



Consolidated Financial Statements
For the Years Ended December 31, 2006 and 2005

DECISION DYNAMICS TECHNOLOGY LTD.
SUITE 300, 717 – 7TH AVENUE SW
CALGARY, AB T2P 0Z3 CANADA

Decision Dynamics Technology Ltd.

Report for the year ending December 31, 2006

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.

March 22, 2007

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

"signed"
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, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG_{LLP}

Chartered Accountants
Calgary, Canada
March 22, 2007

Decision Dynamics Technology Ltd.

Consolidated Balance Sheets

	December 31, 2006	December 31, 2005
ASSETS		
Current		
Cash and cash equivalents	\$1,043,990	\$3,124,281
Accounts receivable (note 15)	2,483,969	1,628,648
Income taxes receivable	-	215,149
Prepaid expenses	259,875	352,891
	<u>3,787,834</u>	<u>5,320,969</u>
Deferred financing costs (note 9)	431,846	-
Property and equipment (note 6)	785,395	535,561
Intangible assets (note 7)	959,858	1,460,342
Goodwill (note 5)	1,778,177	1,778,177
	<u>\$7,743,110</u>	<u>\$9,095,049</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$1,317,217	\$910,439
Deferred revenue	1,701,133	620,749
Current portion of lease (note 8)	-	12,550
Current portion of long-term debt (note 9)	771,667	-
	<u>3,790,017</u>	<u>1,543,738</u>
Deferred revenue	157,499	313,138
Future tax liability (note 11)	-	246,000
Long-term debt (note 9)	889,670	-
	<u>4,837,186</u>	<u>2,102,876</u>
Shareholders' equity		
Capital stock (note 10)	25,529,130	25,469,448
Warrants	658,757	309,092
Contributed surplus (note 10)	1,257,749	423,633
Deficit	(24,539,712)	(19,210,000)
	<u>2,905,924</u>	<u>6,992,173</u>
	<u>\$7,743,110</u>	<u>\$9,095,049</u>

Nature of Operations (note 2) and Commitments (note 14)

Approved on behalf of the board

"signed"
William Dimma, Director

"signed"
James Baillie, Director

See accompanying notes to the consolidated financial statements.

Decision Dynamics Technology Ltd.

Consolidated Statements of Loss and Deficit

	Year Ending	
	December 31, 2006	December 31, 2005
Revenue	<u>\$8,110,734</u>	<u>\$4,128,229</u>
Expenses		
Research and development	2,438,850	660,115
Selling and marketing	3,716,962	1,131,946
Restructuring costs	400,965	544,804
Professional service costs	2,690,320	1,818,872
General and administration	<u>3,336,603</u>	<u>2,726,203</u>
Loss before the undernoted	(4,472,966)	(2,753,711)
Amortization of property and equipment	249,283	122,719
Amortization of intangible assets	500,484	208,535
Foreign exchange loss	107,096	77,359
Interest income	(78,242)	(1,098)
Interest expense	<u>501,223</u>	<u>149,334</u>
Net loss before income taxes	(5,752,810)	(3,310,560)
Future income tax recovery (note 11)	<u>423,098</u>	<u>-</u>
Net loss for the year	(5,329,712)	(3,310,560)
Deficit, beginning of year	<u>(19,210,000)</u>	<u>(15,899,440)</u>
Deficit, end of year	<u>(\$24,539,712)</u>	<u>(\$19,210,000)</u>
Basic and diluted loss per share	(\$0.10)	(\$0.09)
Weighted average number of common shares outstanding	51,589,681	36,773,523

See accompanying notes to the consolidated financial statements.

Decision Dynamics Technology Ltd.

Consolidated Statements of Cash Flows

	Year Ending	
	December 31, 2006	December 31, 2005
Cash provided by (used in):		
Operations		
Cash received from customers	\$8,395,306	\$5,916,751
Cash paid to suppliers and employees	(11,249,780)	(7,087,682)
Loss on disposal of assets	-	(5,458)
Interest received	78,242	1,098
Interest paid	(318,614)	(93,345)
	<u>(3,094,846)</u>	<u>(1,268,636)</u>
Investing activity		
Cash acquired from LOR Capital	-	1,074,930
Purchase of Malibu founders' shares	-	(2,695,000)
Cash acquired from Malibu	-	598,519
Purchase of equipment	(499,117)	(174,282)
	<u>(499,117)</u>	<u>(1,195,833)</u>
Financing activities		
Issue of long-term debt	2,281,000	-
Repayment of long-term debt	(651,483)	-
Issue of convertible debenture, net of issue costs	-	495,163
Issue of shares and warrants net of financing costs	59,682	4,875,231
Deferred financing costs	(87,701)	-
Payment of capital lease	(12,550)	(4,670)
	<u>1,588,948</u>	<u>5,365,724</u>
Changes in foreign currency	<u>(75,276)</u>	-
Increase (decrease) in cash and cash equivalents	(2,080,291)	2,901,255
Cash and equivalents, beginning of year	<u>3,124,281</u>	<u>223,026</u>
Cash and equivalents, end of year	<u>\$1,043,990</u>	<u>\$3,124,281</u>

See accompanying notes to the consolidated financial statements.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2006

1. Basis of presentation

On July 29, 2005, Decision Dynamics Technology Ltd. formerly LOR Capital Inc., acquired the issued and outstanding shares of Time Industrial, Inc. ("TI") for Decision Dynamics Technology Ltd. shares and the issued and outstanding shares of Malibu Engineering & Software Ltd. ("Malibu") for cash and Decision Dynamics Technology Ltd. shares.

As a result of the issuance of Decision Dynamics Technology Ltd. shares, the former shareholders of TI constitute a majority of the shareholders of Decision Dynamics Technology Ltd. after the acquisition, owning approximately 54% of Decision Dynamics Technology Ltd. This form of business combination is referred to, for accounting purposes, as a "reverse takeover." Legally, Decision Dynamics Technology Ltd. is regarded as the parent entity; however, in accordance with Canadian generally accepted accounting principles, since the former shareholders of TI will control Decision Dynamics Technology Ltd. after the transaction, TI is identified as the acquirer and Decision Dynamics Technology Ltd. and Malibu are treated as the acquirees. Being the acquiring entity, the assets and liabilities of TI are included in the balance sheet at cost and the assets and liabilities of Decision Dynamics Technology Ltd. and Malibu are included at their fair value. The current year was the first full year of operations for the combined entity. The results of operations for 2005 include twelve months of operations for TI and the post-acquisition revenues and expenses for Malibu and Decision Dynamics Technology Ltd. for the five months following the acquisition being August to December.

In the following discussion, "DDyTech Ltd." will refer to the legal company, Decision Dynamics Technology Ltd. "DDyTech" or the "Company" will refer to the consolidated entity that was TI prior to July 29, 2005. References to the financial results of prior years or to the financial results of the first two quarters of 2005 will refer to the financial results of the Company (that is, TI consolidated), not the results of DDyTech Ltd. (formerly LOR Capital Inc.). See Note 5 Acquisitions.

2. Nature of operations

Decision Dynamics Technology Ltd., a public company incorporated under the Canada Business Corporations Act on November 18, 2003, 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 has also developed X-Core, a data modeling and application development system for applications in other 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 an office in Houston, Texas.

3. Future operations

These financial statements have been prepared on a going concern basis, which assumed 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 \$24,539,712 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.

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 would be impaired. The outcome of these matters cannot be predicted at this time; however, 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.

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.

4. 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

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2006

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 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 a 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 uses the Canadian dollar as the unit of measure and translates its financial statements 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.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2006

(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:

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

(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:

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.

(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.

Decision Dynamics Technology Ltd.

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Year ended December 31, 2006

(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

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

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

(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.

5. Acquisition

The acquisition of Malibu was accounted for by the purchase method as follows:

Cash	\$598,519
Accounts receivable	2,363,036
Other current assets	310,747
Property and equipment	282,124
Other assets	234,472
Accounts payable and accrued liabilities	(904,140)
Future tax liability	(246,000)
Capital lease	(17,220)
Identifiable intangible assets	1,668,877
Goodwill	1,778,177
Fair value of net assets acquired	\$6,068,592

Purchase consideration was as follows:

Cash issued to the majority shareholders	\$2,695,000
Shares issued for acquisition	3,139,120
Transaction costs	234,472
Total purchase consideration	\$6,068,592

The amount assigned to goodwill is not deductible for income tax purposes and identifiable intangible assets are not expected to be deductible for income tax purposes which resulted in a future tax liability.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2006

6. Property and equipment

December 31, 2006	Cost	Accumulated amortization	Net book value
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
	\$1,475,308	\$689,913	\$785,396

December 31, 2005	Cost	Accumulated amortization	Net book value
Equipment and furniture	\$200,450	\$51,590	\$148,860
Computer hardware	618,217	314,688	303,529
Computer software	98,865	70,981	27,884
Leasehold improvements	40,629	1,117	39,512
Computer hardware under capital lease	18,030	2,254	15,776
	\$976,191	\$440,630	\$535,561

Included in amortization of property and equipment for 2006 is \$4,732 (2005 - \$2,254) of amortization of computer hardware under capital lease.

7. Intangible assets

December 31, 2006	Cost	Accumulated amortization	Net book value
Technology	\$1,289,877	\$534,827	\$755,050
Trade name	83,000	34,415	48,585
Maintenance contracts	296,000	139,778	156,222
	\$1,668,877	\$709,019	\$959,858

December 31, 2005	Cost	Accumulated amortization	Net book value
Technology	\$1,289,877	\$157,302	\$1,132,575
Trade name	83,000	10,122	72,878
Maintenance contracts	296,000	41,111	254,889
	\$1,668,877	\$208,535	\$1,460,342

Decision Dynamics Technology Ltd.

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Year ended December 31, 2006

8. Capital lease obligation

The capital lease obligation was repaid in full during the year.

December 31, 2006 and 2005	2006	2005
Total minimum lease payments		\$13,353
Less: amount representing interest at 6.42%		803
Present value of obligations under capital lease		12,550
Current portion		12,550
Long-term obligation under capital lease		-

9. Long-term debt and promissory notes

Issue of debt	\$2,281,000
Repayment of debt	(936,664)
Interest expense	285,181
Foreign exchange loss	31,820
	1,661,337
Current portion	(771,667)
Balance as at December 31, 2006	\$889,670

During the year ended December 31, 2006, the Company entered into an agreement to borrow US\$4.0 million and drew down US\$2.0 million. The 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. The interest rate is 14.3% per annum and the Company has granted the lender five year warrants to purchase 1,265,000 common shares at \$0.55 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 \$182,609 of deferred financing costs were amortized.

A Canadian chartered bank agreed to provide a demand bank loan up to \$500,000 at the bank's prime lending rate secured by a general security agreement covering all assets of the Company plus an assignment of a guaranteed investment certificate for \$550,000. In January, 2007 the demand loan was cancelled and the investment certificate returned to the Company.

10. Share capital

(a) Common shares

Authorized

Unlimited number of voting common shares

Issued and outstanding common shares:

Prior to the acquisition referred to in note 1, the authorized capital of the Company included several series of common and preferred shares. All series of common and preferred shares were converted to DDyTech Ltd. common shares.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2006

	Number	Amount
Balance, December 31, 2004		14,576,257
Issuance of convertible debentures net of \$3,049 of issue costs		312,051
Stock options exercised Class B shares	23,111	768
Exchange of Class A shares for DDyTech Ltd. common shares	1,738,060	
Exchange of Class B shares for DDyTech Ltd. common shares	697,113	
Exchange of Class D shares for DDyTech Ltd. common shares	7,940,805	
Exchange of Class E shares for DDyTech Ltd. common shares	10,834,699	
Conversion of debentures to DDyTech Ltd. common shares	4,644,166	
	25,877,954	14,889,076
Shares issue on acquisition of LOR Capital (note 1)	3,449,975	1,660,951
Shares issued on acquisition of Malibu (note 5)	6,578,313	3,139,120
Shares issued to public	15,454,546	8,500,000
Shares issued on exercise of stock options	20,810	3,330
Issue costs		
Agent compensation options	-	(272,933)
Warrants	-	(309,092)
Issue costs	-	(2,141,004)
	51,381,598	\$25,469,448
Shares issued on exercise of stock options	243,642	59,682
Balance December 31, 2006	51,625,240	\$25,529,130

(b) Stock based compensation

(i) Agents options:

Prior to 2005, an agent was granted options to purchase 312,141 common shares at \$0.60 per share for a period of 18 months following the grant. These options expired in 2006. On July 29, 2005, an agent was granted options to purchase 872,727 common shares at \$0.55 for a period of 18 months. This option expired in January 2007.

The fair value of the options granted to the agent in 2005 was estimated to be \$272,933 using the Black-Scholes pricing model and the following assumptions:

Risk free interest rate	3.80%
Expected life	1.5 years
Expected volatility	125%
Expected dividends	nil
Weighted average grant-date fair value	\$0.31

(ii) Stock Option Plan:

Options and warrants held by shareholders of LOR Capital, Time Industrial and Malibu were all converted into options of DDyTech Ltd. The Company has established a stock option plan for directors, officers, and employees. Under the plan, the aggregate number of options issuable may not exceed 9,976,320. The Company will ask shareholders at the Annual General and Special Meeting to approve a resolution to reduce the available number to 9,576,320. The options are non-assignable and expire seven years after grant.

Decision Dynamics Technology Ltd.

Notes to Consolidated Financial Statements

Year ended December 31, 2006

	Number
Outstanding, December 31, 2004	6,218,940
Options exercised	(23,111)
Options cancelled	(238,571)
Outstanding at conversion date	5,957,258
Conversion to DDyTech Ltd. options	(5,001,631)
	955,627
Conversion of LOR Capital options to DDyTech Ltd. options	344,999
Conversion of Malibu options to DDyTech Ltd. options	7,129,269
Granted to officers and directors	950,000
Granted to current employees	250,000
Expired	(20,810)
Exercised	(483,303)
Balance, December 31, 2005	9,125,782
Granted to officers and directors	850,000
Granted to current DDyTech Ltd. employees	383,000
Expired	(686,727)
Exercised	(243,642)
Forfeited	(441,379)
Balance, December 31, 2006	8,987,034

Stock options outstanding as at December 31, 2006 under this plan are as follows:

Range of exercise prices outstanding	Options outstanding			Options Exercisable		
	Number outstanding at December 31, 2006	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at December 31, 2006	Weighted average exercise price	
\$0.16	6,311,482	66	0.16	3,203,612	\$0.16	
0.205 - 0.31	1,096,828	78	0.22	101,025	0.29	
0.44 - 0.55	1,289,899	58	0.51	586,075	0.51	
0.749	288,825	34	0.75	260,511	0.75	
\$0.16 - 0.749	8,987,034	66	\$0.24	4,151,223	\$0.25	

During the years ended December 31, 2006 and 2005 \$884,636 (2005 - \$33,281) 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 2006 is estimated in the amount of \$228,154 (2005 - \$456,451) at the grant date using the Black-Scholes pricing model based on the following assumptions:

Risk free interest rate	3.86 to 4.38%
Expected life	7 years
Expected volatility	100%
Expected dividends	nil
Weighted average grant-date fair value	\$0.22

(iii) Share Accumulation Plan

During the second quarter, 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. The five non-management directors elected to receive their compensation for 2006 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.

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A total of 300,000 shares have been allocated for issuance from treasury pursuant to this plan. As 289,343 shares were allocated to directors during the year, the Company will ask shareholders at the Annual General and Special Meeting to approve a resolution to increase the number of shares allocated to the plan to 700,000. Compensation of \$50,519 has been recorded for the year.

(c) Warrants

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 9).

Balance, December 31, 2004	\$0
Warrants granted	309,092
Balance, December 31, 2005	309,092
Warrants granted	349,665
Balance, December 31, 2006	\$658,757

(d) Contributed surplus

Balance, December 31, 2004	\$117,418
Agents compensation options granted	272,934
Employee and director stock options	33,281
Balance, December 31, 2005	423,633
Employee and director stock options	871,853
Forfeited	(37,737)
Balance, December 31, 2006	\$1,257,749

11. 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,	
	2006	2005
Loss before income taxes	(\$5,752,810)	(\$3,310,560)
Statutory rate	32.49%	33.62%
Income tax recovery at statutory rate	(1,869,088)	(1,113,010)
Increase (decrease) in taxes resulting from:		
Stock based compensation	287,418	11,189
Decrease resulting from change in valuation allowance and other	1,158,572	1,101,821
Income tax recovery at statutory rate	(\$423,098)	-

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

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Future income tax asset (liability)	As at December 31,	
	2006	2005
Non-capital losses	\$7,584,461	\$5,347,459
Tax basis of equipment in excess of carrying amounts	104,288	24,931
Share issue costs	473,508	659,460
SRED pool	193,895	221,931
Valuation allowance	(8,073,570)	(6,253,781)
Intellectual property and deferred charges	(282,582)	(246,000)
	-	(\$246,000)

The non-capital tax losses expire as follows:

2014	112,526
2015	1,326,838
2016	3,863,865
2020	234,638
2021	3,509,931
2022	3,249,993
2023	2,846,459
2024	3,712,862
2025	1,837,428
2026	474,753

12. 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	2006	2005
Canada	\$5,412,274	\$2,947,825
United States	2,698,460	1,180,404
Total	\$8,110,734	\$4,128,229

Property and Equipment

Canada	\$701,520	\$496,037
United States	83,875	39,524
	<u>\$785,395</u>	<u>\$535,561</u>

Goodwill

Canada	\$1,778,177	\$1,778,177
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13. Economic dependence

The Company received revenue from six customers for the years ending December 31, 2006 and 2005, amounting to approximately \$6.0 million (2005 - \$3.3 million) representing over 74 % (2005 - 79%) of total revenues.

For the years ending December 31, 2006, and 2005 two and three customers respectively individually provided over 10% of the Company's revenues, specifically \$1,906,771 and \$1,712,299 (2005 - \$989,048, \$870,781, \$627,276, and \$413,737).

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Notes to Consolidated Financial Statements

Year ended December 31, 2006

14. Commitments

- (a) 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:

	2006	2005
2006	-	508,829
2007	585,889	511,119
2008	571,191	527,039
2009	596,697	539,949
2010	452,779	532,867
2011	-	-

15. 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 \$1.7 million from five customers (2005 - \$1.1 million), which represents about 73% (2005 - 78%) of total accounts receivable.

(b) Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable, accounts payable and due to directors 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.

16. Comparative figures

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