



**DECISION DYNAMICS**  
TECHNOLOGY



## **Consolidated Financial Statements** For the Years Ended December 31, 2007 and 2006



Decision Dynamics Technology Ltd.

Suite 300, 717 – 7th Avenue SW

Calgary, AB T2P 0Z3 Canada

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# Decision Dynamics Technology Ltd.

## Report for the year ending December 31, 2007

### 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 4, 2008

"signed" R.J. (Justin) Zinke

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

"signed" David N. Hunt

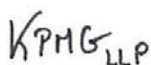
David N. Hunt  
Chief Financial Officer  
Calgary, Alberta

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Decision Dynamics Technology Ltd. as at December 31, 2007 and 2006 and the consolidated statements of 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The logo for KPMG LLP, featuring the letters 'KPMG' in a stylized font with 'LLP' underneath.

Chartered Accountants

Calgary, Canada  
April 4, 2008

# Decision Dynamics Technology Ltd.

## Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$1,106,618	\$1,043,990
Accounts receivable (note 12)	2,076,932	2,483,969
Prepaid expenses	173,889	259,875
	<u>3,357,439</u>	<u>3,787,834</u>
Property and equipment (note 4)	553,400	785,395
Intangible assets (note 5)	459,374	959,858
Goodwill	1,778,177	1,778,177
	<u>\$6,148,390</u>	<u>\$7,311,264</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$677,528	\$1,317,217
Deferred revenue	867,790	1,701,133
Current portion of long-term debt (note 6)	522,189	568,222
	<u>2,067,507</u>	<u>3,586,572</u>
Deferred revenue	-	157,499
Long-term debt (note 6)	-	661,269
	<u>2,067,507</u>	<u>4,405,340</u>
Shareholders' equity		
Capital stock (note 7)	27,606,710	25,529,130
Warrants (note 7)	653,194	931,691
Contributed surplus (note 7)	1,944,350	984,815
Deficit	(26,123,371)	(24,539,712)
	<u>4,080,883</u>	<u>2,905,924</u>
	<u>\$6,148,390</u>	<u>\$7,311,264</u>

Nature of Operations (note 1) and Commitments (note 11)

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 Loss and Deficits

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	Year Ending	
	December 31, 2007	December 31, 2006
<b>Revenue</b>	\$9,744,884	\$8,110,734
Cost of sales	3,188,615	3,041,320
	<hr/>	<hr/>
<b>Gross Profit</b>	6,556,269	5,069,414
	<hr/>	<hr/>
<b>Expenses</b>		
Research and development	2,289,879	2,438,850
Selling and marketing	2,416,564	3,365,962
Restructuring costs	85,886	400,965
General and administration	2,331,537	3,336,603
	<hr/>	<hr/>
	(567,597)	(4,472,966)
Amortization of property and equipment	219,090	249,283
Amortization of intangible assets	500,484	500,484
Foreign exchange (gain) loss	(83,482)	107,096
Loss on disposal of equipment and leasehold improvements	31,577	-
Interest income	(45,058)	(78,242)
Interest expense	393,451	501,223
	<hr/>	<hr/>
<b>Net loss before income taxes</b>	(1,583,659)	(5,752,810)
Future income tax recovery (note 8)	-	423,098
	<hr/>	<hr/>
<b>Loss and comprehensive loss for the year</b>	(1,583,659)	(5,329,712)
<b>Deficit, beginning of year</b>	<hr/> (24,539,712)	<hr/> (19,210,000)
<b>Deficit, end of year</b>	<hr/> (\$26,123,371)	<hr/> (\$24,539,712)
<b>Basic and diluted loss per share</b>	(\$0.03)	(\$0.10)
<b>Weighted average number of common shares outstanding</b>	56,080,733	51,589,681

See accompanying notes to the consolidated financial statements.

# Decision Dynamics Technology Ltd.

## Consolidated Statements of Cash Flows

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	Year Ending	
	December 31, 2007	December 31, 2006
<b>Cash provided by (used in):</b>		
<b>Operations</b>		
Cash received from customers	\$9,030,751	\$8,395,306
Cash paid to suppliers and employees	(10,466,104)	(11,249,780)
Interest received	45,058	78,242
Interest paid	(196,127)	(318,614)
	<u>(1,586,422)</u>	<u>(3,094,846)</u>
<b>Investing activity</b>		
Purchase of equipment	<u>(18,672)</u>	<u>(499,117)</u>
<b>Financing activities</b>		
Issue of long-term debt	-	2,281,000
Repayment of long-term debt	(707,302)	(651,483)
Issue of shares and warrants net of financing costs	2,382,748	59,682
Deferred financing costs	-	(87,701)
Payment of capital lease	-	(12,550)
	<u>1,675,446</u>	<u>1,588,948</u>
<b>Changes in foreign currency</b>	<u>(7,724)</u>	<u>(75,276)</u>
Increase (decrease) in cash and cash equivalents	62,628	(2,080,291)
Cash and equivalents, beginning of year	<u>\$1,043,990</u>	<u>3,124,281</u>
Cash and equivalents, end of year	<u>\$1,106,618</u>	<u>\$1,043,990</u>

See accompanying notes to the consolidated financial statements

See accompanying notes to the consolidated financial statements.

# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements  
Year ended December 31, 2007 and 2006

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## 1. Nature of operations

Decision Dynamics Technology Ltd., a public company incorporated under the Canada Business Corporations Act, has developed information management software for business operations. The Company has two product suites, Wellcore, well lifecycle management software for the oil and gas industry and Oncore, project costs management software for owners and contractors in the energy and electrical power industries.

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

## 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.

During 2007, the Company achieved a 20% increase in revenue and a 25% decrease in expenses. Further, the Company raised \$2.4 million (net of issue costs) through the private placement of common shares and warrants. These new funds were used to increase market penetration in the United States, accelerate new product development and augment working capital.

However, current projections indicate that to allow sufficient time for the Company to attain bottom-line profitability, further initiatives will first be required. Continuing efforts are being made to restrain expenses and the Company is seeking additional sources of financing. Continuing efforts are also being made to sell the Company's products to additional customers; however, as this is a major purchase for most companies, there may be a long sales cycle.

The Company currently is investigating an equity or a secured debt financing. If the Company is unsuccessful in securing additional financing, more significant restructuring, including the possible sale of the enterprise in whole or in part, may become necessary.

## 3. Significant accounting policies

### (a) Consolidation

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.

### (b) 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, intangible assets, capital assets and goodwill as well as the estimated useful lives of intangible assets and capital assets.

### (c) 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 revenue is recognized using the percentage of completion method, whereby recognition of revenue earned is recorded based on the costs incurred to date and estimated costs remaining to fulfill projects. Amounts received in

# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2007 and 2006

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advance are recorded as deferred revenue. Work in progress for time and materials projects is comprised of unbilled fees and is recorded at the market value of time incurred (customer billing rates). For fixed price projects, work in progress, is recorded as the percentage of the project that has been completed to that point in time. 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.

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. Deferred revenues are recorded when invoicing exceeds recognized revenues.

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.

Contract accounting is utilized for fixed-price contracts and those 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.

## (d) 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.

## (e) Cash equivalents

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

## (f) 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.

## (g) 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:

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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
Computer hardware under capital lease	30%	Declining balance

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# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2007 and 2006

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## (h) Intangible assets

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. Costs incurred in the maintenance of the service potential of an intangible asset are expensed as incurred. Intangible assets with finite lives are amortized over their estimated useful lives.

The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

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Technology rights	Straight line over 41 months
Trade name	Straight line over 41 months
Maintenance contracts	Straight line over 36 months

## (i) Goodwill

Goodwill is the residual amount that 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 in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. As a result of the current year's assessment, no impairment loss has been recognized on the goodwill recorded.

## (j) 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.

## (k) 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. Recovery of expenses attributable to forfeited options are recognized when the options are forfeited; 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.

## (l) 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.

# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements  
Year ended December 31, 2007 and 2006

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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.

## **(m) Impairment of long lived assets**

Management reviews property and equipment and intangible assets to determine if circumstances indicate 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.

## **(n) Financial Instruments**

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation, and Section 3865, Hedges.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. The Company had no "other comprehensive income or loss" transactions during 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Company 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 and long-term debt are classified as other financial liabilities, which are measured at amortized cost. Deferred financing costs relating to the issuance of the long-term debt is included in the carrying value of the long-term debt and is being amortized using the effective interest rate method... The Company had neither available-for-sale, nor held to maturity instruments during the year ended December 31, 2007.

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. At the initial adoption of the new accounting standards it was determined that the Company had no derivative instruments.

Section 3861 establishes standards for disclosure and presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative financial statements are not restated.

Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. 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, 2007.

## **(o) Going Concern**

Effective June 30, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1400.08A - 08C, General Standards of Financial Statement Presentation – Going Concern which requires management to make an assessment of the Company's ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that could adversely affect future operations. Management's assessment is outlined in note 2.

# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2007 and 2006

## 4. Property and equipment

<b>December 31, 2007</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
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
	<b>\$1,426,028</b>	<b>\$872,628</b>	<b>\$553,400</b>

<b>December 31, 2006</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Equipment and furniture	\$269,021	\$89,598	\$179,423
Computer hardware	918,345	461,461	456,884
Computer software	215,103	116,878	98,225
Leasehold improvements	54,809	14,989	39,820
Computer hardware under capital lease	18,030	6,986	11,043
	<b>\$1,475,308</b>	<b>\$689,913</b>	<b>\$785,395</b>

During the year the Company reduced office space in Calgary and Houston. The disposition of the surplus furniture and equipment and leasehold improvements resulted in a loss of \$31,577.

## 5. Intangible assets

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

<b>December 31, 2006</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
Technology	\$1,289,877	\$534,827	\$755,050
Trade name	83,000	34,415	48,585
Maintenance contracts	296,000	139,778	156,222
	<b>\$1,668,877</b>	<b>\$709,020</b>	<b>\$959,858</b>

# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2007 and 2006

## 6. Long-term debt and promissory notes

Balance as at December 31, 2006	\$1,661,337
Deferred financing costs (note 3 (n))	(431,846)
Restated balance	1,229,491
Debt payment (principal and interest)	(881,682)
Interest expense	174,380
Deferred financing costs	197,323
Foreign exchange translation effect	(197,323)
Balance as at December 31, 2007	\$522,189

During the year ended December 31, 2006, the Company entered into an agreement to borrow US\$4.0 million and drew US\$2.0 million. The Company believes that it does not currently meet the criteria required by the lender to enable it to draw down the remaining funds. The drawdown is repayable in monthly installments of US\$68,647 including interest over three years and will be repaid in full by the end of 2008. The interest rate is 14.3% per annum and 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 the year the exercise price of the warrants was reduced to \$0.305 per share. The loan has been secured by a general security agreement on all property including all intellectual property and a certificate of insurance.

The fair value of the 1,265,000 warrants issued was \$349,665. The fair value of the warrants was determined using the Black-Scholes pricing model using the following assumptions: a five year life, volatility factor of 125%, risk free interest rate of 3.80% and no expected dividend yield. These warrants resulted in a future tax liability of \$177,098 and the Company incurred \$87,701 of out-of-pocket financing costs resulting in total deferred financing costs of \$614,454 which will be recorded as additional interest expense over the term of the debt using the effective interest method. During the year \$197,321 (2006-\$182,609) of deferred financing costs were amortized.

## 7. Share capital

### (a) Common shares

Authorized

Unlimited number of voting common shares

During 2007, the Company sold 8,504,999 units pursuant to a private placement for \$0.30 per unit for gross proceeds of \$2,551,500. Each unit consisted of one common share plus one-half warrant.

Issued and outstanding common shares:

	Number	Amount
<b>Balance December 31, 2005</b>	<b>51,381,598</b>	<b>\$25,469,448</b>
Shares issued on exercise of stock options	243,642	59,682
<b>Balance December 31, 2006</b>	<b>51,625,240</b>	<b>\$25,529,130</b>
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
<b>Balance December 31, 2007</b>	<b>60,212,466</b>	<b>\$27,606,710</b>

### (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, 2007. The options are non-assignable and all options granted in 2007 and 2006 expire seven years after grant.

# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2007 and 2006

<b>Balance, December 31, 2005</b>	9,125,782
Granted to officers and directors	850,000
Granted to current employees	383,000
Expired	(686,727)
Exercised	(243,642)
Forfeited	(441,379)
<b>Balance, December 31, 2006</b>	8,987,034
Granted to officers and directors	400,000
Granted to current DDyTech Ltd. employees	1,150,000
Expired	(1,667,019)
Exercised	(57,225)
Forfeited	(1,673,751)
<b>Balance, December 31, 2007</b>	<b>7,139,039</b>

Stock options outstanding as at December 31, 2007 under this plan are as follows:

Range of exercise prices outstanding	Options outstanding			Options Exercisable		
	Number outstanding at December 31, 2007	Weighted average contractual life remaining (months)	Weighted average exercise price	Number exercisable at December 31, 2007	Weighted average exercise price	
\$0.16	3,886,149	45	\$0.16	2,993,166	\$0.16	
0.185 - 0.208	1,290,605	75	\$0.20	302,067	\$0.21	
0.227	850,000	75	\$0.23	-	-	
0.26 - 0.55	885,972	55	\$0.48	580,633	\$0.51	
0.745	226,313	30	\$0.74	223,272	\$0.74	
<b>\$0.16 - 0.745</b>	<b>7,139,039</b>	<b>55</b>	<b>\$0.23</b>	<b>4,099,138</b>	<b>\$0.25</b>	

During the years ended December 31, 2007 and 2006 \$377,262 (2006 - \$884,636) in compensation costs were recorded in the statement of earnings for the options granted to employees, officers and directors. The fair value of common share options granted in 2007 is estimated in the amount of \$327,600 (2006 - \$228,154) at the grant date using the Black-Scholes pricing model based on the following assumptions:

Risk free interest rate	3.92 to 4.14%
Expected life	7 years
Expected volatility	100%
Expected dividends	nil
Weighted average grant-date fair value	\$0.22

In January 2008, the Company granted options to acquire up to 500,000 common shares of the Company to an officer. These options are exercisable at \$0.20 and expire seven years after grant.

## (ii) Share Accumulation Plan

During the second quarter of 2006, the Company established a Share Accumulation Plan 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. Four of the non-management directors elected to receive their compensation for 2007 in DSUs. Following the termination of board service, the director will receive the then current fair market value in common shares held in the nominal account.

A total of 700,000 shares have been allocated for issuance from treasury pursuant to this plan. During the year 249,980 shares were allocated to directors bringing the total allocation to 539,323 shares. The Company will ask shareholders at the Annual General and Special Meeting to approve a resolution to increase the number of shares

# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2007 and 2006

allocated to the plan to 1,200,000. Compensation of \$42,244 (2006 - \$50,519) has been recorded for the year. The total obligation is recorded as a liability as at December 31, 2007.

## (c) Warrants

On July 29, 2005, an agent was granted agent's warrants to purchase 872,727 common shares at \$0.55 for a period of 18 months. This option expired in January 2007. The fair value was estimated to be \$272,934 using the Black-Scholes pricing model and the assumptions shown below (this amount was included in contributed surplus as at December 31, 2006).

On June 29, 2007, an agent was granted agent's 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 \$28,598 using the Black-Scholes pricing model and the assumptions shown below.

During 2007 the Company issued 4,252,498 warrants units pursuant to the private placement noted above. A warrant is 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.

	Agent – July 2005	Agent – June 2007	Private Placement
Risk free interest rate	3.80%	4.56%	4.56%
Expected life	18 months	18 months	12 months
Expected volatility	125%	100%	100%
Expected dividends	nil	nil	Nil
Weighted average grant-date fair value	\$0.305	\$0.121	\$0.065

The fair value of the 7,727,273 warrants issued as part of the offering on July 31, 2005 was estimated to be \$309,092 based on the actual trading value of these warrants. These warrants were exercisable at \$0.70 and expired in January 2007. 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, 2005	\$582,026
Warrants granted	349,665
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

## (d) Contributed surplus

Balance, December 31, 2005	\$150,699
Employee and director stock options	\$871,853
Warrants expired during the year	(37,737)
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

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## 8. Future income taxes

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

	Year Ended December 31,	
	2007	2006
Loss before income taxes	(\$1,583,659)	(\$5,752,810)
Statutory rate	32.12%	32.49%
Income tax recovery at statutory rate	(508,671)	(1,869,088)
Increase (decrease) in taxes resulting from:		
Share issue costs	(21,475)	
Deferred charges	63,036	287,418
Stock based compensation	139,563	
Decrease in Canadian rates and US rate adjustment	(655,240)	
Change in valuation allowance	982,787	1,158,572
Income tax recovery at statutory rate	-	(\$423,098)

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

Future income tax asset (liability)	As at December 31,	
	2007	2006
Non-capital losses	\$6,569,795	\$7,584,461
Tax basis of equipment in excess of carrying amounts	52,592	104,288
Share issue costs	269,819	473,508
SRED pool	319,035	193,895
Intellectual property and deferred charges	(120,458)	(282,582)
Valuation allowance	(7,090,783)	(8,073,570)
	-	-

The non-capital tax losses expire as follows:

2015	791,570
2021	2,588,718
2022	2,788,736
2023	2,442,474
2024	3,185,912
2025	1,292,246
2026	6,221,682
2027	780,906

## 9. 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	2007	2006
Canada	\$6,108,940	\$5,412,274
United States	3,635,944	2,698,460
Total	\$9,744,884	\$8,110,734

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Year ended December 31, 2007 and 2006

	2007	2006
<b>Property and equipment</b>		
Canada	\$484,324	\$701,520
United States	69,076	83,875
	<u>\$553,400</u>	<u>\$785,395</u>
<b>Goodwill</b>		
Canada	\$1,778,177	\$1,778,177

## 10. Economic dependence

The Company received revenue from six customers for the years ending December 31, 2007 and 2006 (the customers are not the same for both years), amounting to approximately \$6.2 million (2006 - \$6.0 million) representing over 64 % (2006 - 74%) of total revenues. These customers are as follows:

Customer A	\$1,614,789	\$1,906,771
Customer B	1,540,132	1,712,299
Customer C	1,134,994	-
Customer D	1,088,088	-
Customer E	577,575	371,304
Customer F	546,017	79,926
Customer G	286,250	740,025
Customer H	305,450	654,971
Customer I	255,314	584,983
Other customers	2,396,275	2,060,455
Total	<u>\$9,744,884</u>	<u>\$8,110,734</u>

## 11. Commitments

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

	2007	2006
2007	-	585,889
2008	307,817	571,191
2009	311,261	596,697
2010	225,101	452,779
2011	-	-
2012	-	-

## 12. Financial instruments

### (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 Company's customers are primarily in the oil and gas and utility industries. The Company has accounts receivable of \$1.2 million from five customers (2006 - \$1.7 million), which represents about 56% (2006 - 69%) of total accounts receivable.

### (b) Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments.

The fair value of the long-term debt approximates the carrying value as the long-term U.S. interest rates which form the basis of the debt interest rates are similar to those in effect at year-end.

The fair value of the capital lease obligation approximates the carrying value as the implicit interest rate is consistent with the current rates available to the Company for debt with similar terms.

### (c) Currency risk

Currency risk is the risk that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to currency risk on its U.S. dollar denominated accounts receivable. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

# Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2007 and 2006

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## 13. Related Party Transactions

On August 16, 2006 the board granted options to a non-management director to purchase 100,000 common shares exercisable at \$0.55. There were no related party transactions in 2007.

## 14. Comparative figures

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