



DDS WIRELESS INTERNATIONAL INC.

Unaudited Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indication that financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Jim Zadra
CFO
November 3, 2009

DDS WIRELESS INTERNATIONAL INC.

Interim Consolidated Balance Sheets (unaudited)

	As at,	
	September 30, 2009 (unaudited)	December 31, 2008 (audited)
Assets		
Current assets:		
Cash and cash equivalents (note 17)	\$ 1,523,789	\$ -
Accounts receivable, net (note 8)	2,679,382	6,943,023
Contract work-in-progress (note 8)	3,465,871	3,241,843
Income taxes receivable	42,090	86,491
Future income taxes	404,000	19,253
Inventories (note 10)	2,493,501	2,165,696
Prepaid expenses	726,082	831,404
Current portion of leases receivable (note 11)	485,316	501,484
	11,820,031	13,789,194
Plant and equipment (note 6)	2,634,866	3,938,256
Investment (note 12)	102,565	102,565
Long-term leases receivable (note 11)	1,509,554	1,926,872
Future income taxes	5,712,839	4,970,208
Acquired intangibles (note 9)	7,316,676	9,407,286
Goodwill (note 7)	3,387,228	3,533,201
	\$ 32,483,759	\$ 37,667,582
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank overdraft (note 17)	\$ -	\$ 62,748
Lines of credit (note 13)	-	1,401,431
Acquisition purchase price payable	428,862	763,243
Accounts payable and accrued liabilities	4,513,978	5,093,321
Future income taxes	520,248	695,336
Deferred revenue	2,530,936	1,883,984
Current portion of long-term debt (note 14)	234,807	313,666
	8,228,831	10,213,729
Long-term debt (note 14)	188,165	287,187
Future income taxes	453,526	762,667
	8,870,522	11,263,583
Shareholders' equity:		
Share capital (note 16)	24,608,226	24,608,226
Contributed surplus (note 16)	1,087,414	814,459
(Accumulated Deficit) Retained earnings	(2,192,778)	628,936
Accumulated other comprehensive income	110,375	352,378
	23,613,237	26,403,999
	\$ 32,483,759	\$ 37,667,582

Commitments and contingencies (Note 19)

Approved on behalf of the Board:

/s/ Vari Ghai _____ Director /s/ Erik Dysthe _____ Director

See accompanying notes to unaudited consolidated financial statements.

DDS WIRELESS INTERNATIONAL INC.

Interim Consolidated Statements of Operations (unaudited)

	Three months ended		Nine months ended	
	Sep 30, 2009 (Unaudited)	Sep 30, 2008 (Unaudited)	Sep 30, 2009 (Unaudited)	Sep 30, 2008 (Unaudited)
Revenue (note 20)	\$ 8,297,186	\$ 7,635,780	\$ 24,544,087	\$22,852,758
Cost of sales				
Sales related expenses	4,494,376	3,937,359	13,233,820	11,774,977
Amortization of sales related assets	226,878	201,614	673,369	429,175
	4,721,254	4,138,973	13,907,189	12,204,152
	3,575,932	3,496,807	10,636,898	10,648,606
Operations expenses:				
Research and development	1,406,491	1,583,863	4,121,969	4,551,996
Sales and marketing	910,388	1,062,745	2,922,041	3,077,716
General and administrative	1,404,095	1,348,610	4,236,831	3,961,392
	3,720,974	3,995,218	11,280,841	11,591,104
Loss before under noted	(145,042)	(498,411)	(643,943)	(942,498)
Other (income) expense:				
Amortization of plant and equipment	118,269	118,854	350,944	351,300
Amortization of acquired intangibles (note 9)	599,384	606,584	1,910,522	1,813,765
Foreign exchange loss (gain)	455,525	(106,529)	707,464	(326,154)
Stock compensation (note 16)	84,611	-	272,955	57,524
Other (note 15)	16,085	(29,169)	40,283	(84,049)
	1,273,874	589,740	3,282,168	1,812,386
Loss before income taxes	(1,418,916)	(1,088,151)	(3,926,111)	(2,754,884)
Income tax provision (recovery)				
Current	49,813	79,749	123,105	642,963
Future (recovery)	(375,364)	(402,352)	(1,227,502)	(1,384,984)
	(325,551)	(322,603)	(1,104,397)	(742,021)
Net loss	\$(1,093,365)	\$ (765,548)	\$ (2,821,714)	\$ (2,012,863)
Loss per common share:				
Basic and Diluted	\$ (0.08)	\$ (0.06)	\$ (0.20)	\$ (0.15)
Weighted average number of shares outstanding	13,789,746	13,789,746	13,789,746	13,789,746

See accompanying notes to unaudited consolidated financial statements.

DDS WIRELESS INTERNATIONAL INC.

Interim Consolidated Statements of Comprehensive Loss (unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net loss	\$ (1,093,365)	\$ (765,548)	\$ (2,821,714)	\$ (2,012,863)
Other Comprehensive (Loss) Income and Unrealized (loss) gain on translation of self-sustaining foreign operations	(364,971)	(116,533)	(242,003)	(46,849)
Comprehensive Loss	\$ (1,458,336)	\$ (882,081)	\$ (3,063,717)	\$ (2,059,712)

Interim Consolidated Statements of Changes in Retained Earnings (Accumulated Deficit) and Accumulated Other Comprehensive Loss (unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Retained Earnings (Accumulated Deficit)				
Beginning of period	\$ (1,099,413)	\$ 858,846	\$ 628,936	\$ 2,106,161
Net loss	(1,093,365)	(765,548)	(2,821,714)	(2,012,863)
End of period	(2,192,778)	93,298	(2,192,778)	93,298
Accumulated Other Comprehensive Income (Loss) on translation of Self-sustaining Foreign Operations				
Beginning of period	475,346	(797,587)	352,378	(867,271)
Net unrealized (loss) gain on translation of self-sustaining foreign operations	(364,971)	(116,533)	(242,003)	(46,849)
	110,375	(914,120)	110,375	(914,120)
Total (Accumulated Deficit) Retained Earnings and Accumulated Other Comprehensive Loss	\$ (2,082,403)	\$ (820,822)	\$ (2,082,403)	\$ (820,822)

See accompanying notes to unaudited consolidated financial statements.

DDS WIRELESS INTERNATIONAL INC.

Interim Consolidated Statements of Cash Flows (unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operations:				
Net loss	\$ (1,093,365)	\$ (765,548)	\$ (2,821,714)	\$ (2,012,863)
Items not involving cash:				
Amortization of plant and equipment	398,918	320,469	1,185,625	780,476
Amortization of acquired intangibles	599,384	606,584	1,910,522	1,813,765
Future income taxes	(492,327)	(402,352)	(1,611,607)	(1,384,984)
Unrealized foreign exchange gain (loss)	47,260	(107,493)	162,670	(32,994)
Amortization of gain on disposition property	-	(47,769)	-	(143,308)
Stock based compensation	84,611	-	272,955	57,524
	(455,519)	(396,109)	(901,549)	(922,384)
Change in non-cash operating working capital (note 17)	1,905,968	3,372,027	4,276,256	3,692,681
	1,450,449	2,975,918	3,374,707	2,770,297
Investing:				
Purchase of short-term investments	-	(152,444)	-	(152,444)
Purchase of plant and equipment	(163,779)	(798,167)	(430,048)	(1,600,238)
Investment	-	-	-	(25,275)
Acquisitions, net of cash and cash equivalents	(97,307)	-	(251,224)	87,315
New lease receivables granted	-	(430,896)	(91,436)	(430,896)
Repayments of lease receivables	201,811	23,543	524,922	326,193
	(59,275)	(1,357,964)	(247,786)	(1,795,345)
Financing:				
Decrease in long term debt	(87,834)	(96,898)	(138,953)	(146,410)
Decrease in line of credit	(196,868)	(116,521)	(1,464,179)	(478,192)
	(284,702)	(213,419)	(1,603,132)	(624,602)
Effect of foreign currency exchange rates on cash & cash equivalents	-	(10,280)	-	(10,280)
Increase in cash and cash equivalents	1,106,472	1,394,255	1,523,789	340,070
Cash and cash equivalents, beginning of period	417,317	21,018	-	1,075,203
Cash and cash equivalents, end of period	\$ 1,523,789	\$ 1,415,273	\$ 1,523,789	\$ 1,415,273

Supplementary cash flow information (note 17)

See accompanying notes to unaudited consolidated financial statements.

DDS WIRELESS INTERNATIONAL INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. Nature of operations:

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

Management continues to review operations in order to identify additional strategies, including obtaining future sales contracts designed to generate cash flow, improve the Company's financial position, and enable the timely discharge of the Company's obligations.

2. Consolidated financial statement presentation:

The interim consolidated financial statements are stated in Canadian dollars. These interim financial statements do not include all disclosures 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 consolidated financial statements as at and for the year ended December 31, 2008.

DDS WIRELESS INTERNATIONAL INC.

Notes to Unaudited Interim Consolidated Financial Statements

3. Significant accounting policies:

These unaudited interim consolidated financial statements follow the same accounting policies and methods of their application as the Company's audited consolidated financial statements as at and 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.

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Notes to Unaudited Interim Consolidated Financial Statements

4. Financial instruments:

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

Cash 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 amortized cost. Accounts payable and accrued liabilities, line of credit, acquisition purchase price payable, and long-term debt, are designated as "other financial liabilities" and are measured at amortized cost.

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 in a private company and there is no quoted market price.

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

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 September 30, 2009, the Company had no foreign exchange contracts outstanding.

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Notes to Unaudited Interim Consolidated Financial Statements

4. Financial instruments (continued):

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, 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 nine months ended September 30, 2009, the Company recorded bad debt expense of \$55,985 and \$161,591 respectively, and has a total reserve against accounts receivable totalling \$535,801 for such accounts as of September 30, 2009.

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).

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Notes to Unaudited Interim Consolidated Financial Statements

4. Financial instruments (continued):

At September 30, 2009 the Company is exposed to translation foreign currency risk through the following financial assets and liabilities denominated in Euro and US Dollars:

	September 30, 2009		December 31, 2008	
	(EUR)	(USD)	(EUR)	(USD)
Cash	268,142	819,383	(56,337)	(57,585)
Accounts Receivable	363,569	2,142,551	702,841	3,785,648
Accounts Payable & Accrued Liabilities	(801,290)	(1,218,245)	(429,355)	(2,898,277)
Long Term Debt	(150,666)	-	(386,418)	(8,382)
	<u>(320,245)</u>	<u>1,743,689</u>	<u>(169,269)</u>	<u>821,404</u>

At September 30, 2009 with other variables unchanged, a +/-10% change in the USD/CAD and Euro/CAD exchange rates would result in net decrease/increase pre-tax translation loss for the nine month period by +/- \$136,716 (USD 174,369 net of Euro 32,025).

The impact of fluctuations 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 September 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 (see note 14).

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	Longer than two years
Line of credit	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	4,513,978	-	-
Acquisition price payable	428,862	-	-
Long-Term debt	234,807	188,165	-
	<u>\$ 5,177,647</u>	<u>\$ 188,165</u>	<u>\$ -</u>

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Notes to Unaudited Interim Consolidated Financial Statements

5. Capital disclosures:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to seek to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal structure to reduce the cost of capital and to facilitate the growth strategy of the Company. The Company's capital structure consists of cash, debt, and shareholders' equity, comprised of issued share capital plus contributed surplus and retained earnings, less accumulated other comprehensive loss.

The Company monitors its capital management through analysis of near-term and mid-term cashflow expectations to ensure an adequate amount of liquidity and through a regular review of financial results and business expectations.

Where considered appropriate the Company may incur and carry long-term debt from time to time as a result of expansion activities, including acquisitions. In October 2007, the Company assumed long-term debt through its acquisition of MobiSoft. In keeping with the Company's capital strategy to maintain a low debt to equity ratio, the total debt is approximately 1.8% of the Company's shareholder's equity at September 30, 2009.

There are no restrictions on the capital of the Company.

6. Plant and equipment:

September 30, 2009	Cost	Accumulated amortization	Net Book Value
Furniture and equipment	\$ 2,575,388	2,411,412	\$ 163,977
Computer equipment and software	9,403,313	7,116,605	2,286,708
Leasehold improvements	387,833	203,650	184,182
	\$ 12,366,534	9,731,668	\$ 2,634,866

December 31, 2008	Cost	Accumulated amortization	Net Book Value
Furniture and equipment	\$ 2,595,215	2,360,328	\$ 234,887
Computer equipment and software	9,678,266	6,104,907	3,573,359
Leasehold improvements	314,436	184,426	130,010
	\$ 12,587,917	8,649,661	\$ 3,938,256

During the nine months ended September 30, 2009 the Company transferred certain computer equipment assets with a net book value of \$347,116 from Plant and equipment to inventory as the goods are held for resale. No gain or loss resulted from the transfer of these assets.

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Notes to Unaudited Interim Consolidated Financial Statements

7. Goodwill

Goodwill arose as a result of the acquisitions of MobiSoft and StrataGen in 2007. Details are as follows:

Acquisition of MobiSoft	\$ 2,607,000
Acquisition of StrataGen	722,000
Goodwill December 31, 2007	\$ 3,329,000
Translation adjustment for self sustaining operation	531,670
Subsequent purchase price allocation	(327,469)
Goodwill December 31, 2008	\$ 3,533,201
Translation adjustment for self sustaining operation	\$ (64,901)
Subsequent purchase price adjustment	(81,072)
Goodwill September 30, 2009	\$ 3,387,228

8. Accounts receivable:

	As at September 30, 2009	As at December 31, 2008
Accounts receivable	\$ 3,215,183	\$ 7,639,977
Less allowance for doubtful accounts	(535,801)	(696,954)
Net Accounts Receivable	2,679,382	6,943,023
Contract Work in Progress	3,465,871	3,241,843
	\$ 6,145,253	\$ 10,184,866

	Current	30-60	60-90	90-120	120+	Total
Accounts Receivables	1,821,939	225,397	224,321	107,640	835,885	3,215,183
Less: Allowance for Doubtful Accounts	-	(322)	(965)	(88,383)	(446,132)	(535,801)
Net Accounts Receivables	1,821,939	225,076	223,356	19,257	389,753	2,679,382

See note 4 for a description of credit risk.

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Notes to Unaudited Interim Consolidated Financial Statements

9. Intangibles:

As at September 30, 2009				
	Estimated useful life	Cost	Accumulated amortization	Net book value
Acquired software	6	\$ 7,516,037	\$ 2,299,209	\$ 5,216,828
Customer relationships	6	2,069,540	645,951	1,423,589
Trademarks and brand	4	260,107	126,396	133,711
Non-compete agreements	3 to 5	498,363	240,735	257,628
Dispatch service agreements	2.5	1,234,510	1,170,519	63,991
Patent portfolio	6	316,800	95,872	220,928
Customer obligations	1	168,300	168,300	-
		\$ 12,063,658	\$ 4,746,982	\$ 7,316,676

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

Intangible assets relate to amounts acquired as part of the MobiSoft and StrataGen acquisitions in 2007. The cost of the intangible assets includes translation adjustments related to MobiSoft, which is considered a self-sustaining subsidiary.

10. Inventories:

Details of inventories are as follows:

	September 30, 2009	December 31, 2008
Raw materials	\$1,850,235	\$1,774,205
Finished goods	643,266	391,491
Total inventory	\$2,493,501	\$2,165,696

During the three and nine months ended September 30, 2009 the Company charged \$901,679 and \$2,643,261 of Inventory related amounts to Cost of Sales respectively and recognized a write down of inventory of \$164,000 and \$239,000, respectively (2008 - \$nil). No inventory was pledged as security for liabilities other than under the line of credit (refer to Note 13).

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Notes to Unaudited Interim Consolidated Financial Statements

11. Leases receivable:

Leases receivable relates to equipment leased to customers. Details are as follows:

	As at September 30, 2009	As at December 31, 2008
Leases receivable	\$ 2,286,327	\$ 2,851,072
Less unearned finance income	291,457	422,716
Net leases receivable	1,994,870	2,428,356
Current portion	485,316	501,484
Long-term leases receivable	\$ 1,509,554	\$ 1,926,872

Future minimum lease payments receivable are as follows:

Years ending December 31:	
2009	\$ 113,774
2010	501,222
2011	578,174
2012	654,204
2013	147,496
	\$ 1,994,870

12. Investment:

During the year ended December 31, 2008, the Company purchased shares in a third party, private company for total consideration of \$102,565, made up of \$77,290 in services and \$25,275 in cash. This investment is carried at cost as there is no quoted market price in an active market. See Note 4.

	As at September 30, 2009	As at December 31, 2008
Investment	\$ 102,565	\$ 102,565

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Notes to Unaudited Interim Consolidated Financial Statements

13. Lines of Credit:

The Company signed an amendment to its \$4.0 million line of credit that bears interest at prime plus 0.5% during the first quarter in 2009. The line of credit is guaranteed by Viksun Enterprise Inc., a company controlled by the Company's Chief Executive Officer, for the amount of \$2.0 million. The assets of the Company are provided as collateral for the line of credit. As at September 30, 2009, the Company has not drawn on this line of credit (December 31, 2008 - \$1,187,862).

The Company's subsidiary, MobiSoft, has a \$244,000 (€150,000) operating line of credit available as at September 30, 2009, which bears interest at one month Euribor rate plus 1%. As at September 30, 2009, the Company has not drawn on this line of credit (December 31, 2008 - \$97,433 (€57,159)). It is secured by way of a General Security Agreement of MobiSoft.

The Company's subsidiary, StrataGen, had a \$116,000 (US\$100,000) operating line of credit available as at June 30, 2009, which bears interest at US prime plus 0.5%. This line of credit was not renewed when it matured on July 31, 2009.

The Company is in compliance with financial covenants as of September 30, 2009.

14. Long-term Debt:

The Company assumed long-term debt through its acquisition of MobiSoft as follows:

- (a) A loan from the Nordea Bank for the purchase of the Telia Sonera business secured by the assets of MobiSoft consisting of the net dispatch service call fees payable by Telia Sonera. The loan bears an interest rate of 4.86% with the balance as at September 30, 2009 of \$50,000 (€31,875). The loan has a four year term expiring March 15, 2010 with monthly payments of \$8,333 (€5,313) excluding interest.
- (b) The Company has unsecured government loans with the State Treasury of Finland for the development of specific products totaling \$369,653 (€235,654) as at September 30, 2009 as follows:
 - (i) Loan for software product development payable in the amount of \$63,318 (€40,365) as at September 30, 2009 with an interest rate of 1% and repayment commencing July 4, 2006 and ending July 4, 2010 with annual payments on each anniversary date of \$63,318 (€40,365) excluding interest.
 - (ii) Loan for software product application service provider ("ASP") development payable in the amount of \$185,098 (€118,000) as at September 30, 2009 with an interest rate of 1% and repayment commencing November 24, 2009 and ending November 29, 2011 with annual payments on each anniversary date of \$61,700 (€39,334) excluding interest.

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Notes to Unaudited Interim Consolidated Financial Statements

14. Long-term Debt (continued):

(iii) Loan for payment related software product development for \$169,412 (€108,000) as at September 30, 2009 with an interest rate of 1% with payment commencing December 12, 2009 and ending December 20, 2011 with annual payments on each anniversary date of \$56,471 (€36,000) excluding interest.

The Company determined the fair value of the above government loans with the State Treasury of Finland assumed as at the acquisition date based on the estimated cost of capital of 8% resulting in the related interest benefit for these low interest loans. The amount of this benefit as of September 30, 2009 is \$48,174 (€30,711) and is reflected in the balance of the loan set out above.

The Company also assumed a capital lease through the acquisition of StrataGen with a balance payable of \$3,318 as at September 30, 2009 with \$1,528 payable within 2009.

The long-term debt of the Company is as follows:

	As at September 30, 2009	As at December 31, 2008
Nordea Bank	\$ 50,000	\$ 135,835
Government loans with Finland State Treasury	369,653	454,753
Capital lease obligation	3,319	10,265
	422,972	600,853
Current portion	(234,807)	(313,666)
Long-term debt	\$ 188,165	\$ 287,187
Loan repayments for the years ending December 31, 2009	\$ 131,182	
2010	187,243	
2011	104,547	
Total	\$ 422,972	

15. Other (income) expense:

	Three months ended		Nine months ended	
	Sep 30, 2009	Sep 30, 2008	Sep 30, 2009	Sep 30, 2008
Amortization of gain on disposal of land and building	\$ -	\$ (47,769)	\$ (3,000)	\$ (143,308)
Interest expense	12,105	9,479	30,950	39,936
Other	3,980	9,121	12,333	19,323
	\$ 16,085	\$ (29,169)	\$ 40,283	\$ (84,049)

The gain on disposal of land and building was amortized over the life of the original lease and was fully amortized at December 31, 2008.

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Notes to Unaudited Interim Consolidated Financial Statements

16. Share capital:

(a) Authorized:

200,000,000 common shares, without par value

50,000,000 preferred shares, without par value

(b) Issued and outstanding:

	Number of Shares	Amount
Balance at, December 31, 2007	13,143,191	22,836,687
Shares issued during period for payment of StrataGen Business		
Acquisition holdback	646,555	1,771,539
Balance at, December 31, 2008 and September 30, 2009	13,789,746	\$ 24,608,226

(c) Stock options:

The Company has granted stock options to a wide group of management, directors and employees. Under the approved stock option plan, options may be granted for up to 2,000,000 shares of common stock in aggregate. Options generally vest over a three-year term, and have a 37 month life with one-sixth of the option grant vesting at the end of each six-month interval. No options were granted to non-employees.

Stock option activity since December 31, 2007 is presented below:

	Number of shares	Weighted average exercise price
Outstanding, December 31, 2007	834,834	\$ 3.23
Granted	369,400	\$ 2.65
Expired	(422,703)	\$ 3.34
Outstanding, December 31, 2008	781,531	\$ 2.90
Granted	573,750	\$ 2.05
Cancelled	(105,583)	\$ 2.87
Expired	(103,500)	\$ 3.50
Outstanding, September 30, 2009	1,146,198	\$ 3.18

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Notes to Unaudited Interim Consolidated Financial Statements

16. Share capital (continued):

The following table summarizes the stock options outstanding and exercisable at September 30, 2009:

	Exercise prices	Number of Options	Options outstanding	Options exercisable
			Remaining contractual life	Number exercisable
\$	1.65	490,150	2.39	50,942
\$	3.00	656,048	1.15	325,990
		1,146,198	1.68	376,932

The options outstanding at September 30, 2009 expire between January 2010 and July 2012. Subsequent to the balance sheet date in October 2009, 139,250 options were issued to employees. During the three and nine months ended September 30, 2009, there were no options granted to non-employees. The stock option expense in the three and nine months ended September 30, 2009 was \$84,611 (2008 - \$nil) and \$272,955 (2008 - \$57,524) respectively. The weighted average fair value of options granted in the three and nine months ended September 30, 2009 was \$0.95 (2008 - \$1.61) and \$0.60 (2008 - \$0.93) respectively, determined using the Black-Scholes option-pricing model at the date of each grant with the following assumptions:

	September 30, 2009	December 31, 2009
Expected life	3.0 Years	3.0 Years
Risk-free interest rate	1.61%	2.5-3.5%
Expected dividend yield	0%	0%
Expected stock price volatility	156-173%	65-162%

(d) Contributed surplus:

Balance at December 31, 2008	814,459
Stock compensation expenses	272,955
Balance at September 30, 2009	1,087,414

(e) Warrants:

Part of the consideration for the acquisition of StrataGen was future maximum payments to the StrataGen shareholders of US\$2.3 million payable in the Company's common shares issued from treasury or cash, at the Company's discretion. Such payments were based on revenue from certain contracts that StrataGen was negotiating at the time of the acquisition. The right to obtain such shares is represented by warrants issued on December 7, 2007 to the StrataGen shareholders entitling them to receive, at the option of the Company, cash or the Company's common shares. In 2008, Company issued 646,555 shares from treasury for payment of US\$1.8 million in respect of these payments. The criteria for the balance of payments were not met and as at September 30, 2009, there are no amounts outstanding from this obligation.

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Notes to Unaudited Interim Consolidated Financial Statements

17. Supplementary cash flow information:

Change in non-cash working capital:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Accounts receivable	\$ 2,053,404	\$ 2,753,595	\$ 4,263,641	\$ 2,470,129
Contract work-in-progress	(286,183)	625,228	(224,028)	221,293
Income taxes receivable	(42,090)	14,529	44,401	147,601
Prepaid expense	72,169	(80,510)	105,322	(382,488)
Inventories	71,511	(191,149)	19,311	(34,080)
Accounts payable and accrued liabilities	139,178	575,422	(579,343)	101,775
Deferred revenue	(102,021)	(348,119)	646,952	1,145,420
Income taxes payable	-	23,031	-	23,031
	<u>\$ 1,905,968</u>	<u>\$ 3,372,027</u>	<u>\$ 4,276,256</u>	<u>\$ 3,692,681</u>

Supplemental disclosure of cash flow information:

Interest received	\$ 43,534	\$ -	\$ 152,487	\$ 10,201
Cash paid for interest	11,997	9,479	30,166	39,936
Cash paid for income taxes	66,660	39,425	87,211	73,040

Non cash transactions:

Transfer of capital asset to inventory	-	-	347,116	-
Amortization included in sales related expenses	49,467	-	157,008	-
Purchase of investment	-	(3,988)	-	(77,290)
Issue of shares in settlement of deferred acquisition costs	-	-	-	1,771,559

As at
September 30, 2009 December 31, 2008

The Company's cash (bank overdraft) consists of the following amounts:

Cash	\$ 1,523,789	\$ 440,497
Bank overdraft	-	(503,245)
	<u>\$ 1,523,789</u>	<u>\$ (62,748)</u>

18. Related party transactions:

The Company is party to an operating lease agreement with and a beneficiary of a guarantee provided by a company controlled by the majority shareholder, as detailed in Note 13.

The Company provides sales and services to a customer that is related to a director. In the three and nine months ended September 30, 2009 the total sales and services to this customer were \$87,374 and \$453,054, respectively (2008 - \$237,437 and \$421,717 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.

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Notes to Unaudited Interim Consolidated Financial Statements

19. Commitments and contingencies

(a) Operating leases:

The Company has entered into various operating lease agreements for leased premises, with remaining terms of up to 6 years. Of the total lease obligations, approximately 87% relates to a lease agreement with a company controlled by the Company's majority shareholder for the land and building occupied by the Company expiring September 2013. The consolidated minimum lease payments for all lease agreements in each of the next five years are as follows:

Year Ending December 31:	
2009	\$ 244,187
2010	904,931
2011	723,705
2012	708,122
2013	732,540
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	\$ 3,313,485

(b) Legal proceedings:

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 nine months ended September 30, 2009 the claim and counter claim were dismissed. The dismissal did not result in a material gain or loss to the Company.

A complaint was served on the Company for breach of a sales contract and is being claimed for damages. The Company is of the view that there are no grounds for such complaint and has submitted a statement of defense denying all allegations. No amount has been recorded for this claim. The Company has also filed a counter-claim against the customer for non-payment of services rendered and goods delivered.

(c) Performance bonds:

For certain contracts, the Company was required to post performance bonds totalling \$2,111,735 (USD\$1,969,535). The Company arranged the bonds with Canada Export Development Corporation ("EDC") and has agreed to indemnify EDC.

(d) Purchase obligations:

The Company has outstanding purchase obligations at September 30, 2009 as follows:

Year Ending December 31:	
2009	\$ 659,665
2010	715,212
2011	823,892
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	\$ 2,198,769

DDS WIRELESS INTERNATIONAL INC.

Notes to Unaudited Interim Consolidated Financial Statements

20. Segmented information:

- (a) The Company operates in the wireless mobile data industry and all sales of its products and services are made in this industry. The revenues of the geographic segments based on the location of the customer are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenues:				
United States	\$ 4,228,587	\$ 3,291,220	\$ 11,744,493	\$ 8,810,884
Canada	867,120	975,967	2,462,012	3,399,628
Europe	3,167,103	3,164,179	10,227,982	9,347,210
Other	34,376	204,414	109,600	1,295,036
	\$ 8,297,186	\$ 7,635,780	\$ 24,544,087	\$ 22,852,758

	September 30, 2009	December 31, 2008
Plant and equipment:		
Canada	\$ 940,283	\$ 1,013,492
United States	1,562,296	2,742,200
Europe	132,287	182,312
Other	-	252
	\$ 2,634,866	\$ 3,938,256

	September 30, 2009	December 31, 2008
Acquired intangibles:		
United States	\$ 4,545,865	\$ 4,629,070
Europe	2,770,811	4,778,216
	\$ 7,316,676	\$ 9,407,286

	September 30, 2009	December 31, 2008
Goodwill:		
United States	\$ 388,564	\$ 388,564
Europe	2,998,664	3,144,637
	\$ 3,387,228	\$ 3,533,201

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Notes to Unaudited Interim Consolidated Financial Statements

20. Segmented information (continued):

Effective January 1, 2008, the Company reorganized itself into four distinct business units; Taxi, Transit, eFleet and Digital Wireless as a result of the MobiSoft and StrataGen acquisitions in late 2007.

Three Months ended September 30, 2009

	Taxi	Transit	eFleet	Digital Wireless	Total
Revenues from external customers	5,407,184	2,439,348	247,471	203,183	8,297,186
Amortization of plant and equipment and sales related assets	234,015	32,310	31,612	47,210	345,147
Amortization of intangibles	354,754	244,630	-	-	599,384
Income tax (recovery) expense	10,345	(101,022)	-	(234,874)	(325,551)
Income (loss)	(407,260)	70,381	(70,569)	(685,917)	(1,093,365)
Expenditures for plant and equipment	44,443	121,407	46,317	(67,944)	144,224

Three months ended September 30, 2008

	Taxi	Transit	eFleet	Digital Wireless	Total
Revenues from external customers	5,348,943	1,903,733	147,798	235,306	7,635,780
Amortization of plant and equipment and sales related assets	225,339	26,014	22,635	46,480	320,468
Amortization of intangibles	338,072	268,512	-	-	606,584
Income tax (recovery) expense	(198,766)	147,149	(34,673)	(236,313)	(322,603)
Income (loss)	(556,126)	182,993	(81,004)	(311,411)	(765,548)
Expenditures for plant and equipment	655,006	135,014	1,844	6,303	798,167

Nine Months ended September 30, 2009

	Taxi	Transit	eFleet	Digital Wireless	Total
Revenues from external customers	16,953,867	6,504,220	635,857	450,143	24,544,087
Amortization of plant and equipment and sales related assets	707,720	84,901	94,150	137,542	1,024,313
Amortization of intangibles	1,187,716	722,806	-	-	1,910,522
Income tax (recovery) expense	(332,056)	(354,129)	(46,920)	(371,292)	(1,104,397)
Income (loss)	728,480	(533,306)	(193,909)	(2,822,977)	(2,821,712)
Expenditures for plant and equipment	80,305	238,583	72,357	19,247	410,493

Nine months ended September 30, 2008

	Taxi	Transit	eFleet	Digital Wireless	Total
Revenues from external customers	15,881,479	5,594,769	307,032	1,069,478	22,852,758
Amortization of plant and equipment and sales related assets	519,889	83,472	53,026	124,088	780,475
Amortization of intangibles	1,008,230	805,535	-	-	1,813,765
Income tax (recovery) expense	(43,857)	(204,923)	(143,068)	(350,173)	(742,021)
Income (loss)	(238,686)	(586,891)	(322,182)	(865,104)	(2,012,863)
Expenditures for plant and equipment	1,196,550	253,690	137,277	12,721	1,600,238

The Company does not allocate interest revenue and expenses and non-cash stock based compensation to individual segments.