



## **Management Discussion and Analysis**

**For the Three Months Ended March 31, 2007 and 2006**

**DECISION DYNAMICS TECHNOLOGY LTD.  
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April 25, 2007

## **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 months ended March 31, 2007 and 2006. These statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). This discussion should not be considered all-inclusive, as 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](http://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. 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.

# Decision Dynamics Technology Ltd.

## Management Discussion and Analysis

### Financial Highlights

Stated in thousands of Canadian dollars except per share amounts

\$'000 except per share amounts	Three Months Ending			Three Months Ending	
	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006	Mar. 31, 2007	Mar. 31, 2006
<b>Operating Results</b>					
Revenue	3,179	2,776	1,865	3,179	1,733
Gross profit <sup>(1)</sup>	2,337	2,067	1,017	2,337	1,006
Gross margin <sup>(1)</sup>	74%	74%	55%	74%	58%
Net Income (Loss)	260	(991)	(1,425)	260	(1,340)
Basic earnings (loss) per share	\$0.01	(\$0.02)	(\$0.02)	\$0.01	(\$0.03)
Fully diluted income (loss) per share	\$0.01	(\$0.02)	(\$0.02)	\$0.01	(\$0.03)
<b>EBITDAS</b> <sup>(2)</sup>	576	(400)	(910)	576	(1,018)
<b>EBITDAS</b> <sup>(2)</sup> before restructuring costs	576	1	(910)	576	(1,018)
<b>Financial Position</b>					
Cash	706	1,044	1,203	706	4,018
Working Capital	457	201	1,192	457	3,901
Total Assets	6,315	7,311	8,200	6,315	10,636

(1) "Gross profit" is revenue less cost of sales and gross margin is gross profit divided by revenue expressed as a percentage.

(2) "EBITDAS" means earnings from continuing operations before interest, taxes, depreciation, amortization and stock based compensation. It may be derived by subtracting stock based compensation from the subtotal titled "Income (loss) before the undernoted" on the Statement of Operations and Deficit. "EBITDAS" before restructuring costs may be derived by adding restructuring costs to "EBITDAS" thereby eliminating it from the computation.

Gross profit, gross margin and EBITDAS 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

### Overview

Decision Dynamics, a public company incorporated under the laws of Canada, has developed enterprise-wide business automation solutions for the energy industries. These products provide knowledge capture, workflow management and performance analytics to facilitate decision making. The addressable market is the process industries and the Company's current market focus is the energy sector, specifically oil and gas and electrical power. Decision Dynamics markets four products:

- **X-Core:** Business modeling tool set for rapidly delivering business solutions.
- **Wellcore:** Provides well information management from well prospect to abandonment for exploration and production companies and includes a comprehensive drilling and completions solution.
- **Oncore:** Provides near real-time operations and project cost management to owner and contractor companies for capital projects, turnarounds and business management.
- **Webcore:** Provides executives and managers with operations visibility, performance analytics and decision optimization capability.

The Company operates a wholly-owned foreign subsidiary in the United States of America with operations in Houston, Texas.

### Strategy and Outlook

During the first half of last year, the Company implemented a strategy to increase sales and accelerate new product development by hiring additional staff in both of those areas. Sales have grown each quarter over the last four quarters and are up over 80% compared to the first quarter of 2006. During the latter half of 2006, Decision Dynamics embarked on a program to reduce monthly expenditures to bring them more in line with anticipated sales, and to focus product development on business operations solution for the energy industry. The growth in sales combined with the reduction in expenses has produced the first cash flow and income positive quarter in Decision Dynamic's history.

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Continued positive results, combined with cash on hand, should provide sufficient cash to enable the Company to conduct its anticipated operations over the next twelve months. However, operating under cash constraints will inhibit the Company's ability to continue to develop strong sales growth in its target markets and equally important it will inhibit Decision Dynamics' development of business visibility and operations analytics for the energy industries. Therefore, Decision Dynamics is considering raising additional equity through private placements. These funds would be used to accelerate new product development, acquisition of complementary technology and to increase market penetration in the United States. This strengthening of the balance sheet would also provide additional assurance to customers and investors of the Company's continuing financial viability. However, there can be no assurance that Decision Dynamics will be successful in raising funds through private placements.

Decision Dynamics was not able to achieve the degree of market penetration it anticipated for the Wellcore suite in 2006, particularly in the United States. Following a detailed assessment of the lack of results, the Company has modified its vision and focus:

To become a leading innovative supplier of *Business Visibility and Operational Analytics* solutions for the energy industry. Decision Dynamics' solutions will:

- Be differentiated by the use of advanced mathematics based decision support algorithms,
- Leverage the Company's Gold Partner access to Microsoft's technology
- Have a design emphasis on ease of deployment, use maintenance and customer configurability
- Improve customer business decision making capability by providing increased business performance visibility and decision making capability.

Due to seasonal factors and timing of customer decisions, results may vary by quarter; however, Decision Dynamics will continue to focus on revenue growth particularly from software licenses and recurring maintenance but with an increased focus on profitability. The improvements the Company has made in marketing and sales combined with an overall reduction in costs will assist the Company in its goal of moving towards positive EBITDAS and Net Income for the year.

### Changes in, New Applications and Significant Accounting Policies

#### (a) Basis of Presentation

The Company's 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 shown in the financial statements. The Company has an accumulated deficit of about \$24 million as a result of recurring losses since inception. The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and receive continued support from shareholders and investors.

The Company's 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.

Failure to generate profitable operations may require the Company to either restructure or curtail operations and the Company's ability to continue as a going concern will be impaired. The outcome of these matters cannot be predicted at this time; however as noted under Strategy and Outlook, the Company believes that reduced expenses plus strong sales growth, combined with cash on hand, should provide sufficient cash to enable the Company to conduct its anticipated operations over the next twelve months.

#### (b) Significant accounting policies

The consolidated financial statements for the quarter ended March 31, 2007 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, 2006 except for the adoption of the new recommendations of the Canadian Institute of Chartered Accountants as noted below.

**(c) Changes in accounting policies**

**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.

The impact on the Company is minor and is detailed in note 3 of the Company's unaudited interim consolidated financial statements for the quarter ended March 31, 2007.

**Results of Operations**

	<b>Three Months Ending</b>	
	<b>Mar. 31, 2007</b>	<b>Mar. 31, 2006</b>
\$ '000 except shares and per share amounts		
<b>Revenue</b>	3,179	1,733
Cost of sales	(842)	(727)
<b>Gross Profit</b>	<u>2,337</u>	<u>1,006</u>
<b>Expenses</b>	1,808	2,241
Income (loss) before the undernoted	529	(1,235)
Other (amortization, interest, other)	(269)	(282)
Income taxes (net of recoveries)	-	177
<b>Net income (loss) for the period</b>	<u>260</u>	<u>(1,340)</u>
<b>Basic earnings (loss) per share</b>	<u>\$0.01</u>	<u>(\$0.03)</u>
<b>Diluted income (loss) per share</b>	<u>\$0.01</u>	<u>(\$0.03)</u>
Weighted average number of common shares outstanding (' 000)		

Revenue for the first quarter of 2007 increased dramatically over the first quarter of 2006 as a result of strong sales growth for both Wellcore and Oncore, but particularly for Oncore in Canada. As a result of these sales recurring revenue from multi-year licenses and maintenance charges was \$1.1 million for the quarter. The gross margin improved from 58% in the first quarter of 2006 to 74% for the same period this year as a result of the higher percentage of license sales.

As a result of the staff reductions and other cost cutting measures implemented in 2006, expenses for the three months ended March 31, 2007 compared to the same period in 2006 were down approximately 19% particularly in corporate and administrative areas. Other costs were about the same for the first quarter of 2007 compared to the first quarter of 2006.

Growth in sales combined with a reduction in expenses has resulted in Decision Dynamics first profitable quarter with positive cash flow and positive earnings.

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

*Revenue*

	<b>Three Months Ending</b>	
\$ '000	<b>Mar. 31, 2007</b>	<b>Mar. 31, 2006</b>
License	1,756	1,046
Services	1,423	687
Total	<u>3,179</u>	<u>1,733</u>

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Full year license revenues for the three month period ending March 31, 2007 compared to March 31, 2006 are up 68% largely as a result of strong sales of Oncore. Service revenues have increased over 100% due to the increase in service personnel plus more chargeable projects based on X-core, Wellcore and Webcore. Sales have grown every quarter since the first quarter of 2006.

The Company's revenue recognition policy is set out in the 2006 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. 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. The specific customers do change somewhat from quarter to quarter. The dependence upon a small number of customers is expected to decline as the Company expands its customer base for both products.

During the quarter ended March 31, 2007 and 2006, Decision Dynamics derived about 27% and 38% respectively of its revenue from USA based customers. The decline reflects the Company's greater sales growth in Canada; however, assuming the Company's thrust into the USA is successful, the percentage of sales attributable to US based customers is expected to increase in the future.

#### *Gross profit*

	<b>Mar. 31, 2007</b>	<b>Mar. 31, 2006</b>
Revenue	3,179	1,733
Cost of sales	(842)	(727)
Gross profit	<u>2,337</u>	<u>1,006</u>
Gross margin	74%	58%

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 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 increase in cost of sales from the 2006 quarter to 2007 reflects an increase in personnel offset by a higher level of sales support during the first quarter of 2006. The improvement in gross margin is attributable to the higher percentage of license sales this quarter compared to the first quarter in 2006.

#### *Expenses*

\$ '000	<b>Three Months Ending</b>	
	<b>Mar. 31, 2007</b>	<b>Mar. 31, 2006</b>
Research and development	641	602
Selling and marketing	553	730
General and administration (includes stock based compensation costs of \$46, \$216)	614	909
	<u>1,808</u>	<u>2,241</u>

The decrease in total expenses from the first quarter of 2006 to the first quarter of 2007 was due to cost cutting measures implemented largely in the last quarter of 2006.

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.

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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 small increase in development costs from the 2006 quarter to 2007 reflects an increase in personnel offset by a higher level of sales support during the first quarter of 2006. For these reasons departmental costs may vary from quarter to quarter.

The decrease in selling and marketing costs from the first three months of 2006 to 2007 reflects a temporary reduction in sales personnel as the Company changes its approach to sales, from sales personnel with information technology backgrounds to individuals with operational experience. The decrease is also due to reduced allocation of operations and development personnel to sales. During 2006, Decision Dynamics developed a more standard Wellcore product requiring less operations support for the sales effort. Also, development and service staff were heavily involved with a pilot project for a large US customer in the first quarter of 2006.

General and administrative costs excluding stock based compensation, decreased from 2006 to 2007 due to general cost reductions and decreases in personnel. The largest components of general and administrative expenses are salaries and occupancy costs which are relatively fixed and should not increase proportionately with a growth in sales. As a result, G&A, excluding stock based compensation, as a percentage of sales has declined from 40% in the first quarter of 2006 to 18% for the current quarter of 2007.

#### *Amortization and Other Expenses*

\$ '000	Three Months Ending	
	Mar. 31, 2007	Mar. 31, 2006
Amortization of property and equipment	49	48
Amortization of intangible assets	125	125
Foreign exchange (gain) loss	(10)	(16)
Interest income	(7)	(11)
Interest expense	112	136
	<u>269</u>	<u>282</u>

The amortization of property and equipment was flat from 2006 to 2007 as the Company minimized its capital expenditures.

The acquisition of Malibu Engineering & Software Ltd. in July 2005 resulted in the addition of approximately \$1.7 million of intangible assets including values assigned to the intellectual property (technology, trade name and maintenance contracts) and about \$1.8 million of goodwill. The intangible assets are being amortized at \$125,000 per quarter.

Foreign exchange varies from quarter to quarter and from year to year as a result of the fluctuations in the Canadian and United States dollar exchange rates. 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 27% of the Company's revenues for the quarter were from US customers. This is down from prior periods due to the significant increase in Canadian sales; however, with the Company's focus on increasing sales in the United States, the percentage of US dollar denominated business is expected to increase. Foreign exchange fluctuations therefore will continue and may increase substantially over those shown for the prior quarters.

The Company invests surplus funds not immediately required for operations and these generate small amounts of interest income. This has decreased in 2007 with the reduction in the level of cash balances.

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

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#### *Income taxes*

The income tax expense is based on the relative amounts of income generated by the Company's Canadian and US operations and is based on the applicable rates in those two jurisdictions. The Company has about \$20.2 million dollars of tax pools available in Canada and the United States. This will be utilized to offset future income in the respective jurisdictions.

#### *Net (income) loss*

	Three Months Ending	
	Mar. 31, 2007	Mar. 31, 2006
\$ '000 except per share amounts		
<b>EBITDAS</b>	576	(1,018)
<b>Net income (loss)</b>	260	(1,340)
<b>Basic income (loss) per share</b>	\$0.01	(\$0.02)
<b>Diluted income (loss) per share</b>	\$0.01	(\$0.02)

Continued sales growth combined with cost reductions resulted in positive EBITDAS and positive net income for the quarter.

#### **Quarterly results**

The acquisition of Malibu has changed the Company's operations substantially and historical results may not be indicative of future results. Following are the results for the three month periods ending (in thousands of Canadian dollars except per share amounts):

	Mar. 31, 07	Dec. 31, 06	Sept 30, 06	June 30, 06	Mar. 31, 06	Dec. 31, 05	Sept. 30, 05	Jun. 30, 05	Mar. 31, 05
Revenue	3,179	2,776	1,865	1,737	1,733	1,837	1,266	523	502
Net income (loss)	260	(991)	(1,425)	(1,574)	(1,340)	(798)	(1,455)	(440)	(618)
Basic income (loss) per share	\$0.01	(\$0.02)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.02)
Diluted income (loss) per share	\$0.01	(\$0.02)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.02)

#### **Liquidity and capital resources**

##### *Working Capital*

The table below shows the major items affecting working capital over the three month period ended March 31, 2007.

	\$ '000
Working capital December 31, 2006 <sup>(1)</sup>	201
Long-term debt payments including interest	(241)
Decrease in the current portion of deferred revenue	613
Used in operations	(116)
Working capital March 31, 2007	457

(1) This has been restated as a result of the adoption of the new CICA recommendations for the treatment of financial instruments (see Changes in Accounting policies). The carrying value of long term debt has been reduced by the unamortized balance of deferred Financing costs.

## **Decision Dynamics Technology Ltd.**

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#### *Capital requirements*

Continued positive results, combined with cash on hand, should provide sufficient cash to enable the Company to conduct its anticipated operations over the next twelve months. However, operating under cash constraints will inhibit the Company's ability to continue to develop strong sales growth in its target markets and equally important it will inhibit Decision Dynamics's development of business visibility and operations analytics for the energy industries. Therefore, Decision Dynamics is considering raising additional equity through private placements. These funds will be used to accelerate new product development, acquisition of complementary technology and to increase market penetration in the United States. This strengthening of the balance sheet should also provide additional assurance to customers and investors of the Company's continuing financial viability. However, there can be no assurance that Decision Dynamics will be successful in raising funds through private placements.

#### *Share Capital*

As at April 24, 2007 Decision Dynamics had 51,630,443 shares outstanding with a book value of \$25,530,212, 7,656,761 share options to purchase common shares outstanding and 350,818 deferred share units outstanding.

#### **Related Party Transactions**

There have been no related party transactions during the three months ended March 31, 2007.

#### **Off-Balance Sheet Arrangements**

The company has not entered into any off-balance sheet arrangements during the three months ended March 31, 2007.

#### **Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation of the effectiveness of our disclosure controls and procedures as of the date of this Management Discussion and Analysis, that disclosure controls and procedures provided reasonable assurance that material information is made known to them by others within the Company. Certain weaknesses, however, have been identified and the Company's Chief Executive Officer and Chief Financial Officer do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

#### **Internal Control Risks**

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The design of our internal control over financial reporting was assessed as of the date of this Management Discussion and Analysis. The weaknesses in the Company's internal controls over financial reporting, discussed below, result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reports; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. There have been no changes in the weakness listed in the Management Discussion and Analysis for the year ended December 31, 2006. These weaknesses result from the small size of the Company and management does not believe it would be a prudent use of shareholder funds to engage the number of personnel required to mitigate these weaknesses. Accordingly they will continue to exist until the Company has grown to sufficient size to warrant the increase in the number of individuals and the acquisition and upgrade of computerized systems to adequately mitigate those internal control risks.

### **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.