

WellPoint Systems Inc.



FORM 51-102F1

**Management's Discussion and Analysis
For the Three and Nine Month Periods Ended
September 30, 2009**

November 20, 2009

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This Management's Discussion and Analysis ("MD&A") for WellPoint Systems Inc. ("WellPoint Systems" or the "Company") for the three month and six month periods ended September 30, 2009 should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2008 and the unaudited Consolidated Financial Statements for the three months and nine months ended September 30, 2009 and the notes that accompany these financial statements filed on SEDAR, which are available at www.sedar.com. The unaudited Consolidated 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 November 20, 2009.

Section 1: Business Overview

WellPoint Systems is the premier provider of enterprise applications and related services for managing business in the global energy sector. The Company's product line reaches across boundaries from upstream to mid-stream. 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. WellPoint is the only enterprise solution provider on the Microsoft Dynamics AX platform targeting global energy companies.

Headquartered in Calgary, Alberta, WellPoint Systems Inc. was founded in 1997 and has offices around the world that currently employ 170 people and 17 contractors. Approximately 70% (2008-85%) of revenue is generated from customers in North America. The Company currently has 447 customers using WellPoint Systems' proprietary solutions that are delivered through four lines of business:

- **WellPoint Energy Suite** provides state of the art solutions built to improve operational efficiency, international financial management and business analysis for oil & gas producers, marketers and pipeline operators. This suite includes two products developed specifically for the energy industry. Energy Broker (ENB) is used by marketing groups in the Midstream Commodity Market to lessen their financial credit and operational delivery exposure. Energy Financial Management (EFM) is used by global energy companies to meet worldwide financial management and reporting requirements. WellPoint Enterprise Asset Management (AX EAM) helps companies both within and outside the energy industry manage the operational and financial aspects of all asset types including complex mission critical equipment, plants, rental units and fleets. AX EAM allows companies to understand and drive key factors such as asset utilization, operational uptime and profitability by managing the complete asset life cycle – from asset commissioning through maintenance, modification and decommissioning. WellPoint Energy Suite takes advantage of the Microsoft Dynamics AX architecture which provides integration with a complete enterprise resource planning (“ERP”) system as well as multi-currency, multi-location and multi-language functionality.
- **BOLO by WellPoint Systems** provides back office management solutions for upstream oil and gas companies. The integration of accounting, land and production automates the complex business process requirements of the oil and gas industry in the US. BOLO's seamless approach to the back office provides more than 150 customers with access to the information they need to make critical business decisions in order to manage their companies better.
- **IDEAS by WellPoint System** provides a complete accounting package used by over 200 companies internationally. Specifically developed to accommodate the unique requirements of multi-national oil and gas operators, IDEAS was designed in conjunction with the world's most successful oil and gas companies. The system is unique in its capability to comply with local accounting and reporting requirements of any country in which it is being used, while simultaneously meeting home country financial reporting standards.

- **OMS/COBRA by WellPoint Systems** are two heritage products that remain core to our business. OMS (Oil Marketing System) manages the entire midstream oil marketing process, allowing forecasting and reporting of crude oil volumes for both producers and shippers. Approximately 60% of all crude traded in Western Canada is tracked through OMS. COBRA (Crude Oil Balancing and Revenue Accounting) manages the complex process of allocating and balancing crude oil, condensate and other petroleum products flowing through pipelines and terminals.

Section 2: Vision and Strategy

WellPoint Systems' mission is to deliver innovative solutions that help its customers manage their businesses through the application of integrated technologies and superior services. The Company's strategic objective is to become the dominant provider of enterprise applications to growth oriented companies within the global energy sector. The Company's ability to achieve this objective rests upon the following key strategic initiatives:

- **Delivering Superior Technology** – WellPoint has created industry specific functionality for the complex energy and natural resources sectors while taking full advantage of a complete ERP solution, providing customers with innovative solutions tailored to their specific business needs.
- **Focusing on Customers** – WellPoint's culture centers on its customers, partnering with clients to drive software development and service programs that enable them to better manage their businesses.
- **Building on a Strong Platform** – WellPoint is uniquely aligned with Microsoft and is the only ERP solution in the Energy Sector built on the Dynamics AX platform. This arrangement enables WellPoint products to take full advantage of Microsoft's commitment to the Dynamics AX architecture.
- **Maintaining a Strong Leadership Team** – WellPoint has taken the steps necessary to strengthen the executive management team. The current team, with a proven track record for building companies, has a history of driving and sustaining growth in market share and financial performance.
- **Building Market Awareness** – WellPoint has invested in establishing itself as a thought leader in its market space and conducts targeted marketing campaigns in order to increase market awareness.
- **Attracting and Retaining Key People** – WellPoint seeks to be the employer of choice by offering its employees an opportunity to promote their personal development, growth and success; and 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.

Section 3: 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;
- **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; and
- **Adjusted EBITDA** is Standardized EBITDA¹, 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, stock based compensation, fees and expenses on settlement of debt and losses on extinguishment of debt 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.

1. Standardized EBITDA is a non-GAAP measure. Standardized EBITDA is 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.

Section 4: Overall Performance

THIRD QUARTER BUSINESS HIGHLIGHTS

- Increased net income for the third quarter of 2009 by \$11.6 million (\$0.23 per share) to \$2.7 million (\$0.05 per share), compared with a net loss of (\$9.0) million (\$0.19 per share) in the third quarter of 2008;
- Net income for the nine months ended September 30, 2009 increased by \$17.3 million (\$0.38 per share) to \$3.7 million (\$0.08 per share), compared with a net loss of (\$17.5) million (\$0.30 share) for the same period in 2008;
- Increased Adjusted EBITDA for the third quarter of 2009 by \$5.2 million to \$2.9 million, compared with an Adjusted EBITDA loss of (\$2.3) million in the third quarter of 2008;
- Received a US\$3.3 million (CDN\$3.6 million) indemnity payment from Export Development Canada ("EDC");
- Redeemed \$1.3 million (net) of convertible debentures that came due;
- Grew customer base by 12 companies, including five sales of WellPoint's Dynamics AX EAM and EFM products;
- Sold additional licenses to 13 current customers;

- Released WellPoint Integrated Suite (WIS) 5.2 which included enhancements to Energy Broker and Energy Financial Management such as data integration; improved budgetary processing enhanced reporting, enhanced tariff functionality and revised production forecasting. This release series also blends the Enterprise Asset Management product line with the WIS products such that a customer can purchase a fully-integrated system on the AX 2009 platform;
- Released BOLO 9.3 which included enhancements to BOLO's Multicurrency, Asset Tracking, Revenue, Land, and Production Accounting features. As a part of WellPoint's continuing support of this product line, there were more than 250 small enhancements across the full suite of capabilities; and
- Ranked 28th among the Deloitte Technology Fast 50TM, a ranking of the 50 fastest growing technology companies in Canada.

Section 5: Selected Third Quarter Financial Information

(in thousands, except per share amounts)	% Change		
	2009	2008	2008 - 2009
Revenue	9,921	7,825	26.8%
Gross Profit	7,373	3,952	86.6%
Selling, general and Administration	2,794	3,935	(29.0%)
Facilities	354	429	(17.5%)
Research and Development	1,324	1,674	(20.9%)
Depreciation and Amortization	805	1,121	(28.2%)
Financing and Amortization of Debt and note payable issue Costs	59	137	(56.9%)
Interest	1,580	959	64.8%
Foreign Exchange loss (gain)	(1,689)	739	(328.6%)
Write-down of deferred development costs	0	4,227	(100.0%)
Income (loss) before tax	2,146	(9,269)	123.2%
Income tax expense (recovery)	(514)	(313)	(64.2%)
Net income (loss)	2,660	(8,956)	(129.7%)
Income (loss) per share	0.05	(0.19)	126.3%
Adjusted EBITDA	2,947	(2,291)	228.6%
Total assets	41,761	46,861	(10.9%)
Total liabilities	39,009	42,414	(8.0%)
Total equity	2,752	4,446	(38.1%)

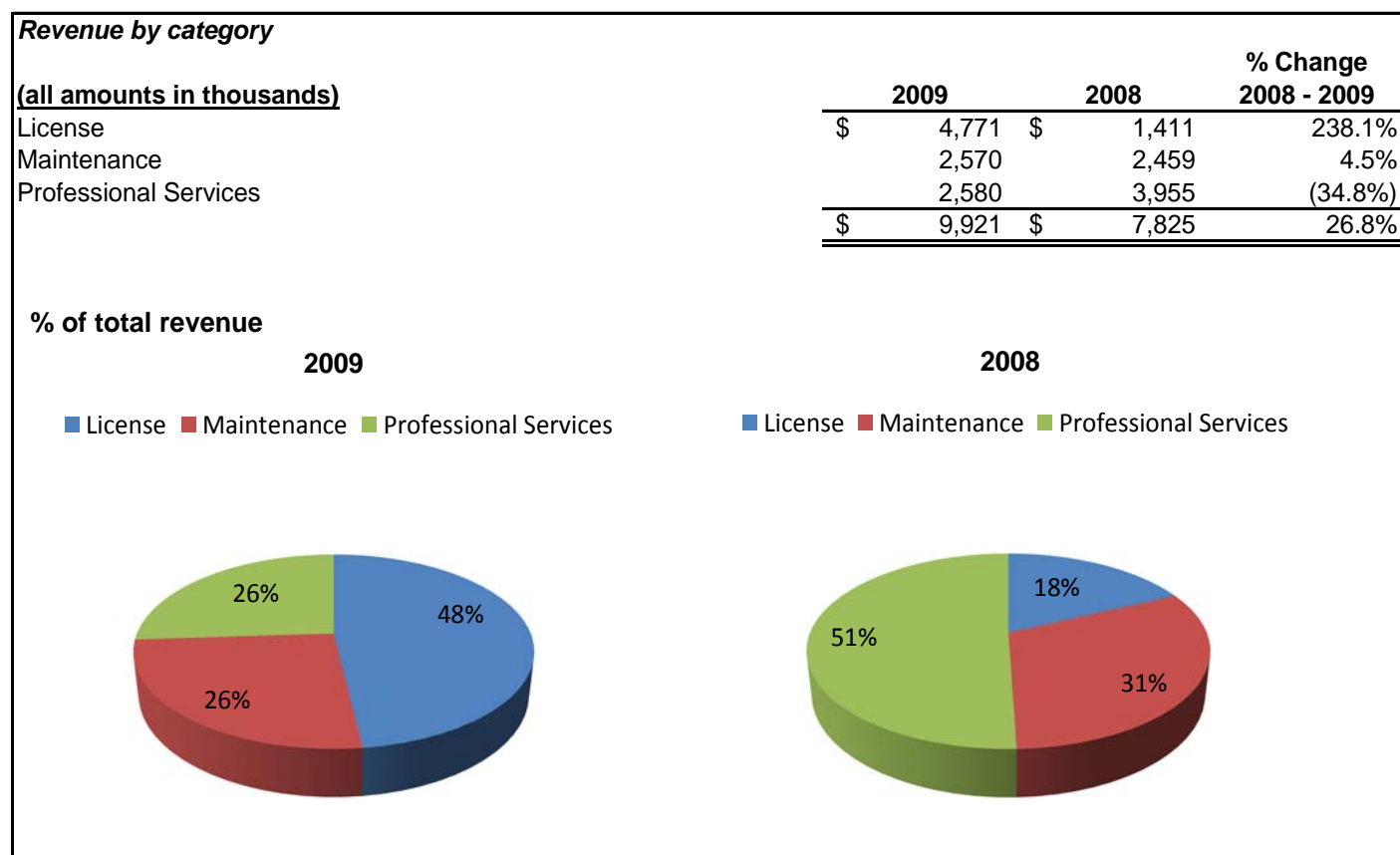
Revenue for the third quarter of 2009 increased by \$2.1 million as compared with the same period in 2008 primarily as a result of the EDC insurance indemnity payment of \$3.6 million, offset by a decline in lower margin professional services revenue. Gross profit increased by \$3.4 million in the third quarter of 2009 due to the Company's changing revenue mix, which saw higher license and maintenance fees and a decrease in lower margin professional services revenue. WellPoint decreased its selling, general and administrative ("SG&A") expenses by \$1.1 million in the third quarter of 2009 as compared with the third quarter of 2008 primarily as a result various cost optimization efforts implemented during the latter half of 2008. In addition, the Company rolled back salaries at its North American operations by 10% in early 2009. R&D expenses decreased by \$0.4 million primarily as part of the Company's cost optimization efforts. Adjusted EBITDA increased by approximately \$5.2 million primarily due to the significant

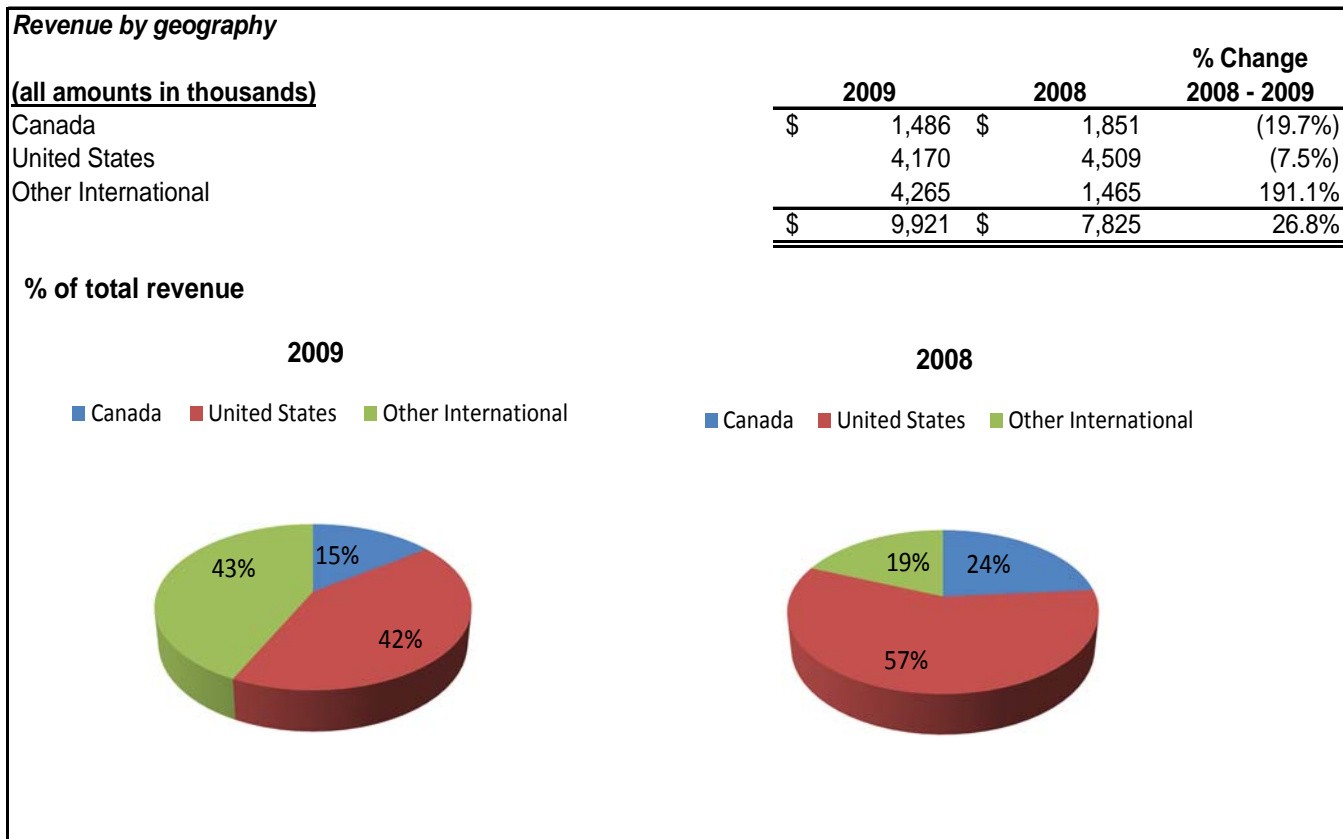
decreases in the Company's operating costs, the EDC insurance indemnity payment and resulting stronger gross profit. Net income increased by \$11.7 million for the same reasons as the Adjusted EBITDA increases, write-offs of deferred development costs in 2008 that did not recur in 2009 and due to a foreign exchange gain in the third quarter of 2009.

Section 6: Results of Operations for the Three Months ended September 30, 2009

REVENUE

The following table provides a breakdown of WellPoint's revenues by category and major geography for the third quarter of 2009 and 2008:





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 (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.

Overall revenues for the third quarter of 2009 increased by \$2.1 million as compared with the third quarter of 2008. License revenue increased to \$4.8 million from \$1.4 million in 2008. License revenue for the third quarter of 2009 includes \$3.6 million of revenue from the Company's previously announced insurance indemnity payment from EDC. The EDC insurance indemnity payment was received pursuant to the terms of an accounts receivable insurance policy taken by WellPoint to minimize commercial risks associated with a contract for an existing customer in South America. Excluding this insurance indemnity payment, license revenue decreased by \$0.3 million due to general economic conditions. Maintenance revenue grew to \$2.6 million in 2009 from \$2.5 million in 2008, an increase of 5%, due to expansion of the Company's customer base. WellPoint now provides maintenance to 447 customers worldwide and

continues to achieve maintenance and support customer retention rates of approximately 99%. Professional services revenue decreased by \$1.4 million in the third quarter of 2009 as compared with the same period of the prior year. In 2008, the Company was working on a large implementation in South America. This implementation was predominately complete in the third quarter of 2008 which contributed to the drop in the 2009 third quarter professional services revenue. Further impacting the professional services revenue was the continued instability in general economic climate with customers choosing to preserve cash and defer implementations and software enhancements until conditions improve.

Revenues from international operations increased to 43% in the third quarter of 2009 from 19% in the third quarter of 2008. The increase in international operational revenue is attributed to the EDC insurance indemnity payment received in the third quarter of 2009.

GROSS PROFIT

Gross profit was \$7.4 million (74% of total revenue) compared with \$4.0 million (51% of total revenue) for the third quarter of 2008. The \$3.4 million increase in gross profit is attributed to the Company's changing revenue mix and the EDC insurance indemnity payment discussed above. During the third quarter of 2009 compared with the same period of the prior year, the Company increased its sales of higher margin license and maintenance revenue by \$3.5 million and decreased its lower margin professional services revenue by \$1.4 million. This shift in revenue mix resulted in an increase in both gross profit and gross margin.

EXPENSES

The following table sets forth total expenses by function and as a percentage of total revenue for the third quarter of 2009 and 2008:

(in thousands)	2009	2008	% Change 2008 - 2009
Selling, general and administration	\$ 2,794	\$ 3,935	(29.0%)
Facilities	354	429	(17.5%)
Research and development	1,324	1,674	(20.9%)
	<u>\$ 4,472</u>	<u>\$ 6,038</u>	<u>(25.9%)</u>
% of total revenue	2009	2008	
Selling, general and administration	28.2%	50.3%	
Facilities	3.6%	5.5%	
Research and development	13.3%	21.4%	
	<u>45.1%</u>	<u>77.2%</u>	

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A decreased to \$2.8 million (28% of revenue) compared with \$3.9 million (50% of revenue) in the third quarter of 2008. The 2008 SG&A costs were negatively impacted by severance costs and high bad debt expenses. The decrease in 2009 SG&A costs is a result of various cost reduction efforts implemented during the latter half of 2008. In addition, due to the negative general economic climate, the

Company took additional steps in 2009 to reduce SG&A expenses by rolling back salaries at its North American operations by 10%. Partially offsetting the salary decrease was a onetime bonus payment of \$0.2 million in 2009. Further impacting the comparison between the Company's 2008 and 2009 SG&A costs is the decision by the Company to stop capitalizing research and development costs in 2009 as projects no longer meet the criteria for capitalization. In 2008, a portion of the Company's SG&A costs were allocated to research and development and capitalized. Had these costs not been capitalized in 2008, the comparative change in SG&A would have been even greater.

FACILITIES

Facilities expenses decreased to \$0.35 million compared with \$0.43 million in the third quarter of 2008. The decrease primarily relates to consolidation of the Company's offices in Calgary.

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, overhead and consulting fees.

The following table sets forth research expenses and deferred development costs capitalized for the third quarter of 2009 and 2008:

(in thousands)	2009	2008	% Change 2008 - 2009
Research and development expense	\$ 1,324	\$ 1,674	(20.9%)
Deferred development costs	-	333	(100.0%)
	<u>\$ 1,324</u>	<u>\$ 2,007</u>	<u>(34.0%)</u>
% of total revenue	2009	2008	
Research and development expense	13.3%	21.4%	
Deferred development costs	0.0%	4.3%	
	<u>13.3%</u>	<u>25.6%</u>	

In the third quarter of 2009, the Company incurred research and development expenses of \$1.3 million (13% of revenue) compared with \$1.7 million (21% of revenue) for the comparable period in 2008. The decrease in current research and development is related to a decision to stop capitalizing research and development expenses as they no longer meet the criteria for capitalization. When compared with development expenditures capitalized in the 2008, the Company's investment in research and

development appears to have decreased by \$0.7 million. However, this decrease is primarily attributable to various cost reduction efforts implemented during the latter half of 2008. Further, due to the negative general economic climate, the Company took additional steps in 2009 to reduce research and development expenses by rolling back salaries at its North American operations by 10%. Partially offsetting the decrease in costs was a onetime bonus payment of \$0.1 million in 2009. In 2008, a portion of the Company's SG&A costs were allocated to research and development and capitalized. Had these costs not been capitalized in 2008, the comparative change in research and development costs would have been significantly smaller. For greater clarity, the Company is continuing to invest in research and development projects with the same vigor as in 2008, however the reduction in the current year expenditure is related entirely to cost optimizations and a reallocation of costs between research and development expenditures and SG&A (please see SG&A section above).

WellPoint Systems is committed to enhancing its position as a leading provider of software and related solutions within the energy and natural resources industries. The Company continues to increase its investment in the development of new and innovative products utilizing the Microsoft AX Dynamics architecture. This investment in R&D is a fundamental requirement as WellPoint Systems continues to build products that meet the evolving needs of its customers.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses decreased to \$0.8 million compared with \$1.1 million for the third quarter of 2008. The decrease primarily relates to the Company's decision to write-off a significant portion of its deferred development costs in the third quarter of 2008. Since these costs have been written off, there is no longer a requirement to amortize the expenses.

INTEREST

Interest expenses include the cash and interest accretion 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 \$1.6 million as compared with \$1.0 million for the third quarter of 2008. The increase primarily stems from the new financings in 2008. As of September 30, 2009, the Company had notes payable, capital leases and convertible debt with a carrying value of approximately \$31.8 million with an effective annual interest rate of approximately 16.0%.

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 due to notes payable issued in connection with the acquisition along with US convertible debentures needed to complete the acquisition. The Company has not entered into any forward hedging contracts and therefore experiences gains and losses relating to foreign exchange. The foreign exchange gain for the three months ended September 30, 2009 was \$1.7 million compared to a \$0.7 million loss in 2008.

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 third quarter of 2009 the tax recovery was (\$0.5) million compared with a tax recovery of (\$0.3) million in the same period of the prior year. The tax recovery is primarily as a result of the Company's operations in the US.

NET INCOME AND NET INCOME PER SHARE

Due to the factors discussed above, the net income for the third quarter of 2009 was \$2.7 million compared to a net loss of (\$9.0) million for the third quarter of 2008. Basic and diluted net income per share was \$0.05 compared with a net loss per share of (\$0.19) for the third quarter of 2008.

ADJUSTED EBITDA AND ADJUSTED EBITDA PER SHARE

Adjusted EBITDA was \$3.0 million compared to an Adjusted EBITDA loss of (\$2.3) million for the third quarter of 2008. The \$5.3 million increase in Adjusted EBITDA was the result of the reduced operating costs as discussed above and the EDC insurance indemnity payment received in the third quarter of 2009. Basic and fully diluted Adjusted EBITDA per share was \$0.06 compared with an Adjusted EBITDA

loss per share of (\$0.05) for the third quarter of 2008.

Section 7: Selected Financial Information for the Nine Months Ended September 30, 2009

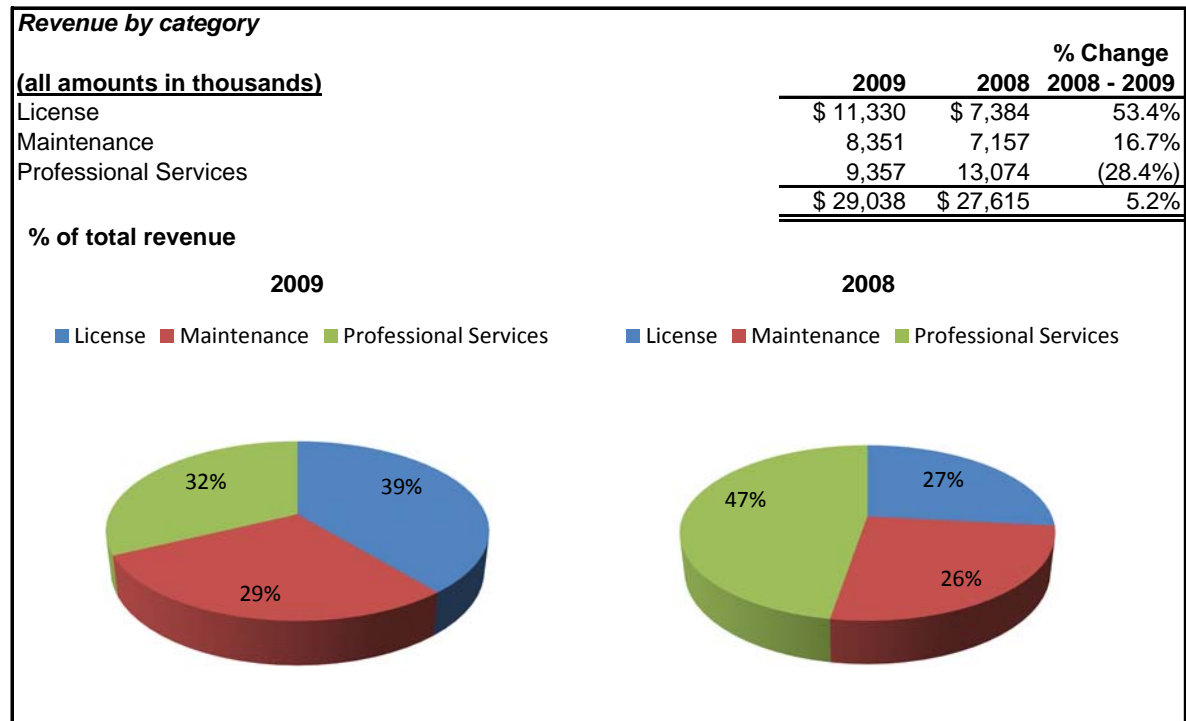
(in thousands, except per share amounts)			% Change
	2009	2008	2008 - 2009
Revenue	29,038	27,615	5.2%
Gross Profit	20,619	15,399	33.9%
Selling, general and Administration	7,867	11,394	(31.0%)
Facilities	1,118	1,327	(15.7%)
Research and Development	4,181	3,780	10.6%
Depreciation and Amortization	2,549	3,416	(25.4%)
Financing and Amortization of Debt and note payable issue Costs	203	390	(47.9%)
Interest	4,498	2,821	59.4%
Foreign Exchange loss (gain)	(2,517)	1,039	(342.3%)
Fees and expenses on settlement of long term note payable	-	615	(100.0%)
Write down of deferred development costs	-	4,227	(100.0%)
Income (loss) before tax	2,720	(13,610)	120.0%
Income tax expense (recovery)	(970)	42	(2409.5%)
Net income (loss)	3,690	(13,652)	127.0%
Income (loss) per share	0.08	(0.30)	126.7%
Adjusted EBITDA	7,562	(3,337)	326.6%
Total assets	41,761	46,861	(10.9%)
Total liabilities	39,009	42,414	(8.0%)
Total equity	2,752	4,446	(38.1%)

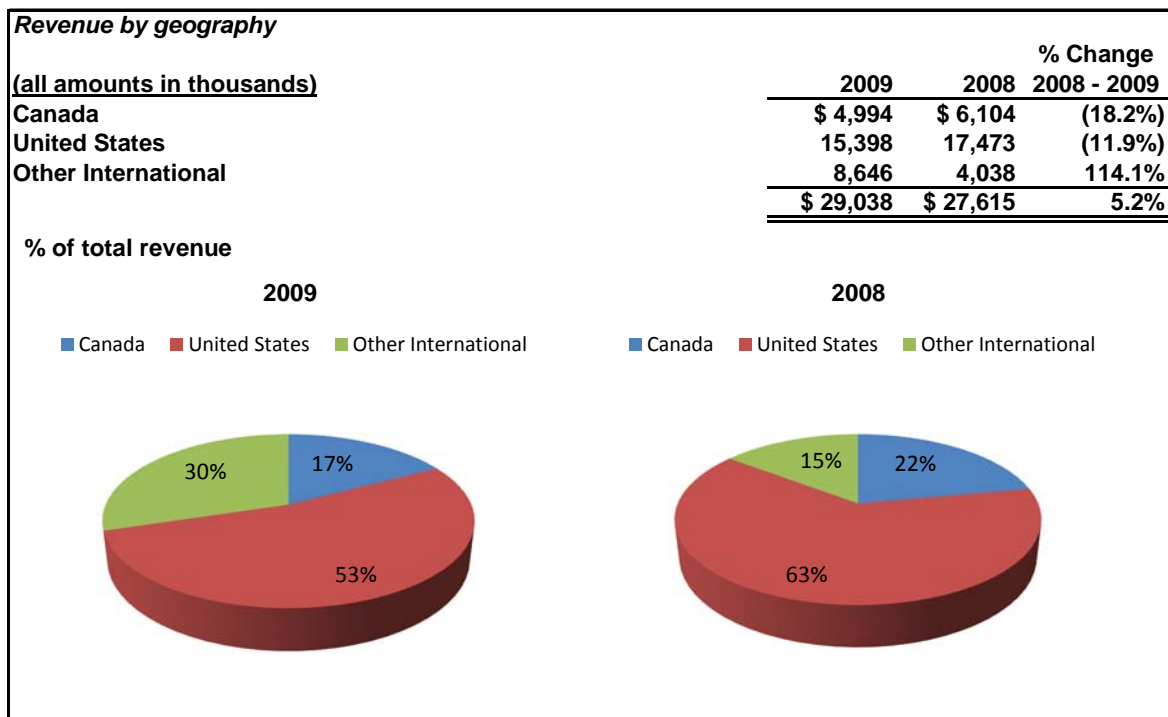
Revenue increased by \$1.4 million primarily due to increases in maintenance and license revenue, offset by a decline in lower margin professional services revenue. Gross profit increased by \$5.2 million due to the Company's revenue mix. WellPoint decreased its SG&A expenses by \$3.5 million compared with the same period in 2008 due to various cost optimization efforts implemented in late 2008. Net income increased significantly by \$17.3 million primarily due to increases in the Company's gross profit, reduction in operating expenses, a \$2.5 million foreign exchange gain and write-off of deferred development costs in 2008 which did not recur in 2009. Adjusted EBITDA for the nine months ended September 30, 2009 was \$7.6 million compared to an Adjusted EBITDA loss of (\$3.3) million in 2008. The significant increase in Adjusted EBITDA is related to the same items as the significant increase in net income with the exception of the \$2.5 million foreign exchange gain and 2008 write-off of deferred development costs of \$4.2 million.

Section 8: Results of Operations for the Nine Months Ended September 30, 2009

REVENUE

The following table provides a breakdown of WellPoint's revenues by category and major geography for the nine months ended September 30, 2009 and 2008:





Revenues increased by 5% to \$29.0 million in the first nine months of 2009 compared with \$27.6 million in the same period in 2008. Revenue from outside of Canada increased by \$2.5 million compared with the same period in the prior year. This was primarily due to the growth in other international revenue from the QMENA license sale and the EDC insurance indemnity payment which, were partially offset by decreases in South American revenue due to the completion of the South American contract in Q3 of 2008.

License revenue increased to \$11.3 million from \$7.4 million in 2008. The increase is the result of license revenues from the US\$2.0 QMENA sale in the first half of 2009 and the US\$3.3 million EDC insurance indemnity payment, offset by a decline in BOLO license sales as compared with 2008. Maintenance revenue increased to \$8.4 million in 2009 from \$7.2 million in 2008, an increase of 17%, with a substantial portion of the increase attributed to the South American customer whose implementation was completed in the third quarter of 2008. Revenue from professional services decreased to \$9.4 million from \$13.1 million in 2008, a decrease of 28%. The substantial decrease in professional services revenue is attributed primarily to the completion of the 2007 South American contract in Q3 of 2008. Further impacting the professional services revenue is the continued instability in the general economic climate with customers choosing to preserve cash and defer implementations and software enhancements until conditions improve.

GROSS PROFIT

Gross profit was \$20.6 million (71% of total revenue) compared with \$15.4 million (56% of total revenue) for 2008. The \$5.2 million (34%) increase in gross profit is attributable to the increase in higher margin license and maintenance revenue and a decrease in lower margin professional services revenue.

EXPENSES

The following table sets forth total expenses by function and as a percentage of total revenue for the nine months ended 2009 and 2008:

(in thousands)			% Change
	2009	2008	2008 - 2009
Selling, general and administration	\$ 7,867	\$ 11,394	(31.0%)
Facilities	1,118	1,327	(15.7%)
Research and development	4,181	3,780	10.6%
	<u>\$ 13,166</u>	<u>\$ 16,501</u>	<u>(20.2%)</u>
% of total revenue	2009	2008	
Selling, general and administration	27.1%	41.3%	
Facilities	3.9%	4.8%	
Research and development	14.4%	13.7%	
	<u>45.3%</u>	<u>59.8%</u>	

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses decreased by \$3.5 million (31%) to \$7.9 million (27% of revenue) compared with \$11.4 million (41% of revenue) in the first nine months of 2008. The decrease primarily relates to the various cost optimizations implemented in the autumn of 2008 along with higher expenses relating to bad debts and restructuring charges in 2008. Further impacting the comparison between the Company's 2008 and 2009 SG&A costs is the decision by the Company to stop capitalizing research and development costs in 2009 as the projects no longer meet the criteria for capitalization. In 2008, a portion of the Company's SG&A costs were allocated to research and development and capitalized. Had these costs not been capitalized in 2008, the comparative change in SG&A would have been even greater.

FACILITIES

Facilities expenses decreased to \$1.1 million compared with \$1.3 million in 2008. The decrease primarily relates to consolidation of the Company's offices in Calgary.

RESEARCH AND DEVELOPMENT

The following table sets forth research expenses and deferred development costs capitalized for the nine months ended September 30, 2009 and 2008:

(in thousands)			% Change
	2009	2008	2008 - 2009
Research and development expense	\$ 4,181	\$ 3,780	10.6%
Deferred development costs	-	2,416	(100.0%)
	<u>\$ 4,181</u>	<u>\$ 6,196</u>	<u>(32.5%)</u>
% of total revenue	2009	2008	
Research and development expense	14.4%	13.7%	
Deferred development costs	0.0%	8.7%	
	<u>14.4%</u>	<u>22.4%</u>	

In the first nine months of 2009, the Company incurred research and development expenses of \$4.2 million (14% of revenue) compared with \$3.8 million (14% of revenue) for the comparable period in 2008. The increase in current research and development is related to a decision to stop capitalizing research and development expenses as they no longer meet the criteria for capitalization. When compared with development expenditures capitalized in the 2008, the Company's investment in research and development appears to have decreased by \$2.0 million. However, this decrease is primarily attributable to various cost reduction efforts implemented during the latter half of 2008. Further, due to the negative general economic climate, the Company took additional steps in 2009 to reduce research and development expenses by rolling back salaries at its North American operations by 10%. In 2008, a portion of the Company's SG&A costs were allocated to research and development and capitalized. Had these costs not been capitalized in 2008, the comparative change in research and development costs would have been significantly smaller. For greater clarity, the Company is continuing to invest in research and development projects with the same vigor as in 2008, however the reduction in the current year expenditure is related entirely to cost optimizations and a reallocation of costs between research and development expenditures and SG&A (please see SG&A section above).

WellPoint Systems is committed to enhancing its position as a leading provider of software and related solutions within the energy and natural resources 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 continues to build products that meet the evolving needs of its customers.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses decreased to \$2.5 million compared with \$3.4 million in 2008. The decrease primarily relates to the Company's decision to write-off a significant portion of its deferred development costs in the third quarter of 2008. Since these costs have been written off, there is no longer a requirement to amortize the expenses.

INTEREST

Interest expenses increased to \$4.5 million as compared with \$2.8 million for the first half of 2008. The increase primarily stems from the new financings in 2008 and the refinancing of the Company's debentures at the end of 2008. As at September 30, 2009, the Company had notes payable and

convertible debt with a carrying value of approximately \$31.8 million with an effective annual interest rate of approximately 16.0%.

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 foreign exchange gain for the first nine months of 2009 was \$2.5 million (2008 – \$1.0 million loss).

INCOME TAXES

For the nine months ended September 30, 2009 the tax recovery was (\$1.0) million compared to a tax expense of \$42,000 for the same period in 2008. The tax recovery is primarily as a result of the Company's operations in the US.

NET INCOME AND NET INCOME PER SHARE

The net income for the nine months ended September 30, 2009 was \$3.7 million compared to a net loss of \$13.7 million for the same period in 2008. Basic and diluted net income per share was \$0.08 compared to a loss per share of (\$0.30) in 2008. The net income and increased earnings per share are attributed to the factors discussed above.

ADJUSTED EBITDA AND ADJUSTED EBITDA PER SHARE

Adjusted EBITDA increased by \$10.9 million to \$7.6 million compared with an Adjusted EBITDA loss of (\$3.3) million for the first nine months of 2008. Basic and fully diluted EBITDA per share was \$0.16 compared to an Adjusted EBITDA loss per share of (\$0.07). The significant increase in 2009 Adjusted EBITDA and Adjusted EBITDA per share is a result of the increased gross profit and reduced operating expenses as discussed above.

Section 9: Outlook

During 2008, the Company invested significant capital and management resources to integrate the BOLO and iSoft acquisitions into WellPoint Systems. In 2009, with the acquisitions now in place, the Company has and will continue to focus on increasing its net income and Adjusted EBITDA 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 2010, the Company particularly intends to focus its activities on increasing market share and driving revenue from opportunities primarily in the North American, Middle Eastern and other international markets;

- Increasing sales and marketing of WellPoint Energy Broker in the North American market and WellPoint EAM and WellPoint EFM solutions worldwide;
- Continuing development and marketing of BOLO and IDEAS in their target markets to increase market share;
- Continuing development and marketing of the WellPoint Energy Suite solutions to expand functionality and better conform with best practices in the computer software industry; and
- Increasing sales and marketing of the WellPoint EAM solution to broad-based manufacturers through partner channels.

In the first nine months of 2009, the Company recorded US\$2.0 million in revenue from the agreement the Company signed on December 24, 2008 with Quorum MENA Limited (“QMENA”) and US\$3.3 million from the EDC insurance indemnity payment. The Company is also anticipating increased activity for its Microsoft Dynamics AX (ENB, EFM and AX EAM) based products. As a result of the factors outlined above and lower operating costs the Company anticipates posting record revenue, net income and Adjusted EBITDA in 2009.

Commodity prices appeared to have stabilized with oil trading in the US\$70 – US\$80 per barrel range and natural gas in the US\$4.0 – US\$5.0 per MMBtu range. Management believes that this stability in commodity prices will increase demand for the Company’s products due to higher levels of mergers and acquisitions activity and increased capital spending by customers. However, there is continued instability in the general economy and credit markets have still not returned to normal. Given these conflicting economic indicators, the Company’s visibility into 2010 is limited at this point. However, the Company is seeing robust sales pipeline for its products. As such, management is optimistic about the future growth of all products, especially the Dynamics AX product line and as such is anticipating growth in 2010 revenues as compared with 2009. The Company also anticipates that it will need to expand its infrastructure, especially in the sales and marketing areas to support the Company’s international expansion plans. As such, the Company expects SG&A costs to increase in 2010.

Section 10: Liquidity and Capital Resources

During 2008, WellPoint Systems financed the business through cash provided from the issuance of convertible debentures and an increase in its bank indebtedness. In 2009, the Company has begun the process of repaying its debts. The Company’s cash balance at September 30, 2009 was \$1.2 million. 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 three quarters of 2009 and 2008:

(in thousands)	2009	2008
Opening cash	406	-
Operating activities	2,375	197
Financing activities	(1,400)	3,493
Investing activities	(139)	(3,651)
Other	(14)	(39)
Closing cash	1,228	-

OPERATING ACTIVITIES

Cash generated from operating activities in the first nine months of 2009 was \$2.4 million compared with cash generated in operations in the comparative period of 2008 of \$0.2 million. Operating cash flows in 2009 were positively impacted by the \$3.6 million insurance indemnity payment and the positive operating results in the first nine months of 2009.

FINANCING ACTIVITIES

Cash used in financing activities the first three quarters of 2009 was (\$1.4) million compared to \$3.5 million of cash generated in 2008. During the nine months ended September 30, 2009, the Company repaid a small amount of principal related to its capital leases and term loans and \$1.3 million of convertible debentures. During the first nine months of 2008 the Company refinanced approximately \$18.0 million of its debt which resulted in the \$3.5 million of cash generated from financing activities.

The Company has access to a bank operating credit facility of US\$2.5 million with a maximum draw of 80% of allowable Canadian and United States accounts receivable. As at September 30, 2009 the Company had not utilized any of this available credit. The credit facility is payable on demand and bears interest at bank prime rate plus 3.0% and is secured against good standing accounts receivable and by a general security agreement covering the majority of the assets of the Company and its subsidiaries. The line of credit expires on December 31, 2009. Prior to the expiry date, the Company anticipates a new line of credit will be established.

During 2008, the Company was in violation of its debt covenants with both of its primary lenders. The Company renegotiated its debt covenants with each of its lenders. In order for the Company to maintain compliance with its covenants going forward, the Company will need to generate certain levels of Adjusted EBITDA and maintain minimum current asset to current liability ratios in 2009. The Company does not anticipate any covenant violations in 2009.

INVESTING ACTIVITIES

The principal use of cash in the first three quarters of 2009 related to the investment of \$0.1 million in equipment compared with an investment in equipment, deferred development costs and additional consideration on acquisition of \$3.7 million in the same period of 2008. The \$3.6 million reduction in investing activities relates to the Company's decision to stop capitalizing deferred development costs and expense these costs as incurred and due to no additional consideration being paid in 2009 related to the prior acquisitions.

WORKING CAPITAL

The following table presents summarized working capital information as at September 30, 2009 and December 31, 2008:

(in thousands)	2009	2008
Current assets	4,827	4,684
Current liabilities	14,324	12,258
Working capital	(9,497)	(7,574)
Working capital ratio	0.34	0.38

The Company has a working capital deficit of \$9.5 million. Approximately \$7.1 million of this working capital deficit is due to various notes and debentures coming due in 2010. The Company is currently exploring various alternatives on how to meet these upcoming debt obligations. Should the Company be unable to secure funds to pay these obligations, it will need the continued cooperation of its lenders to continue operations. The Company has good relations with its key creditors and fully expects to receive the support it needs to continue operations.

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 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 setting exposure limits, monitoring exposures against these limits and obtaining financial assurances where warranted.

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. The average credit period on sales is 30 days. Included in trade accounts receivables are \$1.0 million which are past due as at September 30, 2009 for which the Company has provided an allowance of \$0.5 million. The Company does not hold any collateral over these balances.

The aging of the accounts receivables as at September 30, 2009 is as follows:

(in thousands)	Gross	Impairment	Net
Not past due	2,517	5	2,512
Past due 1-30 days	185	-	185
Past due 31-60 days	87	-	87
Past due 61-150 days	94	28	66
Greater than 150 days	583	431	152
	<u>3,466</u>	<u>464</u>	<u>3,002</u>

The movement in the allowance for doubtful accounts for the nine month period ended September 30, 2009 is as follows:

(in thousands)	Continuity
Balance, Beginning of period	850
Provision	-
Accounts written off	(386)
	<u>464</u>

The Company has determined that an allowance of \$0.5 million is required in respect of the gross amount of trade accounts receivable. This has been based upon an individual account by account assessment utilizing past credit history and the Company's knowledge of the counterparties. The concentration of credit risk as at September 30, 2009 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 US\$2.5 million with a maximum draw of 80% of allowable Canadian and United States accounts receivable. At September 30, 2009, the Company had not drawn (December 31, 2008 - \$nil) on this facility.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the contingent consideration in connection with the 2007 iSoft acquisition. The Company expects that it will be able to meet its contractual obligations in 2009. The Company has approximately \$15.5 million of debt coming due in 2010. The Company is currently exploring various alternatives on how to meet these upcoming debt obligations. Should the Company be unable to secure funds to pay these obligations, it will need the continued cooperation of its lenders to continue operations. The Company has good relations with its key creditors and fully expects to receive the support it needs to continue operations.

(in thousands)	Carrying Amount	Contractual Cash Flow	3 Months or less	2010	2011 to 2014
Accounts payable and accrued liabilities	4,668	4,668	2,390	2,278	-
Notes payable	5,572	6,020	110	5,910	-
Capital lease obligations	108	125	17	58	50
Convertible debentures	26,117	39,993	614	12,545	26,834
Purchase commitments	-	2,703	482	1,457	764
	<u>36,465</u>	<u>53,509</u>	<u>3,613</u>	<u>22,248</u>	<u>27,648</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 are matched with the cash flow generated by the United States operations.

The following table summarizes the foreign currency financial instruments as at September 30, 2009:

(in thousands)	USD	South African Rand
Cash	\$ 992	648
Accounts receivable	1,860	1,073
Accounts payable and accrued liabilities	(3,098)	(1,236)
Current portion of long term debt	(5,061)	-
Current portion of capital lease obligations	(40)	-
Capital lease obligations	(17)	-
Convertible debentures	(20,950)	-
	<u>\$ (26,314)</u>	<u>485</u>

A 10% weakening of the Canadian dollar against the United States dollar and South African rand as at September 30, 2009 would have decreased net income by approximately \$1.9 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 it borrows 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:

(in thousands)	Carrying Amount	Carrying Amount %
Fixed rate financial liabilities	\$ 31,797	100%
Variable rate financial liabilities	-	0%
	<u>\$ 31,797</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 3.0%. 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.

A 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.

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 September 30, 2009. 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 September 30, 2009.

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:

(in thousands)	Carrying Amount
Convertible debentures	\$ 26,117
Shareholders' equity	2,752
	<u>\$ 28,869</u>

The Company has externally imposed requirements on its capital as a result of primarily the issuance of the August 25, 2005, March 12, 2007, March 10, 2008, and December 30, 2008 convertible debentures. These requirements include maintaining certain targets for current assets to current liabilities and trailing 12 month Adjusted EBITDA ("TTM EBITDA") as defined in the debt agreements.

There have been no changes to the Company's approach to capital management from December 31, 2008.

OUTSTANDING SHARE DATA

The following data is as of November 20, 2009, unless otherwise noted.

The Company is authorized to issue an unlimited number of voting common and preferred shares. There are 51,062,359 common shares outstanding.

The Company has various convertible debentures outstanding, which upon conversion would result in the issuance of approximately 108,021,663 common shares based on a conversion price of \$0.30 per share.

In connection with the completion 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 2010, the Company will be required to issue up to 797,425 common shares of the Company as compensation for additional interest at a rate of 8% per annum.

The Company has a stock option plan for employees, directors, and consultants. As at the date of this MD&A, a total of 10,212,472 shares were reserved for issuance under this plan. Options granted vest over three years and as at September 30, 2009, 5,490,736 options were outstanding with a weighted average exercise price of \$0.16 per share.

On a fully diluted basis, if all convertible debentures were converted and options exercised for common shares as at November 20, 2009, the total number of common shares issued and outstanding would be approximately 167.1 million.

Section 11: Change in Accounting Policies

Effective January 1, 2009, the Company adopted the following new CICA Handbook section:

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

FUTURE ACCOUNTING POLICIES

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 Company has assessed the impact of IFRS and does not anticipate any significant impact at this time.

Section 12: Selected Quarterly Financial Information and Overview

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

(in thousands)	2009				2008			2007
	Third	Second	First	Fourth	Third	Second	First	Fourth
Revenue	9,921	8,734	10,384	7,693	7,826	10,269	9,520	7,707
Depreciation and amortization	805	859	885	370	1,122	1,144	1,150	1,154
Financing and amortization of debt and note payable issue costs	59	63	81	(175)	137	161	93	1,613
Interest	1,580	1,469	1,449	1,036	959	931	932	870
Foreign exchange loss (gain)	(1,689)	(1,635)	807	2,463	739	(246)	545	(528)
Fees and expenses on settlement of long term note payable	-	-	-	-	-	-	615	-
Write down of deferred development costs	-	-	-	590	4,227	-	-	529
Loss on extinguishment of convertible debt	-	-	-	6,372	-	-	-	-
Goodwill impairment	-	-	-	3,208	-	-	-	1,605
Write down of intangible assets	-	-	-	578	-	-	-	-
Income (loss) before tax	2,146	1,228	(654)	(14,814)	(9,268)	(1,664)	(2,677)	(5,840)
Income tax expense (recovery)	(514)	(331)	(125)	(807)	(313)	727	(372)	(1,141)
Net Income (loss)	2,660	1,559	(529)	(14,007)	(8,955)	(2,391)	(2,305)	(4,699)
Earnings (loss) per share								
- Basic and diluted	0.05	0.03	(0.01)	(0.31)	(0.19)	(0.05)	(0.05)	(0.12)

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 2009, the \$1.2 million software license sale to QMENA; and second quarter of 2009, the \$1.2 million software license sale to QMENA, and third quarter of 2009, the \$3.6 million EDC insurance indemnity payment.

Section 13: Related Party Transactions

On December 24, 2008, the Company signed a definitive agreement with QMENA for the purchase of USD\$2.0 million worth of the Company's back office oil and gas solutions for sales to independent oil companies, and national oil companies within the Middle East, North Africa and India. Under the agreement, QMENA has obtained exclusive rights to sell the Company's products in those regions. In 2009 QMENA purchased USD\$2.0 million of the Company's products.

Section 14: 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 EBITDA¹, 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 and intangible costs, goodwill impairment, financing costs, stock based compensation, fees and expenses on settlement of debt and losses on extinguishment of debt 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 EBITDA¹ with net income (loss) as reported in the consolidated financial statements and the calculation of Adjusted EBITDA for the three and nine months ended September 30, 2009 and 2008.

(in thousands)	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2009	2008	2009	2008
Net income (loss)	\$ 2,660	(8,956)	\$ 3,690	(13,652)
Interest	1,580	959	4,498	2,821
Income taxes	(514)	(313)	(970)	42
Depreciation and amortization	805	1,121	2,549	3,416
Financing and amortization of debt and note payable issue costs	59	137	203	390
Standardized EBITDA	4,590	(7,052)	9,970	(6,983)
Fees and expenses on settlement of long term note payable	-	-	-	615
Foreign exchange loss (gain)	(1,689)	739	(2,517)	1,039
Stock based compensation expense	46	128	109	181
Write-down of deferred development costs	-	4,227	-	4,227
Less deferred development costs	-	(333)	-	(2,416)
Adjusted EBITDA	\$ 2,947	(2,291)	\$ 7,562	(3,337)

1. Standardized EBITDA is a non-GAAP measure. Standardized EBITDA is 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.