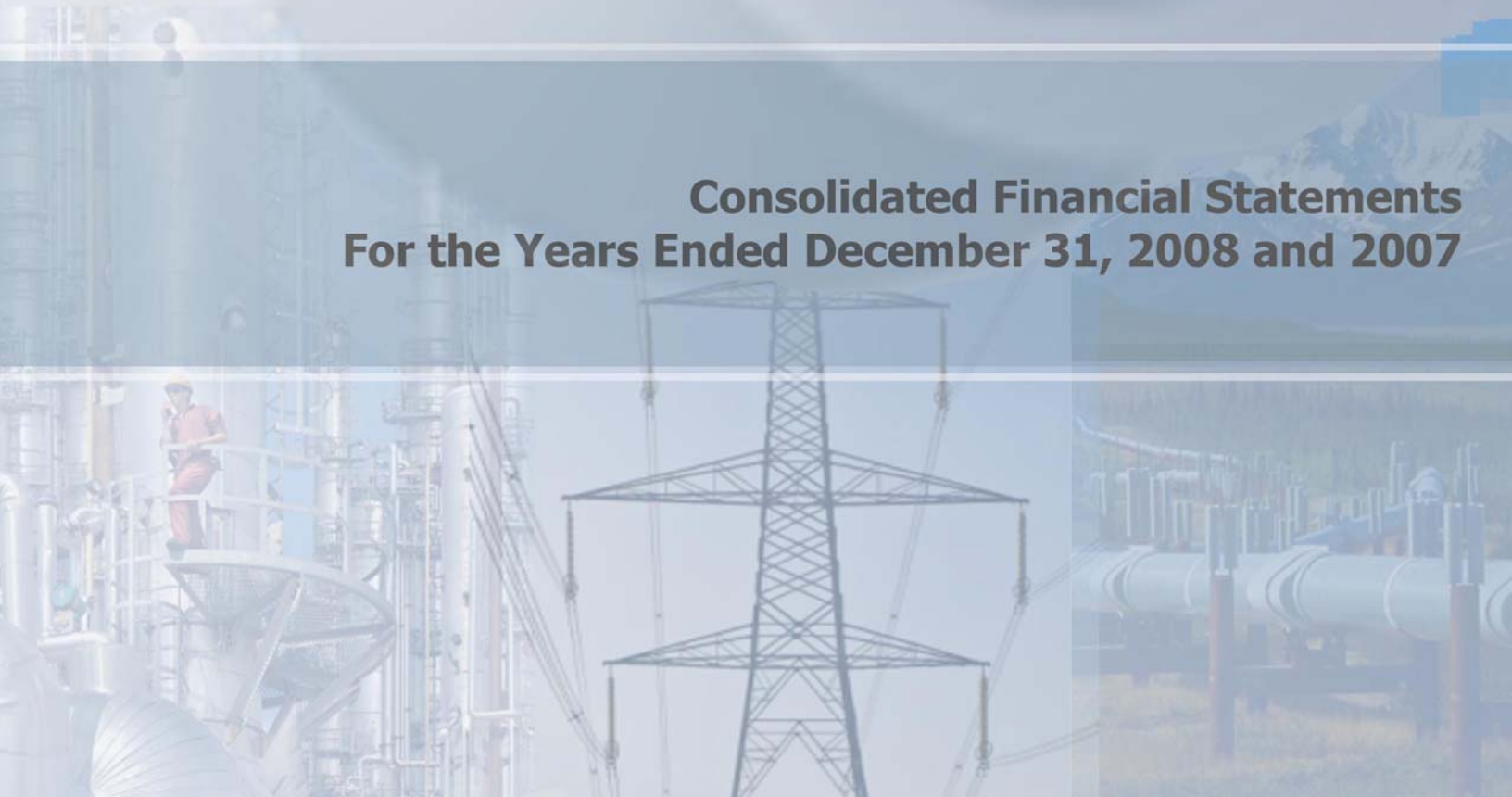




DECISION DYNAMICS
TECHNOLOGY

2008

**Consolidated Financial Statements
For the Years Ended December 31, 2008 and 2007**



Decision Dynamics Technology Ltd.

Report for the year ending December 31, 2008

MANAGEMENT'S REPORT

These financial statements are the responsibility of the Management of Decision Dynamics Technology Ltd. ("DDyTech Ltd.") They have been prepared in accordance with Canadian generally accepted accounting principles using Management's best estimates and judgements, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, notes to the financial statements and other financial information contained in this report. Estimates are sometimes necessary in the preparation of these statements because a precise determination of some assets and liabilities depends on future events. Management has based these estimates on careful judgments and believes they are properly reflected in the accompanying financial statements. Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of DDyTech Ltd. is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls through its Audit Committee, which is comprised of independent Directors and meets at least every quarter. The Board also meets with Management to ensure that Management's responsibilities are fulfilled, to review financial statements and to recommend approval of the financial statements. The Board of Directors has approved the information contained in the financial statements. Independent auditors, KPMG LLP have audited the financial statements of DDyTech Ltd. in accordance with Canadian generally accepted auditing standards.

April 7, 2009

"signed" R.J. (Justin) Zinke

R.J. (Justin) Zinke
Chief Executive Officer
Calgary, Alberta

"signed" Kimberley A. Tremblay

Kimberley A. Tremblay
Chief Financial Officer
Calgary, Alberta

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Decision Dynamics Technology Ltd. as at December 31, 2008 and 2007 and the consolidated statements of income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Calgary, Canada

April 2, 2009

Decision Dynamics Technology Ltd.

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	\$3,815,016	\$1,106,618
Accounts receivable (note 14)	496,679	2,076,932
Prepaid expenses	147,728	173,889
Assets of discontinued operation (note 4)	435,786	0
	<u>4,895,209</u>	<u>3,357,439</u>
Property and equipment (note 5)	495,568	553,400
Intangible Assets (note 6)	-	459,374
Goodwill	-	1,778,177
	<u>\$5,390,777</u>	<u>\$6,148,390</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$694,859	\$677,528
Deferred revenue	136,575	867,790
Current portion of long-term debt (note 7)	-	522,189
	<u>\$831,434</u>	<u>\$2,067,507</u>
Shareholders' equity		
Capital stock (note 8)	27,606,710	27,606,710
Warrants (note 8)	349,638	653,194
Contributed surplus (note 8)	2,471,987	1,944,350
Deficit	(25,868,992)	(26,123,371)
	<u>4,559,343</u>	<u>4,080,883</u>
	<u>5,390,777</u>	<u>6,148,390</u>

Future Operations (note 2)

Approved on behalf of the board

"signed" William Dimma
William Dimma, Director

"signed" James Baillie
James Baillie, Director

See accompanying notes to the consolidated financial statements.

Decision Dynamics Technology Ltd.

Consolidated Statements of Income (Loss) and Deficit

	Year Ended	
	December 31, 2008	December 31, 2007 (restated - note 4)
Revenue	\$ 2,211,923	\$ 4,002,055
Cost of sales	1,018,136	1,372,359
	<hr/>	<hr/>
Gross Profit	1,193,787	2,629,696
	<hr/>	<hr/>
Expenses		
Research and development	885,662	1,427,018
Selling and marketing	681,610	1,022,325
Restructuring costs (note 10)	222,973	47,794
General and administration	1,492,258	1,347,541
	<hr/>	<hr/>
	(2,088,716)	(1,214,982)
Amortization of property and equipment	165,639	203,250
Foreign exchange gain	(42,246)	(236,137)
Loss on disposal of equipment and leasehold improvements	99,380	20,316
Interest income	(26,232)	(16,854)
Interest expense	120,526	130,096
Goodwill impairment	597,152	-
	<hr/>	<hr/>
Net loss before results of discontinued operations	(3,002,935)	(1,315,653)
Results of discontinued operations (note 4)	(277,373)	(268,006)
Gain on sale of discontinued operations	3,534,687	-
	<hr/>	<hr/>
Net income (loss) and comprehensive income (loss)	254,379	(1,583,659)
Deficit, beginning of year	\$ (26,123,371)	\$ (24,539,712)
	<hr/>	<hr/>
Deficit, end of year	\$ (25,868,992)	\$ (26,123,371)
	<hr/>	<hr/>
Basic and diluted income (loss) per share, before discontinued operations	(\$0.05)	(\$0.02)
Basic and diluted income (loss) per share, after discontinued operations	\$0.004	(\$0.03)
Weighted average number of common shares outstanding	60,212,466	56,080,733

Decision Dynamics Technology Ltd.

Consolidated Statements of Cash Flows

	Year Ending	
	December 31, 2008	December 31, 2007
Cash provided by (used in):		
Operations		
Cash received from customers	\$3,132,275	\$4,067,309
Cash paid to suppliers and employees	(4,058,225)	(4,738,927)
Interest received	26,232	16,854
Interest paid	(93,711)	(63,984)
	<u>(993,429)</u>	<u>(718,748)</u>
Cashflow from discontinued operation	(94,773)	(750,196)
	<u>(1,088,202)</u>	<u>(1,468,944)</u>
Investing activity		
Purchase of equipment	(247,075)	(18,672)
Financing activities		
Repayment of long-term debt	(439,896)	(235,262)
Issue of shares and warrants net of financing costs	-	2,382,748
Proceeds on sale of discontinued operation	4,829,455	-
	<u>4,389,559</u>	<u>2,147,486</u>
Cashflow from discontinued operation re: repayment of long-term debt	(347,738)	(589,518)
	<u>4,041,821</u>	<u>1,557,968</u>
Changes in foreign currency	<u>1,854</u>	<u>(7,724)</u>
Increase (decrease) in cash and cash equivalents	2,708,398	62,628
Cash and equivalents, beginning of year	<u>\$1,106,618</u>	<u>1,043,990</u>
Cash and equivalents, end of year	<u>\$3,815,016</u>	<u>\$1,106,618</u>

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

1. Nature of operations

Decision Dynamics Technology Ltd., a public company incorporated under the Canada Business Corporations Act, has developed project controls and real time operations reporting software designed to provide better project visibility by unifying the project data and knowledge needed to make better and faster project management decisions. The Company's flagship product, Oncore™, provides real time cost information, contract validation, and approvals for operations management and capital projects.

The Company's head office is located in Calgary, Alberta, Canada. It operates a wholly-owned foreign subsidiary in the United States of America.

2. Future operations

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities and commitments in the normal course of business. Recurring losses since inception have resulted in an accumulated deficit of \$26 million. These financial statements do not give effect to any adjustment should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts differing significantly from those reflected in the financial statements.

On September 16, 2008, the Company completed the sale of the Wellcore product line to a subsidiary of P2 Energy Solutions, Inc., which provided the Company with approximately \$4.8 million in cash. At the end of the year, the Company had a cash balance of \$3.8 million. This change in cash position reflects the Company's execution of its previously stated intended use of a portion of the cash from the sale – to pay off existing debt, fund current operations of the business, make investments in the Oncore™ technology and develop a sales team focused on growth of the Oncore™ product. The Company intends to continue these initiatives, as we believe that these capital and corporate investments will significantly impact the Company's objective of achieving positive cash flow and sustained bottom-line profitability.

Despite the fact that the Company has sufficient cash to fund its current operations, we intend to maintain a strategic and conservative approach, and will look to generate positive cash flow from operations. The Company's ability to be successful in generating bottom line profitability and positive cash flow from operations will continue to be contingent upon the increased acceptance of the Oncore™ product and expanding its overall customer base. Continuing efforts are being made to monitor current expenses, and align future spending with expected revenue. If the Company sales initiatives do not result in an increased acceptance of our product, and a higher revenue stream, than further restructuring, including the possible sale of the Company, may become necessary.

3. Significant accounting policies

(a) New accounting policies

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and 3863, Financial Instruments – Presentation. The new standards have been adopted on a prospective basis with no restatement of prior periods. Section 1535 requires additional disclosures regarding the Company's capital management (note 15), while Section 3862 addresses financial instruments and the nature, extent and management of risks arising from financial instruments to which the Company may be exposed (note 14).

(b) Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiary, Decision Dynamics Technology Inc. All intercompany balances and transactions have been eliminated.

(c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods presented. Actual results will differ from those estimates. The significant items requiring management estimate include deferred revenue, valuation of future income taxes, property and equipment and goodwill as well as the estimated useful lives of property and equipment.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

(d) Revenue recognition

The Company's revenue consists primarily of software licensing and subscription revenues, service revenues and post contract customer support revenues.

Software licensing and subscription revenue is recognized in the period that a non-cancelable license agreement has been signed and received; the software and related documentation have been delivered; there are no uncertainties regarding customer acceptance; the fees are fixed and determinable; collection of the resulting receivable is deemed probable; and no other significant vendor obligations or milestones exist. Where significant milestones exist, software licensing revenue is recognized only after these milestones have been satisfied. Where the service obligations include significant production, modification or customization, contract accounting (percentage of completion) is applied to the license and service elements of the arrangement.

Service revenues are recognized when the service is performed. Work in progress is comprised of unbilled fees and is recorded at the market value of time incurred (customer billing rates). Unbilled disbursements are recorded at cost. Any estimated losses on contracts are recognized during the period in which the loss first becomes apparent.

Where a customer contracts with the Company to develop specialty service software, the Company estimates the amount of future work required to maintain the functionality of the software. The estimate is based on historical experience and the warranty cost is accrued as the revenue is recognized.

Post contract customer support revenue includes maintenance and service support provided to license holders. Time based maintenance revenues are initially allocated contract proceeds based on vendor specific objective evidence ("VSOE") of fair value and are recognized on a straight-line basis over the term of the contract and time-based service revenues are recognized when the service is performed. Maintenance is invoiced annually in advance, and is recorded in deferred revenue and recognized as revenue on a straight-line basis over the year.

For all revenue streams, revenue is not recognized until there is evidence that an arrangement exists, delivery has occurred, the fees are fixed and determinable and collection is probable.

For multiple element arrangements, where VSOE of fair value is available for all elements, the contract value is allocated to each element proportionately based on relative VSOE and revenue is recognized separately for each element and the basis of recognition of revenue for each element is determined separately. Where VSOE is not available for one element, the residual method is used to value that element. Where the residual method cannot be used, contract accounting is used to account for the entire contract value. Contract accounting is also used where elements such as licensing and services cannot be separated, and where the contract requires the delivery of set up services and use of the software. In such instances, revenue is recognized for both software licenses and consulting services, generally using the percentage-of-completion method measured on labour hours. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the percentage-of-completion method of accounting affect the amounts of revenue and related expenses reported in the consolidated financial statements. A number of internal and external factors can affect our estimates, including labour rates, utilization of the software, and the potential requirement of additional services.

(e) Foreign currency translation

The Company's subsidiary is an integrated operation and is translated into Canadian dollars using the temporal method. Monetary assets and liabilities of the Company, which are denominated in foreign currencies, are translated at exchange rates in effect at the balance sheet date. Other assets and liabilities are translated at rates in effect at the date the assets were acquired and liabilities incurred. Revenue and expenses are translated at the rates of exchange in effect at their transaction dates. The resulting gains or losses are included in the determination of income or loss.

(f) Cash equivalents

The Company considers cash equivalents to be all cash and highly liquid investments with original maturities of three months or less from the date of purchase and that are readily convertible to known amounts of cash.

(g) Research and development costs

The Company is continually engaged in research and development. Research costs are expensed as incurred. Development costs, net of investment tax credits recognized, are expensed as incurred, unless they meet the requirements for deferral and amortization under Canadian generally accepted accounting principles. There have been no capitalized development costs to date.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

(h) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. The Company provides for amortization using the following methods and annual rates:

Equipment and furniture	20%	Declining balance
Computer hardware	30%	Declining balance
Computer software	50%	Declining balance
Leasehold improvements		Straight line over the term of the lease

(i) Future income taxes

Future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will be not realized.

(j) Stock based compensation

The Company has a stock based compensation plan under which all stock based compensation awards are measured and recognized as an expense based on their fair value. For options granted in respect of future services, compensation expense is recorded over the vesting period. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to share capital. When options are forfeited, the recovery of expenses attributable to these options is recognized at the time of forfeiture; however, no adjustment is made for expenses related to expired options.

The Company also has a share accumulation plan allowing directors to receive their annual compensation in deferred share units. As this plan allows the directors to elect settlement at termination in either shares or cash, net of applicable taxes, the award is a liability as classified in the financial statements. The amount of the liability is based on the value of the Company's shares and any increases (decreases) in the value are recognized as an expense (recovery) in the valuation period.

(k) Per share amounts

Per share amounts are computed by dividing net loss by the weighted average shares outstanding during the reporting period. Diluted per share amounts are computed by dividing net loss by the weighted average shares outstanding adjusted for additional shares from the assumed exercise of stock options or warrants, if dilutive. The number of additional shares is calculated by assuming the outstanding dilutive stock options or warrants are exercised and that the assumed proceeds are used to acquire common shares at the average market price during the period. Only options or warrants that are 'in the money' are included in this calculation.

Options and warrants to purchase common shares were not included in the computation of diluted earnings per share because the result would have been anti-dilutive.

(l) Impairment of long lived assets

Management reviews property and equipment annually and when there are indicators of impairment in the carrying value or changes in the estimated useful life of the asset. If impairment has occurred, an impairment charge to earnings is recognized for the amount the carrying value of the asset exceeds its estimated fair value.

(m) Goodwill

Goodwill is the residual amount the results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Prior to the sale of the Wellcore product line in September 2008, the Company carried a balance of \$1,778,177 for goodwill originating from the acquisition of Malibu Engineering & Software Ltd., in 2005. At the time of the sale of

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

Wellcore, the Company performed an assessment to determine the amount of goodwill that was attributable to the Wellcore product, and that should be included in the carrying value of that business in determining the gain on disposal of the Wellcore assets. It was determined that \$1,181,025 of the \$1,778,177 was attributable to the Wellcore product line, based on the relative fair values of the discontinued and continuing operations, and the remaining \$597,152 was attributable to the Oncore™ product line.

The Company then conducted a two-step impairment test on the remaining goodwill of \$597,152 to determine if an impairment existed, and then if an impairment existed, to measure the amount of the impairment loss. The Company deemed that an goodwill impairment had occurred, and exceeded the remaining amount of the goodwill attributable to the Oncore™ product line. A goodwill impairment loss for the full amount of \$597,152 has been recorded for the year ended December 31, 2008 and no goodwill remains on the Company balance sheet.

(n) Financial Instruments

The Company reports and presents comprehensive income or loss, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from net income or loss calculated in accordance with generally accepted accounting principles. The Company had no "other comprehensive income or loss" transactions during 2008 and no opening or closing balances for accumulated other comprehensive income or loss.

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

The Company has designated its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. The Company had neither available-for-sale, nor held to maturity instruments during the year ended December 31, 2008.

All derivative instruments, including embedded derivatives, are recorded in the statement of operations and deficit at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income or loss. At reporting date, the Company had no derivative instruments. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item. The Company does not have any hedges as at December 31, 2008.

4. Discontinued operations

In the third quarter of 2008, the Company completed the sale of the Wellcore product line to a subsidiary of P2 Energy Solutions, Inc. The results of the discontinued operation have been disclosed below. The results of discontinued operations for the year ended December 31, 2008 represent results of operations to the date of disposal, September 16, 2008, and an adjustment to the gain on sale of discontinued operations has been made as a result of a fourth quarter adjustment to the sale proceeds receivable.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

	Year Ended December 31, 2008	Year Ended December 31, 2007
Revenue	\$ 2,933,584	\$ 5,742,829
Cost of Sales	<u>(697,654)</u>	<u>(1,816,256)</u>
Gross Profit	2,235,930	3,926,573
Expenses		
Research and development	552,699	862,861
Selling and marketing	533,016	1,394,239
General and administration	597,455	865,533
Restructuring	273,581	38,092
Stock based compensation	65,014	118,463
Amortization of property and equipment	12,529	15,840
Amortization of intangible assets	359,119	500,484
Loss on disposal of property and equipment	27,843	11,261
Foreign exchange (gain) loss	(88,812)	152,655
Interest income	(11,132)	(28,204)
Interest expense	<u>191,991</u>	<u>263,355</u>
	2,513,303	4,194,579
Loss from discontinued operations before gain on sale of discontinued operations	\$ (277,373)	\$ (268,006)
Gain on sale of discontinued operations	\$ 3,534,687	\$ -
Income (loss) from discontinued operations	<u>\$ 3,257,314</u>	<u>\$ (268,006)</u>

Assets and liabilities presented in the consolidated balance sheets are recorded at fair value and include the following assets and liabilities of discontinued operations.

	December 31, 2008	December 31, 2007
Accounts receivable	\$ 435,786	\$ 1,270,527
Prepaid expenses		30,594
Property and equipment		39,889
Intangible assets		459,374
Goodwill		1,181,205
Deferred revenue		<u>(682,736)</u>
	<u>\$ 435,786</u>	<u>\$ 2,298,853</u>

The accounts receivable of \$435,786 is a holdback receivable that will be paid out to the Company, subject to certain conditions. As of April 6, 2009, approximately \$150,000 of this holdback had been received.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

5. Property and equipment

December 31, 2008	Cost	Accumulated amortization	Net book value
Equipment and furniture	\$105,866	\$53,465	\$52,401
Computer hardware	611,898	313,021	298,877
Computer software	143,160	94,821	48,339
Leasehold improvements	141,688	45,737	95,951
	\$1,002,612	\$507,044	\$495,568

December 31, 2007	Cost	Accumulated amortization	Net book value
Equipment and furniture	\$191,337	\$67,530	\$123,807
Computer hardware	923,303	585,727	337,576
Computer software	259,341	191,996	67,345
Leasehold improvements	52,047	27,375	24,672
	\$1,426,028	\$872,628	\$553,400

During the year, the Company closed its Edmonton and Houston offices. The disposition of the surplus furniture and equipment and leasehold improvements resulted in a loss of \$99,380.

6. Intangible Assets

The previously recorded intangible assets related to the Wellcore product line. Accordingly, the net book value of \$100,454 at the disposal date of September 16, 2008 has been included in the disposal (note 4). At December 31, 2007, intangible assets consisted of the following:

December 31, 2007	Cost	Accumulated Amortization	Net book value
Technology	\$1,289,877	\$912,350	\$377,527
Trade name	83,000	58,708	24,292
Maintenance contracts	296,000	238,445	57,555
	\$1,668,877	\$1,209,503	\$459,374

7. Long-term debt

Balance as at December 31, 2007	\$522,189
Interest expense	62,153
Deferred financing costs	234,523
Foreign exchange translation effect	30,922
Debt payment (principal and interest)	(849,787)
Balance as at December 31, 2008	(\$0)

During the year ended December 31, 2006, the Company entered into an agreement to borrow US\$4.0 million and drew down US\$2.0 million. The drawdown was repayable in monthly installments of US\$68,647 including 14.3% interest over three years and was due to be fully repaid by the end of 2008. The Company used a portion of the proceeds from the sale of the Wellcore product line to repay the outstanding debt balance.

The Company granted the lender five year warrants to purchase 1,265,000 common shares at \$0.55 per share. The exercise price was subject to a re-pricing if the Company subsequently issued shares at a lower price. As a result of the private placement during 2007 the exercise price of the warrants was reduced to \$0.305 per share. As of December 31, 2008, the warrants remain outstanding, and are due to expire on January 31, 2011.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

The fair value of the 1,265,000 warrants issued was \$349,665 and was included in the total deferred financing costs of \$614,454. During the year, \$234,523 (2007 - \$197,321) of deferred financing charges were amortized.

8. Share capital

(a) Common shares

Authorized

Unlimited number of voting common shares

Issued and outstanding common shares:

	Number	Amount
Balance December 31, 2006	51,625,240	\$25,529,130
Shares issued pursuant to a private placement	8,504,999	2,068,174
Shares issued to agent	25,000	-
Shares issued on exercise of stock options	57,227	9,406
Balance December 31, 2007	60,212,466	\$27,606,710
No shares issued in 2008	-	-
Balance December 31, 2008	60,212,466	\$27,606,710

(b) Stock based compensation

(i) Stock Option Plan:

The Company has established a stock option plan for directors, officers, and employees. Under the plan, the aggregate number of options available for issue may not exceed 9,519,094 as at December 31, 2008. The options are non-assignable and expire either seven or ten years after grant.

Balance, December 31, 2006	8,987,034
Granted	1,550,000
Expired	(1,667,019)
Exercised	(57,225)
Forfeited	(1,673,751)
Balance, December 31, 2007	7,139,039
Granted	1,975,000
Expired	(1,033,335)
Exercised	0
Forfeited	(2,016,212)
Balance, December 31, 2008	6,064,492

Stock options outstanding as at December 31, 2008 under this plan are as follows:

Range of exercise prices outstanding	Options outstanding			Options Exercisable	
	Number outstanding at December 31, 2008	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at December 31, 2008	Weighted average exercise price
\$0.04	1,475,000	120	\$0.04	-	-
\$0.16	3,630,194	34	\$0.16	3,630,195	\$0.16
\$0.205 - 0.31	360,000	60	\$0.24	194,996	\$0.24
\$0.50 - 0.55	503,000	49	\$0.54	502,000	\$0.55
\$0.745	96,298	26	\$0.745	96,298	\$0.745
\$0.04 - 0.745	6,064,492	89	\$0.61	4,423,489	\$0.22

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

During the year \$92,132 (2007 - \$263,927) in compensation costs were recorded in the statement of income (loss) for the options granted to employees, officers and directors. The fair value of common share options granted in 2008 is estimated in the amount of \$103,175 (2007 - \$327,600) at the grant date using the Black-Scholes pricing model based on the following assumptions:

Risk free interest rate	2.61 to 3.77%
Expected life	7 - 10 years
Expected volatility	100%
Expected dividends	nil
Weighted average grant-date fair value	\$0.17

(ii) Share Accumulation Plan

The Company has established a Share Accumulation Plan ("SAP") for Directors which enables non-employee directors of the Company to participate in the growth and development of the Company by providing such persons with the opportunity, through deferred share units ("DSUs"), to acquire a proprietary interest in the Company. Under the terms of the plan, each director elects annually to receive their annual compensation in cash, common shares issued from treasury or deferred share units.

For the first three quarters of 2008, four of the non-management directors elected to receive their compensation in DSUs, and one non-management director elected to receive cash. In the last quarter of 2008, the SAP was modified by the Company. Due to the declining share price, the calculation of shares to be allocated to the SAP has resulted in a much higher amount of shares being allocated to the SAP than was expected when the plan was developed. The directors determined that a modification of the SAP was necessary to address the impact of an undervalued share price. Under this modification, the share price used in the calculation of the quarterly share allocation would be set at \$.04 or the quarterly volume weighted average price, whichever is greater. For the quarter ended December 31, 2008, the quarterly volume weighted average price was less than \$.04, and the allocation of shares into the SAP was then calculated using a share price of \$.04.

In addition, the directors were given the option of receiving their annual compensation half in cash and half in DSUs, or completely in cash. For the last quarter of 2008, the majority of the non-management directors elected to receive their compensation split evenly between DSUs and cash, which provides the maximum amount of DSUs available under the modified SAP. Following termination of board service, the directors will receive the then current fair market value in common shares held in the nominal account.

A total of 1,200,000 shares have been allocated for issuance from treasury pursuant to this plan. Due to the decreasing share price, during the year 1,094,447 shares were allocated to directors, bringing the total allocation to 1,633,770 shares. The Company will ask shareholders at the Annual General and Special Meeting to approve a resolution to increase the number of shares allocated to the plan to 2,200,000. The declining share price has resulted in reduction of the fair market value of the total obligation to directors and a reduction in the total liability and in compensation of \$66,460 (2007 - (\$42,244)) has been recorded for the year. The total obligation is recorded as a liability as at December 31, 2008.

(c) Warrants

On June 29, 2007, an agent was granted warrants to purchase 266,667 common shares at \$0.30 for a period of 18 months. The fair value of the warrants was estimated to be \$28,625 using the Black-Scholes pricing model and the assumptions shown below. These warrants expired in December 2008 and were added to contributed surplus upon expiration.

During 2007 the Company issued 4,252,498 warrants units pursuant to the private placement. A warrant was exercisable into one common share at a price of \$0.40 per share for a period of one year from the date of issuance thereof. The fair value of the warrants was estimated to be \$274,931 using the Black-Scholes pricing model and the assumptions shown below. These warrants expired in 2008, and the fair value of \$274,931 was allocated to contributed surplus upon expiration.

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	Agent – June 2007	Private Placement – July 2007
Risk free interest rate	4.56%	4.56%
Expected life	18 months	12 months
Expected volatility	100%	100%
Expected dividends	nil	Nil
Weighted average grant-date fair value	\$0.121	\$0.065

During 2006, the Company entered into an agreement to borrow US\$2.0 million. As part of this arrangement the Company issued warrants to purchase 1,265,000 common shares at \$0.55 (see note 6). As a result of the private placement during the year the exercise price of the warrants was reduced to \$0.305 per share.

Balance, December 31, 2006	\$ 931,691
Warrants granted	274,931
Agents compensation warrants granted	28,598
Expired during the year	(582,026)
Balance, December 31, 2007	653,194
Expired during the year	(303,556)
Balance, December 31, 2008	\$ 349,638

(d) Contributed surplus

Balance, December 31, 2006	\$ 984,815
Employee and director stock options	485,722
Forfeited	(108,213)
Warrants expired during the year	582,026
Balance, December 31, 2007	1,944,350
Employee and director stock options	330,479
Forfeited	(106,398)
Warrants expired during the year	303,556
Balance, December 31, 2008	\$ 2,471,987

9 Future income taxes

- (a) The provision for income taxes differs from the amount that would be computed by applying the combined statutory Canadian federal and provincial income tax rates to income (loss) before taxes. The reasons for the difference are as follows:

	Year Ended December 31,	
	2008	2007
Income (Loss) before income taxes	\$254,379	(\$1,583,659)
Statutory rate	29.50%	32.12%
Computed income tax (recovery) at statutory rate	75,042	(508,671)
Increase (decrease) in taxes resulting from:		
Share issue costs	-	(21,475)
Deferred charges	-	63,036
Stock based compensation	27,179	139,563
Decrease in Canadian rates and US rate adjustment	(1,378,046)	(655,240)
Change in valuation allowance	1,275,825	982,787
Provision for income tax (recovery)	-	-

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(b) The components of the future income tax balances are as follows:

	Year Ended December	
	2008	2007
Non-capital losses	\$8,127,543	\$6,569,795
Tax basis of equipment in excess of carrying amounts	6,184	52,592
Share issue costs	124,102	269,819
Scientific Research and Expenditure Development pool	108,779	319,035
Intellectual property and deferred charges	-	(120,458)
Valuation allowance	(\$8,366,608)	(\$7,090,783)
	-	-

The non-capital tax losses expire as follows:

2013	129,567
2021	3,674,114
2022	3,396,880
2023	2,974,933
2024	5,595,369
2025	5,122,556
2026	1,074,907
2027	1,572,789
2028	362,672

10. Restructuring

A significant amount of the Company's ongoing cost management was a restructuring of personnel, with most of this activity occurring in the second quarter of 2008. For the twelve months ended December 31, 2008, the Company recorded \$222,973 (2007 - \$47,794) of expenses related to severance packages for staff involved in restructuring. As of December 31, 2008 approximately \$71,000 in restructuring payments has been recorded as a liability.

11. Segmented information

The Company's operating activities are related to software licensing and services in the geographic segments of Canada and the United States of America.

Revenues by geographic segment	2008	2007
Canada	\$1,676,127	\$3,447,694
United States	535,796	554,361
Total	\$2,211,923	\$4,002,055

	2008	2007
Property and equipment		
Canada	\$495,568	\$490,102
United States	-	63,298
	\$495,568	\$553,400

Goodwill		
Canada	-	\$1,778,177

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12. Economic dependence

The Company received revenue from seven customers for the year ended December 31, 2008 and 2007 (the customers are not the same for both years), amounting to approximately \$2.0 million (2007 – eight customers amounting to \$3.5 million) representing over 88 % (2007 - 87%) of total revenues. These customers are as follows:

Customer A	\$486,654	\$550,320
Customer B	430,905	136,742
Customer C	355,754	546,017
Customer D	240,232	1,087,988
Customer E	184,991	294,250
Customer F	170,369	255,314
Customer G	-	305,450
Customer H	81,911	294,409
Other customers	261,107	531,565
Total	\$2,211,923	\$4,002,055

13. Commitments

The Company has operating lease commitments for office space. The future minimum annual lease payments (including operating costs, taxes and parking if applicable) for the next two years, are as follows:

	2008	2007
2009	273,410	311,261
2010	225,649	225,101

14. Financial instruments

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term maturity of these instruments. The Company has no capital lease obligations. The nature of these instruments and the Company's operations expose the Company to the following risks:

(a) Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. The extent of this risk depends on the credit quality of the customer. Most of the Company's customers are larger customers in the energy and utilities sector.

Credit approval and monitoring practices are incorporated into the Company's standard sales process to mitigate this risk. They include the review of the creditworthiness of new customers, monitoring customer payment performance and regular follow-up with all non-current customers. When it is determined that all or a portion of an account may not be collectible, the Company establishes an allowance for doubtful accounts. The Company has evaluated its accounts receivable at December 31, 2008 and determined that none of its outstanding receivables pose a credit risk to the Company.

The Company has trade accounts receivable of \$285,000 from five customers (2007 - \$482,000 from five customers), which represents about 99% (2007 - 83%) of total trade accounts receivable. The Company's total accounts receivable is aged as follows:

	December 31 2008	
Current (0 - 30 days from invoice date)	188,747	38%
1 - 30 days past due	170,258	34%
31 - 60 days past due	56,032	11%
Greater than 60 days past due	81,642	16%
	<u>496,679</u>	

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(b) Interest risk

The Company is exposed to interest rate risk on cash balances earning interest income and to the extent that it secures additional debt financing. As at December 31, 2008 the Company has no debt. The Company has invested \$3.3M in a 30 day GIC bearing interest at 1.65%, maturing on January 15, 2009.

(c) Liquidity risk

The Company may be exposed to liquidity risk if it is unable to collect its trade accounts receivable balances on a timely basis and if it is unable to secure additional debt or equity financing when needed on a timely basis. This would impact the Company's ability to meet commitments to creditors. The Company manages its liquidity risk by carrying a target level of cash on its balance sheet, by maintaining a conservative capital structure, by prudently managing its credit risks and actively managing its accounts receivable.

(d) Foreign exchange risk

The Company is exposed to foreign exchange risk primarily in the following ways:

- i. Cash flow – Approximately 25% of the Company's revenue is in US dollars, and a small portion of its expenses is in US dollars. Pricing for US customers is in US dollars.
- ii. Working capital – The Company has a Canadian dollar functional currency. As a result, the Company is exposed to foreign exchange risk for working capital items denominated in US dollars. At December 31, 2008 the Company had net working capital of \$285,000 denominated in US dollars.

The Company has not used financial instruments to manage its foreign currency exposures, although it may consider the use of such instruments in the future.

15. Capital Management

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 monitors its capital management through analysis of near-term and mid-term cash flow expectations to ensure an adequate amount of liquidity, and through the bi-monthly review of financial results and cash flow projections. The Company considers the shareholders equity to be the capital of the Company.

Based upon the current cash position of the Company, the dynamic nature of the technology market that the Company engages in, and the low level of tangible assets required, the capital strategy is to carry no debt at this time.

Where considered appropriate the Company may incur and carry additional debt from time-to-time to bridge short-term cash flow shortfalls.

16. Normal Course Issuer Bid

The Company commenced a normal course issuer bid, effective for one year, on December 15, 2008. Under this bid, the Company may purchase for cancellation up to 3,020,623 million or 5% of its common shares outstanding as at December 15, 2008. No purchases under the normal course issuer bid were made during the fiscal year ended December 31, 2008. As of April 7, 2009, the Company has purchased 811,000 or 27% of the shares available under the terms of the normal course issuer bid.

17. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.