



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This report is a review of the financial results and the financial situation of Datacom Wireless Corporation for the Period Ended December 31, 2007. These comments must be read in conjunction with the audited financial statements of Datacom Wireless Corporation and their related notes for the corresponding period. To obtain more information on Datacom Wireless Corporation ("Corporation"), visit the SEDAR website at [www.sedar.com](http://www.sedar.com) or the Corporation's website at [www.datacom.com](http://www.datacom.com)

The audited financial statements and management's discussion and analysis ("MD&A") have been reviewed by the Corporation's Audit Committee and approved by its Board of Directors.

In this report, the terms "we", "us", "our", "Datacom", "enterprise", "Company" and "Corporation" refer to Datacom Wireless Corporation. The financial statements for the Corporation were prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The Corporation reports its results in Canadian dollars, and all amounts stated in this report are in Canadian dollars, unless otherwise specified.

This report is based on information available to management as at March 31, 2008.

### **I. FORWARD-LOOKING STATEMENTS**

This MD&A includes certain statements that may be deemed "forward-looking statements". Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", and other similar words, or statements that certain events or conditions "may" or "will" occur. All statements in this MD&A, other than statements of historical facts, that address future events or developments that the Corporation expects or anticipates, are forward-looking statements. Although the Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices and general economic, market or business conditions. There can be no assurance that forward-looking statements will prove to be accurate, as results and future events could differ materially from those anticipated statements. The Corporation undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change, unless applicable securities regulations so require. The reader is cautioned not to place undue reliance on forward-looking statements.

## **II. OVERVIEW**

Datacom, which was established in 1999, is a Canadian leader in the design, development and marketing of mission-critical vehicle fleet management and theft prevention solutions employing wireless communications, satellite-based tracking technologies (GPS) and a state-of-the-art ASP Web portal.

## **III. NON-GAAP FINANCIAL MEASURES**

EBITDA (earnings before interest, taxes, depreciation and amortization) is used to compare operating results from one period to another. EBITDA is not an earnings measure recognized by GAAP and does not have a standard meaning prescribed by GAAP. The method for calculating EBITDA may differ from that used by other companies under the same designation.

The reader is advised that EBITDA should not be substituted for determined net income as an indicator of operating results in line with GAAP, or for capital flows from operating and investing activities as a measure of liquidity and cash flow. The financial indicator that conforms to GAAP and is the closest to EBITDA is net loss.

## **IV. HIGHLIGHTS OF 2007**

- On June 6, 2007, the Corporation closed an Initial Public Offering ("IPO") of \$10 million.
- Since the second quarter of 2007, Claude Chagnon and Greg Rokos joined the Corporation's Board of Directors. Both are experienced businessmen with proven track records in management, strategic planning and mergers and acquisitions, all key factors in the Corporation's strategic growth.
- In August 2007, we proceeded with the launch of our new product: HIKO. HIKO is an integrated roadsalt and abrasive spreading system.
- On August 31, 2007, the Corporation concluded its acquisition of substantially all assets and business operations of Vigil Locating Systems Technologies Inc. (Vigil GPS). Vigil GPS operates in the same sector of activity as Datacom and its operations are similar in every respect to our own. However, its markets and methods of distribution complement ours. The integration process is, for all practical purposes, complete.
- In October 2007, the Corporation launched a new sales program for its Mobiguard product in conjunction with La Capitale General Insurance, which conducts the majority of its business in Quebec. We expect that this program will make a significant contribution to our 2008 results.
- As at December 31, 2007, the Corporation had installed its 17,000<sup>th</sup> Mobiguard unit, largely exceeding this product's initial sales forecasts.

### **Growth Strategy**

Our growth strategy consists of identifying target markets, introducing new products and services that will meet the needs of both existing and new customers, creating new distribution channels and making selective acquisitions.

## Key Performance Indicators

We use such key performance indicators as revenue, gross margin, working capital, net profit “net loss” and net profit “net loss” per share to assess our company wide performance. We also believe that EBITDA (earnings before interest, taxes, depreciation and amortization) constitutes an important measurement of our performance.

## V. YEAR ENDED DECEMBER 31, 2007

The following tables highlight selected financial information for the periods indicated and are derived from the Corporation’s audited financial statements.

### Selected Financial Information

	Periods Ended December 31		
	2007	2006	2005
<i>(Amounts in thousands, except for per share data)</i>			
Revenue	\$7,891	\$7,250	\$5,461
Gross margin	2,992	2,976	1,960
Operating expenses	5,934	4,221	5,060
Financial expenses	955	1,989	1,565
Stock-based compensation	201	-	-
Writing off of inventory	110	-	-
Depreciation and amortization	137	141	190
Amortization of intangible assets	45	-	-
Loss on disposal of assets	-	-	15
Net loss	(4,390)	(3,375)	(4,870)
Net loss per share:			
Basic and fully-diluted	(0.27)	(3.75)	(5.41)
Weighted average number of shares	16,474,774	900,000	900,000

The following table represents a non-GAAP measure that management believes is useful for comparing results with other companies in its sector.

### Net Loss to EBITDA Reconciliation

	Period Ended December 31		
	2007	2006	2005
<i>(Amounts in thousands, except for per share data)</i>			
Net loss	(4,390)	(3,375)	(4,870)
Financial expenses	955	1,989	1,565
Amortization of intangible assets	45	0	0
Depreciation and amortization	137	141	190
EBITDA	(3,253)	(1,245)	(3,115)
EBITDA per share:			
Basic and diluted	(0.20)	(1.38)	(3.46)
Weighted average number of shares	16,474,774	900,000	900,000

## Revenue

Revenue for 2007 totalled \$7.89 million, up 8.8% from the 2006 figure of \$7.25 million.

The 2007 rise in revenue was primarily due to growth in recurring revenue, which was primarily due to growth in the service customer base.

Recurring revenue increased 29.4% year-over-year, from \$2.75 million in 2006 to \$3.56 million in 2007. Recurring revenue represented 45.2% of total revenue in 2007, compared with 38.0% in 2006.

The Corporation's revenues are most exclusively generated in Canada by its direct sales forces and through its distribution channels network of partners in Quebec and Ontario.

## Gross Margin

Gross margin is equivalent to revenue minus the cost of goods sold. The cost of goods sold primarily includes the cost of the units sold, as well as that of their assembly, installation and warranty coverage, plus telecom and other related fees.

The gross margin percentage stood at 37.9% of revenue in 2007, compared with 41.0% in 2006 and 35.9% in 2005. In dollars, gross margin rose \$0.02 million from 2006 to 2007 (0.5%) and \$1.02 million (51.8%) from 2005 to 2006.

This slight decline in 2007 with respect to 2006 was primarily due to a temporary rise in installation labour costs. This investment in the installation force was done to significantly reduce customer waiting time for our consumer security products. The Corporation expects that this temporary rise in labour costs will be reduced in 2008.

## Operating Expenses

Operating expenses consist of general and administrative expenses, operating expenses, sales and marketing expenses, research and development expenses and research and development tax credits.

Net operating expenses climbed in 2007 from \$4.22 million to \$5.93 million, for an increase of \$1.71 million (40.5%). This rise was primarily due to the change in the growth strategy, which began following the IPO, with the development of new products and with investment in the sales force. Because of the growth strategy employed at that time, these expenses declined on a net basis in 2006 to \$4.22 million from \$5.06 million in 2005, for a decrease of \$0.84 million (16.6%).

### *General and Administrative Expenses*

	Periods Ended December 31				
	2007	Variation	2006	Variation	2005
General and administrative expenses	\$2,495	45.4%	\$1,716	-23.0%	\$2,230
<i>As a % of revenue</i>	31.6%		23.7%		40.8%

General and administrative expenses relate primarily to costs associated with administrative personnel, professional fees, occupancy, insurance and other overhead costs. Bad debts associated with accounts receivable are also recorded as administrative expenses. For the most part, general and administrative expenses are fixed in nature and do not fluctuate as a proportion of revenue, with the exception of those associated with bad debt.

In fiscal 2007, general and administrative expenses climbed \$0.779 million (45.4%) from fiscal 2006 figures. This rise was principally due to the addition of personal to the accounting, finance and administration teams, accompanied by a \$0.215 million rise in payroll for these departments, a \$0.214 million rise in costs pertaining to the operation of a public corporation (such as professional fees for legal services, audits and public relations), \$0.076 million for the payment of discretionary performance bonuses to management for carrying out the IPO and \$0.040 million in non-recurring employee recruiting fees.

#### *Sales and Marketing*

	Periods Ended December 31				
	2007	Variation	2006	Variation	2005
Sales and marketing	\$1,769	18.7%	\$1,490	-10.6%	\$1,666
<i>As a % of revenue</i>	22.4%		20.6%		30.5%

Sales and marketing expenses primarily consist of sales personnel salaries, commissions on direct and indirect product sales, hospitality and travel expenses. Other significant components include advertising and trade show costs.

Expenses related to sales and marketing rose by \$0.279 million (18.7%) over those of 2006. These expenses climbed primarily because of increased commissions paid for direct and indirect marketing of products and service plans. This increase in commissions paid was primarily due to a rise in the number of units sold and in operation, as well as to the fact that the Corporation revised its commission plan to make itself more competitive within the market.

#### *Operations*

	Periods Ended December 31				
	2007	Variation	2006	Variation	2005
Operations	\$775	9.3%	\$709	11.7%	\$635
<i>As a % of revenue</i>	9.8%		9.7%		11.6%

Operating expenses relate primarily to customer service and to the Corporation's alarm central. Expenses from operations are fixed in nature and do not fluctuate directly with revenues. However, a growth in activities will automatically result in an increase of such expenses.

Operating expenses increased \$0.66 million (9.3%) from 2006. This increase was directly related to the Corporation's increased volume of business.

#### *Research and Development*

	Periods Ended December 31				
	2007	Variation	2006	Variation	2005
Research and Development	1,242	17.2%	1,060	0.4%	1,056
<i>As a % of revenue</i>	15.7%		14.6%		19.3%
Research and development tax credits	(347)	-54.0%	(754)	43.1%	(527)
<i>As a % of revenue</i>	-4.4%		-10.4%		-9.7%
Net investment in research and development	895	192.5%	306	-42.2%	529
<i>As a % of revenue</i>	11.3%		4.2%		9.7%

The Corporation invests in research and development to maintain its leadership in the markets that it currently serves, to enhance its product portfolio with new features or to introduce new products. Research and development expenditures do not fluctuate with revenue, but are periodically monitored in relation to revenue and adjusted when appropriate. Research and development expenditures primarily consist of personnel, consulting and material costs. These expenses are presented on a gross basis (before deducting research and development tax credits). Research and development tax credits are shown separately.

Expenses related to research and development stood at \$1.242 million in fiscal 2007, or 17.2% up from the \$1.060 million invested in 2006. This increase is mainly due to additional efforts deployed in the development and introduction of new products.

Since the closing of the initial public offering, the Corporation downwardly revised the tax credit provision for research and development to reflect rates in effect for public corporation. This revision negatively affected the amount of the research and development tax credit recorded in the statement of earnings.

### Financial Expenses

Financial expenses mainly consist of imputed interest on redeemable preferred shares, interest on promissory notes, amortization of deferred financing costs, interest income, exchange rate losses (gains), losses on the conversion of preferred shares into common shares and other expenses.

	Periods Ended December 31				
	2007	Variation	2006	Variation	2005
Imputed interest on redeemable preferred shares	\$738	-55.9%	\$1,674	16.2%	\$1,441
Interest on promissory notes	99	-3.9%	103	100 %	-
Amortization of deferred financing costs and accretion expense	-	0%	82	-5.7%	87
Loss on conversion of preferred shares into common shares	172	100%	-	0%	-
Interest income	(191)	354.8%	(42)	31.3%	(32)
Other expenses	138	-20.3%	172	149.3%	69
	<b>\$ 955</b>	<b>-52.0%</b>	<b>\$1,989</b>	<b>27.1%</b>	<b>\$1,565</b>

#### ***Imputed Interest on Redeemable Preferred Shares***

Imputed interest on redeemable preferred shares pertains to redeemable preferred shares issued between 2003 and 2005. The redeemable preferred shares, together with their accumulated and unpaid interest and dividends, were automatically converted into common shares immediately prior the closing of the IPO, as part of the capital reorganization. This conversion of preferred shares will have a favourable impact on the 2008 statement of earnings, as the Corporation will not incur any additional imputed interest on a going forward basis.

#### ***Interest on Promissory Notes***

Interest on promissory notes pertains to promissory notes issued to our shareholders in 2006 and 2007, which included Class C preferred shares purchase warrants. The promissory notes and accrued interest were reimbursed in full upon closing of the IPO. Consequently, the Corporation will not incur additional interest on these promissory notes, which will result in a favourable impact on the Corporation's 2008 statement of earnings.

#### ***Amortization of Deferred Financing Costs***

Amortization of deferred financing costs and accretion expense refers to financing costs that were incurred and capitalized with respect to redeemable preferred shares issued from 2003 through 2005 and to promissory notes issued in 2006. With application of new accounting policies

pertaining to financial instruments (CICA Handbook, Section 3855), the unamortized balance of carried forward financing costs was applied to related debts as at January 1, 2007.

***Interest Income***

Interest income is generated by positive bank balances, which provides a return equal to 1.5% less than the prime rate of the Caisse Centrale Desjardins. The Corporation has adopted an investment strategy to ensure prudent and effective management of its cash position.

***Other Expenses***

Other banking fees increase slightly over time, as they are based on the number of customer credit card transactions. The variation in other financial expenses is primarily due to changes in the exchange rate. In 2007, the Corporation recorded net exchange losses of \$0.01 million, compared with net exchange gains of \$0.05 million in 2006.

**Stock-Based Compensation**

The Corporation has a stock option plan for its directors, officers and employees. It has adopted the revised CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments". The Corporation applies a fair value method of accounting to all stock-based compensation payments. The fair value of stock option is determined using the Black-Scholes fair value pricing model and compensation expense is charged to income over the rights acquisition period and requires management to make estimates as to the estimated life of the options and the expected volatility of the stock. A change in these factors could affect the compensation expense recorded in the statement of earnings.

In 2007, the Corporation recorded stock-based compensation of \$0.201 million, compared with an expense of \$0 in 2006.

**Write off of Inventory**

Since the Corporation does not manufacture its own telematics units or other components, such as immobilizers or antennas, etc., we currently procure such equipment from different vendors. These vendors typically provide a basic warranty on all products that we buy from them, along with repair service on units not covered by such a warranty.

In 2007, with the objective of increasing our platform's technological stability for a given product, the Corporation decided to change one of its suppliers. Following this change and no longer entitled to repair service for units not remaining under the basic warranty, the Corporation was obliged to scrap all such units and write them off the books.

**Depreciation and Amortization**

Depreciation and amortization pertains to tangible fixed assets. The amortization value was relatively stable year-over-year from 2006 to 2007 due to the fact that no major acquisitions took place in 2007. Please refer to Note 1 of the Audited Financial Statements for details related to the Corporation's amortization methods.

**Amortization of Intangible Assets**

The amortization of intangible assets does not in itself generate any outflow of funds and results from the amortization of the intangible assets acquired within the business combination of Vigil GPS.

## VI. QUARTERLY RESULTS OF OPERATIONS

The following tables highlight selected financial information for the periods indicated and are derived from the Corporation's unaudited interim financial statements.

### Selected Financial Information

<i>(Amounts in thousands, except for per share data)</i>	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Revenue	\$1,506	\$1,778	\$1,972	\$1,994	\$1,663	\$2,052	\$2,131	\$2,045
Gross margin	\$643	\$751	\$799	\$783	\$691	\$768	\$785	\$747
Operating expenses	\$1,101	\$1,059	\$1,112	\$950	\$1,127	\$1,348	\$1,721	\$1,737
Financial expenses	\$394	\$389	\$523	\$683	\$561	\$523	(\$88)	(\$41)
Stock-based compensation	-	-	-	-	-	\$114	\$62	\$25
Depreciation and amortization	\$39	\$33	\$36	\$33	\$28	\$29	\$22	\$59
Amortization of intangible assets	-	-	-	-	-	-	\$10	\$35
Writing off of Inventory	-	-	-	-	-	-	-	110
Net loss	(\$890)	(\$730)	(\$872)	(\$882)	(\$1,025)	(\$1,245)	(\$942)	(\$1,178)
Net loss per share:								
Basic and fully-diluted	(\$0.99)	(\$0.81)	(\$0.97)	(\$0.98)	(\$1.14)	(\$0.15)	(\$0.03)	(\$0.04)

The following table represents a non-GAAP measure that management believes is useful for comparing results with other companies in its sector.

### Net Loss to EBITDA Reconciliation

<i>(Amounts in thousands, except for per share data)</i>	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Net loss	(\$890)	(\$730)	(\$872)	(\$882)	(\$1,025)	(\$1,245)	(\$942)	(\$1,178)
Financial expenses (revenue)	\$394	\$389	\$523	\$683	\$561	\$523	(\$88)	(\$41)
Amortization of intangible assets	-	-	-	-	-	-	\$10	\$35
Depreciation and amortization	39	33	36	33	28	29	22	59
EBITDA	(\$458)	(\$308)	(\$314)	(\$167)	(\$436)	(\$693)	(\$999)	(\$1,125)
EBITDA per share								
Basic and diluted	(\$0.51)	(\$0.34)	(\$0.35)	(\$0.19)	(\$0.48)	(\$0.09)	(\$0.04)	(\$0.04)

## Revenue

Revenue for the fourth quarter of 2007 totalled \$2.05 million, up 2.6% from 2006 fourth quarter revenue of \$1.99 million. Revenue of \$0.25 million that was generated during the quarter due to acquisition of Vigil GPS, combined with growth in recurring service revenue, served to offset the decrease in revenue from equipment and other lines of fleet management security products. Revenue generated in the fourth quarter through the introduction of new products was less than has initially been forecast.

Recurring revenue grew 44.8% year-over-year from \$0.75 million in the fourth quarter of 2006 to \$1.08 million for the same period of 2007. Proportionally, recurring revenue represented 52.7% of total revenue during the fourth quarter. This figure is better than the one with the same period in 2006, in which recurring revenue represented 37.4% of total revenue.

## Gross Margin

The gross margin percentage decreased by 2.8% year-over-year to 36.5% of revenue for the fourth quarter of 2007 and by 3.1% year-over-year to 37.9% for fiscal 2007.

This decline was primarily triggered by a temporary rise in installation labour costs aimed at substantially decreasing customer waiting time for Mobilus product installations. The Corporation expects that this temporary rise in labour costs will be reduced in future quarters.

The gross margin in dollars declined year-over-year by \$0.377 million (4.8%), dropping from \$0.785 million to \$0.747 million. This situation was due to the slowdown in equipment sales.

## Operating Expenses (Revenue)

### *General and Administrative Expenses*

	Three Months Ended December 31		
	2007	Variation	2006
General and administrative expenses	\$745	107.5%	\$359
<i>As a % of revenue</i>	36.4%		18.0%

General and administrative expenses rose \$0.386 million (107.5%) in the fourth quarter, compared with the same period in 2006.

This rise was due to non-recurring personnel recruitment expenses of \$0.040, as well as to the \$0.201 million rise in costs involved in operating a public corporation (such as professional fees for legal services, audits and public relations), by the addition of personal to the accounting, finance and administration teams, accompanied by a \$0.76 million rise in payroll for these departments, and by the recording of an additional year-end provision of \$0.038 million for bad debts on doubtful accounts receivable.

*Sales and Marketing*

	Three Months Ended December 31		
	2007	Variation	2006
Sales and marketing	\$519	13.6%	\$457
<i>As a % of revenue</i>	<i>25.4%</i>		<i>22.9%</i>

Expenses related to sales and marketing rose by \$0.062 million (13.6%) over those of the same period in 2006. These expenses climbed primarily because of increased commissions of \$0.057 million paid for direct and indirect marketing of products and service plans. This rise in commissions paid was primarily due to a rise in the number of units sold and in operation, as well as to the fact that the Corporation revised its commission plan to make itself more competitive on the market.

*Research and Development*

	Three Months Ended December 31		
	2007	Variation	2006
Research and development	\$369	-9.6%	\$408
<i>As a % of revenue</i>	<i>18.0%</i>		<i>20.5%</i>
Research and development tax credits	(\$130)	-72.9%	(\$479)
<i>As a % of revenue</i>	<i>-6.4%</i>		<i>-24.0%</i>
Net investment in research and development	\$239	-436.6%	(\$71)
<i>As a % of revenue</i>	<i>11.7%</i>		<i>-3.6%</i>

Research and development investments stood at \$0.369 million in the fourth quarter, \$0.039 million or 9.6% less than the \$0.408 million spent over the same period in 2006. This decrease is mainly due to the fact that the Corporation completed and introduced some of our new products that had been under development in the fourth quarter of 2006.

The Corporation cashed in research and development tax credits in the fourth quarter of 2006 that were claimed for the period ended December 31, 2005. The amount of research and development tax credits collected in excess of the booked provision amounted to \$0.251 million.

Since the closing of the initial public offering, the amount of the tax credit provision for research and development was also downwardly revised to reflect current rates for public corporations. This revision negatively affected the amount of the research and development tax credit recorded in the statement of earnings.

*Operations*

	Three Months Ended December 31		
	2007	Variation	2006
Operations	\$234	14.1%	\$205
<i>As a percent of revenue</i>	<i>11.4%</i>		<i>10.28%</i>

Operating expenses increased 14.1%, rising \$0.029 million over the same period in 2006. This increase is due to the Corporation's increased volume of business.

## Financial Expenses

	Three Months Ended December 31		
	2007	Variation	2006
Imputed interest on redeemable preferred shares	\$-	-100.0%	479
Interest on promissory notes	-	-100.0%	60
Amortization of deferred financing costs and accretion expense	-	-100.0%	150
Interest income	(89)	2,866.7%	(3)
Other financial expenses (revenue)	48	-1700.0%	(3)
	\$(41)	-106.0%	\$683

### *Imputed Interest on Redeemable Preferred Shares*

Imputed interest on redeemable preferred shares pertains to redeemable preferred shares issued between 2003 and 2005. These imputed interests on redeemable preferred shares were automatically converted into common shares, immediately prior the closing of the IPO, as part of the Corporation's capital reorganization. Since the closing of the IPO, the Corporation has not incurred any additional imputed interest charges.

### *Interest on Promissory Notes*

Interest on promissory notes pertains to promissory notes with purchase warrants that we issued to our shareholders in 2006. As the promissory notes and accrued interest were reimbursed in full upon closing of the IPO, the Corporation does no longer incur additional interest on the promissory notes.

### *Amortization of Deferred Financing Costs*

The amortization of deferred financing costs refers to financing costs that were incurred and capitalized with respect to redeemable preferred shares issued from 2003 through 2005 and to promissory notes issued in 2006. During the capital reorganization in June 2007, all of the unamortized balance of carried forward financing costs and accretion expense was written off the same month. With application of new accounting policies pertaining to financial instruments (CICA Handbook, Section 3855), the unamortized balance of carried forward financing costs was applied to related debts as at January 1, 2007.

### *Interest Income*

The variation between interest revenue generated in the fourth quarter of 2007 and that of the same period in 2006 was substantially due to the funding received through the IPO.

### *Other Expenses*

Other banking fees rise slightly over time, as they are based on the number of customer credit card transactions. The variation in other financial expenses is primarily due to changes in the exchange rate. In the fourth quarter of 2007, the Corporation recorded net exchange losses of \$0.03 million, compared with net exchange gains of \$0.21 million in 2006.

## Stock-Based Compensation

The Corporation recorded stock-based compensation of \$0.025 million in the fourth quarter, compared with an expense of \$0 for the same period in 2006.

## VII. ACCOUNTING POLICY DEVELOPMENTS

The Corporation's unaudited interim financial statements are prepared in accordance with the Canadian GAAP using the same accounting policies disclosed in its audited annual financial statements.

## VIII. CURRENT SHARE CAPITAL AS AT DECEMBER 31, 2007

The share capital of the Corporation as at December 31, 2007 consists of an unlimited number of common shares.

The following table demonstrates variations that arose in the Corporation's common capital stock as at December 31, 2007.

	Number	Value
Issued and outstanding as at December 31, 2006, before the 3 for 1 consolidation <sup>(1)</sup>	\$2,700,000	\$89
Issued and outstanding as at December 31, 2006 after the 3 for 1 consolidation <sup>1(1)</sup>	900,000	89
Conversion of A, B and C preferred shares, imputed interest and accrued and unpaid dividends on these preferred shares	15,940,109	24,818,974
Share issuance of IPO	11,111,112	10,000,000
Share issuance costs	-	(1,436,822)
Common share warrants	-	(2,111,111)
Issuance of shares to the Chief Executive Officer <sup>(2)</sup>	279,512	142,551
Issued and outstanding as at December 31, 2007	\$28,230,733	\$31,413,681

(1): Shareholders approved a consolidation of common shares that consisted of an exchange of three common shares for each common share held at that time on a going-forward basis.

(2): Immediately after the closing of the IPO, the Corporation granted an interest-free loan of \$251,561 to its Chief Executive Officer, enabling him to acquire 1% of the total number of common shares as at the closing of the IPO.

No transaction affecting the share capital was concluded since December 31, 2007.

## IX. BALANCE SHEET, LIQUIDITY AND CAPITAL RESOURCES

### Balance Sheet

The following table presents key ratios and financial information from the balance sheet.

<i>(Amounts in thousands of dollars, except where indicated otherwise)</i>	As at December 31	
	2007	2006
Total assets	\$10,515	\$3,384
Cash and cash equivalents	\$6,121	\$650
Working capital	\$5,638	\$1,132
Working capital ratio	2.68:1	1.61:1
Redeemable preferred shares	\$-	\$21,963
Long-term debt (including obligation under capital lease and current portion)	\$156	\$1,773
<b>Shareholders' equity:</b>		
Common shares <i>(in dollars)</i>	\$31,413,681	\$89
Stock options <i>(in dollars)</i>	\$2,111,111	\$-
Contributed surplus	\$58	\$-
Loss	(\$26,495,854)	(22,138,188)

#### *Cash and Cash Equivalents*

Cash and cash equivalents were merged into a fixed term investment of \$0.050 million at the end of 2007 and of \$0 at the end of 2006. The considerable increase in our cash and cash equivalent position in 2007 was primarily due to the \$8,563 million in net proceeds generated by our initial public offering.

#### *Working Capital*

Management is confident that the current working capital position is adequate to fund the Corporation's operations for the next 12 months.

#### *Redeemable Preferred Shares*

Redeemable preferred shares outstanding as at December 31, 2006 were automatically converted into common shares at the closing of the IPO.

#### *Promissory Notes*

Promissory notes were redeemed as part of the capital reorganization. The transaction did not result in a disbursement by the Corporation as the redemption was provided by way of compensation out of the proceeds resulting from exercise of the stock option by the same group of investors.

#### *Stock Options*

Stock options that were attached to the shares issued during the Corporation's IPO were recorded separately from the capital stock in the balance sheet, at their fair market value. The fair value of these stock options is determined by using the Black and Scholes fair value-pricing model.

#### *Contributed Surplus*

The amount recorded for the contributed surplus represents total expenses recorded under the heading of stock-based compensation (\$0.201 million) less the portion applied in rise of the capital stock (\$0.143 million) following the exercise of the options by an executive.

## Statement of Cash Flow Summary

<i>(Amounts in thousands of dollars except for per share data)</i>	Periods Ended December 31		
	2007	2006	2005
Operating activities	(\$2,850)	(\$1,728)	(\$2,956)
Financing activities	8,843	1,453	3,474
Investment activities	(523)	(137)	(112)
Net increase (decrease) in cash and cash equivalents	\$5,470	(\$412)	\$406

### Operating Activities

In 2007, we used \$2,850 million of cash flow for our operating activities, compared with \$1,278 million in 2006. The use of funds pertaining to operating activities was primarily due in both periods primarily to the net loss realized over each period (less imputed interest on preferred shares of \$0.738 million in 2007 and of \$1.675 million under that same heading in 2006).

### Financing Activities

The cash flow generated by financing activities in 2007 was primarily due to the issuance of capital stock with a net value of \$8,563 million. Financing activities in 2006 generated cash flow of \$1,562 million following the issuance of promissory notes.

### Investing Activities

The funding used in investment activities during fiscal 2007 primarily served to acquire a business for \$0.412 million and to acquire fixed assets. Funding used in investment activities during 2006 served to acquire fixed assets.

## X. CONTRACTUAL OBLIGATIONS

Cash flows from operations are dependent on a number of factors, including fluctuations in operating results and working capital management. As a result, the impact of contractual obligations on liquidity and capital resources in the future should be analyzed in conjunction with those factors. Products are typically sold with a product warranty of 12 months. Management reviews historical warranty costs relative to sales and accrues warranty expenses accordingly. As at December 31, 2007, the Corporation's long-term debt consisted of an interest-free loan from Canada Economic Development with a remaining obligation of approximately \$0.123 million.

The following table demonstrates the contractual obligations and commitments of the Corporation to make future payments under contracts as at December 31, 2007.

<i>Amounts In thousands of dollars</i>	<b>Total</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012+</b>
Long-term debt	123	49	49	25	-	-
Capital lease obligations	54	40	14	-	-	-
Operating lease obligations	48	26	9	9	4	-
Office rent	683	217	229	217	20	-
Total	<b>908</b>	<b>332</b>	<b>301</b>	<b>251</b>	<b>24</b>	-

The Corporation does not have any off-balance sheet arrangements other than as disclosed under "Contractual Obligations" and "Financial Instruments".

## **XI. RELATED-PARTY TRANSACTIONS**

Immediately after the closing of the IPO, the Corporation granted an interest-free loan of \$251,561 to its Chief Executive Officer, enabling him to acquire 1% of the total number of common shares at the closing of the IPO. This amount was charged against the capital stock appearing on the balance sheet.

## **XII. CREDIT RISK AND THE CONCENTRATION OF CREDIT RISK**

In the normal course of business, the Corporation evaluates the financial condition of our customers and reviews the creditworthiness of all new customers. The Corporation determines an allowance for doubtful accounts to reflect specific customer risk.

## **XIII. CHANGES IN ACCOUNTING POLICIES**

Effective at the beginning of its 2007 fiscal year, the Corporation has adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3251, *Equity*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, and CICA Handbook Section 3865, *Hedges*.

Handbook Section 1530 establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. New statements of comprehensive income are included in the financial statements. Handbook Section 3251 establishes standards for the presentation of equity and change in equity during the reporting period and requires the Corporation to present separately equity components and changes in equity arising from (i) net earnings; (ii) other comprehensive income; (iii) other changes in retained earnings; (iv) changes in contributed surplus and (v) changes in share capital. New statements of changes in shareholders' equity are included in the financial statements.

Handbook Sections 3855, 3861 and 3865 provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured either at fair market value with the exception of loans and receivables, held-to-maturity investments and other financial liabilities, which will be measured at amortized cost. Subsequent measurements and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in the net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

The standards require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria

are met, which requires the Corporation to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. Derivatives that qualify as hedging instruments must be designated as either a "cash flow hedge", when the hedged item is a future cash flow, or a "fair value hedge", when the hedged item is a recognized asset or liability. The unrealized gains and losses related to a cash flow hedge are included in other comprehensive income. For a fair value hedge, both the derivative and the hedged items are recorded at fair value in the balance sheet and the unrealized gains and losses from both items are included in earnings. Any derivative instrument that does not qualify for hedge accounting is marked-to-market at each reporting date and the gains or losses are included in earnings.

As a result of the adoption of these standards, the Corporation has classified cash equivalents as held-for-trading assets, accounts receivable and net investment in sales-type leases as loans and receivables, and accounts payable and accrued charges, obligations under capital leases, long-term debt and redeemable preferred shares as other financial liabilities.

These new standards have to be applied without restatement of prior period amounts. Upon initial application, all adjustments to the carrying amount of financial assets and liabilities shall be recognized as an adjustment to the opening balance of deficit or accumulated other comprehensive income, depending on the classification of existing assets or liabilities. As at January 1, 2007, the Corporation has decreased the opening balance of deficit by \$32,218 with respect to the financial liabilities.

#### **XIV. ACCOUNTING POLICIES AND STANDARDS TO BE ADOPTED IN THE FUTURE**

The CICA has issued CICA Handbook Section 3862, *Financial Instruments - Disclosures* ("HB-3862") and Section 3863, *Financial Instruments - Presentation* ("HB-3863"). These new standards establish standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments and for presentation of financial instruments and non-financial derivatives. These new standards supersede Handbook Section 3861. This new standard relates to disclosure only and will not impact the financial results of the Corporation. Both sections are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Corporation will adopt these standards on January 1, 2008.

The CICA has issued CICA Handbook Section 1535, *Capital Disclosures* ("HB-1535"). This standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. This Section is applicable to interim and annual financial statements relating to fiscal years on or after October 1, 2007. This new standard relates to disclosure only and will not impact the financial results of the Corporation. The Corporation will adopt this standard on January 1, 2008.

In June 2007, the CICA issued Section 3031, *Inventories*, which replaces Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards ("IFRS"). This Section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This Section applies to interim and annual financial statements beginning on or after January 1, 2008. The Corporation has not yet determined what the impact of adopting this standard will have on its financial statements.

In February 2008, the CICA released Handbook Section 3064, *Goodwill and Intangible Assets* and amended Section 1000, *Financial Statement Concepts* clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no

longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. The Corporation is currently assessing the impact of the new recommendations on its financial statements.

On February 13, 2008, the Company Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required in 2011 for publicly accountable profit-oriented enterprises. The Corporation will closely monitor changes arising from this transaction to IFRS.

## **XV. FINANCIAL INSTRUMENTS**

The book values of cash and cash equivalents, accounts receivable, accounts payable and expenses to be paid are close to their fair value, given the fact that these financial assets and liabilities have short-term expiration dates.

The fair value of the net investment in sales-type leases and obligations arising from the capital lease is close to their book value, since the interests are calculated according to market fixed rates.

In 2006, it was established that the fair value of the promissory notes issued to the shareholders is close to the book value due to their short term expiry date following the IPO.

The fair value of the term loan is \$105,628.00 as at December 31, 2007 (\$140,286.00 in 2006), whereas its book value was \$123,218.00 (\$172,504.00 in 2006).

As at December 31, 2006, the fair value and the book value of the Class A, B and C preferred shares are respectively \$4,155,000.00, \$7,264,887.00 and \$8,100,000.00, and of \$10,623,123.00, \$3,580,000.00 and \$4,075,478.00.

The fair value of the Class A, B and C preferred shares was established in 2006 on the assumption that no initial public offering, nor no event having an effect on the treasury, such as these terms are defined in the shareholders convention, would not take place.

## **XVI. OUTLOOK**

Management expects that revenue will continue to grow from sales of existing and new products. It also expects to increase total dollar gross margins. Research and development will continue to be one of the key areas in which the Corporation invests.

## **XVII. RISKS AND UNCERTAINTIES**

Several inherent risks on the level of the daily operations of the Corporation can have an impact on the future financial results. The most significant risks are:

- We have not yet achieved profitability nor have we achieved the critical mass required in order to ensure our long-term viability and there is no guarantee we ever will.
- Our ability to further penetrate our core markets and existing geographic markets or to successfully expand our business nationally and internationally is subject to numerous factors, many of which are beyond our control. We cannot guarantee that our efforts will

be successful. Our failure to do so could have a material adverse effect on our business, financial condition and/or results of operations.

- We depend on several suppliers to provide us with critical electronic components for our products and services. There is no assurance that we will not experience some delays or difficulties for our components provisioning and/or network coverage which are imperative to meet our anticipated growth objectives.
- We depend on a network signal that is entirely controlled by a third-party. If our customers can not have access to a reliable telematics service and to sufficient network capacities, the Corporation might be unable to supply the services and therefore sees its revenues decreasing.

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