

WellPoint Systems Inc.



FORM 51-102F1

**Management's Discussion and Analysis
For the Three and Nine Month Periods Ended September 30,
2010
November 19 2010**

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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 nine month periods ended September 30, 2010 should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2009 and the unaudited Consolidated Financial Statements for the three months and nine months ended September 30, 2010 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 19, 2010.

Forward-looking Statements

This MD&A contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "might" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this MD&A contains forward-looking information and statements pertaining to the following: (i) retention of reference customers; (ii) customer adoption of new and somewhat unproven software packages; (iii) market competition in the energy and natural resources information systems industry; (iv) the Company's ability to attract and retain qualified employees; (v) potential acquisitions and other corporate developments; (vi) foreign exchange and other general economic and business conditions; and (vii) other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results of operations or performance. Various assumptions were used in drawing the conclusions or making the forecasts and projections contained in the forward-looking statements throughout this MD&A.

The forward-looking information and statements contained in this MD&A reflect several material factors, expectations and assumptions including, without limitation: (i) demand for WellPoint's services by its customers; (ii) capital expenditure budgets for the Company's customers; (iii) commodity prices, foreign

currency exchange rates and interest rates; (iv) expectations regarding WellPoint's ability to generate cash flow and/or raise capital; (v) schedules and timing of certain projects and WellPoint's strategy for growth; (vi) WellPoint's future operating and financial results; and (vii) the ability for the Company to negotiate amendments to its current banking facilities and its outstanding debentures, as well as the ability for the Company to avoid events of default and/or potential enforcement actions by its banker and the holders of its debentures.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward-looking statements. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements.

WellPoint cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Additional information may also be found in WellPoint's other reports on file with the Canadian securities regulatory authorities.

During the quarter just ended, the Company entered into an amending agreement with its bank (the "Bank") in respect of its working capital credit facility (the "Credit Facility"), which was due to expire on August 2, 2010. Under the terms of the amendment,

- Although the Company was in default under the Credit Facility due to: (i) a violation of its EBITDA covenant; and (ii) a failure to make scheduled payments of interest for the month ended June 30, 2010 to the three senior holders (the "Debenture Holders") of its outstanding convertible debentures, such defaults were waived by the Bank.
- The Credit Facility was reduced to US\$1.5 million from US\$2.5 million and matured on September 30, 2010. The facility was extended to October 30, 2010. Subsequent to the quarter end, the facility was further extended to November 30, 2010 on the same terms and conditions except that the facility was reduced to US\$1.0 million and the interest rate increase from prime +3% to prime +4%.
- The Company has access to a maximum draw under the Credit Facility of 80% of the value of eligible accounts receivable not insured by Export Development Canada ("EDC") plus, commencing August 30, 2010, 90% of the value of eligible EDC insured accounts receivable.

During August 2010, the Debenture Holders entered into consents and waivers with the Company whereby they agreed, among other things, that the failure by the Company to make scheduled interest payments on June 30, 2010, totaling an aggregate of approximately \$0.7 million, would not be an event of default under the instruments outstanding to the Debenture Holders. Additionally, the Debenture Holders agreed to delay the repayment of all debt maturing from June to October 2010 (totaling approximately \$15 million) and associated interest payments totaling an aggregate of \$1.4 million to November 30, 2010, while the Company works with the Bank and the Debenture Holders to renegotiate the maturing debt and/or inject new capital.

The Company continues to work with the Bank and the Debenture Holders to renegotiate the maturing debt and seek solutions to meet overdue and future debt servicing obligations, and to promote long term growth of WellPoint. There can be no assurance, however, that the Credit Facility will be extended past November 30, 2010, nor can there be any assurance that the Debenture Holders will continue to delay the payment of the amounts owing to them under their financial instruments past November 30, 2010. Such circumstances could have a significant material adverse effect on the Company, including going into default under some or all of the foregoing financial instruments. Such defaults could result in the Company's creditors taking action to enforce these obligations. The Company does not have the current financial ability to satisfy these outstanding financial obligations should they become due.

Additional information about WellPoint Systems is available on its website at www.wellpointsystems.com.

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 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 provide 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 approximately 146 people and 18 contractors. In the third quarter ended September 30, 2010, approximately 94% (2009-70%) of revenue is generated from customers in North America. The Company currently has in excess of 450 customers using WellPoint Systems' proprietary solutions that are delivered through three 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 (EAM) helps companies both within and outside the energy industry manages the operational and financial aspects of all asset types including complex mission critical equipment, plants, rental units and fleets. 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.
- **WellPoint AX EAM** provides enterprise asset management solutions to a wide variety of asset intensive industries including energy, aviation, and process and discrete manufacturing. 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.
- **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 approximately 160 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 joint venture accounting package used by approximately 210 companies in 62 countries. 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 software solutions to enterprise customers 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, 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: Business Environment

WellPoint Systems focuses on providing business application solutions to a wide variety of industries, but primarily within the oil and gas and natural resources sectors. Although commodity prices were severely impacted by the global recession in 2008/2009, the oil and gas industry is beginning to show signs of improvement as evidenced by steadily increasing commodity prices as well as a general increase in mergers and acquisitions activity, particularly in the USA. As a result, and even though prospective customers are continuing to maintain a conservative approach to capital expenditures, the Company is nevertheless seeing a steady improvement in its sales pipeline. However, because of the uncertainties inherent in the energy markets, particularly in periods of high price volatility, rapid market transformation, or active changes in legislation – all of which influence demand for the Company's products – the Company's revenues may be negatively impacted over short periods and within any one quarter, even though revenue growth may be achieved on an annual basis.

The Company undertook a restructuring in late 2008/09 in order to reduce the cost infrastructure and to build profitability. Subsequently, in late 2009/early 2010 the Company initiated a rebuilding phase which included the addition of new management to drive marketing, sales and global services, with the intent of building a strong foundation for future growth. The Company has demonstrated its ability to grow through corporate acquisitions and organically over the last three years and continues to look for opportunities to expand its operations in North America and international markets.

Section 4: 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 5: Overall Performance

THIRD QUARTER BUSINESS HIGHLIGHTS

- Excluding unusual items from previous quarter results, Q3 2010 revenues remained relatively flat while license sales improved 60% compared to the same period in 2009;
- Added 12 new customers including the Company’s first ever SAAS (software as a service) model sale;
- Closed US\$100K license sale to the Company’s new Norwegian partner for WellPoint’s Microsoft Dynamics AX Energy Financial Management solution;
- Hired Director of International Sales to drive sales into Latin America and European markets;
- Added new customers and sites for oil and gas operations in Egypt, China, Iraq, Nigeria, Turkey, Colombia, Canada, Argentina and Australia, including significant implementation projects in Colombia, Ecuador and Turkey;
- Completed significant project to enhance Supply Chain Management functionality;
- Introduced Expert Series of podcasts focused on bringing valuable information to oil and gas companies and to raise awareness of the WellPoint brand within target markets;
- Announced the Mobile Intelligent Dashboard for the iPhone/iPad as the first truly mobile Business Intelligence solution for the upstream oil and gas industry;
- Increased average deal size over Q2 2010 by 12%; and
- Achieved highest monthly license sales in July 2010.

Section 6: Selected Third Quarter Financial Information

(in thousands, except per share amounts)	Qtr 3 2010	Qtr 3 2009	% Change 2009 - 2010
Revenue	\$ 6,911	\$ 9,921	(30.3%)
Gross Profit	3,740	7,373	(49.3%)
Selling, general and Administration	1,997	2,794	(28.5%)
Facilities	336	354	(5.1%)
Research and Development	911	1,324	(31.2%)
Depreciation and Amortization	742	805	(7.8%)
Financing and Amortization of Debt and Note Payable Issue Costs	35	59	(40.7%)
Interest	1,565	1,580	(0.9%)
Foreign Exchange loss (gain)	(579)	(1,689)	(65.7%)
Income (loss) before tax	(1,267)	2,146	159.0%
Income tax expense (recovery)	(71)	(514)	86.2%
Net income (loss)	(1,196)	2,660	(145.0%)
Income (loss) per share	(0)	0	140.0%
Adjusted EBITDA	578	2,943	80.4%
Total assets	36,612	39,554	(7.4%)
Total liabilities	40,937	37,629	8.8%
Total equity	(4,325)	1,925	(324.7%)

Revenue for the third quarter of 2010 decreased by \$3.0 million to \$6.9 million compared with the same period in 2009 primarily as a result of a decline in license revenues and in lower margin professional services revenue. Included in the third quarter 2009 license revenues was a \$3.6 million one time non-recurring receipt. Gross profit decreased by \$3.7 million in the third quarter of 2010 due to lower revenues and revenue mix. WellPoint decreased its selling, general and administrative ("SG&A") expenses by \$.8 million in the third quarter of 2010 as compared with the third quarter of 2009 primarily as a continued focus on cost optimization. R&D expenses for the third quarter decreased by \$0.4 million as compared to the third quarter of 2009. Adjusted EBITDA decreased by approximately \$2.4 million primarily due lower revenues and gross profits, partly offset by lower operating expenses. Net loss for the third quarter ended September 30, 2010 was \$1.2 million (basic and fully diluted loss of \$0.02 per share) compared to net income of \$2.7 million for the same period in 2009 (basic and fully diluted earnings per share \$0.05).

Section 7: Results of Operations for the Three Months ended September 30, 2010

REVENUE

The following table provides a breakdown of WellPoint's revenues by category and major geography for the third quarter of 2010 and 2009:

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 2010 decreased by \$3.0 million as compared with the third quarter of 2009.

License revenues were \$1.9 million for the three months ended September 30, 2010, compared with \$4.8 million during the same period in 2009, which included a US\$3.3 million (CDN\$3.6 million) indemnity payment from Export Development Canada ("EDC");. Excluding this non recurring revenue in 2009, the current quarter's license revenue was \$0.7 million higher than the same quarter in 2009. Foreign exchange unfavourably impacted revenue by \$0.08 million during the three months ended September 30, 2010.

Maintenance revenue increased in this last quarter to \$2.7 million from \$2.6 million in 2009. The Company continues to experience a very high maintenance and support contract renewal rate. Foreign exchange unfavourably impacted revenue by \$0.11 million during the quarter.

Professional services revenue decreased in the third quarter of 2010 to \$2.4 million from \$2.6 million in 2009. While revenues are down from 2009, management has seen modest increases in recent quarters and expects to see the trend to continue in future quarters. Foreign exchange unfavourably impacted revenue by \$0.09 million during the quarter.

GROSS PROFIT

Gross profit was \$3.7 million (54% of total revenue) for the three months ended September 30,, 2010 compared with \$7.4 million (74% of total revenue) for the third quarter of 2009. The \$2.7 million decrease in gross profit is attributed primarily to lower revenues and revenue mix. During the third quarter of 2009 revenues included a large high margin licence revenue of \$3.6 million that did not re-occur in this last quarter, which impacted the current quarter negatively compared to 2009. Foreign exchange favourably impacted gross profit by \$0.16 million during the quarter just ended.

EXPENSES

The following table sets forth total expenses by function and as a percentage of total revenue for the second quarter of 2010 and 2009:

(in thousands)	Q3 2010	Q3 2009	% Change 2009 - 2010
Selling, general and administration	\$ 1,997	\$ 2,794	(28.5%)
Facilities	336	354	(5.1%)
Research and development	911	1,324	(31.2%)
	\$ 3,244	\$ 4,472	(27.5%)
% of total revenue	2010	2009	
Selling, general and administration	29.1%	32.0%	
Facilities	4.9%	1.9%	
Research and development	13.3%	15.2%	
	47.3%	43.5%	

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative (“SG&A”) expenses decreased by \$0.8 million to \$2.0 million (29% of revenue) in the third quarter of 2010 compared with \$2.8 million (28% of revenue) in the third quarter of 2009, in line with the Company’s continued focus on optimizing its operations and related costs.

There is also a concerted effort to delay costs until revenue level show sustained upward trends. Foreign exchange favourably impacted SG&A expenses by \$0.04 million during the quarter.

RESEARCH AND DEVELOPMENT

Research and development (“R&D”) expenses for the third quarter of 2010 decreased by \$0.4 million to \$0.9 million (13.1% of revenue) compared with \$1.3 million (13.3% of revenue) in the same period in 2009. The Company is continuing to invest in research and development projects with the same vigor as in 2009, while focusing on cost optimizations. Foreign exchange favourably impacted R&D expenses by \$0.02 million during the quarter.

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. This investment is a fundamental requirement as WellPoint Systems continues to build products that meet the evolving needs of its customers.

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 expense remained flat at \$1.6 million in the third quarter of 2010, compared with the same period of the prior year, reflecting costs accrued primarily on the notes payable and convertible debt during the quarter. The foreign exchange impact on interest expenses was flat during the quarter. These instruments had a carrying value of approximately \$38 million with an effective annual interest rate of approximately 16.0% (comprised cash interest of approximately 8% and accretion interest of approximately 8%).

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 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, 2010 was \$0.6 million as compared to a foreign exchange gain of \$1.7 million for the third quarter of 2009.

INCOME TAXES

The Company provides for income taxes using the asset and 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 2010 the tax recovery was (\$0.07) million compared with a tax recovery of \$(0.61) 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 loss for the third quarter of 2010 was (\$1.2) million compared with a net income of \$2.7 million for the third quarter of 2009. Basic and diluted net loss per share was (\$0.02) for the three months ended September 30, 2010, compared with a net income per share of \$0.05 for the third quarter of 2009.

ADJUSTED EBITDA AND ADJUSTED EBITDA PER SHARE

Adjusted EBITDA was \$.6 million compared to an Adjusted EBITDA of \$2.9 million for the third quarter of 2009. The \$1.4 million decrease in Adjusted EBITDA was the result of the reduced revenue and gross margins partly offset by the reduced operating costs as discussed above. Basic and fully diluted Adjusted EBITDA per share was (\$0.02) compared with an Adjusted EBITDA per share of \$0.05 for the third quarter of 2009.

Section 8: Selected Financial Information for the Nine Months Ended September 30, 2010

(in thousands, except per share amounts)	YTD 2010	YTD 2009	% Change 2009-2010
Revenue	20,011	29,038	(31.1%)
Gross Profit	10,462	20,619	(49.3%)
Selling, general and Administration	5,900	7,867	(25.0%)
Facilities	967	1,118	(13.5%)
Research and Development	3,149	4,181	(24.7%)
Depreciation and Amortization	2,340	2,549	(8.2%)
Financing and Amortization of Debt and Note Payable Issue Costs	126	203	(37.9%)
Interest	4,717	4,498	4.9%
Foreign Exchange loss (gain)	(567)	(2,517)	(77.5%)
Fees and expenses on settlement of long term note payable	-	-	-
Income (loss) before tax	(6,170)	2,720	326.8%
Income tax expense (recovery)	(504)	(970)	(48.0%)
Net income (loss)	(5,666)	3,690	253.6%
Income (loss) per share	0.09	0.08	(12.5%)
Adjusted EBITDA	663	7,562	91.2%
Total assets	36,612	39,554	(7.4%)
Total liabilities	40,937	37,629	8.8%
Total equity	(4,325)	1,925	(324.7%)

Revenues decreased to \$20.0 million from \$29.0 million in the first nine months of 2010. In 2009, revenues included \$6.0 million of non-recurring revenues. Gross profit decreased by \$10.12 million to \$10.5 million during the nine months ended September 30, 2010 compared with \$20.6 million in the same period of 2009, due to the Company's lower revenue with reductions in both higher margin license fees and lower margin professional services revenues. SG&A expenses were \$5.9 million, a \$2.0 million

reduction from expenses of \$7.9 million incurred in the same period of 2009. R & D expenses were likewise lower at \$3. million compared with \$4.2 million in 2009, due to cost optimization efforts. Adjusted EBITDA decreased to \$0.7 million compared to \$7.6 million primarily due to lower revenues and gross margins, partly offset by lower operating expenses. Consequently, the company reported a net loss of \$5.7 million (basic and fully diluted loss of \$0.12) for the first nine months of the fiscal year compared to net income of \$3.7 million for the same period in 2009 (basic and fully diluted earnings per share of \$0.08).

Section 9: Results of Operations for the Nine Months Ended September 30, 2010

REVENUE

The following table provides a breakdown of WellPoint's revenues by category and major geography for the six month ended September 30, 2010 and 2009:

Revenues decreased by 31% to \$20.0 million in the first three quarters of 2010 compared with \$29.0 million in the same period in 2009. Revenue from outside of Canada decreased compared with the same period in the prior year. This was primarily due to the revenues associated with the sale of a \$2.4 million license in 2009 which did not re-occur this year.

License revenues were \$5.8 million for the nine months ended September 30, 2010, compared with \$11.3 million during the same period in 2009, which included revenues associated with the sale of a non recurring \$2.4 million license in 2009 and a US\$3.3 million (CDN\$3.6 million) indemnity payment from Export Development Canada ("EDC"), both of which did not recur this year, Excluding these unusual non recurring items, licence revenues were 9.5% ahead of the same period in 2009. Foreign exchange unfavourably impacted revenue by \$0.82 million during the first three quarters of 2010.

Maintenance revenue decreased in the first nine months of 2010 to \$7.7 million from \$8.4 million in 2009. Included in 2009 was maintenance revenue from a significant customer which did not renew its maintenance contract in 2010.] Otherwise, the Company continues to experience a very high maintenance and support contract renewal rate. Foreign exchange unfavourably impacted revenue by \$1.02 million during the first three quarters of 2010.

Professional services revenue decreased in the first nine months of 2010 to \$6.5 million from \$9.4 million in 2009. The decrease is primarily due to lower than normal services engagements in 2009 resulting from the economic downturn and a reduction in exploration and production spending. Management expects to see the trend starting to reverse in future quarters. Sales of software license rights typically impact professional services revenue approximately one or two quarters later. Management has seen modest increases in professional services revenues in recent quarters and expects to see the trend starting to reverse in future quarters. Foreign exchange unfavourably impacted revenue by \$0.84 million during the first three quarters of 2010.

GROSS PROFIT

Gross profit decreased by \$10.16million to \$10.5 million during the nine months ended September 30, 2010 compared with \$20.6 million in the same period of 2009, due to the Company's lower revenue with reductions in both higher margin license fees and lower margin professional services revenues.

Foreign exchange unfavourably impacted gross profit by \$1.5 million during the first three quarters of 2010.

EXPENSES

The following table sets forth total expenses by function and as a percentage of total revenue for the nine months ended 2010 and 2009:

(in thousands)	% Change		
	2010	2009	2009 - 2010
Selling, general and administration	\$ 5,900	\$ 7,867	(25.0%)
Facilities	967	1,118	(13.5%)
Research and development	3,149	4,181	(24.7%)
	<u>\$ 10,016</u>	<u>\$ 13,166</u>	<u>(23.9%)</u>
% of total revenue	2010	2009	
Selling, general and administration	45.0%	41.2%	
Facilities	7.4%	5.8%	
Research and development	24.0%	21.9%	
	<u>76.5%</u>	<u>68.9%</u>	

SALES, GENERAL AND ADMINISTRATIVE EXPENSES

For the nine months ended September 30, 2010, SG&A expenses were \$5.9 million, a \$2.0 million reduction from expenses of \$7.9 incurred in the first three quarters of 2009. The reduction in the Company's spending level is consistent with the continued focus on cost reduction wherever possible. There is also a concerted effort to delay costs until revenue levels show sustained upward trends. Foreign exchange favourably impacted SG&A expenses by \$0.4 million during the first three quarters of 2010.

RESEARCH AND DEVELOPMENT

R & D expenses were likewise lower at \$3.1 million compared with \$4.2 million in 2009. The reduction in the Company's spending level is consistent with the continued focus on cost reduction wherever possible. During this first nine months of 2010, the Company continued and is continuing to invest in research and development projects with the same vigor as in 2009, while focusing on cost optimization. Foreign exchange favourably impacted R&D expenses by \$0.20 million during the first three quarters of 2010.

During this first three quarters of 2010, the Company continued and is continuing to invest in research and development projects with the same vigor as in 2009, while focusing on cost

optimizations. 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. This investment is a fundamental requirement as WellPoint Systems continues to build products that meet the evolving needs of its customers.

INTEREST

Interest expense increased to \$4.7 million during the nine months ended September 30, 2010, compared with \$4.5 million in the same period of the prior year, reflecting costs accrued primarily on the notes payable, capital leases and convertible debt during the period.

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 first nine months of 2010 was \$0.57 million as compared with a \$2.52 million gain for the same period in 2009.

INCOME TAXES

For the nine months ended September , 2010 the tax recovery was (\$0.50) million compared with a tax recovery of (\$1.06) million for the same period in 2009. 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 loss for the nine months ended September 30, 2010 was 5.7 million compared with net income of \$3.7 million for the same period in 2009. Basic and diluted net loss per share was (\$0.12) compared with income per share of \$0.08 in 2009. The net income and increased earnings per share are attributed to the factors discussed above.

ADJUSTED EBITDA AND ADJUSTED EBITDA PER SHARE

Adjusted EBITDA decreased by \$6.9 million in the first nine months of 2010 to \$0.663 million compared with Adjusted EBITDA of \$7.6 million for the first nine months of 2009. Basic and fully diluted EBITDA per share was \$(0.12) compared with Adjusted EBITDA per share of \$0.08 in 2009. The significant decrease in 2010 Adjusted EBITDA and Adjusted EBITDA per share is a result of the increased gross profit and reduced operating expenses as discussed above.

Section 10: Third Quarter 2010 Outlook

During this fiscal year, the company continued to develop the infrastructure to drive organic revenue growth, and invested in sales and marketing to promote awareness of the Company's solutions and brand in local North American markets and increasingly in international markets including, the North Sea, Latin America and Asia Pacific Regions. These investments have resulted in an increase in the distribution channel and pipeline from a broader marketplace that management expects should fuel revenue growth in the last quarter of the year and into next year.

Section 11: Liquidity and Capital Resources

The Company has historically financed its business by the issuance of convertible debt and the use of bank indebtedness. The Company's cash balance at September 30, 2010 was \$.9M and had utilized \$0.9M of available credit. The Consolidated Statement of Cash Flows, are summarized below for the third quarter of 2010 and 2009:

(in thousands)	2010	2009
Opening cash	504	406
Operating activities	(716)	2,375
Financing activities	(19)	(1,400)
Investing activities	(108)	(139)
Other	261	(14)
Closing cash	(78)	1,228

OPERATING ACTIVITIES

Cash used in operating activities in the nine months ended September 30, 2010 was \$.7 million compared with cash generated in operations in the comparative period of 2009 of \$2.4 million. Operating cash flows were negatively impacted in 2010 by negative operating results.

FINANCING ACTIVITIES

Cash used in financing activities the three quarters of 2010 was \$0.019 million compared with \$1.4 million of cash used in 2009. As at September 30, 2010, the Company had access to a bank operating credit facility of US\$1.5 million with a maximum draw of 80% of the value of eligible accounts receivable not insured by Export Development Canada ("EDC") plus, commencing August 30, 2010, 90% of the value of eligible EDC insured accounts receivable. As at September 30, 2010, the Company had utilized \$0.9 million of this available credit. The Credit facility is payable on demand and bears interest at the 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.

Under the terms of the Credit Facility, the Company is required to maintain a liquidity ratio of 1.25:1 and a rolling 6 month Adjusted EBITDA ("TTM EBITDA") of \$1.0 Million as defined in the Credit Facility. The company was in compliance as at September 30, 2010.

During the quarter ended September 30, 2010, the Company entered into an amending agreement with its bank (the "Bank") in respect of its working capital credit facility (the "Credit Facility"), which was due to expire on August 2, 2010. Under the terms of the amendment,

- Although the Company was in default under the Credit Facility due to: (i) a violation of its EBITDA covenant; and (ii) a failure to make scheduled payments of interest for the month ended June 30, 2010 to the three senior holders (the "Debenture Holders") of its outstanding convertible debentures, such defaults were waived by the Bank.
- The Credit Facility was reduced to US\$1.5 million from US\$2.5 million and matured on September 30, 2010. The facility was extended to October 30, 2010. Subsequent to the quarter end, the facility was further extended to November 30, 2010 on the same terms and conditions except that the facility was reduced to US\$1.0 million and the interest rate increased from prime +3% to prime +4%.
- The Company has access to a maximum draw under the Credit Facility of 80% of the value of eligible accounts receivable not insured by Export Development Canada ("EDC") plus, commencing August 30, 2010, 90% of the value of eligible EDC insured accounts receivable.

During August 2010, the Debenture Holders entered into consents and waivers with the Company whereby they agreed, among other things, that the failure by the Company to make scheduled interest payments on June 30, 2010, totaling an aggregate of approximately \$0.7 million, would not be an event of default under the instruments outstanding to the Debenture Holders. Additionally, the Debenture Holders agreed to delay the repayment of all debt maturing from June to August 2010 (totaling approximately \$6.7 million) to October 1, 2010, while the Company works with the Bank and the Debenture Holders to renegotiate the maturing debt and/or inject new capital. Subsequent to quarter end, the Debenture Holders agreed to delay the repayment of all debt maturing from June to October 2010 (totaling approximately \$15 million) and associated interest payments totaling an aggregate of \$1.4 million to November 30, 2010, while the Company works with the Bank and the Debenture Holders to renegotiate the maturing debt and/or inject new capital

The Company and the Debenture Holders continue to work collaboratively with the Company to seek a solution to meet past due and future debt servicing obligations. There can be no assurance, however, that the Credit Facility will be extended past September 30, 2010, nor can there be any assurance that the Debenture Holders will continue to delay the payment of the amounts owing to them under their financial instruments past November 30, 2010. Such circumstances could have a significant material adverse effect on the Company, including going into default under some or all of the foregoing financial instruments. Such defaults could result in the Company's creditors taking action to enforce these obligations. The Company does not have the current financial ability to satisfy these outstanding financial obligations should they become due.

INVESTING ACTIVITIES

The principal use of cash in the first nine months of 2010 related to the investment of \$0.1 million in equipment compared with \$0.1 million in the same period of 2009. The Company does not anticipate making significant investment in property and equipment in the balance of the year.

WORKING CAPITAL

The following table presents summarized working capital information as at September 30, 2010 and December 31, 2009:

(in thousands)	2010	2009
Current assets	3,588	4,026
Current liabilities	22,130	19,885
Working capital	(18,542)	(15,860)
Working capital ratio	0.16	0.20

Based on WellPoint's current cash forecasts, the Company anticipates that it will have sufficient cash and availability under the Credit Facilities to be able to meet its operating and short term growth needs for the foreseeable future assuming that the Company can renew the Credit Facility before it matures on November 30, 2010; however, unless and until the Company either renegotiates to extend its debt maturing in 2010 (including the Credit Facility and the outstanding debentures) or obtains new capital, it will not be able to retire the maturing obligations when due during 2010. There can be no assurance that any of these negotiations would be successful, and the failure to successfully conclude such negotiations would have a significant material adverse effect on the Company, including the risk of enforcement actions by its creditors.

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 \$1.8 million which are past due as at September 30, 2010 for which the Company has provided an allowance of \$0.071 million. The Company does not hold any collateral over these balances.

The aging of the accounts receivables as at September 30, 2010 is as follows:

(in thousands)	Gross	Impairment	Net
Not past due	1,522		1,522
Past due 1-30 days	655		655
Past due 31-60 days	614		614
Past due 61-150 days	235	24	211
Greater than 150 days	235	47	188
	<u>3,261</u>	<u>71</u>	<u>3,190</u>

The movement in the allowance for doubtful accounts for the nine month period ended September 30, 2010 is as follows:

(in thousands)	Continuity
Balance, Beginning of period	327
Provision	(256)
Accounts written off	-
	<u>71</u>

The Company has determined that an allowance of \$0.071 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 September 30, 2010 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. As at September 30, 2010, the Company maintained a revolving credit facility of US\$1.5 million with a maximum draw under the Credit Facility of 80% of the value of eligible

accounts receivable not insured by Export Development Canada ("EDC") plus, commencing August 30, 2010, 90% of the value of eligible EDC insured accounts receivables as at September 30, 2010, the Company had drawn \$0.5 million (December 31, 2009 - \$nil) on this facility.

During the quarter just ended, the Corporation's Board of Directors established a Special Committee, comprised of the independent members of the Board, and retained TD Securities as strategy financial advisors to assist management and the board in determining the most effective alternative to refinance of its matured debt with its main lenders and/or inject new capital and to reduce its overburdened debt structure.

During the quarter just ended, the Company entered into an amending agreement with its bank (the "Bank") in respect of its working capital credit facility (the "Credit Facility"), which was due to expire on August 2, 2010. Under the terms of the amendment,

- Although the Company was in default under the Credit Facility due to: (i) a violation of its EBITDA covenant; and (ii) a failure to make scheduled payments of interest for the month ended June 30, 2010 to the three senior holders (the "Debenture Holders") of its outstanding convertible debentures, such defaults were waived by the Bank.
- The Credit Facility was reduced to US\$1.5 million from US\$2.5 million and matured on September 30, 2010. The facility was extended to October 30, 2010. Subsequent to the quarter end, the facility was further extended to November 30, 2010 on the same terms and conditions except that the facility was reduced to US\$1.0 million and the interest rate increase from prime +3% to prime +4%.
- The Company has access to a maximum draw under the Credit Facility of 80% of the value of eligible accounts receivable not insured by Export Development Canada ("EDC") plus, commencing August 30, 2010, 90% of the value of eligible EDC insured accounts receivable.

The Company has engaged in discussions with alternative lending institutions with the view of replacing its existing credit facility and has engaged in discussions with the Bank to assist in this regard and if needed extending its current Credit Facility beyond November 30, 2010.

There can be no assurance that the Credit Facility will be renegotiated and extended past November 30, 2010, at which time the Bank would be able to demand repayment of amounts outstanding under the Credit Facility (approximately \$1 million) and/or enforce its security against the Company. This could have a material adverse effect on the Company.

During the quarter ended June 30, 2010, the Company advised its Debenture Holders that it would not make interest payments due in June, totaling an aggregate of approximately \$0.7 million and would delay the repayment of all debt maturing from June to August 2010 (totaling approximately \$6.7 million) to October 1, 2010. The Debenture Holders agreed to work with the Company toward a solution to meet past due and future debt servicing obligations. During August 2010, the Debenture Holders entered into consents and waivers with the Company whereby they agreed, among other things, that the failure by the Company to make scheduled interest payments on June 30, 2010, totaling an aggregate of approximately \$0.7 million, would not be an event of default under the instruments outstanding to the Debenture Holders. Additionally, the Debenture Holders agreed to delay the repayment of all

debt maturing from June to October 2010 (totaling approximately \$15 million) to November 30, 2010, while the Company works with the Bank and the Debenture Holders to renegotiate the maturing debt and/or inject new capital.

During the quarter just ended, the Corporation's Board of Directors established a Special Committee, comprised of the independent members of the Board, and retained TD Securities as strategy financial advisors to assist management and the board in determining the most effective alternative to refinance of its matured debt with its main lenders and/or inject new capital and to reduce its overburdened debt structure.

The Company continues to work with the Bank and the Debenture Holders to renegotiate the maturing debt and seek solutions to meet overdue and future debt servicing obligations, and to promote long term growth of WellPoint. There can be no assurance that the Debentures will be renegotiated on terms acceptable to the Company, and there can be no assurance that the obligations owing under the Debentures will be extended past November 30, 2010, nor can there be any assurance that the Debenture Holders will continue to delay the payment of the amounts owing to them under their financial instruments past November 30, 2010, at which time each Debenture Holder would be able to demand repayment of the amounts outstanding under its Debentures (approximately \$30 million, in aggregate) and/or enforce its security against the Company. This could have a material adverse effect on the Company. The Company does not have the current financial ability to satisfy these outstanding financial obligations should they become due. WellPoint is currently undertaking an analysis of its existing indebtedness including its senior secured indebtedness. While the Company and its Debenture Holders work to seek a solution, the Company does not intend to make payments due for a maturing debt totaling \$170,000 to subordinated unsecured debt holders.

There can be no assurance that any of these negotiations would be successful, and the failure to successfully conclude such negotiations would have a significant material adverse effect on the Company, including the risk of enforcement actions by its creditors.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the contingent consideration in connection with the 2007 acquisitions made by the Company. Based on WellPoint's current cash forecasts, the Company anticipates that it will have sufficient cash and available bank credit facilities to be able to meet its operating and growth needs for the foreseeable future, assuming that the Company can renew its credit facility maturing November 30, 2010, but unless and until the Company either renegotiates to extend its debt maturing in 2010 or obtains new capital, it will not be able to retire the maturing obligations when due during 2010. The Company's convertible debt holders have been and continue to be supportive of the company strategic plans. The Company is currently in discussion with these debt holders with the view of renewing or extending those debt obligations when due.

(in thousands)	Carrying Amount	Contractual Cash Flow	Remainder of 2010	2011-2015
Accounts payable and accrued liabilities	4,534	4,534	1,832	2,702
Note payable	5,256	5,487	-	5,487
Current portion of long term notes payable	169	183	-	183
Current portion of capital lease obligations	36	46	11	35
Current portion of convertible debentures	9,827	10,453	-	10,453
Long term notes payable	-	-	-	-
Capital lease obligations	62	57	-	57
Convertible debentures	18,377	27,298	-	27,298
Purchase commitments	-	1,124	369	754
	<u>38,261</u>	<u>49,182</u>	<u>2,212</u>	<u>46,969</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, 2010:

(in thousands)	USD	Rand
Cash	\$ 630	\$ 483
Accounts receivable	2,109	578
Accounts payable and accrued liabilities	(2,240)	(241)
Current portion of long term debt	(5,000)	-
Current portion of capital lease obligations	(35)	-
Capital lease obligations	(61)	-
Convertible debentures	18,247	-
	<u>\$ 13,650</u>	<u>\$ 821</u>

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:

(in thousands)	Carrying Amount	Carrying Amount %
Fixed rate financial liabilities	\$ 33,727	100%
Variable rate financial liabilities	-	0%
	<u>\$ 33,727</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 4.0%. 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.

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, 2010. 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, 2010.

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	28,204
Shareholders' equity	(4,325)
	<u>\$ 23,879</u>

There have been no changes to the Company's approach to capital management from December 31, 2009.

OUTSTANDING SHARE DATA

The following data is as of September 30, 2010, 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 105 million common shares based on conversion prices ranging from \$0.285 to \$0.35 per share.

Section 12: Change in Accounting Policies

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 worked with its auditors to assess the impact of IFRS on its financial statements. The assessment has concluded that the impact of IFRS is not anticipated to be significant. During the balance of 2010, the Company will continue working with its auditors to assess the impact on such areas of accounting as revenue recognition, stock based compensation, goodwill, convertible debt instruments and accrued liabilities, to modify operating practices where required, and to formulate comparative financial statements for 2011 reporting purposes.

Section 13: 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>	2010				2009			
	Third	Second	First	Fourth	Third	Second	First	Fourth
Revenue	6,911	6,852	6,248	7,717	9,921	8,734	10,384	7,693
Depreciation and amortization	742	778	819	831	805	859	885	370
Financing and amortization of debt and note payable issue costs	35	46	46	42	59	63	81	(175)
Interest	1,565	1,593	1,512	1,485	1,580	1,469	1,449	1,036
Foreign exchange loss (gain)	(579)	693	(675)	(349)	(1,689)	(1,635)	807	2,463
Write down of deferred development costs	-	-	-	-	-	-	-	590
Loss on extinguishment of convertible debt	-	-	-	-	-	-	-	6,372
Goodwill impairment	-	-	-	-	-	-	-	3,208
Write down of intangible assets	-	-	-	-	-	-	-	578
Income (loss) before tax	(1,267)	(2,592)	(2,319)	(367)	2,146	1,228	(654)	(14,814)
Income tax expense (recovery)	(71)	(257)	(182)	136	(514)	(331)	(125)	(807)
Net Income (loss)	(1,196)	(2,335)	(2,137)	(503)	2,660	1,559	(529)	(14,007)
Earnings (loss) per share								
- Basic and diluted	(0.02)	(0.05)	(0.04)	(0.01)	0.05	0.03	(0.01)	(0.31)

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.

Section 14: Related Party Transactions

During the third quarter just ended, the Corporation's major lenders agreed to delay the repayment of all debt maturing from June to October 2010, totaling approximately \$15 million, to October 1, 2010, while the Company works with the lenders to renegotiate the maturing debt and/or inject new capital.

The Company did not make its scheduled interest payments totaling approximately \$1.4 million to its senior debt holders during the second quarter of 2010. The Company's senior debt holders agreed to work collaboratively with the Company to seek a solution to inject new capital to pay the overdue interest.

Section 15: 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 months ended September 30, 2010 and 2009.

(in thousands)	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2010	2009	2010	2009
Net income (loss)	\$ (1,196)	\$ 2,660	\$ (5,666)	\$ 3,690
Interest	1,565	1,580	4,718	4,498
Income taxes	(71)	(514)	(504)	(970)
Depreciation and amortization	742	805	2,340	2,549
Financing and amortization of debt and note payable issue costs	35	59	126	203
Standardized EBITDA	1,075	4,590	1,014	9,970
Foreign exchange loss (gain)	(579)	(1,689)	(567)	(2,517)
Stock based compensation expense	82	42	217	109
Adjusted EBITDA	\$ 578	\$ 2,943	\$ 664	\$ 7,562

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.