



DECISION DYNAMICS
TECHNOLOGY

2009

Management Discussion and Analysis
For the Three and Nine Months Ended March 31, 2009 and 2008



May 13, 2009

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 month periods ended March 31, 2009 and 2008. These statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 the Company's 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. Some of the material assumptions that Management has made are:

- volatility of the financial markets will remain at current levels for the short-term future
- companies will continue to acquire project cost control and productivity improvement software
- we will continue to be able to attract talented employees at a sufficient level to achieve our strategic plans

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 results to differ materially from the plans, objectives and intentions expressed in such forward-looking statements. The Operating 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. Some of the key factors we have considered are:

- impact of the current financial markets condition
- impact of market demand for Oncore™ on revenue growth
- degree of competition in target markets
- our ability to control expenses
- technological changes to Oncore™
- length of sales cycle required to close customer opportunities
- our ability to execute our strategic plans
- our ability to recruit and retain high caliber employees

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	
	Mar. 31, 2009	Mar. 31, 2008
\$'000 except per share amounts		
Operating Results		
Revenue	\$411	\$633
Net Loss	(961)	(848)
Basic and diluted loss per share, before discontinued operations	(0.02)	(0.02)
Basic and diluted loss per share, after discontinued operations	(0.02)	(0.02)
EBITDAS ⁽¹⁾	(869)	(343)
Financial Position		
Cash and Equivalents	3,111	1,187
Working Capital ⁽²⁾	3,094	642
Total Assets	4,481	2,263

- (1) "EBITDAS" means earnings from continuing operations before interest, taxes, depreciation, amortization, loss on sale of assets and non-cash stock based compensation. The derivation of EBITDAS is shown in the Results of Operations section below.
- (2) "Working capital" means current assets less current liabilities. The calculation of working capital is disclosed in the Liquidity and Capital Resources section found later in this Management Discussion and Analysis.
- (3) Readers are cautioned that EBITDAS and working capital do not have a standardized meaning under GAAP and may not be comparable to similar terms used by other entities in the industry; however, the Company believes these terms are an important indicators of success for software businesses and are relevant to readers within the investment community.

Overview

Decision Dynamics, a public company incorporated under the laws of Canada, markets Oncore™, a software product and services targeted primarily at the energy sector including major power generation and transmission companies. This innovative project cost control software captures, routes, and reports 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.

Strategy and Outlook

This section is forward-looking by nature. It is qualified in its entirety by the Forward Looking Statements or Information disclaimer at the beginning of this Management Discussion and Analysis. It is further qualified by the Operating Risks section at the end of this Management Discussion and Analysis.

The Company continued to execute on its strategy of developing a strong customer opportunity pipeline during the first quarter of the year. The sales team has adopted a customer centered consultative approach that uses Oncore™ based business consulting services to help our clients avoid costs and improve their accuracy, efficiency, and profitability. This approach is expected to reduce the length of the sales cycle from opportunity identification to close of sale. In support of the sales team, the Decision Dynamics Marketing group has focused on communicating the value proposition of Oncore™, producing customer testimonials, and introducing the Oncore™ product name within target markets and audiences. The response from these marketing campaigns has been favorable, and the Company expects that new customer opportunities will close as the year progresses, expanding and diversifying our customer base. Early in the second quarter of 2009, the Company successfully closed two license contracts that will provide the Company with revenues of at least \$1.4 million over the next two years.

This customer centered approach has also resulted in developing much closer relationships with our existing customers. The development team is working closely with our customers, to understand their use of the product, and what customers are looking for from future releases of Oncore™. This has allowed the Company to shorten the development cycle and deliver the features and capabilities that our customers are asking for.

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The Company feels optimistic that the build-up of our sales opportunity pipeline will continue over the course of 2009, and that new customer sales will result from this. As well, through our Customer Satisfaction initiative, the Company feels it has taken steps to protect our recurring revenue stream, and increase the potential to generate new license and services revenue in our existing customer base. The efforts put forth by our development, services and support team have resulted in encouraging feedback from our customers that we are responding in ways that increase their satisfaction, with both the Company and the Oncore™ product.

The Company's ability to be successful in generating bottom line profitability and positive cash flow from operations will continue to be contingent upon this 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.

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.

As of the sale of the Wellcore product line on September 16, 2008, the Company has restated all periods and all information to present only the revenues and expenses attributable to the Oncore product line, and to disclose the assets, revenues and expenses associated with the Wellcore business as results from discontinued operations.

(b) Significant accounting policies

The consolidated financial statements for the three months ended March 31, 2009 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, 2008, except as noted below.

(c) 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 started, but 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

\$'000 except per share amounts

	Mar. 31, 2009	Mar. 31, 2008
Revenue	\$411	\$633
Expenses	1,336	1,040
	(925)	(407)
Other (amortization, interest, other)	(36)	(68)
Loss before discontinued operations	(961)	(475)
Amortization and other	36	68
Non-cash share compensation	56	64
EBITDAS	(869)	(343)
Income (loss) from discontinued operations	-	(372)

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Revenues for the first quarter of the 2009 are down from 2008. The new sales team and methodology was implemented in the very late part of 2008 and early 2009, and the first quarter of the year was spent on developing customer opportunities. Due to this, no new license revenue was brought in during the first quarter, and no incremental services revenue was generated from new license revenue. Recurring revenues for Q1 2009 increased approximately 10% over Q1 2008. The company's sales prospects grew significantly during the first quarter of 2009. Management expects that the resulting license and services business from contracts that the company closed early in the second quarter will allow the company to be profitable during the second quarter of 2009.

Total expenses for Q1 09 have increased over the same period in 2008. Investments made in personnel, training and marketing initiatives have resulted in higher expenses in sales and marketing, and in research and development, as compared to 2008. Restructuring expenses for Q1 2009 were also significantly higher than in 2008, when most restructuring occurred in the Wellcore product line. Total expenses also include one-time expenses related to recruitment of sales and development as well as the customer data centre facility relocation, which has been completed early in Q2 2009.

Amortization and other costs are less in 2009 than in 2008 due to foreign exchange losses in 2009, as the US dollar strengthened during the first quarter of 2009. Non-cash share compensation has decreased in 2009, due to the forfeiture of options as a result of terminations, as well as a lower compensation expense due to a decreased amount of overall options issued.

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

Revenue

	\$ '000	Three Months Ending	
		Mar. 31, 2009	Mar. 31, 2008
License		\$272	\$262
Services		139	371
Total		<u>\$411</u>	<u>\$633</u>

License revenues for the three months ending March 31, 2009 are 5% higher than for the first quarter of 2008, although there were no new license sales in 2009. This increase is attributable to a higher recurring revenue stream from maintenance contracts. Customer projects were still active and ongoing in the first quarter of 2009, however, with no new license sales to generate new service revenue, services revenue were down over 60% from the same period in 2008. In the first quarter of 2008, a significant amount of services revenue was generated through new license sales that occurred in late 2007.

The Company's revenues are largely dependent upon a small number of customers. Historically the top six customers have provided about 75-85% of quarterly revenues; for the first quarter of 2009, the top six customers provided approximately 89% of the quarterly revenue. The dependence upon a small number of customers is expected to decline as the Company continues to expand its customer base and increase the amount of recurring revenue. About 28% of the Company's revenue is derived from US based customers, which is up from 15% in 2008.

Gross profit

	\$ '000	Three Months Ending	
		Mar. 31, 2009	Mar. 31, 2008
Revenue		\$ 411	\$ 633
Cost of sales		(256)	(258)
Gross profit (1)		<u>155</u>	<u>375</u>
Gross margin (1)		38%	59%

Notes

- (1) "Gross profit" is revenue less cost of sales and "gross margin" is gross profit divided by revenue expressed as a percentage.
- (2) Gross profit and gross margin do not have a standardized meaning under GAAP and may not be comparable to the same terms as used by other entities in the industry; however, the Company believes they are an important measure of performance and indicator of success for software businesses and are relevant to readers within the investment community.

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Although cost of sales appears flat from year to year, 2009 includes incremental expenses related to the relocation of its data facility, as well as labor charges from other departments into cost of sales. Beginning in late 2008, the Company started the relocation, which incurred additional labor and hosting expenses during the first quarter of 2009. The relocation has been completed early in the second quarter of 2009.

These incremental expenses have been offset by a lower salary and benefit base due to reduced personnel in the services department in 2009.

The decrease in gross margin for the first three months of the year is due in part to the much lower service revenues as a proportion of total revenues, as well as the additional hosting fees while the data centre was being relocated. 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. The Company expects that the gross margin will improve as customer opportunities convert into closed sales and additional service projects.

Expenses

\$ '000	Three Months Ending	
	Mar. 31, 2009	Mar. 31, 2008
Research and development	\$287	\$226
Selling and marketing	304	212
General and administration	285	271
Restructuring costs	148	10
Share Accumulation Plan	53	(21)
Other Stock based compensation	3	85
	<u>\$1,080</u>	<u>\$783</u>

Expenses for the first quarter of the year increased over 2008, largely due to hiring in the sales and development groups as part of the Company's planned execution of its strategic plan. The Company continues to monitor ongoing expenses with an eye to restricting expenses to the most strategic investments possible.

Research and development expenses have increased 27%, completely due to strategic hiring in this department. 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. Q1 09 included an allocation of labor expense from research and development to services, as some research and development personnel were utilized on billable customer services and support projects.

The increase of 43% in sales and marketing reflects a structural change in the company's resource allocation toward this function – in personnel, marketing related expenses, and in implementing the customer centric selling methodology within the Company. There were minimal labor charges into sales in Q1 09, as the sales department was engaged in building the customer opportunity pipeline, and launching the customer satisfaction initiative internally.

Q1 09 general and administrative expenses increased 5% over Q1 08. Although headcount is unchanged in this department, the higher expense in 2009 reflects salary increases that occurred in early 2008.

The Company has also continued on its objective to ensure the appropriate structure to capitalize on sales and development initiatives. This has resulted in higher restructuring expenses in Q1 09, as compared to Q1 08. The Company expects to incur additional restructuring expenses in Q2 09. The foregoing information is forward-looking by nature. It is qualified in its entirety by the Forward Looking Statements or Information disclaimer at the beginning of this Management Discussion and Analysis. It is further qualified by the Operating Risks section at the end of this Management Discussion and Analysis.

The Directors Stock Accumulation Plan ("SAP") is valued each quarter using a volume weighted average stock price. In the last quarter of 2008, the SAP was modified by the Company. The directors determined that a modification of the SAP was necessary to address the impact of an undervalued share price when calculating the allocation of shares into the SAP. 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. The increase in stock

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based compensation expense for the SAP for Q1 09, as compared to the expense recovery in Q1 08, reflects a higher stock price used in the calculation of the volume weighted average stock price. Directors are given the option of receiving their annual compensation half in cash and half in DSUs, or completely in cash. For 2009, 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.

Employee stock based compensation for Q1 09 has decreased from Q1 08 due to the forfeiture of options as a result of terminations. When employees leave employment or are terminated, the associated option expense related to their forfeited options is reversed at the time of termination, resulting in a decrease in the compensation expense associated with employee stock options.

Amortization and Other Expenses

\$ '000	Three Months Ending	
	Mar. 31, 2009	Mar. 31, 2008
Amortization of property and equipment	\$46	\$18
Foreign exchange loss (gain)	(10)	19
Interest income	(6)	(3)
Interest expense	5	34
	<u>\$35</u>	<u>\$68</u>

In the last quarter of 2008, the Company invested in new assets for the data centre facility, resulting in an increase in amortization of property and equipment.

This has been a period of significant exchange rate fluctuations with the US dollar continuing to strengthen against the Canadian dollar throughout the first quarter of 2009. 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 and differences arising from the conversion of assets owned by the Company's US subsidiary from US dollars to Canadian dollars. 28% of the Company's revenues are from US customers. Foreign exchange fluctuations will continue and may vary substantially from quarter to quarter.

The interest expense recorded in Q1 08 was interest on long term debt. This debt was completely repaid during the third quarter of 2008. The Q1 09 interest expense is administrative in nature ie. (bank charges).

Income taxes

The Company has approximately \$24 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 yet been recognized, until such time that it is more likely than not that the Company will gain benefit from this asset.

Net loss

	Three Months Ending	
	March 31 2009	March 31 2008
Revenue	411	633
Net loss, before discontinued operations	(961)	(476)
Loss per share, before discontinued operations	(\$0.02)	(\$0.01)
Loss per share, after discontinued operations	(\$0.02)	(\$0.01)
EBITDAS	<u>(869)</u>	<u>(343)</u>

Net loss for Q1 09 reflects both the impact from lack of new revenue in the quarter, as well as increased labor and marketing expenses as the Company executes on its strategic objectives.

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Quarterly Results

The following quarterly results have been restated to reflect the results of continuing operations only (in thousands of Canadian dollars except per share amounts):

	Mar 31 2009	Dec 31 2008	Sept 30 2008	June 30 2008	March 31 2008	Dec 31 2007	Sept 30 2007	June 30 2007
Revenue	411	549	455	575	633	851	665	978
Net income (loss), before discontinued operations	(961)	(682)	(1,308)	(536)	(476)	(618)	(431)	(370)
Income (loss) per share, before discontinued operations	(\$0.02)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(0.01)
Income (loss) per share, after discontinued operations	(\$0.02)	(\$0.01)	\$0.04	(\$0.02)	(\$0.01)	(\$0.04)	(\$0.01)	(0.01)
EBITDAS	(869)	(589)	(592)	(406)	(343)	(337)	(442)	(376)

Liquidity and capital resources

Working Capital

At the end of Q1 09, working capital was \$3.09 million, as compared to \$4.1 million as of December 31, 2008. The Company expended approximately \$90K on capital asset outlays as well as approximately \$105K on restructuring payments in the first quarter of the year. All trade accounts receivable are considered collectible as of March 31, 2009, and are expected to be collected within the next quarter. The Company has collected approximately \$0.2 million on a \$.5 million holdback from the sale of the Wellcore product line of \$0.5 million. This has been included in receivables, and will be paid to the Company during the year, subject to certain conditions. The remaining accounts payable and accrued liabilities are planned for payment over the next six months, depending on the nature of the payable and/or accrual.

Working capital, December 31, 2008	\$ 4,071
Repurchase of shares	(31)
Capital assets	(90)
Restructuring payments	(105)
Used in operations and other	(750)
Working capital, March 31, 2009	<u>3,095</u>

Notes:

- (1) Working capital is current assets minus current liabilities. It does not have a standardized meaning under GAAP and may not be comparable to the same terms as used by other entities in the industry; however, the Company believes that it is an important measure of performance and indicator of success for software businesses and are relevant to readers within the investment community

Capital requirements

The inflow of capital from the sale of the Wellcore product line in 2008 has continued to provide the Company with the financial capacity for continued development of the Oncore™ line of products and to make strategic investments in sales and marketing. The Company believes that the current cash balance and expected cashflow from operations for the remainder of the year will be sufficient to fund both current operations and future objectives as per the Company strategic plan.

Share Capital

As at May 13, 2009 Decision Dynamics had 59,417,466 shares outstanding with a book value of \$27,575,860, 5,943,076 share options to purchase common shares outstanding, 1,265,000 warrants to purchase common shares and 1,774,395 deferred share units outstanding.

Following is a summary of the exercise prices for the options and warrants:

Stock Options	Exercise Price	Granted (#)
	\$0.04	1,450,000
	\$0.16	3,630,195
	\$0.205 - \$0.31	270,000
	\$0.55 - \$0.745	589,881
		<u>5,940,076</u>
Warrants	\$0.276	<u>1,265,000</u>

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 or 5% of its common shares outstanding as at December 15, 2008. As of March 31, 2009, the Company purchased 795,000 or 26% of the shares available under the terms of the normal course issuer bid. A further 411,000 were purchased in April 2009, for a total 1,206,000 purchased of 1,206,000 or 40% of the shares available under the terms of the normal course issuer bid. As of May 13, 2009, all shares purchased have been cancelled.

Operating Risks

This section is forward-looking by nature. It is qualified in its entirety by the Forward Looking Statements or Information disclaimer at the beginning of this Management's Discussion and Analysis.

The sale of software and services is subject to business risks that may adversely affect the Company's operations. As discussed in the Forward Looking Statements and Information section, these risks could include risks related to revenue expectations, operating results, impact of current economic conditions on our customers, product development, and employee retention. Management evaluates and monitors these risks on an ongoing basis, and takes steps to minimize these risks. However, it is not possible to completely mitigate these risks, as many of these risks are beyond our control.

1. Revenue Expectations

The Company has made significant investments in developing a first-class sales organization. Experienced and successful sales and marketing personnel have been recruited, and the Company has committed to the adoption of an industry proven sales methodology, which has been implemented through out the organization. Although we have seen positive results from all of these initiatives, in the exposure that the Company is receiving, and in the opportunities that have developed from that, there is no guarantee that this will result in increased sales of Oncore™. If we are unable to consistently build upon existing customer demand, and generate new customer interest in Oncore™, revenues may not be at the level estimated by Management. In addition, predicting the timing of sales is challenging, as the sales organization has not yet had sufficient time to develop a sense of the sales cycle required to close a sale. Delays in closing sales could cause decreases in our revenues and results. The Company's customer base is extremely small, with 89% of Q1 09 revenue coming from six customers. The loss of any one of these customers could have a significant impact on revenue.

The Company has taken steps to partially mitigate the risk of decreased sales and customer concentration. An experienced sales team was recruited in the last six months that has focused on identification of prospect opportunities that fit our customer profile, and present a need that the Oncore™ product can fulfill. In addition, the Company has adopted a sales methodology that it believes will enable the sales organization to accelerate customer opportunities into closed sales. The combination of this experienced team and their adherence to the Company sales methodology has resulted in a broader exposure of the Company to new customers and target markets. More marketing and sales campaigns have been launched in the last quarter than in the history of the Company. Metrics to support the customer centric sales cycle have been developed, and will be constantly evaluated, in order to better understand the length and effort involved in the cycle. We have also successfully deployed a new sales model that

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more closely aligns efficient and cost-effective customer use of Oncore™ with our revenue expectations. Finally, we have put into place initiatives to work closely with our existing customer base to secure customer commitment, retention and satisfaction.

2. Current Economy

The Company results could differ significantly as current market conditions may adversely impact our customers.

The very nature of Oncore™ serves to mitigate this risk. The Company has found that the level of interest from potential new customers in a cost control solution has remained constant. With the softened economy, these customers are increasingly focused on cost control and productivity improvement solutions. The Company's sales models provide our customers with the opportunity to manage and control their project costs in the most cost-effective, efficient manner for them.

However, the Company believes that the current economic conditions may impact our customers' abilities to proceed with projects. As such, we intend to maintain a cautious outlook on our own revenue expectations. The Company's new sales methodology process will improve the Company's ability to determine the risk that the Company may bear in customers not pursuing intended projects or license purchases. This in turn will improve the Company's ability to proactively manage our revenue expectations and manage our own expenses to those expectations.

3. Product Development

Our customers have changing demands, and are expecting frequent and relevant product enhancements. If we are not able to respond quickly and effectively, we run the risk of Oncore™ becoming obsolete and losing market credibility. This could result in customer loss and our ability to convert customer opportunities into revenue, and to maintain our existing customer relationships. The Company relies on confidentiality procedures and contractual provisions to protect our proprietary rights. We provide the Oncore™ software to customers under a Licensing Schedule and Related Services Agreement.

Management has launched a product development plan that will take the Oncore™ technology as it currently is, to a product that incorporates next generation tools and features that our customers have identified as being essential for their ongoing satisfaction and commitment to the product. In addition, we have established a Product Steering Team that includes regular customer user group sessions. These sessions will enable customers to meet with the Company to discuss their existing use of the product, the strengths and weaknesses they have identified, and what they anticipate their future requirements will be.

The Company does not sell or transfer title to Oncore™ to our customers. Under our Licensing Schedule and Software Related Services Agreement, Oncore™ may be used by the customer for internal purposes only. The Company believes that the legal specifications in our agreements provide minimal protection of our intellectual property. Instead, our best protection in protecting our proprietary rights is product development and enhancement to advance the technical capability of our product, as well as a demonstrated commitment to customer satisfaction and building of strong customer relationships.