

Interim Consolidated Financial Statements of

**WELLPOINT SYSTEMS INC.**

Three and six months ended June 30, 2007

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an entity's auditor has not performed a review of the entity's interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# WELLPOINT SYSTEMS INC.

## Consolidated Balance Sheets

	June 30 2007 (Unaudited)	December 31 2006 (Audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,405,262	\$ 2,929,267
Accounts receivable	8,161,056	3,924,271
Prepaid expenses	550,057	333,698
	<u>10,116,375</u>	<u>7,187,236</u>
Deferred charges	1,636,803	482,705
Property and equipment	518,552	298,811
Deferred development costs	4,003,744	3,537,591
Intangible assets	5,043,118	3,623,115
Goodwill	9,108,071	6,058,104
	<u>\$30,426,663</u>	<u>\$21,187,562</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,324,881	\$ 2,001,505
Deferred revenue	1,220,993	1,907,664
Note payable	865,950	-
Other deferred credits	54,558	54,558
Convertible debentures (note 4)	867,178	628,558
	<u>8,333,560</u>	<u>4,592,285</u>
Long term note payable	-	874,050
Other deferred credits	159,129	186,408
Convertible debentures (note 4)	6,475,141	3,334,877
Future income tax liability	2,670,314	1,459,263
Shareholders' equity:		
Share capital (note 5)	10,449,372	9,670,391
Warrants/compensation options (note 5)	372,183	372,183
Contributed surplus (note 5)	563,399	454,631
Convertible debentures (note 4)	818,392	367,853
Accumulated other comprehensive income (loss) (note 6)	(49,627)	67,788
Retained earnings (deficit)	634,800	(192,167)
	<u>12,788,519</u>	<u>10,740,679</u>
	<u>\$30,426,663</u>	<u>\$21,187,562</u>

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

Consolidated Statements of Operations and Deficit (unaudited)

	Three months ended		Six months ended	
	June 30 2007	June 30 2006	June 30 2007	June 30 2006
Revenue	\$ 9,459,955	\$ 3,699,643	\$14,383,046	\$ 6,335,854
Direct costs	3,315,526	887,978	4,627,328	1,445,809
	6,144,469	2,811,665	9,755,718	4,890,045
Expenses:				
General and administrative	3,841,145	2,327,260	6,996,416	3,908,821
Foreign exchange loss (gain)	22,678	(13,792)	15,538	(20,414)
Depreciation and amortization	476,061	320,753	885,021	549,359
Interest	222,919	143,325	366,472	289,210
	4,562,803	2,777,546	8,263,447	4,726,976
Net income before income taxes	1,581,666	34,119	1,492,271	163,069
Income taxes				
Current	543,257	-	543,257	-
Future	122,047	-	122,047	-
	665,304	-	665,304	-
Net income	916,362	34,119	826,967	163,069
Deficit, beginning of period	(281,562)	(700,305)	(192,167)	(829,255)
Retained earnings (deficit), end of period	\$ 634,800	\$ (666,186)	\$ 634,800	\$ (666,186)
Earnings per share				
Basic	\$ 0.025	\$ 0.001	\$ 0.023	\$ 0.006
Diluted	\$ 0.020	\$ 0.001	\$ 0.021	\$ 0.005
Weighted average shares outstanding:				
Basic	35,995,128	35,024,717	35,765,047	29,552,927
Diluted	52,084,276	35,791,790	49,277,215	30,265,156

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

Consolidated Statements of Comprehensive Income (unaudited)

	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2007	2006	2007	2006
Net income	\$ 916,362	\$ 34,119	\$ 826,967	\$ 163,069
Other comprehensive income				
Unrealized loss on translating financial statements of self-sustaining foreign operations	(136,478)	-	(117,415)	-
Comprehensive income	\$ 779,884	\$ 34,119	\$ 709,552	\$ 163,069

# WELLPOINT SYSTEMS INC.

Consolidated Statements of Cash Flows (unaudited)

	Three months ended		Six months ended	
	June 30 2007	June 30 2006	June 30 2007	June 30 2006
Cash provided from (used in):				
Operations:				
Net income	\$ 916,362	\$ 34,119	\$ 826,967	\$ 163,069
Items not affecting cash:				
Accretion of interest on convertible debt	35,774	32,503	59,756	77,292
Amortization of convertible debt issuance costs	32,528	18,708	54,751	37,102
Rent inducement	(13,639)	-	(27,278)	-
Depreciation and amortization	476,061	320,753	885,021	549,359
Future income tax expense	122,047	-	122,047	-
Unrealized foreign exchange gain (loss)	10,610	(35,624)	7,065	(35,624)
Stock-based compensation	37,072	40,032	73,785	200,088
	1,616,815	410,491	2,002,114	991,286
Net change in non-cash working capital items (note 8)	(365,326)	423,430	(1,813,019)	(179,811)
	1,251,489	833,921	189,095	811,475
Financing:				
Issuance of convertible debentures, net	-	-	4,211,678	-
Redemption of convertible debentures	-	-	(400,000)	-
Proceeds from issuance of common shares, net	633,197	2,159	717,197	4,406,245
Change in non-cash working capital	(628,397)	-	-	-
	4,800	2,159	4,528,875	4,406,245
Investing:				
Deferred development costs	(631,399)	(592,282)	(1,079,599)	(1,020,604)
Purchases of property and equipment	(33,714)	(28,159)	(261,970)	(47,119)
Business acquisition (note 3)	-	(31,479)	(3,575,748)	(3,227,557)
Deferred charges	-	-	(545,981)	-
Change in non-cash working capital	(799,050)	-	(799,050)	-
	(1,464,163)	(651,920)	(6,262,348)	(4,295,280)
Effect of foreign exchange rate changes on cash and cash equivalents	6,008	-	20,373	-
Increase (decrease) in cash and cash equivalents	(201,866)	184,160	(1,524,005)	922,440
Cash and cash equivalents, beginning of period	1,607,128	3,195,347	2,929,267	2,457,067
Cash and cash equivalents, end of period	\$ 1,405,262	\$ 3,379,507	\$ 1,405,262	\$ 3,379,507

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements

Six months ended June 30, 2007 and 2006

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## 1. Basis of presentation:

These unaudited consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements and are based on accounting policies and practices consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2006 except as noted in Note 2. The disclosures herein are incremental to those included with the annual audited consolidated financial statements. These interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2006.

## 2. Significant accounting policies:

Changes in accounting policy:

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 1530, Comprehensive Income. The standards have been adopted on a prospective basis.

The new recommendations require the Company to present, among other things, certain unrealized gains and losses outside of net income or loss. Section 1530 defines comprehensive income as the change in equity (net assets) arising from transactions and other events and circumstances from non-owner sources. The new standard requires presentation of a statement of comprehensive income. In accordance with the provisions of these new standards, foreign exchange gains and losses on the translation of the financial statements of the Company's self-sustaining foreign operations, previously recorded in a separate section of shareholders' equity, are now presented as accumulated other comprehensive income. The Company's earnings per share presented on the consolidated statements of income are based upon its net income and not comprehensive income.

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 2

Six months ended June 30, 2007 and 2006

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### 3. Business acquisition:

On March 13, 2007, WellPoint acquired all of the issued and outstanding shares of iSoft Technologies (Pty) Ltd. ("iSoft"). iSoft develops software solutions based on the Microsoft Dynamics AX architecture. WellPoint acquired all of the shares of iSoft for aggregate consideration of US\$3.06 million (CAD\$3.59 million) including transaction costs. The acquisition was accounted for by the purchase method and the results of operations have been included from the date of the acquisition. The allocation of the purchase price was as follows:

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	2007
Net current liabilities, including cash of \$10,767	\$ 145,501
Property and equipment	32,797
Customer relationships	330,000
Intellectual property	1,300,000
Goodwill	2,250,917
Future income tax liability	(472,700)
	<hr/> \$3,586,515 <hr/>

The allocation of the purchase price is based on the preliminary findings of an external evaluation company. Accordingly, the allocation noted above will be subject to adjustment.

In connection with the acquisition, the shareholders of iSoft subscribed for US\$ 0.537 million (CAD\$0.63 million) of common shares of the Company on a private placement basis at a deemed price of CDN\$0.90 per common share resulting in the issuance of 698,220 common shares of the Company. The shares were issued in the second quarter of 2007. The total cash payable by the Company to complete the acquisition was US\$2.46 million (CAD\$2.89 million) with transaction costs of US\$0.06 million (CAD\$0.07 million)

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 3

Six months ended June 30, 2007 and 2006

## 4. Convertible debentures:

The following tables summarize information regarding convertible debentures:

	Amount
Balance, December 31, 2005	\$ 3,958,206
Conversions	(145,331)
Accretion of discount	220,477
Redemptions	(60,000)
Maturity of convertible debentures	(270,000)
Renewal of convertible debentures	260,083
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Balance, December 31, 2006	3,963,435
Maturity of convertible debentures	(1,020,000)
Renewal of convertible debentures, net of costs	626,105
March 12, 2007 issue, net of costs	3,664,469
Accretion of discount	108,310
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	7,342,319
Less: current portion	867,178
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Balance, June 30, 2007	\$ 6,475,141

- (a) On January 31, 2005, the Company issued subordinated convertible debentures in the amount of \$1,140,000 in addition to the \$360,000 issued in December 2004 for a total of \$1,500,000. The debentures bear interest at 12% per annum, with \$360,000 having matured on December 30, 2006 and \$1,140,000 having matured on January 30, 2007, and are a direct obligation of the Company and are not secured. The debentures are convertible at the holders' option into fully paid and non-assessable common shares at any time prior the maturity dates at a conversion price of \$0.40, per common share. Prior to their maturity, holders of \$270,000 of the debentures maturing December 30, 2006 and \$650,000 of the debentures maturing January 30, 2007, accepted the Company's offer to extend the debenture for one year at a rate of 10% with all other terms remaining essentially unchanged. The balance of the debentures was repaid on their maturity dates.

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 4

Six months ended June 30, 2007 and 2006

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## 4. Convertible debentures (continued):

- (b) On March 12, 2007, the Company issued convertible, secured debentures in the amount of \$4,500,000. 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. The debentures bear interest at 7.75% per annum and mature on April 12, 2012 (the maturity date). The debentures are convertible at any time at the option of the holders into common shares at an initial conversion price of \$0.65 per common share. The conversion price is subject to customary adjustments, including an adjustment downwards if the Company completes an equity financing at a price less than the then current conversion price, provided that the conversion price will never be lower than \$0.39 per common share.
- (c) The convertible debentures are presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. 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 as equity, net of issue costs adjusted for income taxes.
- (d) The debentures are accreted to their fair value over their term with a charge to operations included in the interest expense.

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 5

Six months ended June 30, 2007 and 2006

## 5. Share capital:

### (a) Common shares:

#### (i) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares, issue-able in series

#### (ii) Issued:

	Number of Common shares	Amount	Share purchase loan	Total
Balance, December 31, 2005	20,824,149	\$ 3,498,922	\$ (54,000)	\$ 3,444,922
Issued on private placement	10,000,000	4,625,000	-	4,625,000
Share issue expenses, net of future income taxes	-	(514,391)	-	(514,391)
Issued on acquisition of IDEAS	3,613,244	1,770,490	-	1,770,490
Shares issued on exercise of options	494,875	160,720	-	160,720
Fair value of options and compensation options exercised	-	23,523	-	23,523
Shares issued on conversion of convertible debentures	376,141	160,127	-	160,127
Balance, December 31, 2006	35,308,409	9,724,391	(54,000)	9,670,391
Issued on private placement	698,220	628,397	-	628,397
Shares issued on exercise of options	296,000	88,800	-	88,800
Fair value of options exercised	-	61,784	-	61,784
Balance, June 30, 2007	36,302,629	\$10,503,372	\$ (54,000)	\$ 10,449,372

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 6

Six months ended June 30, 2007 and 2006

## 5. Share capital (continued):

### (b) Warrants/compensation options:

	Number of warrants/options	Amount
Balance, December 31, 2005	-	\$ -
Compensation options issued on private placement	1,000,000	125,000
Warrants issued on private placement	5,000,000	250,000
Compensation options exercised	(22,541)	(2,817)
Balance, December 31, 2006 and June 30, 2007	5,977,459	\$ 372,183

In 2002, the Company granted a share-purchase loan to an officer and director in the amount of \$54,000. The share-purchase loan bears interest at a variable market rate and is repayable no later than December 1, 2011. The loan is secured by 200,000 common shares of the Company for which it was used to purchase. The fair market value of the shares was \$0.40 per share at June 30, 2007.

On March 10, 2006, the Company closed an equity offering of 10,000,000 common shares at a price of \$0.50 per Unit, for gross proceeds of \$5,000,000 or net proceeds of \$4,485,609 after the net of offering expenses, underwriters' commissions and future taxes of \$514,391. Each unit consists of one common share of WellPoint and one half of one common share purchase warrant with each full warrant exercisable into one common share at a price of \$0.62 per share for a period of 24 months. The value of the warrants was estimated based the market price of the shares.

Pursuant to the private placement of 10,000,000 units described above, the company granted 1,000,000 compensation options entitling the underwriter to purchase up to 1,000,000 units at a price of \$0.50 per unit. Each unit comprises one fully paid common share of the Company and one-half of one non-transferable common share purchase warrant with each whole warrant entitling the holder to purchase one additional common share of the Company at a price of \$0.62 per share. These options expire in 2008. There are 977,459 options outstanding. The value of the compensation options was estimated based the market price of the shares.

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 7

Six months ended June 30, 2007 and 2006

## 5. Share capital (continued):

### (c) Stock options:

The Company has a stock option plan for employees, directors and consultants. At June 30, 2007, a total of 3,700,000 shares (3,700,000 at June 30, 2006) were reserved for issuance under this plan. Options granted vest over two to four years.

The following tables summarize information regarding stock options:

	Number of options outstanding	Weighted average exercise price
Balance, December 31, 2005	1,927,008	\$ 0.31
Granted	1,406,205	0.54
Exercised	(472,334)	0.32
Expired	(265,002)	0.34
Balance, December 31, 2006	2,595,877	0.43
Granted	600,000	0.38
Exercised	(296,000)	0.30
Expired	(162,000)	0.40
Balance, June 30, 2007	2,737,877	\$ 0.43

Exercise price	Options outstanding		Options exercisable
	Number of options	Weighted average remaining contractual life (years)	Number of options
\$ 0.23	250,000	2.4	250,000
0.30	330,000	0.3	320,000
0.32	84,000	0.5	84,000
0.33	100,000	2.1	100,000
0.35	166,672	3.0	166,672
0.36	300,000	4.5	-
0.40	300,000	4.8	-
0.45	280,000	3.6	93,333
0.58	200,000	4.0	-
0.60	336,000	3.8	112,000
0.61	391,205	0.8	391,205
	2,737,877	2.8	1,517,210

Stock-based compensation expense for the six months ended June 30, 2007 was \$73,785 (2006 - \$200,088). This expense was calculated using the Black-Scholes option pricing model with the following assumptions: weighted average risk-free interest rate of 4.4% (2006 - 3.85%), expected life of five years and volatility of 89% - 149% (2006 124% - 149%).

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 8

Six months ended June 30, 2007 and 2006

## 5. Share capital (continued):

### (d) 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:

	Amount
Balance, December 31, 2005	\$ 130,978
Stock option expense	309,558
Fair value of options exercised	(20,706)
Maturity of convertible debenture	34,801
Balance, December 31, 2006	454,631
Stock option expense	73,785
Fair value of options exercised	(61,784)
Maturity of convertible debenture	96,767
Balance, June 30, 2007	\$ 563,399

## 6. Accumulated other comprehensive income

	Amount
Balance, December 31, 2006 as originally reported	\$ -
Retroactive adjustment for unrealized gain relating to self-sustaining foreign operations	67,788
Revised balance, December 31, 2006	67,788
Unrealized loss on translating financial statements of self-sustaining foreign operations	(117,415)
Balance, June 30, 2007	\$ (49,627)

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 9

Six months ended June 30, 2007 and 2006

## 7. Segmented information:

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

Revenue by geographical region:

	Three months ended		Six months ended	
	June 30 2007	June 30 2006	June 30 2007	June 30 2006
Canada	\$ 2,619,001	\$ 2,091,304	\$ 5,535,109	\$ 3,917,664
Central and South America	5,144,189	192,907	5,446,940	192,907
Other international (including the United States)	1,696,805	1,415,432	3,400,997	2,225,283
	<u>\$ 9,459,995</u>	<u>\$ 3,699,643</u>	<u>\$ 14,383,046</u>	<u>\$ 6,335,854</u>

## 8. Supplemental cash flow information:

	Three months ended		Six months ended	
	June 30 2007	June 30 2006	June 30 2007	June 30 2006
Interest paid	\$ 187,145	\$ 111,944	\$ 306,716	\$ 211,918
Changes in non-cash working capital components:				
Accounts receivable	\$(2,721,552)	\$ 681,593	\$(3,775,374)	\$ (484,569)
Prepaid expenses	(458,221)	(20,788)	(824,476)	147,862
Accounts payable and accrued liabilities	3,375,546	161,201	3,473,502	180,696
Deferred revenue	(561,099)	(398,576)	(686,671)	(23,800)
	<u>\$ (365,326)</u>	<u>\$ 423,430</u>	<u>\$(1,813,019)</u>	<u>\$ (179,811)</u>

## 9. Subsequent event

On August 13, 2007, the Company completed its acquisition of substantially all of the assets of Bolo Systems, Inc. ("Bolo"), a privately held company with offices in Denver, Colorado and Houston, Texas, for approximately USD\$23,020,000. Bolo is a leading provider of integrated multi-tiered financial, land and production accounting solutions for the oil and gas industry in the United States.

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 10

Six months ended June 30, 2007 and 2006

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The consideration paid by WellPoint to complete the acquisition consisted of USD\$14.5 million cash, 8,000,000 common shares of WellPoint issued pro rata to the shareholders of Bolo at a price of USD\$0.44 per share (being the closing price of the common shares on August 9, 2007) and a promissory note in the principal amount of USD\$5 million. The note is due three years from the date of issue, bears interest at a rate of 7% per annum and is secured by all the assets of WellPoint and its material operating subsidiaries. The common shares issued to Bolo and its shareholders are subject to a four-month hold period from the closing date as well as other resale restrictions contained in the acquisition agreement. Additional consideration of up to USD\$4.5 million may be paid to Bolo in either cash or common shares of WellPoint (at the election of Bolo) if the acquired business achieves certain revenue and earnings targets for the 24-month period following closing. If the additional consideration is paid in common shares such shares will be issued at a deemed price at \$0.90 per share for the first year and at \$1.60 per share for the second year and will also be subject to a four-month hold period following the issuance of those shares.

The Company financed the acquisition by borrowing the sum of USD \$15 million from Crown Advisory Services Inc. ("Crown"). The loan must be repaid in one balloon payment on August 10, 2010, or earlier as provided in the credit agreement. The loan bears interest at a rate equal to 15% per annum. Interest must be paid on the last day of each month at a rate equal to 10% per annum. The balance of the interest owing on the loan will continue to accrue and be compounded monthly and payable on maturity of the loan. The obligations under the loan are secured by all of the assets of WellPoint and its material operating subsidiaries.

In connection with the advance of the loan, WellPoint issued 2.7 million common share purchase warrants to Crown, each of which expires three years from the date of issue (or earlier as described below) and entitles Crown to purchase one common share of WellPoint at an exercise price of USD\$0.50 per common share. 900,000 warrants are exercisable immediately with the balance to become exercisable in equal instalments on the sixth month and twelve month and one week anniversary of the closing date. If the loan is repaid prior to the warrants becoming exercisable, then those warrants which are not yet exercisable will automatically terminate. If the loan is reduced or repaid in full prior to August 11, 2008, the warrants will be reduced on a pro rata basis and Crown will then have 30 days to exercise the warrants outstanding. The warrants are non-transferable and the common shares issued on the exercise of the warrants will be subject to a four-month hold period from the closing date. The issuance of the warrants remains subject to the final approval of the TSX Venture Exchange.

In connection with the acquisition and related financing, WellPoint agreed to amend the terms of the convertible secured debentures issued to Quorum Investment Pool Limited Partnership and Quorum Secured Equity Trust in March, 2007 to lower the conversion price by which such debentures will be convertible into common shares of WellPoint from \$0.65 to \$0.55 per common share, and to make certain other amendments as well. WellPoint also agreed to reduce the maturity date of the convertible secured debenture issued to Quorum Secured Equity Trust in the principal amount of \$300,000 from April 12, 2012 to December 15, 2009. These amendments remain subject to final approval of the TSX Venture Exchange.