss of \$1.8 million was experienced for the nine months ended September 30, 2007, which is attributable to the strengthening Canadian dollar during 2007 on short-term investments and accounts receivables denominated in US dollars, UK pounds and Euros, as compared to losses of \$331,000 for the same period ended in 2006; and
- Stock compensation expense totaled \$225,000 for the nine months ended September 30, 2007 compared to \$146,000 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 and other foreign currencies. 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 nine months ended September 30, 2007 was 28% 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.

## Liquidity and Capital Resources

The Company as at September 30, 2007 had \$8.0 million of cash and short-term investments, compared to \$11.1 million as at December 31, 2006. The September 30, 2007 decrease in cash of \$4.6 million is primarily attributable to the Company's loss from operations of \$2.4 million, and a \$1.6 million increase in short-term security investments. The Company's working capital as at September 30, 2007 of \$15.6 million is a decrease of \$3.9 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 offset by 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 investigate potential acquisition candidates.

The Company believes that its current working capital, continued access to its new \$4.0 million line of credit, and continued availability of performance bond arrangements with the EDC will provide sufficient resources to carry on operations in the short-term and the long-term and to pursue its business plan. In the normal course of operations the Company may consider raising additional debt or equity consistent with its strategic plan.

## Operating Activities:

For the three months ended September 30, 2007 cash used in operating activities was \$170,000 compared to an increase in cash of \$7,532,000 for the same period ended in 2006, the majority of which was for the dividend.

The difference is primarily due to the loss from operations of \$592,000 for the three months ended September 30, 2007, compared to \$614,000 for the same period in the prior year. Decrease in cash from working capital was \$356,000 for the three months ended September 30, 2007 compared to an increase of \$6,629,000 for the three months ended September 30, 2006. The three months ended September 30, 2007 decrease in cash is primarily the result of accounts receivable increase of \$1,299,000 and decrease in accounts payable of \$612,000, and an increase in cash of \$1,406,000 for the transfer of inventory to capital assets to use for rental

# Management Discussion and Analysis

income. The primary working capital increase for the three months ended September 30, 2006 was the \$7,142,000 accounts payable and accrued liability increase for the dividend payable.

For the nine months ended September 30, 2007 cash used in operating activities was \$1,184,591, compared to an increase in cash of \$10,271,000 for the same period ended in 2006.

The difference is primarily due to the loss from operations of \$2,362,000 for the nine months ended September 30, 2007, compared to earnings of \$1,097,000 for the same period in the prior year. Increase in cash from working capital was \$158,000 for the nine months ended September 30, 2007 compared to an increase of \$8,735,000 for the same period ended September 30, 2006. The nine months ended September 30, 2007 increase in cash is primarily from accounts receivable, compared to the working capital increases to accounts receivable of \$1,168,000 and \$7,142,000 to accounts payable and accrued liabilities for the dividend payable for the same period ended September 30, 2006.

## Investing Activities:

For the three months ended September 30, 2007 the cash increase from investing activities was \$140,000, compared to an increase in cash of \$1,920,000 for the same period ended in 2006.

The primary differences for the nine months ended September 30, 2007 as compared to the same period ended in 2006 is the decrease in cash for the capital asset increase for rental income asset additions.

For the nine months ended September 30, 2007 cash used in investing activities was \$2,392,000, compared to an increase in cash of \$2,633,000 for the same period ended in 2006. The primary differences are the increase in short-term investments in anticipation of making acquisitions and the capital asset increase for rental income asset additions.

## Financing Activities:

For the three and nine months ended September 30, 2007 there were no financing activities, compared to \$7,956,000 and \$9,508,000 decrease in cash for the same periods ended September 30, 2006, respectively. The September 30, 2006 cash decreases are from the dividend declared and the repurchase and cancellation by the Company of its shares.

## Commitments

	Payments Due by Period				
	Total	For the 3 months ending 12/31/07	For the 3 years ending 12/31/10	For the 1 year ending 12/31/11	After 12/31/11
Contractual Obligations					
Long Term Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Lease Obligations	-	-	-	-	-
Operating Leases	829,401	184,500	617,571	27,300	-
Purchase Obligations	1,461,663	1,461,663	-	-	-
Other Long Term Obligations	-	-	-	-	-
<b>Total Contractual Obligations</b>	<b>\$ 2,291,064</b>	<b>\$ 1,646,163</b>	<b>\$ 617,571</b>	<b>\$ 27,300</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 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.

# Management Discussion and Analysis

## Off-Balance Sheet Arrangements

The Company's contract with the New York City Taxi and Limousine Commission required the Company to pay US\$27,520 for a USD\$1.0 million bond. The Company arranged these bonds with Canada Export Development Corporation ("EDC") and has agreed to indemnify EDC.

## 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, included in Payments Due by Period table under operating leases, with the minimum annual lease payments under the lease agreement as follows:

2007: \$148,034 (3 mon. ending Dec. 31, 2007)  
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.

On November 9, 2007 the Company increased its bank line of credit to \$4,000,000. The Company is the beneficiary of a guarantee provided by Viksun Enterprises Inc., a company controlled by the Company's CEO in the amount of \$2.0 million with the remainder of the line of credit secured by all of the assets of the Company.

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 and nine months ended September 30, 2007 were \$2,232 and \$10,457 compared to \$3,886 and \$21,099 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 \$72,751 for three months and \$214,285 for the nine months ended September 30, 2007 compared to \$57,475 and \$180,376 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.

## Acquisition Transactions

On October 1, 2007, the Company acquired all of the shares of Mobisoft Oy, a company registered in Finland. Mobisoft Oy is a software company specializing in automated dispatching and wireless data transfer applications for passenger transport. The acquisition was made through the Company's wholly owned UK subsidiary Digital Dispatch (Intl) Limited. The consideration amounted to €5.17 million comprising €3.0 million cash and 1.28 million common shares in Digital Dispatch Systems Inc, valued at a total of €2.17 million. In addition, the Company issued 200,000 stock options vesting over a period of three years with an exercise price of \$3.00 to the employees of Mobisoft to purchase common shares. The total purchase price (including the fair value of cash consideration, share based awards and transaction costs) is approximately €5.45 million. The preliminary allocation of purchase price, subject to finalization, to the net assets acquired is as follows: cash and cash equivalents €550,000, net working capital €385,000, property and equipment €90,000, debt assumed €575,000, and unassigned purchase price (intangibles and goodwill) €5.0 million.

On October 2, 2007 the Company signed a binding letter of intent to acquire all of the shares of StrataGen™ Systems Inc. of Kirkland, Washington, US ("StrataGen"). Subject to the execution of a definitive agreement and regulatory approvals in Canada and the US, the closing of this transaction is expected to occur on or before November 16, 2007. The Company will pay, subject to adjustments for usual post closing items, US\$6.0 million in cash consideration with US\$4.5 million payable upon closing and US\$1.5 million payable in 15 monthly instalments of US\$100,000 commencing 90 days after the acquisition date. In addition, after the acquisition StrataGen will pay certain of the departing shareholders up to a maximum US\$2.3 million payments made by way of bonuses, commissions and consulting fees. The exact amount of the payments will be determined based on certain contracts which are presently in negotiation or are to be completed at closing.

# Management Discussion and Analysis

## 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.

Revenue related to the Taxi Limousine Commission project is recognized as follows; system installment revenue is recognized evenly over the term of the system service agreement. A monthly fee is recorded for use of the system, a transaction fee is recorded for each credit card swipe and revenue from advertising is earned evenly over the term of the advertising contract.

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 change, 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.

# Management Discussion and Analysis

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

Other than the adoption of the financial instrument sections as outlined below, there were no changes in accounting policies for the three and nine months ended September 30, 2007.

## Recent Canadian Accounting Pronouncements

Other than the adoption of the financial instrument sections as outlined below: 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 became 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

# Management Discussion and Analysis

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 nine months ended September 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 nine months ended September 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	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 November 14, 2007, the Company had outstanding 667,500 options to acquire common shares at prices ranging from \$3.00 to \$3.75 per share. The above share balance and outstanding options to acquire common shares are the September 30, 2007 balances and do not reflect the October 1, 2007 Mobissoft acquisition.

## 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

# Management Discussion and Analysis

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).

# Financial Statements

## Interim Consolidated Balance Sheets

(Unaudited)

	September 30, 2007	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,083,456	\$ 6,712,786
Short-term investments	5,965,303	4,381,016
Accounts receivable (note 3)	6,756,939	7,627,088
Income taxes receivable	-	777,629
Future income taxes	84,259	81,087
Inventories	3,585,106	3,465,262
Prepaid expenses	391,638	387,893
Current portion of leases receivable	634,007	968,708
	19,500,708	24,401,469
Plant and equipment	1,847,648	491,180
Long-term leases receivable	1,808,777	1,940,441
Deferred acquisition costs	85,720	-
Future income taxes	3,185,737	1,903,985
	\$ 26,428,590	\$ 28,737,075
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,283,167	\$ 2,604,899
Income taxes payable	8,616	-
Future income taxes	663,958	521,900
Deferred revenue	705,520	562,296
Deferred gain	191,076	191,076
	3,852,337	3,880,171
Long-term portion of deferred gain	-	143,308
Shareholders' equity:		
Share capital (note 4)	19,764,711	19,764,711
Contributed surplus	603,069	378,069
Retained earnings	3,105,087	5,467,430
Accumulated other comprehensive loss	(896,614)	(896,614)
	22,576,253	24,713,596
	\$ 26,428,590	\$ 28,737,075

See accompanying notes to consolidated financial statements.

# Financial Statements

## Interim Consolidated Statements of Operations and Retained Earnings

Three and nine months ended September 30, 2007

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenue (note 6)	\$ 5,096,077	\$ 6,047,441	\$ 13,280,652	\$ 17,542,527
Cost of sales	2,485,987	2,830,366	6,523,610	8,254,123
	2,610,090	3,217,075	6,757,042	9,288,404
Operations expenses (excluding amor- tization and stock-based compensation):				
Research and development	918,861	871,207	2,846,883	2,779,270
Sales and marketing	831,079	692,609	2,869,504	2,143,074
General and administrative	817,620	743,491	2,176,845	2,228,724
	2,567,560	2,307,307	7,893,232	7,151,068
Earnings (loss) before undernoted	42,530	909,768	(1,136,190)	2,137,336
Other (income) expense:				
Amortization of plant and equipment	78,403	78,398	221,348	236,269
Foreign exchange loss (gain)	730,733	(84,452)	1,825,622	330,518
Stock compensation	75,000	81,247	225,000	146,049
Other	(47,412)	(47,769)	(131,796)	(143,307)
	836,724	27,424	2,140,174	569,529
(Loss) Earnings before income taxes	(794,194)	882,344	(3,276,364)	1,567,807
Income taxes				
Current	30,086	90,724	(409,583)	270,915
Future	(231,801)	177,271	(504,438)	199,427
	(201,715)	267,995	(914,021)	470,342
Net (loss) earnings & comprehensive income	(592,479)	614,349	(2,362,343)	1,097,465
Retained earnings, beginning of period	3,697,566	11,276,627	5,467,430	11,614,206
Dividend declared	-	(7,141,549)	-	(7,141,549)
Excess paid on share repurchase (note 4)	-	(445,904)	-	(1,266,599)
Retained earnings, end of period	\$ 3,105,087	\$ 4,303,523	\$ 3,105,087	\$ 4,303,523
Basic & diluted (loss) earnings per share (note 5)	(\$0.05)	\$ 0.05	(\$0.20)	\$ 0.09

See accompanying notes to consolidated financial statements.

# Financial Statements

## Interim Consolidated Statements of Cash Flows

Three and nine months ended September 30, 2007 and 2006

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net earnings (loss)	\$ (592,479)	\$ 614,349	\$ (2,362,343)	\$ 1,097,465
Items not involving cash:				
Amortization of plant and equipment	78,403	78,398	221,348	236,269
Future income taxes	(231,801)	177,271	(504,438)	199,427
Amortization of gain on disposition of property	(47,769)	(47,769)	(143,307)	(143,307)
Stock based compensation	75,000	81,247	225,000	146,049
Loss on asset disposal	-	-	10,892	-
Unrealized foreign exchange loss	905,150	-	1,210,355	-
	186,504	903,496	(1,342,493)	1,535,903
Change in non-cash operating working capital (note 7):	(356,358)	6,628,632	157,903	8,735,041
	(169,854)	7,532,128	(1,184,591)	10,270,944
<b>Investing:</b>				
(Decrease) increase in short-term investment	1,226,240	1,653,543	(1,584,287)	2,040,208
Purchase of plant and equipment	(1,267,466)	(36,060)	(1,593,027)	(174,160)
Acquisition Costs	(85,720)	-	(85,720)	-
Repayments on lease receivables	267,186	302,922	870,883	766,651
	140,240	1,920,405	(2,392,151)	2,632,699
<b>Financing:</b>				
Cash paid on share repurchase and cancellation (note 4)	-	(814,424)	-	(2,366,636)
Dividend	-	(7,141,549)	-	(7,141,549)
	-	(7,955,973)	-	(9,508,185)
Effect of foreign currency exchange rates on cash and cash equivalents	(423,866)	(33,454)	(1,052,589)	(111,961)
Decrease (increase) in cash and cash equivalents	(453,480)	1,463,106	(4,629,330)	3,283,497
Cash and cash equivalents, beginning of period	2,536,936	8,591,380	6,712,786	6,770,989
Cash and cash equivalents, end of period	\$ 2,083,456	\$ 10,054,486	\$ 2,083,456	\$ 10,054,486

Supplementary cash flow information (note 7).

# Notes to Financial Statements

## Notes to Consolidated Financial Statements

Three and six months ended September, 2007 and 2006

### 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's 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 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 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 nine months ended September 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 except where there is a reduction in the company's net investment in its subsidiaries operations. There was no change to the Company's accumulated other comprehensive loss during the nine months ended September 30, 2007 and 2006.

# Notes to Financial Statements

## Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2007 and 2006

### 3. Accounts receivable:

	2007		2006	
Accounts receivable	\$	4,778,278	\$	7,290,346
Unbilled receivables		2,552,812		874,473
		7,331,090		8,164,819
Less allowance for doubtful accounts		(574,151)		(537,731)
	\$	6,756,939	\$	7,627,088

### 4. Share capital:

(a) Normal course issuer bid:

During the three and nine months ended September 30, 2006 the Company acquired and cancelled 221,200 and 660,286 common shares at an aggregate cost of \$814,424 and \$2,366,636 respectively. Of this amount, \$445,904 and \$1,266,599 was charged to retained earnings and \$368,519 and \$1,100,036 was applied to reduce capital. The company did not acquire or cancel any common shares during the three and nine months ended September 30, 2007.

(b) Stock options:

As at September 30, 2007 there were 667,500 options outstanding to purchase common shares at a weighted average price of \$3.33, of which 275,702 options having a weighted average price of \$3.46 are vested and 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.

Assumptions:	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Number of stock options granted	-	271,000	300,000	274,500
Exercise price per option	-	\$3.50	\$3.00	\$3.50
Fair value per option	-	\$2.14	\$1.65	\$2.14
Assumptions:				
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%	87.7%	67.5%

# Notes to Financial Statements

## Notes to Consolidated Financial Statements

Three and nine months ended September, 2007 and 2006

### 5. (Loss) earnings per share:

Three months ended September 30,

	2007			2006		
	Net (Loss)	Common shares	Per share amount	Net earnings	Common shares	Per share amount
Common shares outstanding at end of period		11,863,201			11,897,781	
Effect of repurchase and cancellation of common shares (note 4(a))		-			220,011	
Basic	(\$592,479)	11,863,201	(\$0.05)	\$614,349	11,990,998	\$0.05
Stock options		-			27,352	
Diluted	(\$592,479)	11,863,201	(\$0.05)	\$614,349	12,018,350	\$0.05

Nine months ended September 30,

	2007			2006		
	Net (Loss)	Common shares	Per share amount	Net earnings	Common shares	Per share amount
Common shares outstanding at end of period		11,863,201			11,897,781	
Plus proration to weighted average		-			387,626	
Basic	(\$2,362,343)	11,863,201	(\$0.20)	\$1,097,465	12,285,407	\$0.09
Stock options		-			9,759	
Diluted	(\$2,362,343)	11,863,201	(\$0.20)	\$1,097,465	12,295,166	\$0.09

### 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:

Revenues:	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Europe	\$ 1,310,692	\$ 1,049,733	\$ 4,147,499	\$ 4,325,469
United States	2,726,464	3,640,461	6,359,788	8,711,124
Canada	843,261	1,263,279	2,297,680	3,767,533
Asia and other	215,660	93,968	475,685	738,401
	\$ 5,096,077	\$ 6,047,441	\$ 13,280,652	\$ 17,542,527

# Notes to Financial Statements

## Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2007 and 2006

### 6. Segmented information (continued):

(b) Plant and equipment:

September 30, 2007	Cost	Accumulated amortization	Net book value
Furniture, equipment and moulds	\$ 2,499,316	\$ 2,264,963	\$ 234,353
Computer equipment and software	4,757,643	4,155,995	601,648
Rental inventory - iView	841,888	1,921	839,967
Intellectual property	80,585	80,585	-
Leasehold improvements	255,842	84,162	171,680
	\$ 8,435,274	\$ 6,587,626	\$ 1,847,648

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 September 30		Nine months ended September 30	
	2007	2006	2007	2006
Products and services	\$ 4,863,071	\$ 5,793,918	\$ 12,788,177	\$ 16,850,625
Investments	181,736	219,675	341,821	593,004
Financing	51,270	33,848	150,654	98,898
	\$ 5,096,077	\$ 6,047,441	\$ 13,280,652	\$ 17,542,527

# Notes to Financial Statements

## Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2007 and 2006

### 7. Supplementary cash flow information:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
Changes in non-cash operating working capital				
Accounts receivable	\$ (1,299,301)	\$ 1,167,979	\$ 2,424,211	\$ 2,582,682
Unbilled receivable	60,309	(998,684)	(1,733,790)	284,202
Income taxes receivable	(134,458)	(84,763)	293,432	(343,426)
Prepaid expenses	131,145	(42,753)	(20,629)	15,366
Inventories	1,406,367	(462,688)	(119,844)	344,660
Current portion of leases receivable	59,709	(174,300)	(408,200)	(487,090)
Acc. Pay. and accrued liabs.	(612,123)	7,795,884	(277,765)	7,809,700
Deferred revenue	51,399	(657,436)	179,155	(1,703,859)
Income taxes payable	(19,405)	85,393	(178,667)	232,806
	\$ (356,358)	\$ 6,628,632	\$ 157,903	\$ 8,735,041
Other:				
Interest received	\$ 233,006	\$ 253,523	\$ 492,475	\$ 691,902
Income taxes paid	-	-	-	-
Cash and Cash equivalents	September 30, 2007		December 31, 2006	
Cash	\$ 2,083,456		\$ 636,882	
Short-term investments under 90 days	-		6,075,904	
	\$ 2,083,456		\$ 6,712,786	

### 8. 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 September 30, 2007 were \$148,034 (2006 - \$142,438) and for the nine months ended September 30, 2007 is \$444,102 (2006 - \$423,245).

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 and nine months ended September 30, 2007 were \$2,232 (2006 - \$3,886) and \$10,457 (2006 - \$21,099) respectively.

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 September 30, 2007 is \$72,751 (2006 - \$57,475), and for the nine months ended September 30, 2007 were \$214,285 (2006 - \$180,376). 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.

# Notes to Financial Statements

## Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2007 and 2006

### 9. Subsequent events:

a) On October 1, 2007, the Company acquired all of the shares of Mobisoft Oy, a company registered in Finland. Mobisoft Oy is a software company specializing in automated dispatching and wireless data transfer applications for passenger transport. The acquisition was made through the Company's wholly owned UK subsidiary Digital Dispatch (Intl) Limited. The consideration amounted to €5.17 million comprising €3.0 million cash and 1.28 million common shares in Digital Dispatch Systems Inc, valued at a total of €2.17 million. In addition, the Company issued 200,000 stock options, vesting over a period of three years with an exercise price of \$3.00 to the employees of Mobisoft to purchase common shares. The total purchase price (including the fair value of cash consideration, share based awards and transaction costs) is approximately €5.45 million. The preliminary allocation of purchase price, subject to finalization, to the net assets acquired is as follows: cash and cash equivalents €550,000, net working capital €385,000, property and equipment €90,000, debt assumed €575,000, and unassigned purchase price (intangibles and goodwill) €5.0 million.

b) On October 2, 2007 the Company signed a binding letter of intent to acquire all of the shares of StrataGen™ Systems Inc. of Kirkland, Washington, US ("StrataGen"). Subject to the execution of a definitive agreement and regulatory approvals in Canada and the US, the closing of this transaction is expected to occur on or before November 16, 2007. The Company will pay, subject to adjustments for usual post closing items US\$6.0 million in cash consideration with US\$4.5 million payable upon closing and US\$1.5 million payable in 15 monthly instalments of US\$100,000 commencing 90 days after the acquisition date. In addition, after the acquisition StrataGen will pay certain of the departing shareholders up to a maximum US\$2.3 million payments made by way of bonuses, commissions and consulting fees. The exact amount of the payments will be determined based on certain contracts which are presently in negotiation or are to be completed at closing.

c) On October 8 and 11, 2007, the Company issued 225,000 and 30,000 of stock options respectively to employees. The options were issued with an exercise price of \$3.00, vesting over a period of three years, and have a contractual life of three years.

d) On November 9, 2007 the Company increased its bank line of credit to \$4.0 million. The Company is the beneficiary of a guarantee provided by Viksun Enterprises Inc., a company controlled by the Company's CEO in the amount of \$2.0 million with the remainder of the line of credit secured by all of the assets of the Company.

# 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 Inc.** for the interim period ending **September 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: November 14, 2007



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 Inc.** for the interim period ending **September 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: November 14, 2007



George Reznik  
Chief Financial Officer

# Corporate Information

## Listing

Digital Dispatch Systems Inc. is listed on the Toronto Stock Exchange (TSX) under trading symbol DD.

## Transfer Agent

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## Board of Directors

**Erik Dysthe**  
Former President, CEO and Chairman  
MDSI Mobile Data Solutions Inc.

**Mark Joseph**  
President and CEO  
Yellow Transportation/Connex North  
Holding Company Inc.

**Vari Ghai**  
President, CEO and Chairman  
Digital Dispatch Systems Inc.

**Geoffrey Belsher**  
Partner  
Blake, Cassels & Graydon (U.S.) LLP.

**Daniel Daviau**  
Principal  
Genuity Capital Markets

**Sal Visca**  
Chief Technology Officer  
Business Objects SA.

## Executive Management

**Vari Ghai**  
President and Chief Executive Officer

**George Reznik**  
Chief Financial Officer

**Brent Gushulak**  
Vice President of North America Sales

**Michael Hryb**  
Vice President of International Sales

**Jay Hutton**  
Vice President of Business Development

**George Lipski**  
Vice President of Research and Development  
and Operations

**Ken Piaggio**  
Vice President of International Operations

**Cliff Snelling**  
Vice President of Marketing

**Raymond D. Fast**  
President of ASP Business Units



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