



DECISIONDYNAMICS
TECHNOLOGY



Management Discussion and Analysis

For the Three and Six Month Periods Ended June 30, 2008 and 2007



Decision Dynamics Technology Ltd.

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August 29, 2008

Management Discussion and Analysis

The Management Discussion and Analysis focuses on key items from the unaudited Consolidated Financial Statements for Decision Dynamics Technology Ltd. (“Decision Dynamics” or the “Company”) for the three and six month periods ended June 30, 2008 and 2007. These statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). This discussion should not be considered all-inclusive. For example, it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other matters may occur which could affect the Company in the future.

Additional information regarding the Company is available on SEDAR at www.sedar.com. Such additional information is not incorporated by reference herein and should not be deemed to be made part of this Management Discussion and analysis, except as indicated herein.

Forward-Looking Statements or Information

In this Management Discussion and Analysis the Company makes forward-looking statements or provides forward looking information (collectively “forward-looking statements”). These forward-looking statements include but are not limited to comments with respect to objectives and strategies, financial condition, results of operations and industry conditions. By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that such forward-looking statements will not be achieved. Readers of this analysis are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements. For example, forward-looking statements may be influenced by the following factors: the level of exploration and development carried on by our customers; crude oil, natural gas and other commodity prices; demand for electricity; weather; availability of capital and financing and government policies. The financial Risks section of this Management Discussion and analysis provides additional information regarding key factors that could cause actual results to differ materially from those projected in our forward-looking statements. We caution that the foregoing list of factors is not exhaustive and that, when relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors as well as other uncertainties and events. The Company disclaims any intention or obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as may be expressly required by applicable securities laws.

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Financial Highlights

Stated in thousands of Canadian dollars except per share amounts

	Three Months Ending		Six Months Ending	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
\$'000 except per share amounts				
Operating Results				
Revenue	\$1,457	\$2,600	\$3,074	\$5,779
Net Loss	(938)	(461)	(1,786)	(201)
Basic and diluted loss per share	(0.02)	(0.01)	(0.03)	(0.00)
EBITDAS ⁽¹⁾	(582)	(143)	(1,092)	438
Financial Position				
Working Capital			(3)	2,453
Total Assets			4,440	7,760

(1) "EBITDAS" means earnings from continuing operations before interest, taxes, depreciation, amortization, loss on sale of assets and non-cash stock based compensation. Readers are cautioned that EBITDAS does not have a standardized meaning under GAAP and may not be comparable to others companies in the industry; however, the Company believes it is an important measure of performance and indicator of success for software businesses and is relevant to readers within the investment community. The derivation of EBITDAS is shown in the Results of Operations section below.

Overview

Decision Dynamics, a public company incorporated under the laws of Canada, markets software products and services to the energy sector including major oil & gas, power generation and transmission companies. These innovative operations management solutions capture, route, and report critical information at every level of the company making business processes faster and more reliable.

Decision Dynamics is a Microsoft Gold Certified Partner with over twenty years of experience in the energy industry. It operates a wholly-owned foreign subsidiary in the United States of America with operations in Houston, Texas.

Strategy and Outlook

During the second quarter, the Company began negotiations for the disposition of the Company's Wellcore oil and gas well life cycle management software platform, which assets include all of the assets (including all applicable intellectual property) and personnel associated with the development, marketing, sale and support of the Wellcore software application (collectively the "Wellcore Assets"). On August 28, 2008, the Company entered into a formal purchase and sale agreement with an arm's length purchaser, a subsidiary of P2 Energy Solutions, Inc. for the sale of the Wellcore Assets (the "Wellcore Asset Sale Agreement"). Completion of the proposed sale transaction is subject to the terms and satisfaction of the conditions set forth in the Wellcore Asset Sale Agreement including, among other conditions, that the Company receive TSX Venture Exchange ("TSXV") approval prior to closing. TSXV approval requires that DDY shareholders holding more than 50% of the outstanding shares have consented in writing to the proposed sale transaction. Upon completion of the Wellcore Asset sale, approximately half of the Company's technical, support and sales personnel will be transferred to the P2 Energy Solutions subsidiary. Under the Wellcore Asset Sale Agreement, the buyer has agreed to cash consideration of CAD\$5 Million for the Wellcore Assets, subject to holdback and release conditions. The Company is to receive approximately 80% of the proposed consideration upon the Wellcore Asset sale closing. Proceeds from the Wellcore Asset sale are intended to be used by the Company to focus on growing its Oncore software product.

The Oncore product line has consistently provided approximately 40% of the Company's revenue over the past six quarters, with three of the contributing customers consistently being in the top six customers. The Company expects that investment into sales and marketing for the Oncore product line, as well as continued technical upgrades will provide future growth and revenue opportunities for the Oncore product line.

Accounting Policies

(a) Basis of Presentation

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. 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.

(b) Significant accounting policies

The consolidated financial statements for the three and six months ended June 30, 2008 include the accounts of the Company and its wholly-owned US subsidiary, Decision Dynamics Technology Inc. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

The consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended December 31, 2007, except as noted below.

(c) 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, 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. The adoption of Section 3863 had no effect on the presentation of the Company's financial instruments.

(d) Recent Accounting Pronouncements

In February 2008, the Accounting Standards Board (AcSB) confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. We have not completed our assessment of the impact of the convergence of Canadian GAAP with IFRS on our results of operations, financial position and disclosures and therefore the impact of the transition to IFRS from GAAP on the Company's financial statements is not yet determinable. The Company intends to complete the assessment of the impact and make appropriate plans to ensure successful implementation within the required timeframe.

Results of Operations

	Three Months Ending		Six Months Ending	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
\$'000 except per share amounts				
Revenue	\$1,457	\$2,600	\$3,074	\$5,779
Expenses	2,127	2,842	4,363	5,491
	(670)	(242)	(1,289)	288
Other (amortization, interest, other)	(268)	(219)	(498)	(489)
Net loss for the period	(938)	(461)	(1,787)	(201)
Amortization and other	268	219	498	489
Non-cash share compensation	88	99	197	150
EBITDAS	(582)	(143)	(1,092)	438
Basic earnings (loss) per share	(\$0.02)	(\$0.01)	(\$0.03)	(\$0.00)

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In 2007, the Company closed a very large sale of Oncore in the first quarter and a large sale of Wellcore in the second quarter. These were not repeated in 2008 and so revenues are down for both the three and six month periods ended June 30, 2008 compared to the same periods in 2007.

Continued cost cutting measures and substantial staff reductions in the first and second quarter of 2008 reduced total expenses, including cost of sales, by 21% and 25% for the six and three month periods of 2008 compared to the same periods last year.

Amortization and other costs are slightly higher in 2008 due to foreign exchange losses, as the US dollar strengthened during the first half of the year. In the second quarter of 2008 non-cash share compensation was reduced by the forfeiture of options as a result of terminations.

The revenues, expenses and overall results are discussed in more detail below.

Revenue

\$ '000	Three Months Ending		Six Months Ending	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
License	\$828	\$1,462	\$1,594	\$3,453
Services	629	1,138	1,480	2,326
Total	<u>\$1,457</u>	<u>\$2,600</u>	<u>\$3,074</u>	<u>\$5,779</u>

License revenues for the six month period ending June 30, 2008 compared to June 30, 2007 are down 54% largely as a result of strong sales of Oncore in the first quarter of 2007, as well as a large Wellcore sale in the second quarter of 2007. Service revenues are down 36% largely due to the smaller number of personnel in the services department.

The Company's revenue recognition policy is set out in the 2007 annual financial statements. Revenue may be dependent upon customer activity levels (drilling activity for Wellcore and Webcore and project activity levels (expenditures) for Oncore) plus the timing of product implementation and contract approvals. Revenue from sales of perpetual licenses generally is recognized once the product has been delivered, that is, installed and is ready for use by the customer. Service and support revenues generally are recognized as delivered (percentage completion). As a result there will be some volatility in the Company's revenues from quarter to quarter depending upon the timing of the signing of contracts and delivery of software.

The Company's revenues are largely dependent upon a small number of customers. Historically the top six customers have provided about 65-80% of quarterly revenues. However, the specific customers change from quarter to quarter. For example only three customers in the top six in Q2 08 were in the top six in Q2 07. The dependence upon a small number of customers is expected to decline as the Company expands its customer base and increases the amount of recurring revenue.

About one-third of the Company's revenues are derived from US based customers. This proportion has remained relatively constant over the last ten quarters.

Gross profit

\$ '000	Three Months Ending		Six Months Ending	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenue	\$1,457	\$2,600	\$3,074	\$5,779
Cost of sales	(470)	(918)	(1,044)	(1,678)
Gross profit	<u>\$987</u>	<u>\$1,682</u>	<u>\$2,030</u>	<u>\$4,101</u>
Gross margin	68%	65%	66%	71%

Cost of sales includes the cost of service and support personnel, hosting costs and sales commissions. At this early stage of the Company's development, the growth in service revenues is not directly comparable to the growth in the cost of sales particularly the service cost component. Service personnel may work on other departments'

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projects thereby reducing their contribution to service revenues, warranty work does not produce revenues and the level of non-chargeable and administrative tasks will vary throughout the year.

The decrease in gross margin for the first half of the year is largely due to the much lower license revenues as a proportion of total revenues. There is more lost time and less efficiency when sales are low. As well, with fewer staff there is less opportunity for cross-over work between departments.

Expenses

\$ '000	Three Months Ending		Six Months Ending	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Research and development	\$404	\$615	\$884	\$1,256
Selling and marketing	369	654	825	1,289
General and administration	490	517	1,035	1,046
Restructuring costs	319	-	415	-
Share Accumulation Plan	(12)	39	(36)	72
Other Stock based compensation	88	98	197	150
	<u>\$1,658</u>	<u>\$1,923</u>	<u>\$3,320</u>	<u>\$3,813</u>

The decrease in total expenses from Q2 2007 to Q2 2008 was due to cost cutting measures, largely staff reductions. The Company is continuing to reallocate resources from overhead and operations to sales and marketing.

There is some overlap between R&D and service personnel competencies. This provides some flexibility to the Company in the allocation of personnel to service projects and to new product development. Accordingly, even if staff levels remain constant, departmental charges will vary depending upon where the individuals are employed. For example, service personnel may be employed in sales or research and development personnel may assist in implementations or to support the sales process. Decision Dynamics utilizes the Oncore system to allocate personnel charges between departments. The decreases in research and development and in sale and marketing are primarily due to staff reductions; however, the Company has targeted cut backs on expenditures in all areas in reduced marketing, facilities, and so on. General and administration expenses remain relatively flat as these expenses are more of a fixed nature such as insurance, executive and public company expenses.

The cost recovery for the Directors' Share Accumulation Plan results from the reduction in the price of the Company's shares. Each quarter a number of share units are allocated to the directors. The total number of shares at the end of each quarter is valued at the closing price and the increase or decrease from the prior quarter end is recognized in the quarter. In the first six months of 2007 non-cash share compensation was reduced by the forfeiture of options as a result of terminations. Excluding the impact of these terminations, non-cash share compensation in 2007 would have been higher than 2008.

Amortization and Other Expenses

\$ '000	Three Months Ending		Six Months Ending	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Amortization of property and equipment	\$47	\$57	\$88	\$106
Amortization of intangible assets	125	125	250	250
Foreign exchange loss (gain)	19	(54)	5	(63)
Interest income	(4)	(6)	(12)	(12)
Interest expense	81	97	166	208
	<u>\$268</u>	<u>\$219</u>	<u>\$497</u>	<u>\$489</u>

Amortization of property and equipment has declined this year compared to last year, as the Company has minimized its capital expenditures and uses the declining balance method of amortization. The amount of intangible assets has not changed and the amortization is the same from quarter-to-quarter and year-to-year. Intangible assets will be eliminated as part of the sale of the Wellcore assets to the subsidiary of P2 Energy Solutions, Inc.

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This has been a period of significant exchange rate fluctuations with the US dollar strengthening against the Canadian dollar during the second quarter of 2008. Foreign exchange differences arise from differences in the rate when the Company records sales to US customers and the rate when the accounts receivable are paid; differences arising from the conversion of assets owned by the Company's US subsidiary from US dollars to Canadian dollars and conversion of the US dollar denominated long term debt to Canadian dollars. About a third of the Company's revenues are from US customers. Foreign exchange fluctuations will continue and may vary substantially from quarter to quarter.

Interest expense is primarily due to the long-term borrowing the Company entered into during the first quarter of 2006.

Income taxes

The Company has over \$22 million dollars of tax pools available in Canada and the United States to offset future income in the respective jurisdictions. A future income tax asset has not been recognized, as the Company's lack of historical earnings precludes its ability to recognize this asset at this time.

Net loss

	Three Months Ending		Six Months Ending	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
\$ '000 except per share amounts				
EBITDAS	(\$582)	(\$143)	(\$1,092)	\$438
Net Income (loss)	(\$938)	(\$461)	(\$1,787)	(\$201)
Income (loss) per share	(\$0.02)	(\$0.01)	(\$0.03)	(\$0.00)

The positive impact of the Company's cost reduction program has been more than offset by the lower sales resulting in negative EBITDAS and a net loss.

Quarterly results

Following are the results for the three month periods ending (in thousands of Canadian dollars except per share amounts):

	Jun. 30, 08	Mar. 31, 08	Dec. 31, 07	Sept. 30, 07	Jun. 30, 07	Mar. 31, 07	Dec. 31, 06	Sept 30, 06	June 30, 06
Revenue	\$1,457	\$1,618	\$2,154	\$1,811	\$2,600	\$3,179	\$2,776	\$1,865	\$1,737
Net Income (loss)	(\$938)	(\$848)	(\$588)	(\$791)	(\$461)	\$260	(\$991)	(\$1,425)	(\$1,574)
Net Income (loss) per share	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	\$0.01	(\$0.02)	(\$0.03)	(\$0.03)
EBITDAS	(\$582)	(\$510)	(\$144)	(\$466)	(\$143)	\$576	(\$400)	(\$910)	(\$1,262)

Liquidity and capital resources

Working Capital

Continued operating losses resulting from the high level of expenses compared to revenues has eroded the Company's working capital as at June 30, 2008. Work capital has decreased \$1.3 million from year end 2007 and is break even at the end of the quarter. The Company's cash position has decreased \$596,000 from year end, reflecting the lack of sales during the first half of the year.

Capital requirements

As outlined in Strategy and Outlook, the Company has entered into an Asset Purchase Agreement with a subsidiary of P2 Energy Solutions, Inc. to divest of the Wellcore oil and gas well life cycle management software platform for a purchase price of \$5.0 million plus receivables less deferred revenue. A holdback of \$1.0 million will be paid to the Company during the year, subject to certain conditions. The influx of capital will provide the Company with the

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financial capacity for continued development of the Oncore line of products, investment in sales and marketing, and to reduce existing debt.

Share Capital

As at August 20, 2008 Decision Dynamics had 60,212,466 shares outstanding with a book value of \$27,606,710, 6,175,107 share options to purchase common shares outstanding, 1,531,667 warrants to purchase common shares and 941,674 deferred share units outstanding.

Financial Risks

The sale of software and services is subject to business risks and quarterly fluctuation due to factors including customer demand for products, the size and timing of customer orders and the timing of revenue recognition for those orders, progress on implementation projects, the number, timing and significance of new product announcements by Decision Dynamics and its competitors, our ability to develop, introduce and market new and enhanced versions of our products on a timely basis, the level of product and price competition, changes in operating expenses and general economic factors such as foreign exchange rates and commodity prices. A significant portion of our expenses are based on our expectations of future revenue and, therefore, are relatively fixed in the short-term (for example hiring additional employees and leasing space). Accordingly, if revenue levels are below our expectations, our operating results are likely to be adversely affected. Also, under the Company's revenue recognition policy, service work and license sales might not be recognized in the same period in which the work is performed as the Company might not have customer acceptance or may not be able to precisely determine revenues as required by Decision Dynamics' revenue recognition policy and by Canadian generally accepted accounting principles. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. The sale of software and services is also subject to a number of business risks including: the Company's ability to manage significant growth in customers and staff, ability to attract and retain highly skilled technical, managerial and sales personnel and ability to protect its intellectual property.