

Consolidated Financial Statements of

# WELLPOINT SYSTEMS INC.

Years ended December 31, 2008 and 2007

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The financial statements are the responsibility of the management of WellPoint Systems Inc. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

The Board of Directors is composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board. The Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

KPMG LLP, the independent auditors appointed by the shareholders, have audited WellPoint System Inc.'s consolidated financial statements in accordance with Canadian generally accepted auditing standards and provided an independent professional opinion. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.



Richard Slack  
President and Chief Executive Officer



Bharat Mahajan  
Chief Financial Officer

April 24, 2008



**KPMG LLP**  
**Chartered Accountants**  
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## **Auditors' Report to the Shareholders**

We have audited the consolidated balance sheets of WellPoint Systems Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive loss and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Calgary, Canada  
April 24, 2009

# WELLPOINT SYSTEMS INC.

Consolidated Balance Sheets

December 31, 2008 and 2007

	2008	2007
<b>Assets</b>		
Current assets:		
Cash	\$ 405,931	\$ -
Accounts receivable	3,531,851	7,584,610
Prepaid expenses	745,862	273,930
Fair value of foreign exchange risk management contracts (note 19)	-	176,000
	4,683,644	8,034,540
Property and equipment (note 6)	1,106,449	1,038,175
Deferred development costs (note 7)	2,118,586	4,753,447
Intangible assets (note 8)	15,383,723	16,599,520
Goodwill (note 9)	24,442,074	19,916,094
Future income taxes (note 14)	131,656	-
	\$47,866,132	\$50,341,766
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (note 10)	\$ -	\$ 1,204,188
Accounts payable and accrued liabilities	5,717,886	4,841,221
Current income tax liability	106,096	419,231
Deferred revenue	4,876,343	2,144,633
Other deferred credits	54,558	54,558
Current portion of long term notes payable (note 11)	98,574	15,980,281
Current portion of capital lease obligations (note 12)	45,791	-
Convertible debentures (note 13)	1,358,019	6,605,733
	12,257,267	31,249,845
Long term notes payable (note 11)	6,004,527	4,877,299
Capital lease obligations (note 12)	57,829	-
Other deferred credits	77,292	131,850
Convertible debentures (note 13)	26,476,034	377,311
Future income tax liability (note 14)	-	422,079
	44,872,949	37,058,384
Shareholders' equity:		
Share capital (note 15)	14,497,433	14,497,433
Warrants/compensation options (note 15)	-	1,058,050
Contributed surplus (note 15)	1,624,415	760,828
Convertible debentures (notes 13, 15)	8,995,967	1,222,922
Accumulated other comprehensive income (loss) (note 16)	3,744,213	(389,856)
Deficit	(25,868,845)	(3,865,985)
	(22,124,632)	(4,255,841)
Total shareholders' equity	2,993,183	13,283,392
Basis of presentation (note 2)		
Commitments (note 25)		
	\$47,866,132	\$50,341,776

See accompanying notes to consolidated financial statements.

Approved by the Board:

"Charles V. Selby" Director  
"Richard Slack" Director

# WELLPOINT SYSTEMS INC.

## Consolidated Statements of Operations and Deficit

Years ended December 31, 2008 and 2007

	2008	2007
Revenue (note 17):		
License	\$ 9,057,250	\$10,349,437
Maintenance	9,824,351	6,622,307
Professional services	16,427,182	11,862,377
	35,308,783	28,834,121
Direct costs	15,625,997	11,408,070
Gross margin	19,682,786	17,426,051
Expenses:		
Sales, general and administrative	14,137,099	11,442,474
Loss on extinguishment of debt component of convertible debt (note 13)	6,372,126	-
Research and development	5,284,996	1,610,787
Write down of deferred development costs (note 7)	4,816,600	528,512
Interest	3,856,744	1,844,382
Depreciation and amortization	3,786,469	2,769,395
Foreign exchange loss (gain) (note 19)	3,502,088	(1,634,246)
Goodwill impairment (note 9)	3,207,626	1,605,036
Facilities	1,734,339	1,367,474
Fees and expenses on settlement of long term note payable	614,505	-
Write down of intangible assets (note 8)	578,405	-
Financing and amortization of debt and note payable issue costs	215,947	1,948,322
	48,106,944	21,482,136
Loss before income taxes	(28,424,158)	(4,056,085)
Income taxes (note 14)		
Current	(211,141)	621,439
Future expense (reduction)	(553,735)	(1,003,706)
	(764,876)	(382,267)
Net loss	(27,659,282)	(3,673,818)
Deficit, beginning of year	(3,865,985)	(192,167)
Gain on extinguishment of equity component of convertible debt (note 15(f))	5,656,422	-
Deficit, end of year	\$(25,868,845)	\$(3,865,985)
Loss per share, basic and diluted	\$ (0.60)	\$ (0.09)

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

## Consolidated Statements of Comprehensive Loss

	2008	2007
Net loss	\$ (27,659,282)	\$ (3,673,818)
Other comprehensive income		
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations (note 16)	4,134,069	(457,644)
Comprehensive loss	\$ (23,525,213)	\$ (4,131,462)

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

## Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

	2008	2007
Cash provided from (used in):		
Operations:		
Net loss	\$(27,659,282)	\$(3,673,818)
Items not affecting cash:		
Extinguishment of convertible debenture	6,372,126	-
Write down of deferred development costs (note 7)	4,816,600	528,512
Depreciation and amortization	3,786,469	2,769,395
Unrealized foreign exchange (gain) loss	3,304,081	(1,662,756)
Goodwill impairment (note 9)	3,207,626	1,605,036
Accretion of interest on convertible debt (note 13)	936,989	169,870
Write down of intangible assets (note 8)	578,405	-
Stock-based compensation	158,018	167,062
Amortization of debt issuance costs	143,224	1,764,657
Loss on sale of asset	12,716	-
Rent inducement	(54,558)	(54,558)
Future income tax reduction	(553,735)	(1,003,706)
	(4,951,321)	609,694
Net change in non-cash working capital items (note 18)	7,052,067	106,266
	2,100,746	715,960
Financing:		
Issuance of convertible debentures, net of cash costs	19,973,323	4,218,900
Fees and expenses on settlement of long term note payable	614,505	-
Interest on settlement of long term note payable	413,701	-
Long term note payable issuance, net of cash costs	-	15,226,896
Proceeds from issuance of common shares, net	-	39,475
Redemption of convertible debentures	(410,000)	(490,000)
Bank indebtedness	(1,204,188)	1,204,188
Settlement of long term notes payable	(17,072,129)	-
	2,315,212	20,199,459
Investing:		
Proceeds on sale of equipment	34,650	-
Deferred charges	-	482,705
Business acquisitions (note 5)	-	(20,680,462)
Purchases of property and equipment	(277,381)	(441,027)
Additional consideration of prior acquisitions	(1,027,587)	-
Deferred development costs	(2,795,717)	(3,036,863)
	(4,066,035)	(23,675,647)
Effect of foreign exchange rate changes on cash and cash equivalents	56,008	(169,039)
Change in cash and cash equivalents	405,931	(2,929,267)
Cash and cash equivalents, beginning of year	-	2,929,267
Cash and cash equivalents, end of year	\$ 405,931	\$ -

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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WellPoint Systems Inc. ("WellPoint" or the "Company") is incorporated under the Business Corporations Act of Alberta. The Company is engaged in the development, installation and customization of software for managing upstream and midstream operations and financial and enterprise asset management systems for customers in the oil and gas and mining industry. The Company also provides customers with related maintenance and consulting and professional services.

The consolidated financial statements are presented in Canadian dollars unless otherwise stated and are prepared in accordance with generally accepted accounting principles in Canada. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Specific estimates made by management include revenue recognition, assessment of deferred development costs, goodwill and intangible asset impairment reviews and equity portion of convertible debentures. Actual results could differ from these estimates.

1. Significant accounting policies:

(a) Consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany balances have been eliminated. The results of operations of these acquired companies have been included in these consolidated financial statements from the date of acquisition.

(b) Revenue recognition:

The Company generates revenue from three sources: software license sales, software maintenance and consulting and professional services.

The software is licensed to customers in perpetuity. Software license revenue is recognized once the license agreement is signed, the price is fixed or determinable, the software is delivered to the customer and collectability is reasonably assured.

The Company provides customer support and periodic software upgrades under maintenance agreements. Customers are generally charged annually in advance for these services. Maintenance fees are initially recorded as deferred revenue and subsequently recognized in operations on a monthly basis and when collectability is reasonably assured.

Consulting services are provided by the Company for product implementation and custom software programming. Revenue is recognized as services are rendered and when collectability is reasonably assured.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 2

Years ended December 31, 2008 and 2007

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(c) Property and equipment:

Property and equipment are recorded at cost. Depreciation is provided for on a basis and at rates calculated to amortize the cost of the assets over their estimated useful lives as follows:

Assets	Method	Rate
Automotive equipment	Declining-balance	30%
Computer hardware	Declining-balance	30%
Computer software	Straight-line	3 years
Furniture and fixtures	Declining-balance	20%
Leasehold improvements	Straight-line	5 years
Website development	Straight-line	3 years

(d) Deferred development costs:

Deferred development costs relate to the development of new or enhanced software products. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software and the existence of adequate resources to complete the project. Amortization is provided for on a straight-line basis over the estimated useful life of three years, commencing in the year when commercial sales of the products commence. Capitalized software development is evaluated in each reporting period to determine whether it continues to meet the criteria for continued deferral and amortization.

(e) Intangible assets:

Intangible assets are amortized over the estimated useful life of the asset. Amortization of customer relationships is provided for on a straight line basis over 5-12 years. Amortization of intellectual property is provided for on a straight line basis over 7-10 years. On a periodic basis, management assesses the carrying value of intangible assets for indications of impairment. Indications of impairment include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Company tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 3

Years ended December 31, 2008 and 2007

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(f) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed based on their fair values. Goodwill is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The valuation of goodwill is based on future estimates of profitability and other relevant assumptions. A goodwill impairment loss is recognized in net income if the fair value of goodwill is less than its carrying amount. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements in the future periods could be significant.

(g) 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 and 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 in which 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.

(h) Foreign currency translation:

The Company's foreign operations are self-sustaining and are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at period-end exchange rates and items included in the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows are translated at the exchange rates in effect at the time of the transaction. Translation adjustments are reflected in comprehensive income.

Exchange gains and losses on the principal amount of foreign currency debt are recorded in the statement of operations.

(i) Stock-based compensation:

The Company uses the fair value method for stock-based compensation. Under this method, compensation expense attributable to stock options granted is measured at fair value at the grant date and expensed over the vesting period, with a corresponding increase in contributed surplus.

(j) Directors' deferred share unit plan:

The company has a Directors' deferred share unit ("DSU") plan. DSU awards that are settled in cash are recorded as liabilities. The measurement of the liability and compensation cost for these awards is based on the intrinsic value of the award, and is recorded as a charge to operating income. Changes in the Company's payment obligation subsequent to being

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 4

Years ended December 31, 2008 and 2007

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earned and prior to the settlement date are recorded as a charge to operating income in the period incurred. The payment amount is established for DSU's on the date of termination of directorship.

(k) Per share amounts:

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated using the treasury stock method, which assumes that the proceeds received on the exercise of dilutive options and conversion of dilutive debentures would be used to purchase common shares at the average market price during the year.

(l) Financial instruments:

Financial instruments must be classified into one of five categories: (i) held-for-trading, (ii) held-to-maturity, (iii) loans and receivables, (iv) available-for-sale, and (v) other financial liabilities. The new standards require that all financial instruments within the scope of the standards, including all derivative instruments, be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities – except those in the held-for-trading and available-for-sale categories – must be determined at amortized cost using the effective interest rate method. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company designated accounts receivable as “loans and receivables”, which are measured at amortized cost. Bank indebtedness, accounts payable, accrued liabilities, long term notes payable and convertible debentures are classified as “other financial liabilities” which are measured at amortized cost.

2. Basis of presentation:

During 2008 the Company experienced a \$27.7 million net loss and was in violation of its debt covenants for most of the year. The Company also has a working capital deficiency of \$7.5 million at the end of the year. This working capital deficiency includes \$4.9 million of deferred revenue and other credits that will not require a cash outlay.

As a result of these conditions, on December 30, 2008 the Company issued additional debt and renegotiated its covenants with its lenders. The Company also made significant changes to its management team including a new CEO. The new management team has been focused on creating efficiencies and controlling costs. At the end of 2008 the Company reduced ongoing recurring operating expenses by approximately \$4.0 million on an annualized basis. On February 1, 2009 the company introduced a wage rollback program that is anticipated to save approximately \$200,000 per month. The Company anticipates that with new cost structure and financing in place it will be able to meet its continuing obligations and does not anticipate any further covenant violations.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 5

Years ended December 31, 2008 and 2007

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The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. This assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue future operations.

3. Changes in accounting policies:

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

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

These new accounting standards replaced Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The additional disclosure necessary to comply with these standards is provided in note 21 to these consolidated financial statements. Certain information related to comparative years is not required in the year of adoption and accordingly has not been presented; and,

- Section 1535 - Capital Disclosures.

This new accounting standard requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements. Note 22 in these consolidated financial statements provides the qualitative disclosures and quantitative data on capital as of December 31, 2008.

4. Change in accounting policy not yet adopted:

Effective January 1, 2009, the Company will adopt Section 3064, Goodwill and Intangible Assets. This section will replace Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

5. Business acquisitions:

a) iSoft Technologies (Pty) Ltd.

On March 13, 2007, WellPoint acquired all of the issued and outstanding shares of iSoft Technologies (Pty) Ltd. ("iSoft"). iSoft develops enterprise asset management software solutions. WellPoint acquired all of the shares of iSoft for aggregate consideration of US\$3.2 million

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 6

Years ended December 31, 2008 and 2007

(CAD\$3.7 million) including transaction costs. The allocation of the purchase price was as follows:

Acquisition of iSoft	2007
Net current assets, including cash of \$10,767	\$ 145,501
Property and equipment	32,797
Customer relationships	270,000
Intellectual property	530,000
Goodwill	2,960,696
Future income tax liability	(256,860)
	<u>\$3,682,134</u>

In connection with the acquisition, the shareholders of iSoft subscribed for US\$0.54 million (CAD\$0.63 million) of common shares of the Company on a private placement basis at a price of CDN\$0.90 per common share resulting in the issuance of 703,172 common shares of the Company. The total cash payable by the Company to complete the acquisition was US\$2.5 million (CAD\$2.9 million) with transaction costs of \$0.1 million.

The Company has agreed to pay additional consideration based upon the performance of iSoft during the five year period following the date of acquisition with cash payments due 120 days after each annual anniversary date. The additional consideration includes the following:

- 35% of the mining line of business revenue less operating expenses, excluding interest, taxes, depreciation and amortization ("Business Profit") for the six month period following the acquisition date;
- 20% of the mining line Business Profit thereafter; and
- 50% of the non-mining line Business Profit.

During 2008 the Company paid US\$242,159 (CAD \$246,930) additional consideration based on the performance of iSoft in the first year following the date of acquisition (note 9). Any additional consideration due will be added to the cost of the purchase when the amount is determinable.

In addition, in the event that the Company sells the shares or assets of iSoft during the five year period following the date of acquisition, the Company has agreed to pay to the former shareholders of iSoft a percentage of the consideration received by the Company starting at 35% in the first anniversary year and decreasing by 5% each year thereafter. The aggregate amount of consideration paid as a percentage of the consideration received shall not exceed the difference between US \$6.0 million and the sum of US\$3.0 million and the aggregate amount of additional consideration paid based upon the annual performance of iSoft. This consideration may be paid by the Company in cash, freely tradable common shares of the Company or the issuance of a promissory note.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 7

Years ended December 31, 2008 and 2007

b) Bolo Systems Inc.

On August 13, 2007, WellPoint acquired all of the assets of Bolo Systems, Inc. ("Bolo"). Bolo is a provider of integrated multi-tiered financial, land and production accounting solutions for the oil and gas industry in the United States. WellPoint acquired all of the assets of Bolo for aggregate consideration of US\$24.5 million (CAD\$25.6 million) including transaction costs. The assets of Bolo were acquired for cash consideration of US\$14.6 million (CAD\$15.3 million), the issuance of common shares valued at US\$3.4 million (CAD\$3.5 million), the issue of a promissory note payable of US\$5 million (CAD\$5.2 million) and transaction costs of US\$1.5 million (CAD\$1.6 million). The allocation of the purchase price was as follows:

Acquisition of Bolo	2007
Net current assets	\$ 12,611
Property and equipment	511,177
Other assets	39,616
Customer relationships	6,950,000
Intellectual property	6,430,000
Goodwill	11,671,397
	<u>\$25,614,801</u>

During 2008 additional consideration of USD\$3.75 million (CAD\$4.2 million) (note 9) was paid by the Company through issuing convertible debentures that bear an adjustable rate of interest, initially at an annual rate of 7.75%. The debentures are convertible into common shares of the Company at the option of the holder at any time prior to maturity at a conversion price of \$0.30 per share. The debentures are payable October 1, 2010 (note 13(h)(i)).

c) IDEAS International, Inc.

On March 10, 2006, WellPoint acquired all of the issued and outstanding shares of IDEAS International, Inc. ("IDEAS"). IDEAS is a leading provider of sophisticated international financial management software and professional services to the oil and gas industry. During 2008 the Company paid US\$750,000 (CAD \$780,658) additional consideration based on the performance of IDEAS in the second year following the acquisition (note 9).

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 8

Years ended December 31, 2008 and 2007

6. Property and equipment:

December 31, 2008	Cost	Accumulated depreciation	Net book value
Computer hardware	\$ 1,434,519	\$ 705,222	\$ 729,297
Computer software	457,204	337,678	119,526
Furniture and fixtures	384,659	142,800	241,859
Leasehold improvements	49,015	33,248	15,767
Website development	8,680	8,680	-
	\$ 2,334,077	\$ 1,227,628	\$ 1,106,449

December 31, 2007	Cost	Accumulated depreciation	Net book value
Automotive equipment	\$ 36,352	\$ 26,686	\$ 9,666
Computer hardware	1,096,556	448,502	648,054
Computer software	364,760	273,440	91,320
Furniture and fixtures	355,963	89,006	266,957
Leasehold improvements	47,302	26,574	20,728
Website development	8,680	7,230	1,450
	\$ 1,909,613	\$ 871,438	\$ 1,038,175

7. Deferred development costs:

	2008	2007
Cost	\$10,551,582	\$7,358,510
Accumulated amortization	(8,432,996)	(2,605,063)
Net Book Value	\$2,118,586	\$4,753,447

During 2008 the Company incurred a charge of \$4,816,600 (2007 - \$528,512) for the write down of deferred development costs related to projects that it determined no longer met the criteria for deferral.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 9

Years ended December 31, 2008 and 2007

8. Intangible assets:

Customer Relationships		
	2008	2007
Cost	\$10,186,596	\$9,264,000
Accumulated amortization	(1,606,872)	(608,467)
Net Book Value	\$8,579,724	\$8,655,533
Intellectual Property		
	2008	2007
Cost	\$9,401,212	\$8,828,800
Accumulated amortization	(2,597,213)	(884,813)
Net Book Value	\$6,803,999	\$7,943,987
Intangible Assets -Totals		
	2008	2007
Cost	\$19,587,808	\$18,092,800
Accumulated amortization	(4,204,085)	(1,493,280)
Net Book Value	\$15,383,723	\$16,599,520

The Company performed its test for impairment of intangibles as at December 31, 2008. As a result of this test, management determined that there had been an impairment in the carrying value of the intangibles, and accordingly recorded a write-down in the amount of \$578,405.

9. Goodwill:

	2008	2007
Balance, Beginning of Year	\$19,916,094	\$6,058,104
IDEAS contingent consideration	780,658	830,933
iSoft acquisition or contingent consideration	246,930	2,960,696
Bolo acquisition or contingent consideration	4,230,202	11,671,397
Goodwill impairment	(3,207,626)	(1,605,036)
Foreign exchange translation	2,475,816	-
Balance, End of Year	\$24,442,074	\$19,916,094

The Company performed its annual test for impairment of goodwill as at December 31, 2008. As a result of this test, management determined that there had been an impairment in the carrying value of goodwill, and accordingly recorded a write-down in the amount of \$3,207,626.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 10

Years ended December 31, 2008 and 2007

### 10. Bank indebtedness:

The Company has access to a bank operating credit facility of US \$4 million with a maximum draw of 80% of allowable Canadian and United States accounts receivable. As at December 31, 2008 the Company had not utilized any of this available credit and had CAD \$1.8 million available. The credit facility is payable on demand and bears interest at bank prime rate plus 3% 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 August 31, 2009. Prior to the expiry date, the Company anticipates a new line of credit will be established.

### 11. Long term notes payable:

#### Summary of Long Term Notes Payable

	2008	2007
Note payable, former owners of IDEAS-note	\$ -	\$ 821,539
Note payable, issued on acquisition of Bolo	-	15,158,742
<u>Note payable, issued to former owners of Bolo-note (a)</u>	<u>6,103,101</u>	<u>4,877,299</u>
	6,103,101	20,857,580
<u>Current portion</u>	<u>(98,574)</u>	<u>(15,980,281)</u>
<u>Long term portion</u>	<u>\$ 6,004,527</u>	<u>\$ 4,877,299</u>

(a) Pursuant to the August 10, 2007 acquisition of Bolo, and in satisfaction of a portion of the purchase consideration, the Company issued a note payable (the "Bolo Note") to the shareholders of Bolo for a principal amount of US \$5 million. The Bolo Note matures on August 10, 2010 and bears interest at 7.75% per annum which is payable on maturity. The obligations under the Bolo Note are secured by all Bolo assets.

	2008	2007
US dollar denominated debt:		
Opening balance	\$4,877,299	\$ -
August 10, 2007 issue	-	5,254,500
Debt issue costs, net of cumulative amortization	81,600	(214,180)
Accrued interest	-	136,874
<u>Unrealized foreign exchange loss (gain)</u>	<u>1,144,202</u>	<u>(299,895)</u>
	6,103,101	4,877,299
<u>Current portion</u>	<u>(98,574)</u>	<u>-</u>
<u>Long term portion</u>	<u>\$6,004,527</u>	<u>\$ 4,877,299</u>

# WELLPOINT SYSTEMS INC.

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Years ended December 31, 2008 and 2007

The effective annual interest rate, including the debt issue costs for this debt is 8.6%.

During 2008, the Company and the former shareholders of Bolo agreed to amend the Bolo Note. Under the terms of the amendment, the Company has agreed to pay all interest on a quarterly basis in arrears on March 31<sup>st</sup>, June 30<sup>th</sup>, September 30<sup>th</sup> and December 31<sup>st</sup> of each year. In addition, the Company agreed to pay all of the accrued interest up to the date of the amendment in the amount of US\$202,329 in 10 equal quarterly payments of \$20,233 commencing March 31, 2008 and to increase the interest rate on the Bolo Note to 7.75% from 7%.

## 12. Capital lease obligations

The Company has certain equipment under capital leases expiring between 2010 and 2013 and at interest rates between 9.3% and 13.6%. Capital lease obligations are as follows:

	2008
Balance, beginning of year	\$ -
Principal capital lease obligations incurred during the year	112,106
Payments made during the year	(28,657)
Unrealized foreign exchange loss	20,171
	103,620
Current portion	(45,791)
Long term portion	\$ 57,829

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 12

### Years ended December 31, 2008 and 2007

#### 13. Convertible debentures:

	Dec 04, Jan 05 note (a)	25-Aug-05 note (b)	12-Mar-07 note (c)	10-Mar-08 note (d)	10-Mar-08 note (e)	10-Mar-08 note (f)	30-Dec-08 note (g)	30-Dec-08 note (h)	30-Dec-08 note (i)	Total
Balance December 31, 2006	\$ 1,280,573	\$ 2,682,862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,963,435
Convertible debenture issuance			4,500,000							4,500,000
Equity portion of convertible debenture issue			(523,431)							(523,431)
Debt issue costs	(33,709)		(281,100)							(314,809)
Amortization of debt issue costs	19,547	42,605	41,459							103,611
Accretion of interest on convertible debentures	31,411	57,787	80,675							169,873
Redemption of convertible debentures	(490,000)									(490,000)
Revaluation for conversion price adjustment			(401,760)							(401,760)
Extinguishment of convertible debentures for accounting purposes	(390,000)									(390,000)
Reissuance of convertible debenture for accounting purposes	390,000									390,000
Equity portion of reissuance of convertible debenture	(23,875)									(23,875)
Balance December 31, 2007	783,947	2,783,254	3,415,843	-	-	-	-	-	-	6,983,044
Convertible debenture issuance				1,100,000	2,700,000	15,163,520	2,443,400	2,740,500	1,827,000	25,974,420
Equity portion of convertible debenture issue				(108,091)	(279,732)	(4,192,329)	(868,297)	(731,829)	(487,886)	(6,668,164)
Debt issue costs				(179,101)	(233,725)	(672,050)	(348,720)		(60,900)	(1,494,496)
Amortization of debt issue costs	981	44,661	53,004	104,358	128,354	105,434				436,792
Accretion of interest on convertible debentures	6,021	61,751	181,084	59,903	145,118	466,860	935	2,287	1,525	925,484
Redemption of convertible debentures	(410,000)									(410,000)
Foreign exchange translation						2,526,667	(4,773)			2,521,894
Extinguishment of convertible debentures for accounting purposes		(3,000,000)	(4,500,000)		(2,700,000)	(18,569,840)				(28,769,840)
Loss on extinguishment of convertible debentures		110,334	850,069		239,985	5,171,738				6,372,126
	380,949	-	-	977,069	-	-	1,222,545	2,010,958	1,279,739	5,871,260
Reissuance of convertible debenture for accounting purposes		3,000,000	4,500,000		2,700,000	18,569,840				28,769,840
Equity portion of reissuance of convertible debenture		(633,969)	(1,204,775)		(591,712)	(4,344,999)				(6,775,455)
Accretion of interest on convertible debentures		2,054	2,045		1,850	5,556				11,505
Foreign exchange translation						(43,097)				(43,097)
Balance December 31, 2008	\$ 380,949	\$ 2,368,085	\$ 3,297,270	\$ 977,069	\$ 2,110,138	\$ 14,187,300	\$ 1,222,545	\$ 2,010,958	\$ 1,279,739	\$ 27,834,053

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 13

Years ended December 31, 2008 and 2007

### 13. Convertible debentures (continued):

	2008	2007
December 2004 and January 2005-note (a)	\$ 380,949	\$ 783,947
August 25, 2005-note (b)	2,368,085	2,783,254
March 12, 2007-note (c)	3,297,270	3,415,843
March 10, 2008-note (d)	977,069	-
March 10, 2008-note (e)	2,110,138	-
March 10, 2008-note (f)	14,187,300	-
December 30, 2008-note (g)	1,222,545	-
December 30, 2008-note (h)	2,010,958	-
December 30, 2008-note (i)	1,279,739	-
	27,834,053	6,983,044
Current portion	(1,358,019)	(6,605,733)
Long term portion	\$26,476,034	\$ 377,311

(a) In December 2004, the Company issued \$360,000 subordinated convertible debentures maturing December 30, 2006 and on January 31, 2005 an additional \$1,140,000 debentures maturing on January 31, 2007 for a total of \$1,500,000. The debentures at the date of issue were convertible at the holders' option into fully paid and non-assessable common shares at any time prior to the maturity dates at a conversion price of \$0.40 per common share and with interest payable quarterly at 12% per annum on the date of issue. The debentures are a direct obligation of the Company and are not secured. In 2006, holders of \$30,000 of the December 30, 2006 debentures and \$120,000 of the January 31, 2007 debentures converted their debentures into 375,000 common shares of the Company.

Prior to their maturity, holders of \$270,000 of the December 30, 2006 and \$650,000 of the January 31, 2007 debentures accepted the Company's offer to extend the debenture for one year to December 30, 2007 and January 31, 2008, respectively at a rate of 10% with all other terms remaining essentially unchanged.

The effective annual interest rate, including the debt issue costs and fair value of the conversion option for these debentures is 20%.

Prior to their maturity, holders of \$150,000 of the December 30, 2007 and \$240,000 of the January 31, 2008 debentures accepted the Company's offer to extend the debenture to July 1, 2009 at a interest rate of 15% per annum and a reduction in the conversion price to \$0.34 per common share with all other terms remaining essentially unchanged.

All debentures not extended on their respective maturity dates were repaid on such date.

(b) On August 25, 2005, the Company issued convertible, secured debentures in the amount of \$3,000,000. The debentures bore interest at 7.5% per annum and were originally set to mature on December 15, 2009 with the first year's interest payable in advance and the balance of the interest payable quarterly in arrears on November 25, February 25, May 25 and August 25 of

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 14

### Years ended December 31, 2008 and 2007

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each year. The debentures were convertible at the holders' option into fully paid and non-assessable common shares at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date fixed for redemption at a conversion price of \$0.45, per common share. The conversion price is subject to standard anti-dilutive provisions. The Company, at its sole election, during the period August 25, 2007 to December 15, 2009, shall have the right to require the holders to effect conversion of the debentures into common shares if the internal rate of return to the holder is 25% per annum, the daily trading volume of the company's common shares attain a minimum level and the market capitalization of the Company is greater than \$75 million. Commencing on February 25, 2008, the Company is entitled to prepay the entire principal provided that an additional amount is paid to the holder as additional interest which will provide the holder with the internal rate of return as at the prepayment date. If not converted or prepaid, the Company will pay the holders the full amount, plus accrued interest at 7.5% per annum, on the maturity date.

The effective annual interest rate, including the debt issue costs and fair value of the conversion option for these debentures is 21.9%. The Company and its subsidiaries granted security interests over all of their real and personal property as security for the payment and performance of the Company's obligations and liabilities under the debentures.

On December 30, 2008 the maturity date for \$1,400,000 of the convertible secured debenture was extended to June 30, 2010 and the maturity date for \$1,600,000 of the convertible secured debenture was extended to October 1, 2010. The conversion price was adjusted to \$0.30 per share. If certain 2009 EBITDA thresholds are met the conversion price may go up to \$0.35 or \$0.40 per share. The interest rate was amended to an adjustable rate per annum as follows, 7.75% per annum from December 30, 2008 to June 30, 2009, 8% per annum from July 1, 2009 to September 30, 2009 and 8.5% per annum from October 1, 2009 to maturity. As a result of the renegotiation the original debenture was considered extinguished for accounting purposes and the debt component of the principal amount was recalculated as described in note 13(j).

(c) On March 12, 2007, the Company issued convertible, secured debentures in the amount of \$4,500,000. The debentures bear interest at 7.75% per annum and mature on April 12, 2012 with the first year's interest payable in advance and the balance of the interest payable quarterly in arrears on June 12, September 12, December 12 and March 12 of each year. The debentures were convertible at the holders' option into fully paid and non-assessable common shares at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date fixed for redemption at a conversion price of \$0.65, per common share. The conversion price is subject to standard anti-dilutive provisions. The Company, at its sole election, during the period March 12, 2008 to April 12, 2012, shall have the right to require the holders to effect conversion of the debentures into common shares if the internal rate of return to the holder is 20% per annum for a minimum: 24 month period during the period March 12, 2008 to March 12, 2009; 36 months for the next year; 48 months for the next year; and 60 months for the next year, and, the daily trading volume of the Company's common shares attain a minimum level. Further, during the period March 12, 2008 to March 12, 2010, the Company, at

# WELLPOINT SYSTEMS INC.

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Years ended December 31, 2008 and 2007

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its sole election, shall have the right to require the holders to effect conversion of the debentures if the fully diluted market capitalization of the common shares on the Toronto Stock Exchange is a minimum of \$150 million and the daily trading volume of the Company's common shares attain a minimum level. Commencing on March 12, 2009, the Company will be entitled to prepay the entire principal provided that an additional amount is paid to the holder as additional interest which will provide the holder with the internal rate of return as at the prepayment date. If not converted or prepaid, the Company will pay the holders the full amount, plus accrued interest at 7.75% per annum, on the maturity date.

In connection with the Bolo acquisition and related financing, the Company agreed to amend the March 12, 2007 \$4.5 million convertible secured debenture to lower the conversion price by which such debentures will be convertible into common shares from \$0.65 to \$0.55 per common share and to change the maturity date of \$300,000 of the convertible secured debentures from April 12, 2012 to December 15, 2009. The reduction in the conversion price increased the fair value of the conversion option and resulted in a reduction in the carrying value of the debenture and corresponding increase in equity portion of convertible debentures in the amount of \$401,761.

The effective annual interest rate, including the debt issue costs and fair value of the conversion option for these debentures is 17.5%. The company and its subsidiaries granted security interests over all of their real and personal property as security for the payment and performance of the Company's obligations and liabilities under the debentures.

On December 30, 2008 the conversion price was adjusted to \$0.30 per share. If certain 2009 EBITDA thresholds are met the conversion price may go up to \$0.35 or \$0.40 per share. The interest rate was amended to an adjustable rate per annum as follows, 7.75% per annum from December 30, 2008 to June 30, 2009, 8% per annum from July 1, 2009 to September 30, 2009 and 8.5% per annum from October 1, 2009 to maturity and the maturity date of \$300,000 of the convertible secured debenture was extended to June 30, 2010. As a result of the renegotiation the original debenture was considered extinguished for accounting purposes and the debt component of the principal amount was recalculated as described in note 13(j).

(d) On March 10, 2008, the Company issued convertible debentures for total gross proceeds of \$1.1 million. The convertible debentures bear interest at a rate of 7.75% per annum and mature on July 31, 2009. Interest for the first year was paid on March 10, 2008 and the balance of the interest is payable quarterly in arrears on the last day of each quarter. The net proceeds of the offering were \$0.8 million, net of prepaid interest, corporate finance and agent's fees and legal fees, and were used for general corporate purposes.

The debentures were convertible into common shares of the Company at a conversion price of \$0.60 per common share. If the debentures are not converted prior to the July 31, 2009 maturity date, the Company will issue to the holders of the debentures an additional 308,000 common shares of the Company which if issued would result in an effective interest rate of 15.75% per annum. The convertible debentures are a direct obligation of the Company and are unsecured.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 16

### Years ended December 31, 2008 and 2007

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Pursuant to the completion of this offering, the Company granted the agent options to purchase 100,000 common shares of the Company at a price of \$0.60 per common share, expiring on July 31, 2009.

(e) On March 10, 2008, the Company issued a convertible secured debenture for total gross proceeds of \$2.7 million. The convertible debenture bears interest at a rate of 7.75% per annum and matures on August 31, 2009. Interest for the first year was paid on March 10, 2008 and the balance of the interest is payable quarterly in arrears on the last day of each calendar quarter. The net proceeds of the offering were \$2.3 million net of prepaid interest, fees of \$81,000 and legal fees. The net proceeds were used to repay all of the 2007 note payable issued on acquisition of Bolo on March 11, 2008.

The debentures were convertible into common shares of the Company at a conversion price of \$0.60 per common share. If the debenture is not converted prior to the August 31, 2009 maturity date, the Company will issue to the holder of the debenture an additional 797,425 common shares of the Company which if issued would result in an effective interest rate of 21.9% per annum.

The convertible debenture is a direct obligation of the Company. The Company and its subsidiaries granted security interest over all of their real and personal property as security for the payment and performance of the Company's obligations and liabilities under the debenture. The convertible secured debenture is subordinated to the bank indebtedness, the US\$15.2 million convertible secured debenture (note 13 (f)), the US\$5.0 million BOLO Note (note 11 (a)), and the August 25, 2005 \$3.0 million and the March 12, 2007 \$4.5 million convertible secured debentures.

On December 30, 2008 the maturity date was extended to October 1, 2010 and the conversion price was adjusted to \$0.30 per share. If certain 2009 EBITDA thresholds are met the conversion price may go up to \$0.35 or \$0.40 per share. The interest rate was amended to an adjustable rate per annum as follows, 7.75% per annum from December 30, 2008 to June 30, 2009, 8% per annum from July 1, 2009 to September 30, 2009 and 8.5% per annum from October 1, 2009 to maturity. As a result of the renegotiation the original debenture was considered extinguished for accounting purposes and the debt component of the principal amount was recalculated as described in note 13(j).

(f) On March 10, 2008 the Company issued a convertible secured debenture for total gross proceeds of US\$15.2 million. The convertible debenture bears interest at a rate of 7.75% per annum and matures on April 10, 2013. Interest for the first year was paid on March 10, 2008 and the balance of the interest is payable quarterly in arrears on the last day of each calendar quarter. The net proceeds of the offering were \$13.3 million, net of prepaid interest, fees \$456,000 and legal fees, were used to repay a portion of the Crown Note on March 11, 2008.

The debentures were convertible into common shares of the Company at a conversion price of \$0.90 per common share. The Company requires the consent of the holder to issue any additional debt or equity securities. The Company shall have the right to repay the debenture at any time during the period from March 10, 2010 to April 10, 2013 at an amount equal to the

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 17

### Years ended December 31, 2008 and 2007

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principal amount of the debenture plus an internal rate of return of 20% to the holder. The Company may effect conversion of the debentures into common shares if the internal rate of return of 20% to holder is achieved and minimum daily trading volumes of the Company's common shares are attained over a specified period.

The convertible debentures are a direct obligation of the Company. The Company and its subsidiaries granted security interest over all of their real and personal property as security for the payment and performance of the Company's obligations and liabilities under the debenture. The convertible secured debenture is subordinated to the bank indebtedness.

On December 30, 2008 the conversion price was adjusted to \$0.30 per share. If certain 2009 EBITDA thresholds are met the conversion price may go up to \$0.35 or \$0.40 per share. The interest rate was amended to an adjustable rate per annum as follows, 7.75% per annum from December 30, 2008 to June 30, 2009, 8% per annum from July 1, 2009 to September 30, 2009 and 8.5% per annum from October 1, 2009 to maturity. As a result of the renegotiation the original debenture was considered extinguished for accounting purposes and the debt component of the principal amount was recalculated as described in note 13(j).

(g) On December 30, 2008 the Company issued a convertible secured debenture for total gross proceeds of US\$2 million. The convertible debenture bears an adjustable rate of interest, initially at 7.75% per annum and matures on January 30, 2014. Interest for the first year was paid on December 30, 2008 and the balance of the interest is payable quarterly in arrears on the last day of each calendar quarter.

The debentures are convertible into common shares of the Company at a conversion price of \$0.30 per common share. If certain 2009 EBITDA thresholds are met the conversion price may go up to \$0.35 or \$0.40 per share. The Company requires the consent of the holder to issue any additional debt or equity securities. The Company shall have the right to repay the debenture at any time during the period from December 30, 2008 and the maturity date at an amount equal to the principal amount of the debenture plus an internal rate of return of 20% to the holder. The Company may effect conversion of the debentures into common shares if the internal rate of return of 20% to holder is achieved and minimum daily trading volumes of the Company's common shares are attained over a specified period.

The convertible debentures are a direct obligation of the Company. The Company and its subsidiaries granted security interest over all of their real and personal property as security for the payment and performance of the Company's obligations and liabilities under the debenture. The convertible secured debenture is subordinated to the bank indebtedness.

(h) On December 30, 2008 the Company issued a convertible secured debenture for total gross proceeds of US\$2.25 million. The convertible debenture bears an adjustable rate of interest, initially at 7.75% per annum payable monthly and matures on October 1, 2010.

The debentures are convertible into common shares of the Company at a conversion price of \$0.30 per common share. If certain 2009 EBITDA thresholds are met the conversion price may go up to \$0.35 or \$0.40 per share. The Company requires the consent of the holder to issue any

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 18

Years ended December 31, 2008 and 2007

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additional debt or equity securities. The Company shall have the right to repay the debenture at any time during the period from December 30, 2008 and the maturity date at an amount equal to the principal amount of the debenture plus an internal rate of return of 20% to the holder.

The convertible debentures are a direct obligation of the Company. The Company and its subsidiaries granted security interest over all of their real and personal property as security for the payment and performance of the Company's obligations and liabilities under the debenture. The convertible secured debenture is subordinated to the bank indebtedness.

(i) On December 30, 2008 the Company issued a convertible secured debenture for total gross proceeds of US\$1.5 million. The convertible debenture bears interest at a rate of 8.5% per annum and matures on October 1, 2010. The principal does not bear interest from December 30, 2008 to December 19, 2009. From December 20, 2009 until the maturity date interest is paid monthly.

The debentures are convertible into common shares of the Company at a conversion price of \$0.30 per common share. If certain 2009 EBITDA thresholds are met the conversion price may go up to \$0.35 or \$0.40 per share. The Company requires the consent of the holder to issue any additional debt or equity securities. The Company shall have the right to repay the debenture at any time during the period from December 30, 2008 and the maturity date at an amount equal to the principal amount of the debenture plus an internal rate of return of 20% to the holder.

The convertible debentures are a direct obligation of the Company. The Company and its subsidiaries granted security interest over all of their real and personal property as security for the payment and performance of the Company's obligations and liabilities under the debenture. The convertible secured debenture is subordinated to the bank indebtedness.

(j) The convertible debentures are presented in the financial statements in their component parts, measured at their respective fair values at the time of issue or renegotiation. For the December 2004 and January 2005 (note (a)) and the March 10, 2008 (note (d)) convertible debentures, 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. Interest expense is determined on the debt component. The difference between the debt component and the face value of the debenture is classified in shareholders' equity as the equity portion of the convertible debentures. Issue costs are shown as a reduction to the liability portion of the debenture, net of income taxes. For the remainder of the convertible debentures the equity portion was calculated using the Black-Scholes pricing model. The difference between the equity portion and the face value of the debenture is classified as debt. The debentures are accreted to their face value over their term with a charge to operations included in the interest expense.

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 19

Years ended December 31, 2008 and 2007

## 14. Income taxes:

Future income tax expense differs from the result that would be obtained by applying the combined statutory corporate income tax rate to income before income taxes. The reasons for the difference are as follows:

	2008	2007
Loss before income taxes	\$(28,424,158)	\$(4,056,085)
Statutory income tax rate	29.5%	32.1%
Computed recovery	(8,385,127)	(1,302,003)
Non deductible expenses	2,863,454	493,359
Tax rate differences	944,095	(77,949)
Other	346,589	(142,725)
Change in valuation allowance	3,466,113	647,051
	\$ (764,876)	\$ (382,267)

The components of the net future income tax liability (asset) are as follows:

December 31, 2008	Canada	USA	Other	Total
Future income tax asset:				
Non-capital losses	\$2,188,693	\$ 425,551	\$ 195,809	\$ 2,810,053
Deferred development costs	787,868	-	-	787,868
Unrealized foreign exchange loss	301,569	-	-	301,569
Other	658,296	1,681,497	-	2,339,793
	3,936,426	2,107,048	195,809	6,239,283
Less valuation allowance	(3,936,426)	-	(195,809)	(4,132,235)
	-	2,107,048	-	2,107,048
Future income tax liability:				
Deferred development costs	-	826,249	-	826,249
Intangible assets	-	1,080,726	-	1,080,726
Other	-	68,417	-	68,417
	-	1,975,392	-	1,975,392
Net future income tax asset	\$ -	\$ (131,656)	\$ -	\$ (131,656)

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 20

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December 31, 2007	Canada	Other	Total
Future income tax asset:			
Non-capital losses	\$ 406,715	\$ 345,750	\$ 752,465
Other	740,993	655,677	1,396,670
	1,147,708	1,001,427	2,149,135
Less valuation allowance	(680,872)	-	(680,872)
	466,836	1,001,427	1,468,263
Future income tax liability:			
Deferred development costs	256,032	242,861	498,893
Intangible assets	-	1,129,561	1,129,561
Other	4,991	51,084	56,075
Unrealized foreign exchange gain	205,813	-	205,813
	466,836	1,423,506	1,890,342
Net future income tax liabilities	\$ -	\$ 422,079	\$ 422,079

The Company has non-capital losses of \$8,754,772 (2007 - \$1,627,000) available to reduce future years taxable income for Canadian purposes. These losses will expire between 2022 and 2028. The company has net operating losses in the United States of \$1,138,971 (2007 - \$1,052,137) available to reduce future years taxable income. These losses will expire between 2027 and 2028. The Company also has net operating losses in South Africa of \$675,202 (2007 - nil). These losses have no expiry date.

### 15. Share capital:

#### a) Common shares:

The authorized share capital of the Company consists of an unlimited number of common shares and unlimited number of preferred shares, issuable in series. The issued share capital of the Company is as follows:

	Number of common shares	Amount
Balance, December 31, 2006	35,308,409	\$ 9,670,391
Issued on acquisition of iSoft	703,172	568,801
Issued on acquisition of Bolo	8,000,000	3,414,050
Shares issued on exercise of options	696,000	290,998
Shares issued on settlement of accrued liabilities	1,382,981	553,193
Balance, December 31, 2007	46,090,562	14,497,433
Share cancellation	(200,000)	-
Balance, December 31, 2008	45,890,562	\$ 14,497,433

In 2002, the Company granted a share-purchase loan to an officer and director in the amount of \$54,000. The share-purchase loan bore interest at a variable market rate and was repayable no

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 21

### Years ended December 31, 2008 and 2007

later than December 1, 2011. The loan was secured by 200,000 common shares of the Company for which it was used to purchase. In 2008 the officer and director ceased employment with the Company and the loan was cancelled and the shares were returned to the Company.

(b) Warrants/compensation options:

	Number of warrants/options	Amount
Balance, December 31, 2006	5,977,459	372,183
Warrants issued with long term debt	2,700,000	685,867
Balance, December 31, 2007	8,677,459	\$ 1,058,050
Warrants issued on private placement expired	(5,000,000)	(250,000)
Compensation options on private placement expired	(977,459)	(122,183)
Warrants issued on long term note payable expired	(1,800,000)	(309,510)
Warrants issued on long term note payable forfeited	(900,000)	(376,357)
Balance, December 31, 2008	-	\$ -

(c) Stock options:

The Company has a stock option plan for employees, directors and consultants. At December 31, 2008, a total of 3,700,000 (3,700,000 at December 31, 2007) shares were reserved for issuance under this plan. Options granted vest up to three years.

The following tables summarize information regarding stock options:

	2008 Number of options outstanding	2008 Weighted average exercise price
Balance, Beginning of year	2,777,877	\$0.44
Granted	1,175,205	0.39
Forfeited	(1,789,336)	0.42
Expired	(475,205)	0.56
Balance, End of year	1,688,541	\$ 0.40

# WELLPOINT SYSTEMS INC.

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Years ended December 31, 2008 and 2007

Exercise price	Number of options outstanding	Weighted Average remaining contractual life (years)	Number of options exercisable
\$ 0.23	50,000	0.9	50,000
0.29	250,000	4.5	-
0.32	200,000	4.4	-
0.35	33,336	1.2	33,336
0.36	150,000	4.3	-
0.42	475,205	0.2	475,205
0.44	430,000	3.6	143,333
0.60	100,000	0.6	100,000
	1,688,541	2.6	801,874

Stock-based compensation expense for the year ended December 31, 2008 was \$158,018 (2007 - \$167,062). This expense was calculated using the Black-Scholes option pricing model with the following assumptions: weighted average risk-free interest rate of 3.84% (2007 - 4.4%), expected life of five years and volatility of 91% - 213% (2007 - 89% - 149%).

(d) Per share amounts:

The weighted average number of common shares outstanding for 2008 was 46.1 million (2007 - 39.4 million). The diluted number of shares for 2008 was 46.1 million (2007 - 39.5 million) reflecting the dilutive effect of the exercise of options outstanding, warrants and convertible debt.

(e) Contributed surplus:

Contributed surplus represents the cost of the stock-based compensation payments relating to the compensation expense for stock options granted to employees, directors and consultants and the equity component of matured debentures.

The following tables summarize information regarding contributed surplus:

	2008
Balance, Beginning of year	\$ 760,828
Stock option expense	158,018
Expiration of warrants and compensation options	681,693
Maturity of convertible debenture	23,876
Balance, End of year	\$ 1,624,415

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### Years ended December 31, 2008 and 2007

(f) Convertible debentures:

	2008
Balance, Beginning of year	\$ 1,222,922
Additional convertible debentures	13,453,343
Extinguishment of convertible debentures	(5,656,422)
Maturity of convertible debenture	(23,876)
Balance, End of year	\$ 8,995,967

(g) Directors' deferred share unit plan:

The Company implemented a Directors' deferred share unit plan effective July 1, 2007. As at December 31, 2008 530,414 (December 31, 2007-92,400) DSU's are issuable to settle \$124,750 (December 31, 2007-\$30,500) of directors' fees.

The Company intends to implement a new deferred share unit plan (the "New DSU Plan") for purposes of director compensation and the DSU Plan described above will be replaced with the New DSU Plan and the DSU's granted under the DSU Plan will be replaced by DSUs granted under the New DSU Plan. The New DSU Plan is expected to be adopted in 2009 and will be subject to the approval of the TSX Venture Exchange and the shareholders of the Company.

16. Accumulated other comprehensive income (loss):

	Amount
Balance, December 31, 2007	\$ (389,856)
Unrealized gain on translating financial statements of self-sustaining foreign operations	4,134,069
Balance, December 31, 2008	\$3,744,213

17. Segmented information:

The Company conducts all of its business in one operating segment; software solutions and services.

Revenue by geographical region:

	2008	2007
United States	\$22,283,796	\$10,767,907
Canada	8,404,052	8,447,922
Central and South America	1,962,680	6,265,801
Other International	2,658,255	3,352,491
	\$35,308,783	\$28,834,121

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## Notes to Consolidated Financial Statements, page 24

Years ended December 31, 2008 and 2007

Property and equipment, intangible assets and goodwill by geographical region:

	2008	2007
Canada	\$ 350,829	\$ 465,539
United States	36,261,753	33,404,850
Other International	3,810,969	3,683,400
	<u>\$40,423,551</u>	<u>\$37,553,789</u>

Revenues are attributed to countries based on location of customer. No customers accounted for more than 10% of the Company's accounts receivable balance or revenue in 2008. One customer accounted for approximately 37% of the Company's accounts receivable balance and 18% of the Company's revenue for the year ended December 31, 2007.

18. Supplemental cash flow information:

	2008	2007
Taxes paid	\$ 161,600	\$ -
Interest paid	\$ 3,277,646	\$ 1,160,154
Changes in non-cash working capital components:		
Accounts receivable	4,228,759	(3,198,927)
Prepaid expenses	(471,932)	111,995
Accounts payable, accrued liabilities and income tax liability	563,530	2,956,229
Deferred revenue	2,731,710	236,969
	<u>\$ 7,052,067</u>	<u>\$ 106,266</u>

19. Foreign exchange gain (loss):

	2008	2007
Unrealized foreign exchange gain (loss) on translation of foreign currency denominated debt	\$(3,575,770)	\$ 1,331,118
Unrealized foreign exchange gain on risk management	-	176,000
Unrealized foreign exchange gain (loss)-other	271,689	155,638
Realized foreign exchange gain (loss)	(198,007)	(28,510)
	<u>\$(3,502,088)</u>	<u>\$ 1,634,246</u>

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Years ended December 31, 2008 and 2007

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## 20. Financial instruments:

### Interest Rate Risk-

The Company is exposed to interest rate risk on the Canadian credit facility as the interest charged on the amount borrowed is based on a floating interest rate (note 10).

### Foreign Currency Exchange Risk-

The Company is exposed to foreign currency fluctuations on net investments and operations of self-sustaining foreign subsidiaries and US dollar denominated debt for both interest and principal payments (notes 5, 10 and 21).

### Credit Risk-

The Company sells a significant portion of its software and related services to oil and gas and mining operations companies, and the accounts receivable are subject to normal industry credit risks. The Company also manages credit risk related to accounts receivable by maintaining reserves for potential credit losses, but historically has not experienced significant losses related to individual customers or groups of customer in any particular industry or geography.

### Forward and Futures Contracts-

The forward and futures contracts are subject to market risk from fluctuating exchange rates.

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, long-term notes payable and convertible debentures.

## 21. Financial Risk Management

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.

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

### (a) 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, setting exposure limits and monitoring exposures against these limits.

# WELLPOINT SYSTEMS INC.

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Years ended December 31, 2008 and 2007

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The maximum counterparty credit exposure at the balance sheet date consists of the carrying amount (net of allowances) of financial assets which are trade accounts receivables predominately from oil and gas and mining companies in North and South America. The average credit period on sales is 30 days. Included in trade accounts receivables are \$2.3 million which are past due as at December 31, 2008 for which the Company has provided an allowance of \$850,369. The Company does not hold any collateral over these balances.

The aging of the accounts receivable as at December 31, 2008 is as follows:

	Gross	Impairment	Net
Not past due	\$ 2,147,357	\$ 25,699	\$ 2,121,658
Past due 1- 30 days	1,099,792	123,512	976,280
past due 31-60 days	231,715	16,681	215,034
Past due 61-150 days	270,102	65,824	204,278
Greater than 150 days	633,254	618,653	14,601
	\$ 4,382,220	\$ 850,369	\$ 3,531,851

The movement in the allowance for doubtful accounts for the year ended December 31, 2008 is as follows:

	Impairment
Balance, Beginning of year	\$ 251,092
Provision	768,759
Accounts written off	(169,482)
Balance, End of year	\$ 850,369

The Company has determined that an allowance of \$850,369 is required in respect of the gross amount of trade accounts receivable. This has been based upon an individual account assessment based upon past credit history and our knowledge of the counterparties. The concentration of credit risk at December 31, 2008 is limited due to the customer base being large and unrelated. Accordingly, the Company believes that there is no further allowance required in excess of the allowance for doubtful accounts.

# WELLPOINT SYSTEMS INC.

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### (b) 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\$4 million with a maximum draw of 80% of allowable Canadian and United States accounts receivable. At December 31, 2008, the Company had not utilized any of the available credit (December 31, 2007-\$1.2 million) on this facility. Typically, the Company ensures that it has availability on its operating lines to fund operations for a period of 30 days, including forecasted collections and its requirements for servicing its financial obligations.

The following are the contractual maturities of financial liabilities, including interest payments and excluding additional contingent consideration which may be incurred in connection with the 2007 acquisitions of the Company.

	Carrying Amount	Contractual Cash Flow	Three months or less	Remainder of 2009	2010	2010 to 2014
Accounts Payable and accrued liabilities	\$ 5,717,886	\$ 5,717,886	\$ 2,657,681	\$ 3,060,205	\$ -	\$ -
Current portion of long term notes payable	98,574	98,574	24,644	73,930	-	-
Current portion of capital lease obligations	45,791	45,791	11,448	34,343	-	-
Current portion of convertible debentures	1,358,019	1,490,000	-	1,490,000	-	-
Long term notes payable	6,004,527	6,781,995	120,859	362,576	6,298,560	-
Capital lease obligations	57,829	79,987	2,255	6,764	43,596	27,372
Convertible Debentures	26,476,034	45,015,478	219,222	2,018,269	12,947,405	29,830,582
Purchase Commitments	-	4,149,815	482,313	1,446,940	1,456,977	763,585
	\$ 39,758,660	\$ 63,379,526	\$ 3,518,422	\$ 8,493,027	\$ 20,746,538	\$ 30,621,539

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## Notes to Consolidated Financial Statements, page 28

Years ended December 31, 2008 and 2007

### (c) 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. The Company monitors its foreign currency exposure and attempts to minimize the impact by aligning appropriate levels of US denominated debt with cash flows from US based operations.

The following table summarizes the foreign currency financial instruments as at December 31, 2008:

	December 31, 2008	
	USD	South African Rand
Cash	\$ 392,236	511,662
Accounts Receivable	2,306,826	1,160,686
Accounts Payable and Accrued Liabilities	(2,765,388)	(661,808)
Current Portion of Long Term Debt	(80,931)	
Current Portion of Capital Lease Obligations	(37,595)	
Long Term Debt	(4,950,057)	
Capital Lease Obligations	(47,478)	
Convertible Debentures	(20,950,000)	
	(\$26,132,387)	1,010,540

A 10% strengthening of the Canadian dollar against the United States dollar and South African rand as at December 31, 2008 would have increased net income by approximately \$1.7 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 periodically borrows funds at both fixed and floating interest rates. As at December 31, 2008, all of the Company's interest bearing financial liabilities bear interest at fixed rates.

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%. The Company does not account for any

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 29

Years ended December 31, 2008 and 2007

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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.

(d) 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 December 31, 2008. The carrying amount of financial instruments classified as current approximates fair value due to their short term to maturity. Long term notes payable and convertible debentures were initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method. The carrying amount of long term notes payable and convertible debentures approximates fair value as at December 31, 2008.

## 22. 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:

- (a) to safeguard the Company's ability to continue as a going concern and provide returns for shareholders;
- (b) to 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 analysis to ensure that liquidity is adequate and monthly reviews of financial performance.

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

	Carrying Amount
Long term notes payable	\$ 6,103,101
Convertible debentures	26,476,034
Shareholders' equity	2,993,183
	<u>\$ 35,572,318</u>

The Company has the following externally imposed requirements on its capital primarily as a result of 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, debt to equity and trailing 12 month EBITDA ("TTM EBITDA") as defined in the debt agreements. See Note 13 for additional information.

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## Notes to Consolidated Financial Statements, page 30

Years ended December 31, 2008 and 2007

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

### 23. Related parties:

One director of the Company is on the Board and is the Managing Director of the Quorum Group of Companies ("Quorum") who manages investment funds which have provided financing to the Company. Quorum as fund manager has received transaction fees from the Company in the amount of \$135,000 in connection with the issuance of the \$4.5 million of convertible debentures on March 12, 2007, transaction fees of \$537,000 in connection with the issuance of the US\$15.2 million and \$2.7 million convertible debentures on March 10, 2008 and transaction fees of \$120,000 in connection with the issuance of US\$2 million convertible debenture on December 30, 2008.

The Company has also signed a definitive agreement with Quorum MENA Limited ("QMENA") for the purchase in 2009 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.

Several members of the Company's executive are shareholders of Sirocco Holdings, Inc. (formerly Bolo Systems Inc.) ("Sirocco"). On December 31, 2008 the Company owed Sirocco \$225,326 in accounts payable. As part of the consideration for the purchase of Bolo, in 2007 the Company issued a note payable to Sirocco for US \$5 million. In order to satisfy the Company's obligations relating to earnouts from the strong performance of Bolo, in 2008 the Company issued convertible debentures to Sirocco for US\$2.25 million and US\$1.5 million. In 2008 the Company paid US\$0.4 million of interest to Sirocco.

### 24. Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

### 25. Commitments:

Acquisition agreements provide for contingent consideration should the acquired businesses perform to levels prescribed in the acquisition agreements in the years of operation, post acquisition.

The Company is committed to payments under operating leases for furniture, equipment and office premises, net of sub-leases, approximately as follows:

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2009	\$ 1,929,253
2010	1,456,977
2011	761,338
2012	2,247

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