

**DDS WIRELESS INTERNATIONAL INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
Three and Nine months ended September 30, 2009

This Management Discussion and Analysis (“MD&A”) of DDS Wireless International Inc. (the “Company” “DDS Wireless” or “DDS”) has been prepared by management as of November 3, 2009, and should be read in conjunction with the unaudited interim consolidated financial statements and related notes thereto of the Company for the three and nine months ended September 30, 2009, which were prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

**Forward-Looking Statements**

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

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

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

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

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

## **Fellow shareholders:**

I am pleased to report that we delivered revenues of \$8.3 million for our third quarter ended September 30, 2009, representing growth of 8.7% over the same period in the prior year. Our growth in Q3 is the direct result of our strategy over the last three fiscal years to build our recurring revenues and expand into new and complimentary market verticals. These strategic initiatives have enabled us to achieve this growth throughout this year despite the combined headwinds of the relentless rise in the Canadian dollar and continued tentativeness in the global economy.

Our recurring revenues continued to be the main driver of growth with subscription, maintenance and transaction based revenues showing an 8.1% increase over the third quarter in the prior year. Overall recurring revenues which also include routine sales orders for accessories and small sales to our customer base totaled 67% of our revenues in Q3. Non-recurring enterprise solutions revenue also contributed to growth in the quarter with our Transit unit accounting for most of the growth in this revenue line.

During the third quarter we made a number of very exciting announcements including a \$7.0 million contract with Taxi Düsseldorf eG, a \$1.0 million contract with ORIX Auto Infrastructure Services Limited of India, and a \$0.7 million order from the Massachusetts Bay Transportation Authority (Boston). These contracts along with pending contracts that we expect to sign before the end of the year, and continued growth in our recurring revenues, are pointing to a very exciting 2010 for DDS.

Although I am pleased to report continued year-over-year growth in our business in third quarter, I note that Q3 is traditionally a seasonally soft quarter for DDS as project deliveries and sales order decline in the summer months. In contrast, our fourth quarter is typically the strongest and based our outlook at this point we are reaffirming our previously issued guidance of revenues in the \$35 million to \$36 million range for the year ending December 31, 2009 along with positive earnings before interest, stock compensation, taxes, foreign exchange, and amortization. I caution however, that actual revenues may vary significantly from guidance due changes in economic conditions and foreign exchange rates.

Reviewing the performance of our various business units in the third quarter, Digital Dispatch, our Taxi business unit, saw modest growth in Q3 revenues over the same period in 2008. The most exciting developments in our Taxi group, however were the announcement of the aforementioned deals with Taxi Düsseldorf eG and ORIX Auto Infrastructure Services Limited of India. These contracts have positioned the Taxi group for strong growth in 2010 and for further geographic expansion. Taxi Düsseldorf is very significant as it marks our first entrée into Germany, and adds to our list of very large and technologically sophisticated European taxi customers that include Taxis G7 of Paris, Taxi Stockholm, Helsinki Taxi, and SKT taxi group of Copenhagen.

StrataGen Systems, our business unit serving the transit market, delivered a very impressive 28% growth in revenues over the third quarter of 2008. Enterprise solutions revenue was the primary contributor of growth as the business unit delivered systems and services to a number of major customers including New York City Transit, ASI of Los Angeles and Greater Hartford Transit District. In addition, StrataGen signed contracts with MTBA Boston, Allen County Ohio and Tampere Finland during the quarter. Subsequent to Q3, StrataGen announced an agreement with the Hartford Transit District to deploy DDS's latest generation iMax 8000 mobile data terminals. These customer wins underscore the flexibility of the end-to-end StrataGen solution, the integration with other DDS offerings, and StrataGen's ability to win in diverse operating environments, market segments and geographies.

Our eFleet unit continued to add significant new subscribers with a focus on the waste management, limousine, ground transportation and work fleet markets. Revenue from the business unit continued its very strong growth trend with Q3 revenue growth of 68% compared to the same period in the prior year. We are extremely pleased with the continued development of the eFleet business, and it remains an important validation of our subscription based businesses which we are also developing in the Taxi and Transit business units alongside our traditional systems businesses.

I thank you for your continued interest and support in DDS Wireless International Inc.

“Vari Ghai”

Vari Ghai  
Chairman and Chief Executive Officer

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

## **Overall Performance**

### *Company Overview*

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

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

Today, DDS Wireless offers a range of solutions for diverse market segments through the following four different businesses. Primary revenue streams are revenues from system installation and implementation projects and recurring revenues, which include revenues from long-term customer maintenance service agreements, transaction based revenue (credit cards, debit cards and trip dispatch), Bundled Subscription Solutions (“BSS”) and sale of accessories to its existing customer base. For the three months ended September 30, 2009 approximately 67% of the Company’s revenue is recurring.

### *Taxi Business Unit: Digital Dispatch*

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

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

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

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

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

Catering to commercial fleets like limousines and work trucks, eFleet™ extends some of the core functionalities of computerized dispatching to commercial fleet operators without the upfront costs of maintaining an in-house solution. The eFleet™ system is a bundled subscription solution that includes software, hardware and data networks that are securely accessible via any Internet web browser. The eFleet™ system provides dispatching and management functionality for fleets of commercial vehicles. It integrates computer-aided wireless dispatch, GPS fleet tracking, GPS navigation, two-way text messaging, and point-of-sale payment processing into a single hosted system that is available as a subscription service. It is particularly successful in extending other third party applications to provide wireless capability by interfacing to eFleet™ services.

### *Wireless Devices and Communications Business Unit: Digital Wireless*

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

## **Financial Results**

### *Summary of Quarterly Results*

(in \$'000's except for margin and per share data)

	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Revenue	\$ 8,297	\$ 9,140	\$ 7,107	\$ 10,648	\$ 7,636	\$ 8,216	\$ 7,001	\$ 7,278
Gross Margin %	43.1%	43.8%	43.0%	47.9%	45.8%	48.4%	45.4%	43.5%
Gross Margin	\$ 3,576	\$ 4,006	\$ 3,055	\$ 5,096	\$ 3,497	\$ 3,976	\$ 3,175	\$ 3,169
Operating Expenses	\$ 3,721	\$ 3,726	\$ 3,834	\$ 4,570	\$ 3,995	\$ 4,109	\$ 3,487	\$ 3,972
Net (loss) income	\$ (1,093)	\$ (672)	\$ (1,056)	\$ 536	\$ (766)	\$ (602)	\$ (646)	\$ (999)
(Loss) earnings per share (EPS)	\$ (0.08)	\$ (0.05)	\$ (0.08)	\$ 0.04	\$ (0.06)	\$ (0.05)	\$ (0.05)	\$ (0.08)

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

### *Selected Quarterly Information*

<b>For the three months ended</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>September 30, 2008</b>
Revenue	\$ 8,297,186	\$ 9,140,393	\$ 7,106,508	\$ 7,635,780
Net Loss	\$ (1,093,365)	\$ (672,206)	\$ (1,056,143)	\$ (765,548)
Basic loss per common share	\$ (0.08)	\$ (0.05)	\$ (0.08)	\$ (0.06)
Common shares outstanding	13,789,746	13,789,746	13,789,746	13,789,746
Total Assets	\$ 32,483,759	\$ 34,337,032	\$ 34,578,274	\$ 37,049,604
Total long-term financial liabilities	\$ 188,165	\$ 207,038	\$ 320,569	\$ 382,609

## Results of Operations

For the three months ended	September 30, 2009	June 30, 2009	March 31, 2009	September 30, 2008
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of Sales	56.9%	56.2%	57.0%	54.2%
Gross Margin (with Amortization of sales related assets)	43.1%	43.8%	43.0%	45.8%
Gross margin (without amortization of sales related assets) (non-GAAP)	45.8%	46.2%	46.2%	48.4%
Operations expense				
Research and development	17.0%	14.1%	20.1%	20.7%
Sales and marketing	11.0%	11.8%	13.2%	13.9%
General and administrative	16.9%	14.9%	20.7%	17.7%
Other expense	15.4%	14.5%	9.7%	7.7%
Earnings (loss) before income taxes	-17.1%	-11.4%	-20.6%	-14.3%
Income Taxes	-3.9%	-4.0%	-5.8%	-4.2%
Net (loss) earnings	-13.2%	-7.4%	-14.9%	-10.0%

## Non-GAAP Measurements

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

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

### Reconciliation of Non-GAAP Measures

<u>EBITDAS<sup>(1)</sup></u>	Three months ended				Nine months ended	
	September 30, 2009	June 30, 2009	March 31, 2009	September 30, 2008	September 30, 2009	September 30, 2008
EBITDAS	\$ (373,689)	\$ 155,621	\$ (459,970)	\$ (142,498)	\$ (678,038)	\$ (43,861)
Amortization of plant and equipment	(118,269)	(118,942)	(113,733)	(118,854)	(350,944)	(351,300)
Amortization of acquired intangibles	(599,384)	(653,902)	(657,236)	(606,584)	(1,910,522)	(1,813,765)
Amortization of sales related assets	(226,878)	(220,474)	(226,017)	(201,614)	(673,369)	(429,175)
Stock compensation	(84,611)	(188,344)	-	-	(272,955)	(57,524)
Other	(16,085)	(15,202)	(8,996)	(18,601)	(40,283)	(59,259)
Loss before income taxes	\$ (1,418,916)	\$ (1,041,243)	\$ (1,465,952)	\$ (1,088,151)	\$ (3,926,111)	\$ (2,754,884)

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

	For three months ended				For nine months ended	
	September 30, 2009	June 30, 2009	March 31, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenue	8,297,186	9,140,393	7,106,508	7,635,780	24,544,087	22,852,758
Gross margin without amortization of sales related assets	3,802,810 46%	4,226,914 46%	3,280,542 46%	3,698,421 48%	11,310,266 46%	11,077,781 48%
Less: Amortization of sales related assts	226,878 3%	220,474 2%	226,017 3%	201,614 3%	673,369 3%	429,175 2%
Gross margin per financial statement	3,575,932 43%	4,006,440 44%	3,054,525 43%	3,496,807 46%	10,636,897 43%	10,648,606 47%

## Detailed Results of Operations for Nine Months Ended September 30, 2009

### Revenues

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

For the nine months ended	September 30, 2009	September 30, 2008	Increase/(Decrease)	
Taxi	16,953,866	15,881,478	1,072,388	6.8%
Transit	6,504,220	5,594,769	909,451	16.3%
eFleet	635,858	307,032	328,826	107.1%
Digital Wireless <sup>(1)</sup>	450,143	1,069,479	(619,336)	-57.9%
Total Revenue	24,544,087	22,852,758	1,691,329	7.4%

(1) Includes some corporate level interest revenues

Revenues for the nine months ended September 30, 2009 were \$24.5 million, an increase of \$1.7 million or 7.4% over the same period of the prior year. The Taxi, Transit and eFleet business units all showed growth in the nine months ended September 30, 2009 over the same period in the prior year, which was offset by a decline in revenues in the Digital Wireless business unit.

An analysis on the basis of the various revenue components shows that the increase in revenue is attributed to increases in recurring revenues in the Taxi, Transit and eFleet business units (\$2.1 million increase), and an increase in enterprise solutions revenues in the Transit business (\$0.7 million). These increases were offset by decreases in enterprise solutions revenues in the Taxi and Digital Wireless business units. The increases in recurring revenue are the result of an increase in maintenance revenue in the Taxi and Transit businesses units due to an increase in customers under maintenance contracts (\$1.0 million increase); increases in ASP or subscription revenue in the Taxi and eFleet business units as a result of the addition of subscribers for our Bundled Subscription Services (\$0.7 million increase); and an increase in transaction based revenues (\$0.3 million increase) resulting mainly increased adoption of non-cash forms of payment.

### Gross Margins

For the Nine months ended September 30, 2009	Taxi	Transit	eFleet	Digital Wireless <sup>(1)</sup>	Total
Revenue	16,953,866	6,504,220	635,858	450,143	24,544,087
Gross margin	6,860,641	3,030,625	334,535	411,097	10,636,898
Gross margin %	40.5%	46.6%	52.6%	91.3%	43.3%
Gross margin w/o amortization of sales related assets (non-GAAP)	7,448,711	3,030,625	419,834	411,097	11,310,267
Gross margin % amortization of sales related assets (non-GAAP)	43.9%	46.6%	66.0%	91.3%	46.1%

(1) Includes some corporate level interest revenues

<b>For the Nine months ended September 30, 2008</b>	<b>Taxi</b>	<b>Transit</b>	<b>eFleet</b>	<b>Digital Wireless<sup>(1)</sup></b>	<b>Total</b>
Revenue	15,881,478	5,594,769	307,032	1,069,479	22,852,758
Gross margin	6,956,955	2,923,550	106,849	661,252	10,648,606
Gross margin %	43.8%	52.3%	34.8%	61.8%	46.6%
Gross margin w/o amortization of sales related assets (non-GAAP)	7,345,307	2,923,550	147,672	661,252	11,077,781
Gross margin % amortization of sales related assets (non-GAAP)	46.3%	52.3%	48.1%	61.8%	48.5%

(1) Includes some corporate level interest revenues

<b>For the nine months ended</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Revenue	24,544,087	100.0%
Cost of sales	13,907,188	56.7%
Gross Margin	10,636,898	43.3%
Gross Margin w/o amortization of sales related assets (non-GAAP)	11,310,267	46.1%
	11,077,781	48.5%

Gross margin decreased to 43.3% for the nine months ended September 30, 2009, from 46.6% over the same period in the prior year. The decrease in gross margin percentage is partially attributable to projects that experienced higher than expected costs to complete and an increase in the amortization of sales related assets which is a result of an increase in the deployment of the Company's Bundled Subscription Solutions. The decrease in gross margin percentage is also attributed to inventory reserves and product trade-ins taken in the period.

#### *Operating Expenses*

<b>For the nine months ended</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Total operating expenses	11,280,841	11,591,104
% of revenue	46.0%	50.7%

Total operating expenses decreased for the nine months ended September 30, 2009 compared to the same period in the prior year. The decrease in operating expenses is attributed to decreases in R&D expenses and sales and marketing expenses, which were partially offset by an increase in general and administrative expenses.

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

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

<b>For the nine months ended</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Research and development	4,121,969	4,551,996
% of revenue	16.8%	19.9%

Research and development expenditures decreased to \$4.1 million in the nine months ended September 30, 2009 as compared to the \$4.5 million incurred in the same period in the prior year. The decrease in research and development expenses in the current period as compared to the same period in the prior year is attributed to higher proportion of technical personnel deployed to revenue producing projects and to one-time R&D costs incurred in the nine months ended September 30, 2008 which did not recur in the nine months ended September 30, 2009.

### *Sales and Marketing*

<b>For the nine months ended</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Sales and marketing	2,922,041	3,077,716
% of revenue	11.9%	13.5%

Sales and marketing expenditures decreased to \$2.9 million in the nine months ended September 30, 2009 compared with \$3.1 million in the same period last year. This decrease is attributable to a decline in headcount. The Company expects sales related expenses to increase in the fourth quarter due to the addition of sales headcounts and increased sales and marketing activities.

### *General and Administrative*

<b>For the nine months ended</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
General and Administration	4,236,831	3,961,392
% of revenue	17.3%	17.3%

General and administrative expenses include executive and administrative staff, facilities, public company costs, insurance, bad debt expense, audit and legal fees as well as administrative costs. General and administrative expenses increased to \$4.2 million for the nine months ended September 30, 2009 as compared to \$4.0 million for the same period in the prior. The increase from prior year is attributed to increases in legal fees incurred and higher non-recurring compensation charges.

### *Other Expenses*

<b>For the nine months ended</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Other expenses	3,282,168	1,812,386
% of revenue	13.4%	7.9%

The \$1.5 million increase other expense for the nine months ended September 30, 2009 over the prior period comprise of the following:

- Amortization of intangible assets related to the acquisition of MobiSoft and StrataGen increased by \$0.1 million;
- Net foreign exchange loss of \$0.7 million incurred in the nine months ended September 30, 2009 attributable to the impact of the weakening of the US dollars, Euros, and UK pounds relative to the Canadian dollar, as compared to a gain of \$0.3 million in the same period in the prior year; and
- Stock compensation expense (which represents the estimated cost to the Company of stock options, using the Black-Scholes option-pricing model factoring for Company options granted and vesting during the period) totaled \$272,955 compared to \$57,524 in 2008.

### *Net Income before Tax*

Net operating loss before income taxes for the nine months ended September 30, 2009 was \$3.9 million compared to a net loss of \$2.8 million for the nine months ended September 30, 2008. The increase in net loss is the result of unfavorable foreign exchange losses of \$0.7 million as compared to a gain of \$0.3 million in the prior year, a \$0.1 million increase in amortization of acquired intangible assets and a \$0.2 million increase in stock compensation over prior year.

### *Income Tax*

The Company is subject to corporate income tax rates in varying jurisdictions, ranging from 20% to 40%, and the effective rate in any given year or quarter depends on the proportion of income or losses in each jurisdiction with the expected effective tax rate to be consistent with that experienced in prior years. Given the Company's statutory tax rate, the Company would expect to have a tax recovery in the nine months ended September 30, 2009 of approximately \$1.1 million which is comparable to the actual recovery.

### *Net Income after tax*

Net loss after tax for the nine months ended September 30, 2009 was \$2.8 million or a \$0.20 loss per share compared with \$2.0 million net loss after tax or a \$0.15 loss per share for the same period in the prior year.

### *EBITDAS*

EBITDAS (defined as earnings before interest, income tax, depreciation, amortization and stock compensation expense – a non-GAAP measure) was a loss of \$678,000 for the nine months ended September 30, 2009 compared to a loss of \$44,000 in the same period of last year.

## Detailed Results of Operations for Three Months Ended September 30, 2009

### Revenues

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

For the three months ended	September 30, 2009	June 30, 2009	March 31, 2009	September 30, 2008
Taxi	5,407,184	6,371,188	5,175,494	5,348,943
Transit	2,439,348	2,471,975	1,592,700	1,903,733
eFleet	247,472	198,893	189,493	147,798
Digital Wireless <sup>(1)</sup>	203,183	98,337	148,821	235,306
<b>Total Revenue</b>	<b>8,297,186</b>	<b>9,140,393</b>	<b>7,106,508</b>	<b>7,635,780</b>

(1) Includes minor corporate level interest revenues

Revenues for the three months ended September 30, 2009 decreased by \$0.8 million or 9.2% over the previous quarter and increased by \$0.7 million or 8.7% over the same period in the prior year. The decline in revenues over the previous quarter is attributable to a decrease in recurring revenues (\$0.4 million decrease) as a result of the expiration of some maintenance contracts and a seasonal decline in transaction based revenues; a decline in enterprise solutions revenues in the Taxi business unit (\$0.5 million decrease); offset by an increase in hardware sales in the Digital Wireless business over prior period (\$0.1 million increase).

The \$0.7 million increase in revenues over the same period in the prior year is primarily attributable to a \$0.4 million increase in recurring revenues. Maintenance revenues for the Taxi business unit accounted for most of the increase as the business has increased the number of customers under support and maintenance and ASP contracts in the year. The balance of the increase (\$0.2 million) is attributed to a net increase in enterprise solutions revenue, as enterprise solutions revenues in the Transit business unit increased by \$0.4 million, and were offset by a \$0.2 million decrease in enterprise solutions revenues in the Taxi business unit.

### Gross Margins

For the three months ended September 30, 2009	Taxi	Transit	eFleet	Digital Wireless <sup>(1)</sup>	Total
Revenue	5,407,184	2,439,348	247,472	203,183	8,297,186
Gross margin	2,119,727	1,109,777	139,455	206,973	3,575,932
Gross margin %	39.2%	45.5%	56.4%	101.9%	43.1%
Gross margin w/o amortization of sales	2,317,925	1,109,777	168,135	206,973	3,802,810
Gross margin % amortization of sales	42.9%	45.5%	67.9%	101.9%	45.8%

(1) Includes minor corporate level interest revenues

For the three months ended September 30, 2008	Taxi	Transit	eFleet	Digital Wireless <sup>(1)</sup>	Total
Revenue	5,348,943	1,903,733	147,798	235,306	7,635,780
Gross margin	2,311,999	947,677	64,773	172,358	3,496,807
Gross margin %	43.2%	49.8%	43.8%	73.2%	45.8%
Gross margin w/o amortization of sales	2,495,075	947,677	83,311	172,358	3,698,421
Gross margin % amortization of sales	46.6%	49.8%	56.4%	73.2%	48.4%

(1) Includes minor corporate level revenues

For the three months ended	September 30, 2009		June 30, 2009		March 31, 2009		September 30, 2008	
Revenue	8,297,186	100.0%	9,140,393	100.0%	7,106,508	100.0%	7,635,780	100.0%
Cost of sales	4,721,254	56.9%	5,133,953	56.2%	4,051,983	57.0%	4,138,973	54.2%
Gross Margin	3,575,932	43.1%	4,006,440	43.8%	3,054,525	43.0%	3,496,807	45.8%
Gross Margin w/o amortization of sales related assets (non-GAAP)	3,802,810	45.8%	4,226,914	46.2%	3,280,542	46.2%	3,698,421	48.4%

Gross margin for the three months ended September 30, 2009 of 43.1% is comparable to that in the previous quarter and decreased from 45.8% for the three months ended September 30, 2008. The decrease in gross margin percentage over Q3 of the previous year is primarily attributable to higher product trade-ins taken in the reporting period and lower gross margins from our enterprise solutions business in both the Taxi and Transit business units, as several specific projects experienced higher than budgeted completion costs.

### *Operating Expenses*

<b>For the three months ended</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>September 30, 2008</b>
Total operating expenses	\$3,720,974	\$3,725,556	\$3,834,310	\$3,995,218
% of revenue	44.8%	40.8%	54.0%	52.3%

Operating expenses for the three months ended September 30, 2009 were comparable to operating expenses for the prior quarter and reflected a decline of \$0.3 million from the same period in the prior year. The decrease in operating expenses over the same period in the prior year amounting to \$0.3 million is attributable to a \$0.2 million reduction in research and development and a \$0.1 million reduction in sales and marketing expenses.

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

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

<b>For the three months ended</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>September 30, 2008</b>
Research and development	\$1,406,491	\$1,288,631	\$1,426,847	\$1,583,863
% of revenue	17.0%	14.1%	20.1%	20.7%

Research and development expenditures for the three months ended September 30, 2009 increased by \$0.1 million over the previous quarter and decreased by \$0.2 million from the same period in the prior year. The decrease in the three months ended September 30, 2009 over the prior year is attributable to research and development staff utilized for the deployment of revenue generating projects in the Transit business unit.

### *Sales and Marketing*

<b>For the three months ended</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>September 30, 2008</b>
Sales and marketing	\$910,388	\$1,075,683	\$935,971	\$1,062,745
% of revenue	11.0%	11.8%	13.2%	13.9%

Sales and marketing expenditures for the three months ended September 30, 2009 decreased \$0.1 million when compared with the previous quarter, and decreased \$0.2 million when compared with the three months ended September 30, 2008. The decrease in expenses over the comparative periods is attributable to lower headcounts. The Company expects sales related expenses to increase in the fourth quarter due to the addition of sales headcounts and increased sales and marketing activities.

### *General and Administrative*

<b>For the three months ended</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>September 30, 2008</b>
General and Administration	\$1,404,095	\$1,361,243	\$1,471,492	\$1,348,610
% of revenue	16.9%	14.9%	20.7%	17.7%

General and administrative expenses include executive and administrative staff, facilities, public company costs, insurance, bad debt expense, audit and legal fees as well as administrative costs. General and administrative expenses for the three months ended September 30, 2009 remained largely unchanged from the comparative period in the prior quarter.

### *Other Expense*

<b>For the three months ended</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>	<b>September 30, 2008</b>
Other expenses	\$1,273,874	\$1,322,127	\$686,167	\$589,740
% of revenue	15.4%	14.5%	9.7%	7.7%

Other expenses for the three months ended September 30, 2009 are comparable to those of the prior quarter, and increased by \$0.7 million over the three months ended September 30, 2008. The increase in other expenses over the same period in the prior year is attributable to changes in foreign exchange and stock compensation expense as follows:

- As a result of the weakening of the US dollars, Euros, and UK pounds relative to the Canadian dollar, a net foreign exchange loss of \$0.5 million was incurred during the three months ended September 30, 2009 as compared to a loss of \$0.4 million in the previous quarter and a gain of \$0.1 million in the same quarter in the prior year; and
- Stock compensation expense (which represents the estimated cost to the Company of stock options, using the Black-Scholes option-pricing model factoring in additional Company options granted and vesting during the period) totaled \$84,611 compared to \$188,344 in the previous quarter and \$nil in the same quarter in 2008.

### *Net Income Before Tax*

Net operating loss before income taxes for the three months ended September 30, 2009 was \$1.4 million compared to \$1.0 million for the previous quarter and \$1.1 million for the three months ended September 30, 2008. The increase in net operating loss is the result of adverse foreign exchange fluctuations resulting in a loss of \$0.5 million as compared to a loss of \$0.4 million reported in the previous quarter and a gain in the same period in the prior year. The net loss for the three months ended September 30, 2009 includes amortization and stock compensation expenses of \$84,611 compared to \$nil for the same period in the prior year.

### *Income Tax*

The Company is subject to corporate income tax rates in varying jurisdictions, ranging principally from 20% to 40%, and the effective rate in any given year or quarter depends on the proportion of income or losses in each jurisdiction with the expected effective tax rate to be consistent with that experienced in prior years. Given the Company's statutory tax rate the Company would expect to have recorded a tax recovery in the three months ended September 30, 2009 of approximately \$0.4 million. The actual recovery of approximately \$0.3 million was a result of the Company's income and loss being generated in foreign jurisdictions where tax rates vary from the blended statutory rate.

### *Net Income after tax*

Net loss after tax for the three months ended September 30, 2009 was \$1.1 million or \$0.08 loss per share compared to a net loss of \$0.7 million or a loss of \$0.05 per share reported in the previous quarter and to a net loss of \$0.8 million or a loss of \$0.06 per share for the same period in the prior year.

### *EBITDAS*

EBITDAS (defined as earnings before interest, tax, depreciation, amortization and stock compensation expense – a non-GAAP measure) was a loss of \$0.4 million for the three months ended September 30, 2009 compared to a gain of \$0.2 million reported in the previous quarter and a loss of \$0.1 million for the same period of last year.

### *Liquidity and Capital Resources*

As at September 30, 2009, the Company had cash and short-term investments of \$1.5 million as compared to a nil balance as at December 31, 2008. The Company maintains a line of credit facility of \$4 million which had no outstanding balance as at September 30, 2009 as compared to an outstanding balance of \$1.4 million as at December 31, 2008.

The \$1.5 million increase in cash and cash equivalents during the 9 months ended September 30, 2009 was generated from operation (\$3.4 million), primarily from a positive change in non-cash working capital. The company used its cash resources during the period to repay long term debt (\$0.2 million) and repay its line of credit (\$1.5 million). In addition, the Company used its cash resources during the nine months ending September 30, 2009 to purchase capital equipment (\$0.4 million) and repay deferred acquisition costs of \$0.4 million. The Company had long-term debt of \$0.4 million (including short-term portion) as at September 30, 2009 compared to \$0.6 million as at December 31, 2008.

For the three months ended September 30, 2009, the Company increased cash by \$1.1 million mainly as a result of positive change in non-cash working capital. During the period, the company used \$0.3 million of its cash to repay long term debt and its line of credit and another \$0.3 million towards the purchase of capital assets and repayment of deferred acquisition costs.

As of the date of this report, with a total short-term bank facility of \$4.0 million, the Company believes it has sufficient capital to fund its operations.

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

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>After 5 years</b>
Long-term Debt	422,972	234,807	188,165	-	-
Operating Leases	3,313,485	936,420	1,467,494	909,571	-
Purchase Obligations	2,198,769	659,665	1,539,104	-	-
Acquisition Purchase Price Payable - Mobisoft	-	-	-	-	-
Acquisition Purchase Price Payable - Stratagen	428,862	428,862	-	-	-
<b>Total Contractual Obligations</b>	<b>6,364,088</b>	<b>2,259,754</b>	<b>3,194,763</b>	<b>909,571</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 also has purchase obligations with vendors in the normal course of business. The Company does not foresee any liquidity risk with these items which will be funded from the Company's working capital in the next twelve months.

### *Current global market conditions*

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

### *Off-Balance Sheet Arrangements*

For certain contracts, the Company was required to post performance bonds totalling \$2,111,735 (USD\$1,969,535) as at September 30, 2009. The Company arranged the bonds with Canada Export Development Corporation ("EDC") and has agreed to indemnify EDC.

### *Legal Proceeding*

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

A complaint was served on the Company for breach of a sales contract and which includes a claim for damages. The Company is of the view that there is no ground 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.

### *Transactions with Related Parties*

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

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

The Company provides sales and services to a customer that is related to a director. In the three and 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.

### *Proposed Transactions*

As of November 3, 2009, the Board of Directors had not committed to proceed with any proposed asset or business acquisitions or dispositions.

### **Critical Accounting Estimates**

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and all dollar amounts are expressed in Canadian dollars. For a complete description of the Company's significant accounting estimates, please refer to note 2 to the audited financial statements for the year ended December 31, 2008.

The Company's critical accounting estimates are as follows:

#### *Revenue recognition*

The Company's revenues come from these primary sources:

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

Contracts for complete wireless dispatch systems include multiple deliverables, which are separated into discrete units of accounting based on the residual method. Revenues from installation of system infrastructure

are recorded using the percentage-of-completion method, which results in deferred revenue on the balance sheet when services are invoiced in advance of the revenue being earned, and contract work-in-progress on the balance sheet when revenue is earned prior to invoicing the customer. Profit estimates on contracts where the percentage-of-completion method is applied are revised periodically based on changes in circumstances, and losses on contracts are recognized immediately. Revenues from system devices related to contracts for complete wireless dispatch systems are recorded when all significant acts have been completed and delivery has occurred with no substantial risk of return and collectability is reasonably assured. While the Company maintains a security interest in certain systems and devices until payment has been received in full, such right does not preclude the buyer from full use in the ordinary course of business or rights thereto.

Maintenance and support service revenues are recognized proportionately over the term of the contract in the case of long-term contracts, and at the time of performance for other services.

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

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

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

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

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

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

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

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

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

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

#### *Income Taxes*

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

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

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

- (a) New accounting policies:

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

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

- (b) Canadian GAAP developments:

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

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

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

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

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

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

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

### *Financial Instruments*

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

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

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

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

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

The Company periodically enters into foreign exchange contracts to manage foreign exchange risk. The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes. As at September 30, 2009 the Company did not have any foreign exchange contracts outstanding.

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

#### *Credit risk*

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

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

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

During the three and 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.

#### *Currency risk*

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

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

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

	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 rate would 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 fluctuation in other currencies is not material.

### *Interest rate risk*

The Company is exposed to interest rate risk on cash balances earning interest income and to the extent that it draws on its operating lines of credit which calculate interest as a function of variable interest rates. Based on the amounts drawn on the Company's line of credit facilities at 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.

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:

<b>Financial Liability</b>	<b>Maturity</b>		
	<b>Less than one year</b>	<b>One to Two Years</b>	<b>Longer than two years</b>
Bank overdraft	\$ -	\$ -	\$ -
Line of credit	-	-	-
Accounts payable and Accrued Liabilities	4,513,978	-	-
Acquisition price payable	428,862	-	-
Long-Term debt	234,807	188,165	-
	<b>\$ 5,177,647</b>	<b>\$ 188,165</b>	<b>\$ -</b>

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

<b>Share Capital</b>	<b>Issued and outstanding</b>	<b>Convertible</b>
200,000,000 Common Shares without par value	13,789,746	Non- Convertible
50,000,000 Preferred Shares without par value	None	Non- Convertible

The Company has a broadly distributed stock option plan for management, directors and employees. The maximum authorized number of common share options that can be granted under the plan is 2,000,000. As at November 3, 2009, the Company had outstanding 1,285,448 options to acquire common shares at prices ranging from \$1.65 to \$3.50 per share.

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

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

provide reasonable assurance that the information required to be disclosed in reports it files is recorded, processed, summarized and reported within the appropriate time periods and forms.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

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

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

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

### **Changes in Internal Controls**

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

### **Audit Committee Financial Expert**

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

### **Code of Business Conduct**

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

### **Additional Information**

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

## Business Risks and Uncertainties

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

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

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

### *b) Currency Exchange Rate Risk*

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

A summary of the Company's estimates of the impact of a 10% change in the exchange rates on its revenues and net current monetary assets for the nine months ended September 30, 2009 is presented below:

<b>Effect of a +/- 10% change in foreign currency exchange rate</b>	<b>USD</b>	<b>EUR</b>	<b>Total</b>
Revenue +/- (CAD in 000s)	\$1,664	\$877	\$2,541
Net monetary assets +/- (CAD in 000s)	\$186	(\$26)	\$160

### *c) Technological Change, New Products and Standards*

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

*d) Reliance on Large Customers*

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

*e) Concentration of Sales*

During the three months ended September 30, 2009, DDS Wireless revenue from sales of wireless data solution products and services to the taxi market accounted for approximately 65% of DDS Wireless total revenue (2008 -70%). DDS Wireless expects sales in this vertical market to continue to account for a significant portion of DDS Wireless sales in the foreseeable future. A decline in demand for DDS Wireless products in this vertical market as a result of competition, technological change or other factors could have a material adverse effect on DDS Wireless.

*f) International Operations and Sales*

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

*g) Management of Growth and Expansion*

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

*h) Dependence upon Key Personnel and Hiring*

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

*i) Reliance on a Limited Number of Suppliers*

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

*j) Industry Growth*

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

*k) Competition*

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

*l) Intellectual Property*

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

*m) Product Defects and Product Liability*

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

*n) Concentration of Ownership*

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

*o) Sales Cycles*

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

*p) Liquidity*

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