

# **WellPoint Systems Inc.**

**FORM 51-102F1**

**Management's Discussion and Analysis  
For the Three and Six Months Ended June 30, 2008**

August 26, 2008

This Management's Discussion and Analysis (MD&A) for WellPoint Systems Inc. ("WellPoint Systems" or the "Company") for the three and six month periods ended June 30, 2008 should be read in conjunction with the unaudited Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2008 and the notes that accompany these financial statements and with our audited Consolidated Annual Financial Statements and our MD&A for the year ended December 31, 2007 filed on SEDAR, which are available at [www.sedar.com](http://www.sedar.com). The unaudited Consolidated Interim Financial Statements of WellPoint Systems have been prepared in accordance with accounting policies in accordance with Canadian generally accepted accounting principles (GAAP). All dollar amounts are in Canadian dollars unless otherwise indicated.

The Board of Directors carries out its responsibility for review of the disclosure in this MD&A principally through its Audit Committee, comprised of three directors, one of whom is independent. The Audit Committee reviews this disclosure and recommends its approval to the Board of Directors. This MD&A has been approved by the Board of Directors.

The Company reports on certain non-GAAP measures that are used by management to evaluate the performance of the business. Since non-GAAP measures do not have a standardized meaning, securities regulators require that non-GAAP measures be clearly defined and qualified, reconciled to the nearest GAAP measure, and be given no more prominence than the closest GAAP measures. The definition, calculation, and reconciliation of the non-GAAP measures are provided in the section "Reconciliation of non-GAAP Measures" in this MD&A.

WellPoint Systems is publicly traded on the TSX Venture Exchange under the symbol WPS.

This MD&A is dated as at August 26, 2008.

## Forward-looking Statements

All statements in this MD&A that do not directly relate to historical facts constitute "forward-looking statements". These statements represent WellPoint Systems intentions, plans, expectations, and beliefs, and are subject to risks, uncertainties, and other factors that are not in the Company's control. These factors could cause actual results to differ materially from such forward-looking statements. These factors include and are not restricted to the retention of reference customers, customer adoption of new and somewhat unproven software packages, market competition in the energy and mining information systems industry, the Company's ability to attract and retain qualified employees, potential acquisitions and other corporate developments, foreign exchange and other general economic and business conditions. The words "believe", "likely", "expect", "intend", "plan" and similar words, expressions and variations thereof, identify certain of such forward-looking statements. Such statements speak only as of the date of this MD&A. The Company does not intend, and does not assume any obligation, to update these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

Additional information about WellPoint Systems is available on its website at [www.wellpointsystems.com](http://www.wellpointsystems.com).

# Management's Discussion and Analysis Contents

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## Business Overview

WellPoint Systems is emerging as a leading provider of software and related solutions that help energy and mining companies to better manage mission-critical operations, enterprise assets, and financial systems. The Company helps its customers decrease operating costs and increase earnings through improved financial accounting and management reporting systems; effective utilization of assets; and greater operational efficiency with its midstream and upstream solutions. In addition, its solutions help customers mitigate risk.

Headquartered in Calgary, Alberta, WellPoint Systems Inc. was founded in 1997 and has offices around the world that currently employ 251 people. Approximately 93.6% (2007-87.6%) of revenue is generated from customers in North and South America. The Company currently has 385 customers using WellPoint Systems proprietary solutions that are delivered through three lines of business:

- **WellPoint Financials** – Provides cost-efficient methods for managing all aspects of financial accounting and management reporting, including business intelligence in a solution that supports multi-currency, multi-location and multi-language functionality. WellPoint's systems reduce the time and effort it takes to perform key tasks and offer easy access to current information that meets all of the extensive requirements specific to the energy and mining industries;
- **WellPoint Enterprise Asset Management ("EAM") or Maintenance Repair Operations ("MRO")** – Asset management software that helps companies manage maintenance and warranty programs, improve asset utilization, and manage asset costs. This application accommodates most asset types and has utility across most industries; and
- **WellPoint Operational Efficiency** – These solutions manage the forecasting and reporting of oil volumes (WellPoint OMS (midstream)); commodity transactions, forecasting and scheduling, and contract settlement (WellPoint Energy Broker (midstream)); critical operational data for oil and gas wells (WellPoint Maxwell (upstream)); and managing the complex allocation of balancing volumes of commodities running through pipelines (WellPoint COBRA (midstream)).

# Vision and Strategy

WellPoint Systems' vision rests upon the following key strategic initiatives:

- **Exploiting Receptive Markets Internationally** – WellPoint has demonstrated its ability to market its products around the globe. The Company currently conducts operations in the United States and internationally through key offices in: Denver, Colorado; Houston, Texas; Tunis, Tunisia; Pretoria, South Africa; London, England; and Bogota, Colombia. WellPoint Systems' vision generates strong revenue growth from its proprietary software technologies in its primary target markets in North and South America, as well as internationally. In addition, the Company's vision features continued leadership and growth in the Canadian energy market.
- **Increasing Value for Customers** – WellPoint Systems provides solutions to customers, allowing them to decrease operating costs and increase their earnings, enabling them to achieve greater success.
- **Completing and Integrating Strategic Acquisitions** – WellPoint uses acquisitions to complement a focused corporate strategy. The Company has a history of organic and acquisitive growth through a robust and dynamic acquisition program that is an integral part of WellPoint's overall strategy. The Company has made the following acquisitions:
  - August 2007 – Acquired substantially all of the assets of BOLO Systems, Inc. (“BOLO”) adding a leading provider of integrated multi-tiered financial, land and production accounting solutions for the oil and gas industry in the United States. The acquisition of BOLO added more than 125 customers, granting WellPoint an increased presence and improved access to the substantial United States energy market. In addition, it enhances WellPoint Systems' professional service capabilities and brings cross-selling opportunities for both BOLO and WellPoint Systems solutions to the combined customer base;
  - March 2007 – Acquired iSoft Technologies (Pty) Ltd. (“iSoft”), allowing WellPoint Systems to add what it believes is the most valuable piece of mining intellectual property (IP) in the Microsoft application world to its portfolio. The iSoft software focuses on EAM or MRO, which is especially relevant to asset intensive industries like mining, energy, and aerospace & defense; and
  - March 2006 – Acquired IDEAS International, Inc. (“IDEAS”), adding a leading provider of finance and administrative solutions for international oil & gas operations, with more than 175 customers and 39,000 users globally, allowing WellPoint Systems to move forward with its strategy to expand internationally.

WellPoint's strategy is to rapidly and fully integrate acquisitions, allowing the Company to quickly realize any associated benefits and synergies and drive improvements in financial performance.

- **Building on a Strong Platform** – WellPoint is building leadership as a provider of integrated business software to the energy and mining industry based on its commitment to the Microsoft Dynamics AX architecture.
- **Attracting and Retaining Key People** – WellPoint seeks to be the employer of choice by providing an opportunity to its employees to promote their personal development, growth and success, allowing them to share in the benefits of corporate success in an environment that leads to excellence, passion, and integrity.

The preceding vision and strategy provides WellPoint with the tools and focus to drive continued growth and success.

## Business Environment

WellPoint Systems focuses primarily on energy and mining. Management's view is that mineral and oil prices will remain relatively strong. With world commodity prices expected to remain above the average 2007 levels, the prospects for continued prosperity in the energy industry remain positive. As a result, WellPoint Systems' markets are expected to remain strong for the coming years, not only in North and South America but also internationally. The Company anticipates an increase in information technology ("IT") spending in its target markets, given high commodity prices and a growing desire on the part of producers to outsource application development due to the difficulty of recruiting and maintaining qualified IT resources. In addition, with the industry continuing to invest significantly in updating its various software systems in an effort to meet evolving requirements, WellPoint Systems believes that demand for solutions in its core markets will increase in the coming years.

## Key Performance Indicators

WellPoint Systems monitors a number of key performance indicators including those set out below:

- **Revenue** provides an overall indication of success and progress toward achieving growing market share;
- **Percentage Gross Margin** measures success in developing and delivering products and services efficiently and on a scalable basis;
- **Net Income Per Share** measures the return to shareholders and also allows management to assess whether acquisitions are accretive to earnings;
- **Adjusted EBITDA**, which is Standardized EBITDA<sup>1</sup> excluding foreign exchange loss and gain, financing costs, and after deducting capitalized development expenditures. This serves as a measure of operating performance prior to taking into consideration how the Company is financed, taxed, and how tangible and intangible assets are depreciated or adjusted. It also useful in assessing valuation; and
- **Free Cash Flow** which is Standardized Free Cash Flow<sup>1</sup> consisting of cash flow from operating activities less total capitalized expenditures as reported in the Statement of Cash Flows in the GAAP financial statements. This measure takes into account the Company's financing strategy and serves as a measure of the Company's ability to repay debt and invest in future growth.

1. Standardized EBITDA and Standardized Free Cash Flow are non-GAAP measures. Standardized EBITDA and Standardized Free Cash Flow are referenced in accordance with the definition noted in the Canadian Institute of Chartered Accountants ("CICA") publication *"Improved Communication with Non-GAAP Financial Measures"* issued by the Canadian Performance Reporting Board of the CICA.

## Overall Performance

### Events or Activities Impacting the Business in 2008

WellPoint Systems achieved several milestones in the second quarter of 2008 including the following:

- Increased total revenue by 8.6% to \$10.3 million, compared with \$9.5 million in the second quarter of 2007. Considering that 2007 second quarter revenue included a multimillion dollar South American contract, this makes the 2008 sales increase an even more significant achievement. The Company had signed a contract for a large license sale with a key customer in South America in the first half of 2008. The Company had anticipated collecting on this contract and thus being able to record the revenue and associated EBITDA earlier this year. This license

sale would have significantly increased revenue and EBITDA. However, due to customer payment delays, the Company has been unable to recognize this revenue under Canadian GAAP. The Company continues to work with its client and anticipates that it will be able to collect and recognize this revenue;

- Increased non-Canadian revenue by \$1.1 million to \$7.9 million from \$6.8 million in the second quarter of 2007. This was primarily due to the Bolo acquisition in August 2007;
- Implemented several key management changes, including the promotion of Mr. Richard Slack, the former head of Bolo, to the position of Chief Operating Officer of WellPoint. Mr. Slack brings a proven ability to operate a growing and profitable software company to his position;
- Brought to market its complete end to end business solution in Energy Broker. The product is currently being implemented at an influential customer;
- Finished the integration of two of WellPoint's major Microsoft AX products on a single platform;
- Completed several major implementation projects for the Company's Microsoft Dynamics AX products and Bolo Products at key customer sites in Calgary and Houston; and
- Continued to work with its international partners to grow its business in Latin America.

## Selected Second Quarter Financial Information

### In thousands, except per share amounts

	2008	2007	% Change 2007 - 2008
Revenue	10,269	9,460	8.6%
Gross Profit	6,053	7,915	(23.5%)
Selling, general and Administration	4,185	4,792	(12.7%)
Facilities	461	292	57.9%
Research and Development	1,081	495	118.4%
Depreciation and Amortization	1,144	476	140.3%
Financing and Amortization of Debt and note payable issue Costs	161	32	403.1%
Interest	931	223	317.5%
Foreign Exchange loss (gain)	(246)	23	(1169.6%)
Loss before tax	(1,664)	1,582	(205.2%)
Income tax expense	727	665	9.3%
Net loss	(2,391)	917	(360.7%)
Income (loss) per share	(0.05)	0.02	
Adjusted EBITDA	(631)	1,705	(137.0%)
Free cash flow	(787)	952	(182.7%)
Total assets	51,821	50,342	2.9%
Total liabilities	38,631	37,058	4.2%
Total equity	13,190	13,284	(0.7%)

WellPoint has included the financial results of its 2007 acquisitions in its results from the dates of acquisitions as follows: iSoft—March 13, 2007; and BOLO—August 13, 2007.

Revenue increased primarily due to the BOLO acquisition and an increase in professional services revenue in South America from the new customer added in the second quarter of 2007. Adjusted EBITDA decreased by approximately \$2.3 million primarily as a result of reduced profitability relating to lower margin professional services revenues recorded in 2008

versus higher margin license revenue in 2007. An increase of \$0.4 million in deferred development costs also impacted adjusted EBITDA.

## Results of Operations for the Three Months ended June 30, 2008

### Revenue-

The following table segments WellPoint's revenues by product and major geography for the second quarters of 2008 and 2007:

<u>(all amounts in thousands)</u>	2008	2007	2007 - 2008
License	\$ 3,012	\$ 5,933	(49.2%)
Maintenance	2,335	1,141	104.6%
Professional Services	4,922	2,386	106.3%
	<u>\$ 10,269</u>	<u>\$ 9,460</u>	<u>8.6%</u>

  

% of total revenue	2008	2007
License	29%	63%
Maintenance	23%	12%
Professional Services	48%	25%
	<u>100%</u>	<u>100%</u>

### Revenue by geography

<u>(all amounts in thousands)</u>	2008	2007	% Change 2007 - 2008
Canada	\$ 2,347	\$ 2,619	(10.4%)
United States	6,706	521	1187.1%
Central & South America	579	5,144	(88.7%)
Other International	637	1,176	(45.8%)
	<u>\$ 10,269</u>	<u>\$ 9,460</u>	<u>8.6%</u>

  

% of total revenue	2008	2007
Canada	23%	28%
United States	65%	6%
Central & South America	6%	54%
Other International	6%	12%
	<u>100%</u>	<u>100%</u>

WellPoint Systems derives revenue from three sources relating to the software packages specifically designed for its key markets. Each product generates revenue from license sales, annual maintenance revenue (based on a percentage of the license fee), and professional services for implementation and related support. Software is licensed to customers in perpetuity, whereby the fair value of the license is separately determinable from maintenance and/or professional service fees. Software license revenue is recognized once the license agreement is signed, the price is fixed or determinable, and the software is delivered to the customer and collectability reasonably assured. Maintenance fee arrangements generally include ongoing customer support, rights to periodic software upgrades, if and when available, and products sold on a subscription basis. Customers are generally charged in advance for maintenance services either annually or monthly. Maintenance fees are initially recorded as deferred revenue and subsequently recognized as income on a monthly basis. Professional service revenue consists of fees charged for product training, consulting, and implementation services.

Revenues increased by 8.6% to \$10.3 million in the second quarter of 2008 compared with \$9.5 million in the same quarter

in 2007. The increase was primarily the result of BOLO revenue of \$5.8 million in the second quarter of 2008. Revenues in the quarter ended June 30, 2007 included a large license sale to a South American customer which accounted for a significant portion of the second quarter 2007 revenues.

Revenue from outside of Canada increased to \$7.9 million in the second quarter of 2008 from \$6.8 million in 2007. This was primarily due to growth in US revenue following the 2007 acquisition of BOLO. This increase would have been even more substantial if not for the large license sale recognized in South America in the second quarter of 2007.

License revenue decreased to \$3.0 million from \$5.9 million in 2007. The decrease is due to the substantial license revenue recognized in South America in the second quarter of 2007, which did not recur this year. Partially offsetting this is the \$1.9 million of license revenue attributed to BOLO in the quarter (2007 – nil). Maintenance revenue increased to \$2.3 million in 2008 from \$1.1 million in 2007, an increase of 104.6%, with \$1.1 million of the increase attributed to BOLO. WellPoint now provides maintenance to 385 customers worldwide and continues to achieve maintenance and support customer retention rates of approximately 98%. Revenue from professional services increased to \$4.9 million from \$2.4 million in 2007, an increase of 106.3%. This increase in professional services revenue is attributed entirely to Bolo.

### **Gross Profit-**

Gross profit was \$6.1 million (58.9% of total revenue) compared with \$7.9 million (83.7% of total revenue) for the second quarter of 2007. The 23.5% decrease in gross profit dollars is attributable to and consistent with the 49.2% decrease in license revenue and due to having attained higher margins in 2007 as a result of the large South American contract.

### **Expenses-**

The following table sets forth total expenses by function and as a percentage of total revenue for the second quarter of 2008 and 2007:

(in thousands)	2008	2007	% Change 2007 - 2008
<b>Selling, general and administration</b>	\$ 4,186	\$ 4,792	(12.6%)
<b>Facilities</b>	462	293	57.7%
<b>Research and development</b>	1,081	495	118.4%
	<u>\$ 5,729</u>	<u>\$ 5,580</u>	<u>2.7%</u>

  

<u>% of total revenue</u>	2008	2007
<b>Selling, general and administration</b>	40.8%	50.7%
<b>Facilities</b>	4.5%	3.1%
<b>Research and development</b>	10.5%	5.2%
	<u>55.8%</u>	<u>59.0%</u>

### **Sales, General and Administrative Expenses-**

Sales, general and administrative expenses decreased to \$4.1 million (40.7% of revenue) compared with \$4.8 million (50.7% of revenue) in the second quarter of 2007. The decrease primarily relates to the lower commissions and administrative costs which were included in 2007 due to the large South American contract, offset by higher administrative costs associated with the Bolo business. The Company is currently performing a thorough review of its sales, general and administrative expenses with a goal to significantly reduce these costs. Such cost reductions may include rationalization of some of our staff and non-core office locations to increase efficiency.

### **Facilities-**

Facilities expenses increased to \$0.5 million compared with \$0.3 million in the second quarter of 2007. The increase primarily relates to the 2007 acquisitions.

### **Research and Development-**

Research costs are expensed as incurred. Development costs are expensed in the year unless management believes they meet the criteria set out under GAAP for deferral and amortization. Furthermore, in accordance with GAAP, development costs are deferred only to the extent that their recovery can reasonably be regarded as assured. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income. If the Company defers a portion of development costs, they are amortized over a three-year period. The three-year period is consistent with the historical lifecycle of prior product versions and appropriately matches the product revenue stream with its development costs. Research and development costs include personnel and related costs and consulting fees.

The following table sets forth research expenses and deferred development costs capitalized for the second quarter of 2008 and 2007:

<b>(in thousands)</b>	<b>2008</b>	<b>2007</b>	<b>% Change 2007 - 2008</b>
<b>Research and development expense</b>	<b>\$ 1,081</b>	<b>\$ 495</b>	<b>118.4%</b>
<b>Deferred development costs</b>	<b>957</b>	<b>631</b>	<b>51.7%</b>
	<b>\$ 2,038</b>	<b>\$ 1,126</b>	<b>81.0%</b>

<b>% of total revenue</b>	<b>2008</b>	<b>2007</b>
<b>Research and development expense</b>	<b>10.5%</b>	<b>5.2%</b>
<b>Deferred development costs</b>	<b>9.3%</b>	<b>6.7%</b>
	<b>19.8%</b>	<b>11.9%</b>

In 2008, the Company incurred research and development expenses of \$1.1 million (10.5% of revenue) compared with \$0.5 million (5.2% of revenue) for the comparable period in 2007. The increase is primarily related to the research in connection with ongoing projects undertaken by the companies acquired in 2007. When combined with development expenditures capitalized in the second quarter, the Company invested \$2.0 million (19.8% of revenue) compared with \$1.1 million (11.9% of revenue) in the second quarter of 2007. The \$0.9 million increase is primarily attributable to investments in WellPoint Energy Broker including its integration with the WellPoint Energy Financial Management system, enhanced multicurrency functionality and additional investments made by the companies acquired in 2007, including investments in WellPoint EAM.

WellPoint Systems is committed to enhancing its position as a leading provider of software and related solutions within the energy and mining industries. The Company will increase its investment in the development of new and innovative products utilizing the Microsoft AX Dynamics architecture. This investment is a fundamental requirement as WellPoint Systems completes its transition to a product-focused company.

### **Depreciation and Amortization-**

Depreciation and amortization expenses increased to \$1.1 million compared with \$0.5 million for the second quarter of 2007. The increase primarily relates to the acquisitions completed in 2007 and the commencement of amortization of deferred development costs in connection with WellPoint Energy Broker introduced in 2007.

**Interest-**

Interest expenses include the cash and interest on the Company's interest-bearing obligations. In addition, interest costs include the interest payable on convertible debentures. Interest accretion is a result of the allocation of proceeds received from the issuance of convertible debt to their component parts, measured at their respective fair values at the time of issue or renegotiation. The debt component has been calculated as the present value of the required interest and principal payments, discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued or reduced, when the fair value of the conversion option increases following a change in the conversion price or conversion period. Interest expense is determined on the debt component. The difference between the debt component and the face value of the debenture is classified as shareholders' equity-convertible debentures, net of issue costs, and adjusted for income taxes. The debentures are accreted to their face value over their term with a charge to operations included in interest expense.

Interest expenses increased to \$0.9 million as compared with \$0.2 million for the second quarter of 2007. The increase primarily stems from the new financings in 2007 related to the BOLO and iSoft acquisitions. As at June 30, 2008, the Company had notes payable and convertible debt with a carrying value of approximately \$25.8 million with an effective annual interest rate of approximately 15.6%.

**Foreign Exchange Loss (Gain)-**

Most of the Company's businesses are organized geographically so that many expenses are incurred in the same currency as the revenue generated, which mitigates some exposure to currency fluctuations. Following the acquisition of BOLO in 2007, the Company significantly increased its net liabilities denominated in United States dollars in connection with notes payable issued in connection with the acquisition. The Company has not entered into any forward hedging contracts and therefore may experience gains and losses relating to foreign exchange. The gain for the three months ended June 30 is \$0.2 million (2007 – nil).

**Income Taxes-**

The Company provides for income taxes using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Future income tax assets and liabilities are measured using tax rates expected to apply in the years that temporary differences are expected to be recovered or settled. Any change to the net future income tax asset or liability is included in operations in the year it occurs.

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax assets considered realizable could change materially in the near term based upon the future taxable income during the carry-forward period. WellPoint operates globally and calculates its tax provision in each of the jurisdictions in which it conducts business. The Company's tax rate is therefore affected by the profitability of its operations in the various jurisdictions as well as the different tax rates that apply and its ability to utilize tax losses.

For the second quarter of 2008 the tax expense was consistent with the prior year at \$0.7 million. The tax expense is primarily as a result of the Company's profits in the US.

### **Net Loss and Net Loss Per Share-**

Due to the factors discussed above, the net loss for the second quarter of 2008 was \$2.4 million compared with net income of \$0.9 million for the second quarter of 2007. Basic and diluted net loss per share was (\$0.05) compared with earnings per share of \$0.02 for the second quarter of 2007.

### **Adjusted EBITDA-**

Adjusted EBITDA loss was \$0.6 million compared with Adjusted EBITDA of \$1.7 for the second quarter of 2007. The adjusted EBITDA loss was the result of the loss from operations along with deferred development costs for WellPoint Energy Broker as well as additional investments in development made in the second quarter of 2008 by the companies acquired in 2007.

### **Free Cash Flow-**

Free cash flow decreased to negative \$0.8 million as compared to positive free cash flow of \$0.6 million in the second quarter of 2007. The use of free cash flow in the second quarter was primarily due to approximately \$1.1 million of investment in deferred development costs and purchases of property and equipment (2007 - \$0.7 million), \$1.1 million in research and development expenses (2007 - \$0.5 million) and \$0.9 million in interest expense (2007 - \$0.2 million).

## **Selected Year-To-Date Financial Information**

### **In thousands, except per share amounts**

	2008	2007	% Change 2007 - 2008
Revenue	19,789	14,383	37.6%
Gross Profit	11,446	11,141	2.7%
Selling, general and Administration	7,459	6,864	8.7%
Facilities	898	568	58.1%
Research and Development	2,106	895	135.3%
Depreciation and Amortization	2,294	885	159.2%
Financing and Amortization of Debt and note payable issue Costs	254	55	361.8%
Interest	1,862	366	408.7%
Foreign Exchange loss (gain)	300	16	1775.0%
Fees and expenses on settlement of long term note payable	614	-	
Loss before tax	(4,341)	1,492	(391.0%)
Income tax expense	355	665	(46.6%)
Net loss	(4,696)	827	(667.8%)
Income (loss) per share	(0.10)	0.02	(600.0%)
Adjusted EBITDA	(1,100)	1,734	(163.4%)
Free cash flow	(2,379)	(1,153)	106.3%
Total assets	51,821	50,342	2.9%
Total liabilities	38,631	37,058	4.2%
Total equity	13,190	13,284	(0.7%)

WellPoint has included the financial results of its 2007 acquisitions in its results from the dates of acquisitions as follows: iSoft—March 13, 2007; and BOLO—August 13, 2007.

Revenue increased primarily due to the BOLO acquisition and an increase in professional services revenue in South America from the new customer added in the second quarter of 2007. Adjusted EBITDA decreased by approximately \$2.8 million primarily as a result of reduced profitability relating to lower margin professional services revenues in 2008 versus

higher margin license revenue in 2007.

## Results of Operations for the Year to Date

### Revenue-

The following table segments WellPoint's revenues by product and major geography for the six months ended, June 30, 2008 and 2007:

License	\$ 5,972	\$ 7,371	(19.0%)
Maintenance	4,698	2,647	77.5%
Professional Services	9,119	4,365	108.9%
	<u>\$ 19,789</u>	<u>\$ 14,383</u>	<u>37.6%</u>

% of total revenue	2008	2007
License	30%	51%
Maintenance	24%	18%
Professional Services	46%	30%
	<u>100%</u>	<u>100%</u>

### Revenue by geography

<u>(all amounts in thousands)</u>	2008	2007	% Change 2007 - 2008
Canada	\$ 4,254	\$ 5,535	(23.1%)
United States	12,964	1,696	664.4%
Central & South America	1,300	5,448	(76.1%)
Other International	1,271	1,704	(25.4%)
	<u>\$ 19,789</u>	<u>\$ 14,383</u>	<u>37.6%</u>

% of total revenue	2008	2007
Canada	21%	38%
United States	66%	12%
Central & South America	7%	38%
Other International	6%	12%
	<u>100%</u>	<u>100%</u>

Revenues increased by 37.6% to \$19.8 million in the first half of 2008 as compared with \$14.4 million in the same period in 2007. The increase was primarily the result of BOLO revenue of \$11.3 million in 2008. Substantially offsetting this increase is a decrease in license revenue in South America from 2007 levels.

Revenue from outside of Canada increased to \$15.5 million in the first half of 2008 from \$8.8 million in 2007. This was primarily due to the growth in US revenue following the 2007 acquisition of BOLO. This increase would have been even more substantial if not for the large license sale recognized in South America in 2007.

License revenue decreased to \$5.9 million from \$7.4 million in 2007. The decrease is the result of license revenues recognized in South America in 2007 not recurring in 2008. Partially offsetting this is the \$4.0 million of license revenue attributed to BOLO in 2008. Maintenance revenue increased to \$4.7 million in 2008 from \$2.6 million in 2007, an increase of 77.5%, with \$2.1 million of the increase attributed to BOLO. WellPoint now provides maintenance to 385 customers

worldwide and continues to achieve maintenance and support customer retention rates of approximately 98%. Revenue from professional services increased to \$9.1 million from \$4.4 million in 2007, an increase of 108.9%, with \$5.3 million of the increase attributed to BOLO.

**Gross Profit-**

Gross profit was \$11.4 million (57.8% of total revenue) compared with \$11.1 million (77.5% of total revenue) for 2007. The \$0.3 million increase in gross profit dollars is attributable to 2007 acquisitions. However, gross profit as a percentage of sales, decreased 19.7%. This decrease in gross profit percentage is consistent with the 19% decrease in license revenue and due to having attained higher margins in 2007 as a result of the large South American contract.

**Expenses-**

The following table sets forth total expenses by function and as a percentage of total revenue for the six months ended 2008 and 2007:

(in thousands)	2008	2007	% Change 2007 - 2008
<b>Selling, general and administration</b>	<b>\$ 7,460</b>	<b>\$ 6,864</b>	<b>8.7%</b>
<b>Facilities</b>	<b>898</b>	<b>568</b>	<b>58.1%</b>
<b>Research and development</b>	<b>2,106</b>	<b>895</b>	<b>135.3%</b>
	<b>\$ 10,464</b>	<b>\$ 8,327</b>	<b>25.7%</b>

  

<u>% of total revenue</u>	2008	2007
<b>Selling, general and administration</b>	<b>37.7%</b>	<b>47.7%</b>
<b>Facilities</b>	<b>4.5%</b>	<b>3.9%</b>
<b>Research and development</b>	<b>10.6%</b>	<b>6.2%</b>
	<b>52.9%</b>	<b>57.9%</b>

**Sales, General and Administrative Expenses-**

Sales, general and administrative expenses increased to \$7.5 million (37.7% of revenue) compared with \$6.9 million (47.7% of revenue) in the first six months of 2007. The increase primarily relates to the acquisitions of 2007 along with higher expenses relating to bad debts in 2008; partially offsetting the increase are lower commissions and administrative expenses that were associated with the large South American contract recorded in the second quarter of 2007.

**Facilities-**

Facilities expenses increased to \$0.9 million compared with \$0.6 million in 2007. The increase primarily relates to the 2007 acquisitions.

**Research and Development-**

The following table sets forth research expenses and deferred development costs capitalized for the six months ended June 30, 2008 and 2007:

(in thousands)	2008	2007	% Change 2007 - 2008
Research and development expense	\$ 2,106	\$ 895	135.3%
Deferred development costs	2,083	1,080	92.9%
	<u>\$ 4,189</u>	<u>\$ 1,975</u>	<u>112.1%</u>

<u>% of total revenue</u>	2008	2007
Research and development expense	10.6%	6.2%
Deferred development costs	10.5%	7.5%
	<u>21.2%</u>	<u>13.7%</u>

In 2008, the Company incurred research and development expenses of \$2.1 million (10.6% of revenue) compared with \$0.9 million (6.2% of revenue) for the comparable period in 2007. The increase is primarily related to the research in connection with ongoing projects undertaken by the companies acquired in 2007. When combined with development expenditures capitalized in the first quarter, the Company invested \$4.2 million (21.2% of revenue) compared with \$2.0 million (13.7% of revenue) in 2007. The \$2.2 million increase is primarily attributable to investments in WellPoint Energy Broker including its integration with the WellPoint Energy Financial Management, enhanced multicurrency functionality and additional investments made by the companies acquired in 2007, including investments in WellPoint EAM.

#### ***Depreciation and Amortization-***

Depreciation and amortization expenses increased to \$2.3 million compared with \$0.9 million for the comparable period in 2007. The increase primarily relates to the amortization of intangibles purchased as part of the acquisitions completed in 2007 and the commencement of amortization of deferred development costs in connection with WellPoint Energy Broker introduced in 2007.

#### ***Interest-***

Interest expenses increased to \$1.9 million as compared with \$0.4 million for 2007. The increase primarily stems from the new financings in 2007 related to the BOLO and iSoft acquisitions. As at June 30, 2008, the Company had notes payable and convertible debt with a carrying value of approximately \$25.8 million with an effective annual interest rate of approximately 15.6%.

#### ***Foreign Exchange Loss (Gain)-***

Most of the Company's businesses are organized geographically so that many expenses are incurred in the same currency as the revenue generated, which mitigates some of our exposure to currency fluctuations. Following the acquisition of BOLO in 2007, the Company significantly increased its net liabilities denominated in United States dollars in connection with notes payable issued in connection with the acquisition. The Company has not entered into any forward hedging contracts and therefore may experience gains and losses relating to foreign exchange. The foreign exchange loss for the six months ended June 30, 2008 was \$0.3 million (2007 – nil).

#### ***Income Taxes-***

For the six months ended June 30, 2008 the tax expense was \$0.4 million compared with tax expense of \$0.7 million in the first half of 2007. The tax expense is primarily as a result of the Company's profits in the US.

### ***Net Loss and Net Loss Per Share-***

The net loss for the first six months of 2008 was \$4.7 million compared to net income of \$0.8 million for the same period in 2007. Basic and diluted net loss per share was (\$0.10) compared to earnings per share of \$0.02 for the first half of 2007. The net loss and decreased earnings per share are attributed to the factors discussed above.

### ***Adjusted EBITDA-***

Adjusted EBITDA loss was (\$1.1) million compared with Adjusted EBITDA of \$1.7 million for 2007. The loss was the result of deferred development costs for WellPoint Energy Broker as well as additional investments made in the second quarter of 2008 by the companies acquired in 2007.

### ***Free Cash Flow-***

Free cash flow decreased to negative \$2.4 million as compared with free cash flow of negative \$1.2 million in 2007. The use of free cash flow in the 2008 was primarily due to approximately \$2.3 million of investment in deferred development costs and purchases of property and equipment (2007 - \$1.3 million), \$2.1 million in research and development expenses (2007 - \$0.9 million) and \$1.9 million in interest expense (2007 - \$0.4 million).

## **2008 Outlook**

During 2007 and in the first half of 2008, the Company has invested significant capital and management resources to complete the BOLO and iSoft acquisitions and integrate the acquisitions into WellPoint Systems. In 2008, with the acquisitions now in place, the Company will focus on increasing its net income, adjusted EBITDA, and free cash flow, and expects to advance on many fronts, through the following initiatives:

- Establishing deeper partnerships across the globe, including expanded and new agent relationships in international markets. In 2008, the Company particularly intends to focus its activities on increasing market share and driving revenue from opportunities primarily in the US and South American markets;
- Reducing the cost structure of the Company to improve profitability;
- Increasing sales and marketing of WellPoint Energy Broker in the North and South American markets and WellPoint EAM and WellPoint MRO solutions worldwide;
- Cross-selling the broad range of WellPoint Systems solutions within the existing base of customers;
- Continuing development of the WellPoint EAM, and WellPoint Energy Broker solutions to expand functionality as well as integration with best practices in the computer software industry; and
- Increasing operational efficiencies to improve net income, Adjusted EBITDA and free cash flow.

## **Liquidity and Capital Resources**

During the first six months of 2008, WellPoint Systems financed the business through cash provided from the issuance of convertible debentures and an increase in its bank indebtedness. The Company's cash balance at June 30, 2008 was nil. The Company's cash flows from operating, financing, and investing activities, as reflected in the Consolidated Statement of Cash Flows, are summarized below for the first six months of 2008 and 2007:

<u>in thousands</u>	<u>2008</u>	<u>2007</u>
Opening cash	-	2,929
Operating activities	(90)	189
Financing activities	2,393	4,529
Investing activities	(2,289)	(6,262)
Other	(14)	20
Closing cash	-	1,405

### ***Operating Activities-***

Cash used in operating activities was \$0.1 million compared to cash generated from operations in the first six months of 2007 of \$0.2 million. Operating cash flows in the first half of 2008 were affected by approximately \$1.9 million of interest, which was prepaid on the convertible debentures issued in the first quarter.

### ***Financing Activities-***

Cash provided by financing activities for 2008 was \$2.4 million compared with \$4.5 million in 2007. Prepaid expenses as at June 30, 2008 include approximately \$1.0 million of interest which was prepaid on the above debentures on March 10, 2008.

In order for the Company to be in compliance with the new covenants during the next twelve months, the Company will have to generate positive cash flows after deducting the following from cash flows from operating activities: deferred development costs; scheduled repayments of notes payable during the balance of 2008; and, commitments under the acquisition agreements for its 2006 and 2007 acquisitions which, depending on their respective performance in 2008, could result in approximately \$3.4 million in additional consideration to be paid in 2008 with \$1.2 million included in accounts payable and accrued liabilities as at June 30, 2008. At June 30, 2008, the Company had an operating credit facility in place in the amount of \$5.5 million of which the Company had drawn \$3.2 million.

As at June 30, 2008, the Company was not in compliance with its debt to equity ratio on its debt due to Quorum. On August 19, 2008, WellPoint received a waiver with respect to the covenant violations as at June 30, 2008. If the Company is unable to maintain compliance with its covenants, it will have to seek a waiver from the lenders or, if no waiver is obtained and the lenders demand repayment of the debt, the Company will have to seek refinancing of the debt with new debt or equity.

### ***Investing Activities-***

The principal use of cash in the first half of 2008 related to the investment of \$2.1 million in deferred development compared with \$1.1 million in the same period of 2007. Depending on the performance in the second year following the acquisition of IDEAS, the former shareholders could receive additional consideration of up to US\$0.75 million; the BOLO shareholders in first year following the acquisition could receive additional consideration of up to US\$2.25 million; and the iSoft shareholders in the first year following the acquisition could be eligible for an amount not expected to exceed \$0.4 million.

### ***Working Capital-***

The following table presents summarized working capital information as at June 30, 2008 and December 31, 2007:

<u>in thousands</u>	<u>2008</u>	<u>2007</u>
Current assets	8,309	8,035
Current liabilities	12,269	31,250
Working capital	(3,960)	(23,215)
Working capital ratio	0.68	0.26

The Company expects that it will need to raise additional capital to meet its current requirements for planned growth, debt repayment obligations, earn out payments, and to fund future capitalized expenditures.

**Financial Instruments-**

The Company has exposure to counterparty credit risk, liquidity risk and market risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit Committee which is responsible for developing and monitoring the Company's compliance with risk management policies and procedures. The Audit Committee regularly reports to the Board of Directors on its activities.

Management's primary risk management objective is to protect earnings and cash flow and ultimately shareholder value. The strategies and policies are designed to ensure that the Company's risks and exposures are in line with the business objectives and risk tolerance.

**Counterparty Credit Risk Management-**

Counterparty credit risk arises from the possibility that a counterparty to which the Company provides software, professional services and maintenance and support services has an amount owing to the Company and is unable or unwilling to meet its obligations in accordance with the terms and conditions of its contracts with the Company, which would result in a financial loss for the Company. This risk is mitigated through established credit management techniques, including conducting financial and other assessment to establish and monitor a counterparty's creditworthiness, setting exposure limits, monitoring exposures against these limits and obtaining financial assurances where warranted. Where practical, financial assurances include accounts receivable insurance from the Export Development Canada ("EDC") for customers who operate in high risk countries which, in the event of non-payment, entitles the Company to recover 90% of the amount invoiced to the customer.

The maximum counterparty credit exposure at the balance sheet date consists of the carrying amount (net of allowances) of non-derivative financial assets, which are trade accounts receivables predominately from oil and gas and mining companies in North and South America. The average credit period on sales is 30 days. Included in trade accounts receivables are \$3.4 million which are past due as at June 30, 2008 for which the Company has not provided an allowance as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances.

The aging of the accounts receivables as at June 30, 2008 is as follows:

<u>in thousands</u>	<u>Gross</u>	<u>Impairment</u>	<u>Net</u>
Not past due	4,716		4,716
Past due 1-30 days	797	8	789
Past due 31-60 days	282	11	271
Past due 61-150 days	955		955
Greater than 150 days	709	618	91
	<u>7,459</u>	<u>637</u>	<u>6,822</u>

The movement in the allowance for doubtful accounts for the three month period ended June 30, 2008 is as follows:

<u>in thousands</u>	<u>Continuity</u>
Balance, Beginning of period	251
Provision	<u>386</u>
	<u>637</u>

The Company has determined that an allowance of \$0.6 million is required in respect of the gross amount of trade accounts receivable. This has been based upon an individual account by account assessment based upon past credit history and the Company's knowledge of the counterparties. The concentration of credit risk as at June 30, 2008 is limited due to the

customer base being large and unrelated. Accordingly, the Company believes that there is no further allowance required in excess of the allowance for doubtful accounts.

**Liquidity Risk Management-**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. This includes daily monitoring of cash requirements by preparing 60-day and longer term cash flow analyses. The Company maintains a revolving credit facility of \$5.5 million with a maximum draw of 80% of allowable Canadian and United States accounts receivable and 90% of EDC insured accounts receivable. At June 30, 2008, the Company had borrowed \$3.2 million (December 31, 2007-\$1.2 million) on this facility.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the contingent consideration in connection with the 2006 and 2007 acquisitions of the Company. The Company expects that it will need to raise additional capital to meet its current requirements for funding this obligations.

<u>in thousands</u>	<u>Carrying</u> <u>Amount</u>	<u>Contractual</u> <u>Cash Flow</u>	<u>3 Months</u> <u>or less</u>	<u>4 to 6</u> <u>Months</u>	<u>2009</u>	<u>2010 -2013</u>
Accounts payable and accrued liabilities	\$ 6,122	6,122	6,122			
Current portion of long term notes payable	81	81	20	20	41	
Long term notes payable	5,009	6,098	209	154	395	5,340
Convertible debentures	20,671	34,023	158	158	9,194	24,513
Purchase commitments	-	5,252	444	444	1,776	2,588
	<u>\$ 31,883</u>	<u>51,576</u>	<u>6,953</u>	<u>776</u>	<u>11,406</u>	<u>32,441</u>

**Market Risk Management-**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

**Currency Risk-**

The Company is exposed to currency risk on sales, purchases and loans that are denominated in a currency other than the Canadian dollar. The primary currency in which these transactions are denominated is the United States dollar. The Company does not currently hedge any of its trade receivables or payables denominated in a foreign currency or its estimated foreign currency exposure in respect of forecasted sales and purchases. Principal and interest payments on United States dollar long term debt and contingent consideration from the 2006 and 2007 acquisitions are matched with the cash flow generated by the United States operations.

The following table summarizes the foreign currency financial instruments as at June 30, 2008:

<u>in thousands</u>	South African	
	<u>USD</u>	<u>Rand</u>
Cash	\$ 468	469
Accounts receivable	4,266	3,176
Accounts payable and accrued liabilities	(2,840)	(174)
Current portion of long term debt	(81)	-
Long term debt	(4,912)	-
Convertible debentures	(10,599)	
	<u>\$ (13,698)</u>	<u>3,471</u>

A 10% strengthening of the Canadian dollar against the United States dollar and South African rand as at June, 2008 would have increased net income by approximately \$1.4 million and decreased other comprehensive income by approximately \$0.2 million. A 10% weakening of the Canadian dollar against the United States dollar and South African rand as at June 30, 2008 would have decreased net income by approximately \$1.4 million and increased other comprehensive income by approximately \$0.2 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

#### ***Interest rate risk-***

The Company is exposed to interest rate risk as we borrow funds at both fixed and floating interest rates. As at the reporting date the interest rate profile of the Company's interest bearing financial liabilities was:

<u>in thousands</u>	<u>Carrying</u>	<u>Carrying</u>
	<u>Amount</u>	<u>Amount %</u>
Fixed rate financial liabilities	\$ 25,680	89%
Variable rate financial liabilities	3,191	11%
	<u>\$ 28,871</u>	<u>100%</u>

The risk is mitigated by maintaining an appropriate mix between fixed and floating rate borrowings. All of the Company's convertible debentures and long term notes payables have fixed interest rates which remain fixed during the term of the obligation other than in the event of default in which case the interest rate on the obligations are increased. The Company's bank indebtedness bears interest at prime plus 1.25%. The Company does not account for any of its fixed rate financial liabilities as held for trading, therefore a change in interest rates at the reporting date would not affect net income with respect to its fixed rate instruments.

The sensitivity analysis has been determined based upon exposure to interest rates. For floating rate financial liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole period. A 1% change in interest rates represents management's assessment of the reasonably possible change in interest rates and would have increased or decreased net income by \$6,443.

#### **Fair value of financial instruments**

Financial instruments included in the balance sheet are measured at fair value upon initial recognition and approximate their fair value as at June 30, 2008. The carrying amount of financial instruments classified as current approximates fair value due to their short term to maturity. Long term notes payable and convertible debentures were initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method. The carrying amount of long term notes payable and convertible debentures approximates fair value as at June 30, 2008, except for the August 25, 2005 and the March 12, 2007 convertible debentures with a carrying value of \$6.3 million which have a fair value of \$6.0 million.

### **Capital Disclosures-**

The Company manages its capital by matching long lived assets with long term financial instruments and equity. All sources of financing, including long term notes payable, convertible debt and other financing related to acquisitions are analyzed by management and approved by the Board of Directors.

The Company's objectives when managing capital are to:

- Safeguard the Corporation's ability to continue as a going concern and provide returns for shareholders; and
- Facilitate the acquisition and development of new products consistent with the growth strategy of the Company.

The Company manages capital through its detailed review and performance of all potential acquisitions, preparing short term and long term cash flow analyses to ensure that liquidity is adequate and monthly reviews of financial performance.

The Company considers the following items as capital of the Company:

<u>in thousands</u>	<u>Carrying Amount</u>
Long term notes payable	\$ 5,090
Convertible debentures	20,671
Shareholders' equity	12,546
	<u>\$ 38,307</u>

The Company has the following externally imposed requirements on its capital as a result of primarily the issuance of the August 25, 2005, March 12, 2007, March 10, 2008 \$2.7 million and March 10, 2008 US\$15.2 million convertible debentures. These requirements include maintaining certain targets for current assets to current liabilities, debt to equity and trailing 12 month EBITDA ("TTM EBITDA") as defined in the debt agreements.

The Company was not in compliance with its debt to equity covenants at June 30, 2008. On August 19, 2008, the Company obtained waivers from its lender for this covenant violation.

There have been no changes to the Company's approach to capital management from the prior year.

### **Outstanding Share Data-**

The following data is as of August 26, 2008, unless otherwise noted.

The Company is authorized to issue an unlimited number of voting common and preferred shares. There are 46,090,562 common shares outstanding.

The Company has the following convertible debentures: US\$15.2 million, which upon conversion would result in the issuance of 16,668,625 common shares at \$0.90 per common share; and \$11.7 million, which upon conversion would result in 22,328,877 common shares issued at an average conversion price of \$0.52 per common share, based on a range of \$0.34 to \$0.60 per common share.

Pursuant to the completion of the \$1.1 million convertible debenture offering on March 10, 2008, the Company granted the agent options to purchase 100,000 common shares of the Company at a price of \$0.60 per common share, expiring on July 31, 2009. Furthermore, in connection with the completion of this offering, and the \$2.7 million convertible offering on March 10, 2008, if these convertible debentures are not converted to common shares prior to the respective maturity dates in 2009, the Company will be required to issue up to 1,105,425 common shares of the Company as compensation for additional interest at a rate of 8% per annum.

The Company issued 2.7 million common share purchase warrants to Crown in connection with the US\$15.0 million loan

received by the Company in 2007, entitling Crown to purchase one common share of WellPoint Systems at an exercise price of US\$0.50 per common share. Following the repayment of the Crown note on March 11, 2008, 900,000 warrants expired unexercised.

The Company has a stock option plan for employees, directors, and consultants. At June 30, 2008, a total of 3,700,000 shares were reserved for issuance under this plan. Options granted vest over two to four years and as at June 30, 2008, 2.1 million options were outstanding with a weighted average exercise price of \$0.41 per share. As of the date of this MD&A 2.4 million options were outstanding.

The Company implemented a Directors' deferred share unit plan effective July 1, 2007. As at June 30, 2008, 122,300 DSU's are issuable to settle \$41,250 of directors' fees.

On a fully diluted basis, if all convertible debentures were converted, warrants exercised, options exercised and DSU's redeemed for common shares as at June 30, 2008, the total number of common shares issued and outstanding would be approximately 89.3 million.

## Change in Accounting Policies

Effective January 1, 2008, the Company adopted the following new CICA Handbook sections:

Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments –Presentation.

These new accounting standards replaced Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

Section 1535 - Capital Disclosures.

This new accounting standard requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements.

### ***Future Accounting Policies***

Section 3064– Goodwill and Intangible Assets will be adopted effective January 1, 2009. The Corporation does not expect the adoption of this standard will have any material impact on its consolidated financial statements.

International Financial Reporting Standards (IFRS). In 2006 the Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements in Canada. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year transition period with adoption required effective January 1, 2011. The financial impact of the transition to IFRS cannot be reasonably estimated at this time.

## Selected Quarterly Financial Information and Overview

The following table summarizes selected unaudited quarterly financial data for the past eight fiscal quarters:

<u>(in thousands)</u>	2008		2007				2006	
	Second	First	Fourth	Third	Second	First	Fourth	Third
Revenue	10,269	9,520	7,707	6,744	9,460	4,923	5,346	4,324
Depreciation and amortization	1,144	1,150	1,154	730	476	409	313	354
Financing and amortization of debt and note payable issue costs	161	93	1,613	280	33	22	19	19
Interest	931	932	870	608	223	143	148	147
Foreign exchange loss (gain)	(245)	545	(528)	(1,122)	23	(7)	(1)	(1)
Fees and expenses on settlement of long term note payable	-	615	-	-	-	-	-	-
Write down of deferred development costs	-	-	529	-	-	-	-	-
Goodwill impairment	-	-	1,605	-	-	-	-	-
Income (loss) before tax	(1,664)	(2,677)	(5,840)	292	1,582	(90)	691	15
Income tax expense (recovery)	727	(372)	(1,141)	94	665	-	228	4
Net Income (loss)	(2,391)	(2,305)	(4,699)	198	917	(90)	463	11
Earnings (loss) per share								
- Basic	(0.05)	(0.05)	(0.12)	-	0.02	-	0.01	-
- Diluted	(0.05)	(0.05)	(0.12)	-	0.02	-	0.01	-

Quarterly revenues, expenses, and net income are impacted by a number of external factors including the timing of large transactions, timing of budget approvals by customers, acquisitions, product mix, seasonality of economic activity, and write down and impairment charges.

Large transactions and acquisitions that affected quarterly results included the following: first quarter of 2007, the \$0.5 million WellPoint EAM software license sale and the iSoft acquisition on March 13 2007; second quarter of 2007, the software license sale to the South American customer; and third quarter of 2007, the acquisition of BOLO on August 13, 2007.

## Related Party Transactions

One director of the Company is on the Board and is the Managing Director of the Quorum Group of Companies ("Quorum") who manages investment funds which have provided financing to the Company. Quorum as fund manager has received fees from the Company in the amount of \$537,000 in connection with the issuance of US\$15.2 million and \$2.7 million of convertible debentures.

## Reconciliation of Non-GAAP Measures

### *Adjusted EBITDA-*

The Company reports this non-GAAP measure because it is a key measure used by management to evaluate the performance of the business. The Company believes that EBITDA is a measure commonly reported and widely used by

investors as an indicator of a Company's operating performance and ability to incur and service debt. It is also used as a valuation metric. The Company believes that EBITDA assists investors in comparing performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

Adjusted EBITDA is Standardized EBITDA<sup>1</sup>, excluding foreign exchange gains primarily related to the US dollar denominated debt of the Company and can vary significantly depending on exchange rate fluctuations, which are beyond the control of the Company, and write downs of deferred development costs, goodwill impairment, financing costs and after deducting the annual amount invested in respect of deferred development costs, which, with the implementation of International Financial Reporting Standards in the year ended December 31, 2011, will generally be required to be expensed on an annual basis.

Adjusted EBITDA is not a calculation based on GAAP and should not be considered to be an alternative to net income in measuring the Company's performance, or used as an exclusive measure of cash flow, because it does not consider the impact of working capital growth, all capital expenditures, debt reductions, and other sources and uses of cash, which are disclosed in the consolidated financial statements. Investors should carefully consider the specific items included in the Company's calculation of Adjusted EBITDA. While Adjusted EBITDA has been disclosed to permit a more complete comparative analysis of the Company's performance and debt servicing ability relative to other companies, investors should be cautioned that Adjusted EBITDA as reported by WellPoint Systems may not be comparable in all instances to Adjusted EBITDA reported by other companies.

The following is a reconciliation of Standardized EBITDA<sup>1</sup> with net income (loss) as reported in the consolidated financial statements and the calculation of Adjusted EBITDA for the three and six months ended June 30, 2008 and 2007.

<u>(in thousands)</u>	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net income (loss)	\$ (2,391)	916	(4,696)	827
Interest	931	223	1,862	366
Income taxes	727	665	355	665
Depreciation and amortization	1,144	476	2,294	885
Amortization of convertible debt issue costs	161	33	254	55
Standardized EBITDA	572	2,313	69	2,798
Fees and expenses on settlement of long term note payable	-	-	615	-
Foreign exchange loss (gain)	(246)	23	300	16
Less deferred development costs	(957)	(631)	(2,083)	(1,080)
Adjusted EBITDA	\$ (631)	1,705	(1,099)	1,734

#### **Free Cash Flow-**

The Company reports this non-GAAP measure because it is a key measure used by management to evaluate the financial performance of the business as it takes into account the impact of working capital, all capital expenditures and all debt related financing costs, which are payable in cash. The Company believes that Free Cash Flow is a measure used by investors as an indicator of a company's ability to repay debt, invest in future growth, and make distributions to owners.

Free Cash Flow is not a calculation based on GAAP and should not be considered to be an alternative to the Statement of Cash Flows as a measure of cash flow. Investors should carefully consider the specific items included in the Company's calculation of Free Cash Flow. While Free Cash Flow has been disclosed to permit a more complete comparative analysis of the Company's financial performance and debt serving ability relative to other companies, investors should be cautioned that Free Cash Flow as reported by WellPoint Systems may not be comparable in all instances to this non-GAAP measure reported by other companies.

The following is a reconciliation of Standardized Free Cash Flow<sup>1</sup> with cash flow from operations as reported in the consolidated financial statements for the quarters ended June 30, 2008 and 2007.

	<u>Three Months Ended June 30</u>		<u>Six Months Ended June 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>(in thousands)</b>				
<b>Cash flow from operating activities</b>	\$ 275	1,251	(90)	189
<b>Less deferred development costs</b>	(957)	(631)	(2,083)	(1,079)
<b>Less purchases of property and equipment</b>	(105)	(33)	(206)	(262)
<b>Free cash flow</b>	<u>\$ (787)</u>	<u>587</u>	<u>(2,379)</u>	<u>(1,152)</u>

1. Standardized EBITDA and Standardized Free Cash Flow are non-GAAP measures. Standardized EBITDA and Free Cash Flow are in accordance with the definition noted in the Canadian Institute of Chartered Accountants ("CICA") draft publication "Improved Communication with Non-GAAP Financial Measures" issued by the Canadian Performance Reporting Board of the CICA.

## SUBSEQUENT EVENTS

The Company had signed a contract for a large license sale with a key customer in South America in the first half of 2008. The Company had anticipated collecting on this contract and thus being able to record the revenue and associated EBITDA earlier this year. This license sale would have significantly increased revenue and EBITDA. However, due to customer payment delays, the Company has been unable to recognize this revenue under Canadian GAAP. This resulted in a violation on the Company's debt covenants with its lenders. On August 19, 2008, the Company obtained waivers from its lenders for the covenant violations which existed as at June 30, 2008. The Company and its lenders have agreed to renegotiate the Company's debt structure and modify the covenants going forward. Consequently the related debt has been reflected as long-term.