

Consolidated Financial Statements of

# WELLPOINT SYSTEMS INC.

Years ended December 31, 2007 and 2006

## 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 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. Management is also responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control.

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 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.

"A. Frank Stanford"  
A. Frank Stanford  
Chief Executive Officer

"Stephen W. Massel"  
Stephen W. Massel  
Chief Financial Officer

April 10, 2008

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of WellPoint Systems Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations, deficit, comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 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 10, 2008

# WELLPOINT SYSTEMS INC.

## Consolidated Balance Sheets

December 31, 2007 and 2006

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 2,929,267
Accounts receivable	7,584,610	3,924,271
Prepaid expenses	273,930	333,698
Fair value of foreign exchange risk management contracts (notes 17, 18)	176,000	-
	8,034,540	7,187,236
Deferred charges	-	482,705
Property and equipment (note 5)	1,038,175	298,811
Deferred development costs (note 6)	4,753,447	3,537,591
Intangible assets (note 7)	16,599,520	3,623,115
Goodwill (note 8)	19,916,094	6,058,104
	<u>\$50,341,776</u>	<u>\$21,187,562</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (note 9)	\$ 1,204,188	\$ -
Accounts payable and accrued liabilities	4,841,221	2,001,505
Current income tax liability	419,231	-
Deferred revenue	2,144,633	1,907,664
Other deferred credits	54,558	54,558
Current portion of long term notes payable (note 10)	15,980,281	-
Convertible debentures (note 11)	6,605,733	628,558
	31,249,845	4,592,285
Long term notes payable (note 10)	4,877,299	874,050
Other deferred credits	131,850	186,408
Convertible debentures (note 11)	377,311	3,334,877
Future income tax liability (note 12)	422,079	1,459,263
	37,058,384	10,446,883
Shareholders' equity:		
Share capital (note 13)	14,497,433	9,670,391
Warrants/compensation options (note 13)	1,058,050	372,183
Contributed surplus (note 13)	760,828	454,631
Convertible debentures (note 11)	1,222,922	367,853
	(389,856)	67,788
Accumulated other comprehensive income (loss)(note 14)	(389,856)	67,788
Deficit	(3,865,985)	(192,167)
	<u>(4,255,841)</u>	<u>(124,379)</u>
Total shareholders' equity	13,283,392	10,740,679
Commitments (note 19)		
Subsequent events (note 21)		
	<u>\$50,341,776</u>	<u>\$21,187,562</u>

See accompanying notes to consolidated financial statements.

Approved by the Board:

"Wanda M. Dorosz" Director  
"A. Frank Stanford" Director

# WELLPOINT SYSTEMS INC.

## Consolidated Statements of Operations and Deficit

Years ended December 31, 2007 and 2006

	2007	2006
Revenue (note 15):		
License	\$10,349,437	\$ 5,936,039
Maintenance	6,622,307	4,339,560
Professional services	11,862,377	5,730,181
	<u>28,834,121</u>	<u>16,005,780</u>
Direct costs	9,431,113	5,133,500
Gross margin	<u>19,403,008</u>	<u>10,872,280</u>
Expenses:		
Sales, general and administrative	13,419,431	6,888,644
Facilities	1,367,474	618,090
Research and development	1,610,787	642,106
Depreciation and amortization	2,769,395	1,216,455
Financing and amortization of debt and note payable issue costs	1,948,322	76,218
Interest	1,844,382	583,984
Foreign exchange gain (note 17)	(1,634,246)	(21,992)
Write down of deferred development costs (note 6)	528,512	-
Goodwill impairment (note 8)	1,605,036	-
	<u>23,459,093</u>	<u>10,003,505</u>
Income (loss) before income taxes	<u>(4,056,085)</u>	<u>868,775</u>
Income taxes		
Current	621,439	55,663
Future expense (reduction)	(1,003,706)	176,024
	<u>(382,267)</u>	<u>231,687</u>
Net income (loss)	<u>(3,673,818)</u>	<u>637,088</u>
Deficit, beginning of year	(192,167)	(829,255)
Deficit, end of year	<u>\$(3,865,985)</u>	<u>\$ (192,167)</u>
Earnings (loss) per share, basic and diluted	<u>\$ (0.093)</u>	<u>\$ 0.019</u>

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

## Consolidated Statements of Comprehensive Income (Loss)

	2007	2006
Net income (loss)	\$ (3,673,818)	\$ 637,088
Other comprehensive income		
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations (note 14)	(457,644)	67,788
Comprehensive income (loss)	\$ (4,131,462)	\$ 704,876

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

## Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	2007	2006
Cash provided from (used in):		
Operations:		
Net income (loss)	\$(3,673,818)	\$ 637,088
Items not affecting cash:		
Accretion of interest on convertible debt	169,870	145,945
Amortization of convertible debt issuance costs	113,609	74,522
Amortization of long term notes payable issuance costs	1,651,048	-
Rent inducement	(54,558)	240,966
Depreciation and amortization	2,769,395	1,216,455
Stock-based compensation	167,062	309,558
Future income tax expense (reduction)	(1,003,706)	176,024
Unrealized foreign exchange (gain) loss	(1,662,756)	33,488
Write down of deferred development costs (note 6)	528,512	-
Goodwill impairment (note 8)	1,605,036	-
	609,694	2,834,046
Net change in non-cash working capital items (note 16)	106,266	(691,761)
	715,960	2,142,285
Financing:		
Bank indebtedness	1,204,188	-
Long term note payable issuance, net of cash costs	15,226,896	-
Issuance of convertible debentures, net of cash costs	4,218,900	-
Redemption of convertible debentures	(490,000)	(60,000)
Proceeds from issuance of common shares, net	39,475	4,436,182
	20,199,459	4,376,182
Investing:		
Deferred development costs	(3,036,863)	(2,154,813)
Purchases of property and equipment	(441,027)	(146,187)
Business acquisitions (note 4)	(20,680,462)	(3,260,541)
Deferred charges	482,705	(482,705)
	(23,675,647)	(6,044,246)
Effect of foreign exchange rate changes on cash and cash equivalents	(169,039)	(2,021)
Change in cash and cash equivalents	(2,929,267)	472,200
Cash and cash equivalents, beginning of year	2,929,267	2,457,067
Cash and cash equivalents, end of year	\$ -	\$ 2,929,267

See accompanying notes to consolidated financial statements.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

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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 and goodwill and intangible asset impairment reviews. Actual results could differ from these estimates.

1. Significant accounting policies:

(a) Basis of presentation:

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. During the past two years, the Company has completed three acquisitions as described in note 4 to these consolidated financial statements. 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.

(c) Cash and cash equivalents:

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 2

Years ended December 31, 2007 and 2006

Cash and cash equivalents consist of short-term deposits with future maturity dates of less than three months.

(d) 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

(e) 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.

(f) 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.

(g) 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

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 3

Years ended December 31, 2007 and 2006

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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.

(h) 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.

(i) 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. Transaction 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.

(j) 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.

(k) 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 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.

(l) Per share amounts:

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## Notes to Consolidated Financial Statements, page 4

Years ended December 31, 2007 and 2006

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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.

### 2. Changes in accounting policies:

Effective January 1, 2007, the Company has adopted the following new Canadian Institute of Chartered Accountants (CICA) Handbook sections: Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges.

Comprehensive income, CICA Handbook Section 1530, establishes standards for reporting and presenting comprehensive income and other comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources and other comprehensive income, which is comprised of gains and losses that are recognized in comprehensive income but excluded from net earnings. 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 is based upon its net income and not comprehensive income.

Financial instruments and derivatives, CICA Handbook Section 3855, prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair-value or cost-based measures under different circumstances. All financial instruments must be classified into one of the following five categories: loans and receivables; held-to-maturity investments; held-for-trading instruments; available-for-sale financial assets; or other financial liabilities. All financial instruments, with the exception of loans and receivables, held-to-maturity investments and other financial liabilities are reported on the balance sheet date at fair value. Subsequent measurement and changes in fair value will depend on their initial classification. Available-for-sale financial assets are measured at fair value and unrealized gains or losses resulting from changes in fair value are recorded in other comprehensive income until the investment is de-recognized or impaired, at which time the amounts would be recognized as earnings. Held-for-trading financial assets and liabilities are measured at fair value and unrealized gains and losses resulting from the changes in fair value are recorded in income.

Cash and cash equivalents are designated as "held-for-trading" and are measured at fair value. Accounts receivable are designated as "loans and receivables" and are measured at amortized cost. Bank indebtedness, accounts payable, accrued liabilities, deferred revenue, notes payable, long term notes payable and the debt portion of convertible debentures are designated as "other liabilities" and measured at amortized cost using the effective interest rate method.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 5

Years ended December 31, 2007 and 2006

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Transaction costs incurred in connection with the issuance of term debt with a maturity greater than one year are deducted against the carrying value of the debt and amortized to net income using the effective interest rate method over the expected life of the debt.

Derivative financial instruments, including embedded derivatives are classified as "held-for-trading" which are measured at fair value with changes in fair value over a reporting period recognized in net income. The Company does not apply hedge accounting.

These new accounting standards provide requirements for the recognition, measurement, disclosures and presentation of financial instruments and the use of hedge accounting. The standards have been adopted prospectively and, therefore, the prior periods have not been restated.

### 3. Changes in accounting policies not yet adopted:

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

- Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - These new accounting standards will replace Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.
- Section 1535 -Capital Disclosures-This new accounting standard will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements.

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to end in 2011. The impact of this transition on the financial statements has not yet been determined.

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

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Acquisition of iSoft	2007
Net current assets, including cash of \$10,767	\$ 145,501
Property and equipment	32,797
Customer relationships	270,000

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 6

Years ended December 31, 2007 and 2006

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Intellectual property	530,000
Goodwill	2,960,696
Future income tax liability	(256,860)
	<hr/>
	\$3,682,134

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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.

As at December 31, 2007 the estimated amount of additional consideration for the period March 13, 2007 to December 31, 2007 was approximately \$0.4 million, which along with the additional consideration during the period January 1, 2008 to March 13, 2008, if any, will be payable in July 2008. 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\$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.

#### 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

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 7

Years ended December 31, 2007 and 2006

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>

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 2 year period following the date of acquisition with payments due 120 days after each anniversary date, with the first payment, if due, in December 2008. 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.

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. WellPoint acquired all of the shares of IDEAS for aggregate consideration of US\$5.2 million (CAD\$6.1 million) including transaction costs. The shares of IDEAS were acquired for cash consideration of US\$2.5 million (CAD\$2.9 million), the issue of common shares valued at US\$1.5 million (CAD\$1.8 million), the issue of an unsecured note payable of US\$750,000 on (CAD\$0.9 million) and transaction costs of \$0.5 million. The allocation of the purchase price was as follows:

Acquisition of IDEAS	2006
Net current liabilities, including cash of \$185,059	\$ (791,128)
Property and equipment	30,456
Customer relationships	2,044,000
Intellectual property	1,868,800
Goodwill	4,453,068
Future income tax liability	(1,493,646)
	<u>\$ 6,111,550</u>

During 2007 the Company paid US\$750,000 (CAD \$799,050) additional consideration based on the performance of IDEAS in the first year following the date of acquisition (note 8). In addition, depending on performance in year two following the acquisition, the former shareholders of

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 8

Years ended December 31, 2007 and 2006

IDEAS may receive additional consideration of up to US\$750,000 which if due, is payable in July 2008.

5. Property and equipment:

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

December 31, 2006	Cost	Accumulated depreciation	Net book value
Automotive equipment	\$ 36,714	\$ 22,544	\$ 14,170
Computer hardware	448,710	236,956	211,754
Computer software	266,246	257,854	8,392
Furniture and fixtures	95,062	48,378	46,684
Leasehold improvements	36,351	22,882	13,469
Website development	8,680	4,338	4,342
	\$ 891,763	\$ 592,952	\$ 298,811

6. Deferred development costs:

	2007	2006
Cost	\$7,358,510	\$4,850,159
Accumulated amortization	(2,605,063)	(1,312,568)
Net Book Value	\$4,753,447	\$3,537,591

During the fourth quarter of 2007, the Company incurred a charge of \$528,512 for the write down of deferred development costs related to projects that it determined no longer met the criteria for deferral.

7. Intangible assets:

# WELLPOINT SYSTEMS INC.

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Years ended December 31, 2007 and 2006

Customer Relationships		
	2007	2006
Cost	\$9,264,000	\$2,044,000
Accumulated amortization	(608,467)	(138,133)
<b>Net Book Value</b>	<b>\$8,655,533</b>	<b>\$1,905,867</b>
Intellectual Property		
	2007	2006
Cost	\$8,828,800	\$1,868,800
Accumulated amortization	(884,813)	(151,552)
<b>Net Book Value</b>	<b>\$7,943,987</b>	<b>\$1,717,248</b>
Intangible Assets -Totals		
	2007	2006
Cost	\$18,092,800	\$3,912,800
Accumulated amortization	(1,493,280)	(289,685)
<b>Net Book Value</b>	<b>\$16,599,520</b>	<b>\$3,623,115</b>

8. Goodwill:

	2007	2006
Balance, Beginning of Year	\$6,058,104	\$1,605,036
IDEAS acquisition or contingent consideration	830,933	4,453,068
iSoft acquisition	2,960,696	-
Bolo acquisition	11,671,397	-
Goodwill impairment	(1,605,036)	-
<b>Balance, End of Year</b>	<b>\$19,916,094</b>	<b>\$6,058,104</b>

The Company performed its annual test for impairment of goodwill as at December 31, 2007. 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 \$1,605,036.

9. Bank indebtedness:

The Company has access to a combined bank operating credit facility of \$2,500,000. As at December 31, 2007 the Company had utilized \$2,160,000 of this available credit and bank indebtedness which is presented net of \$955,812 cash on hand. The credit facility is payable on

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 10

Years ended December 31, 2007 and 2006

demand and bears interest at bank prime rate plus 1.25% 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.

### 10. Long term notes payable:

#### Summary of Long Term Notes Payable

	2007	2006
Note payable, former owners of IDEAS-note (a)	\$ 821,539	\$ 874,050
Note payable, issued on acquisition of Bolo-note (b)	15,158,742	-
Note payable, issued to former owners of Bolo-note (c)	4,877,299	-
	20,857,580	874,050
Current portion	(15,980,281)	-
Long term portion	\$ 4,877,299	\$ 874,050

(a) Pursuant to the March 10, 2006 acquisition of IDEAS, as described in note 4 (c), and in satisfaction of a portion of the purchase consideration, the Company issued a note payable (the "Ideas Note") to the former shareholders of IDEAS for a principal amount of US \$750,000 with a March 10, 2008 maturity date. The Ideas Note is repayable in one balloon payment on the maturity date with interest at 6% per annum payable on the maturity date. Subsequent to year end, the maturity date on the Ideas Note was extended to April 30, 2008 at which time the Company has agreed to pay US\$866,411 being the principal amount, interest to April 30, 2008 and all other amounts due and payable under the amended Ideas Note.

(b) Pursuant to the August 13, 2007 purchase of Bolo as described in note 4(b) the Company borrowed the sum of USD \$15 million from Crown Advisory Services Inc. ("Crown") with a maturity date of August 10, 2010 (the "Crown Note"). The note payable is repayable in one balloon payment on the maturity date, or earlier as provided in the credit agreement, with 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 note payable will continue to accrue and be compounded monthly and payable on maturity. The obligations under the Crown Note are secured by all of the assets of the Company and its material operating subsidiaries. In connection with the Crown Note, the Company issued 2.7 million common share purchase warrants, each of which expires three years from the date of issue and entitles the holder to purchase one common share 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 installments on the sixth month and twelve month anniversary of the closing date. If the note payable is repaid prior to the warrants becoming exercisable, then those warrants which are not yet exercisable will automatically terminate. 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. Subsequent to year end, the Company repaid in full the note payable, accordingly 900,000 of these options expired unexercised.

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 11

Years ended December 31, 2007 and 2006

The effective annual interest rate of the Crown Note, including the debt issue costs and fair value of the warrants, is 18.8%.

The Company was not in compliance with one of its financial covenants as at December 31, 2007 and accordingly this note payable has been classified as a current liability. Subsequent to year end, on February 11, 2008, the Company obtained a waiver from the lender in respect of its non compliance with the financial covenant for the period December 31, 2007 to March 31, 2008. On March 7, 2008, the Company issued a notice of prepayment which requires the Company to pay all amounts due to Crown within 30 days of the notice date. On March 11, 2008, the Company paid the lender US\$16.2 million, in respect of the principal, interest, fees and all other amounts due under the Crown Note as a full and final discharge of all amounts owing to Crown. Accretion of \$1.6 million has been reflected in the note payable as at December 31, 2007 to account for the face value of the debt ultimately paid on March 11, 2008.

		2007
August 10, 2007 issue		\$15,763,500
Debt issue costs, including warrants issued	1,620,449	
Debt issue costs, net of cumulative amortization	<u>(1,620,449)</u>	-
Accrued interest		295,890
Unrealized foreign exchange gain		<u>(900,648)</u>
		15,158,742
<u>Current portion</u>		<u>(15,158,742)</u>
<u>Long term portion</u>		<u>\$ -</u>

(c) 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% per annum which is payable on maturity. The obligations under the Bolo Note are secured by all of the assets of the Company and its material operating subsidiaries.

		2007
US dollar denominated debt:		
August 10, 2007 issue		\$5,254,500
Debt issue costs	234,580	
Debt issue costs, net of cumulative amortization	<u>(20,400)</u>	(214,180)
Accrued interest		136,874
Unrealized foreign exchange gain		<u>(299,895)</u>
		4,877,299
<u>Current portion</u>		<u>-</u>
<u>Long term portion</u>		<u>\$ 4,877,299</u>

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

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 12

Years ended December 31, 2007 and 2006

Subsequent to year end, 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 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 Note to 7.75%.

### 11. Convertible debentures:

	2007	2006
December 2004 and January 2005-note (a)	\$ 783,947	\$ 1,280,573
August 25, 2005-note (b)	2,783,254	2,682,862
March 12, 2007-note (c)	3,415,843	-
	6,983,044	3,963,435
Current portion	(6,605,733)	(628,558)
Long term portion	\$377,311	\$ 3,334,877

(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 16.2%.

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. The amendments to the terms of the debenture remain subject to the final approval of the TSX Venture Exchange.

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 13

### Years ended December 31, 2007 and 2006

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(b) On August 25, 2005, the Company issued convertible, secured debentures in the amount of \$3,000,000. The debentures bear interest at 7.5% per annum and 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 25th, February 25th, May 25<sup>th</sup> and August 25<sup>th</sup> of each year. The debentures are 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 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 7.5% 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 11.5%. 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.

The Company was not in compliance with one of its financial covenants as at December 31, 2007 under this debenture and accordingly this debenture has been classified as a current liability. On February 11, 2008, the Company obtained a waiver from the lender in respect of its non compliance with the debenture for the period December 31, 2007 to March 31, 2008. On March 10, 2008 the Company and the lender agreed to amend the financial covenants on this debenture.

(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 12th, September 12th, December 12th and March 12<sup>th</sup> of each year. The debentures are 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

# WELLPOINT SYSTEMS INC.

## Notes to Consolidated Financial Statements, page 14

### Years ended December 31, 2007 and 2006

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Company, at 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.

The Company was not in compliance with one of its financial covenants as at December 31, 2007 under this debenture and accordingly this debenture has been classified as a current liability. On February 11, 2008, the Company obtained a waiver from the lender in respect of its non compliance with the debenture for the period December 31, 2007 to March 31, 2008. On March 10, 2008 the Company and the lender agreed to amend the financial covenants on this debenture.

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 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 shareholders equity-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 15.0%. 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.

(d) 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. The debt component has been calculated as the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued or reduced when the fair value of the conversion option increases following a change in the conversion price or conversion period. Interest expense is determined on the debt component. The difference between the debt component and the face value of the debenture is classified as shareholders equity-convertible debentures, net of issue costs and adjusted for income taxes. The debentures are accreted to their fair value over their term with a charge to operations included in the interest expense.

#### 12. 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:

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 15

Years ended December 31, 2007 and 2006

	2007	2006
Income (loss) before income taxes	\$(4,056,085)	\$ 868,775
Statutory income tax rate	32.1%	32.5%
Computed expense (recovery)	(1,302,003)	282,352
Non deductible expenses	493,359	165,901
Tax rate differences	(77,949)	(36,460)
Other	(142,725)	28,029
Change in valuation allowance	647,051	(199,135)
	\$ (382,267)	\$ 231,687

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

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

December 31, 2006	Canada	USA	Total
Future income tax asset:			
Non-capital losses	\$ 82,564	\$ 54,786	\$ 137,350
Other	244,985	25,620	270,605
	327,549	80,406	407,955
Less valuation allowance	(17,576)	-	(17,576)
	309,973	80,406	390,379
Future income tax liability:			
Deferred development costs	309,973	90,423	400,396
Intangible assets	-	1,449,246	1,449,246
	309,973	1,539,669	1,849,642
Net future income tax liabilities	\$ -	\$ 1,459,263	\$ 1,459,263

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 16

Years ended December 31, 2007 and 2006

The Company has non-capital losses of \$1,627,000 (2006 - \$285,000) available to reduce future years taxable income for Canadian purposes. These losses will expire between 2022 and 2027. The company also has net operating losses in the United States of \$1,052,137 (2006 - \$137,000) available to reduce future years taxable income. These losses will expire in 2027.

## 13. 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	Total
Balance, December 31, 2005-note (iii)	20,824,149	3,444,922
Issued on private placement-note b(i)	10,000,000	4,110,609
Issued on acquisition of IDEAS	3,613,244	1,770,490
Shares issued on exercise of employee stock options	472,334	180,156
Shares issued on exercise of compensation options	22,541	4,087
Shares issued for interest on convertible debentures	1,141	456
Shares issued on conversion of convertible debentures	375,000	159,671
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-note (iv)	1,382,981	553,193
Balance, December 31, 2007	46,090,562	\$ 14,497,433

(iii) 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 \$66,000 at December 31, 2007.

(iv) In 2007, the Company issued 1,382,981 common shares as full and final payment for the fee due to an agent in connection with the completion of the US\$15.0 million financing described in note 10 (b).

### (b) Warrants/compensation options:

Number of warrants/options	Amount
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# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 17

Years ended December 31, 2007 and 2006

Balance, December 31, 2005	-	\$ -
Warrants issued on private placement-note (i)	5,000,000	250,000
Compensation options on private placement-note (ii)	1,000,000	125,000
Compensation options exercised-note (ii)	(22,541)	(2,817)
Balance, December 31, 2006	5,977,459	372,183
Warrants issued with long term debt-note 11 (b)) and (iii)	2,700,000	685,867
Balance, December 31, 2007	8,677,459	\$ 1,058,050

(i) On March 10, 2006, the Company completed 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 \$4,110,609 after the net of offering expenses, underwriters' commissions and future taxes. 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. Subsequent to December 31, 2007 these warrants expired unexercised.

(ii) 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. There are 977,459 options outstanding. The value of the compensation options was estimated based the market price of the shares. Subsequent to December 31, 2007 these compensation options expired unexercised.

(iii) Subsequent to year end, the Company repaid in full the loan, accordingly 900,000 of these options expired unexercised.

(c) Stock options:

The Company has a stock option plan for employees, directors and consultants. At December 31, 2007, a total of 3,700,000 (3,700,000 at December 31, 2006) were reserved for issuance under this plan. Options granted vest over two to four years.

The following tables summarize information regarding stock options:

	2007 Number of Options outstanding	2007 Weighted average exercise price	2006 Number of Options outstanding	2006 Weighted average exercise price
Balance, Beginning year	2,595,877	\$ 0.43	1,927,008	\$ 0.31
Granted	1,290,000	0.41	1,406,205	0.54
Exercised	(696,000)	0.30	(472,334)	0.32
Forfeited	(350,000)	0.51	(198,336)	0.34
Expired	(62,000)	0.30	(206,666)	0.34
Balance, End of year	2,777,877	\$ 0.44	2,595,877	\$ 0.43

**WELLPOINT SYSTEMS INC.**  
**Notes to Consolidated Financial Statements, page 18**

**Years ended December 31, 2007 and 2006**

	Exercise price	Options outstanding		Options exercisable
		Number of options	Weighted average remaining contractual life (years)	Number of options
	\$ 0.23	250,000	1.9	250,000
	0.30	30,000	2.7	20,000
	0.32	84,000	0.1	84,000
	0.35	166,672	3.1	116,672
	0.36	300,000	4.0	-
	0.40	300,000	4.3	-
	0.44	640,000	4.6	-
	0.45	280,000	3.1	93,333
	0.60	336,000	3.2	112,000
	0.61	391,205	0.2	391,205
		<b>2,777,877</b>	<b>3.1</b>	<b>1,067,210</b>

Stock-based compensation expense for the year ended December 31, 2007 was \$167,062 (2006 - \$309,558). This expense was calculated using the Black-Scholes option pricing model with the following assumptions: weighted average risk-free interest rate of 3.85% (2006 - 3.85%), expected life of five years and volatility of 100% (2006 109% - 149%).

(d) Per share amounts:

The weighted average number of common shares outstanding for 2007 was 39.4 million (2006 - 32.4 million). The diluted number of shares was 39.5 million for 2007 (2006 - 33.0 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:

	2007	2006
Balance, Beginning of year	\$ 454,631	\$ 130,978
Stock option expense	167,062	309,558
Stock options issued in connection with the Bolo acquisition	111,649	-
Fair value of options exercised	(79,198)	(20,706)
Maturity of convertible debenture	106,684	34,801
Balance, End of year	\$ 760,828	\$ 454,631

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 19

Years ended December 31, 2007 and 2006

(f) Directors' deferred share unit plan:

The Company implemented a Directors' deferred share unit plan effective July 1, 2007. Under this plan, directors can elect to receive remuneration in whole or in part in the form of deferred share units (DSU), cash or a combination thereof. The number of DSU's received is calculated by dividing the amount of the director's annual remuneration by the fair market value per common share on the dates which director's remuneration is earned. On termination as a director of the Company, directors may elect to redeem the DSU's at the fair market value of the Company's share as of the notice of termination. Redemptions can be received in cash, common shares, or a combination thereof. The terms of the DSU plan remain subject to the final approval of the TSX Venture Exchange and the Company's shareholders.

As at December, 2007, 92,400 DSU's are issuable to settle \$30,500 of director's fees.

14. 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	(457,644)
Balance, December 31, 2007	\$ (389,856)

15. Segmented information:

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

Revenue by geographical region:

	2007	2006
Canada	\$ 8,447,922	\$ 9,991,367
United States	10,767,907	3,230,694
Central and South America	6,265,801	794,347
Other International	3,352,491	1,989,372
	\$28,834,121	\$16,005,780

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

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 20

Years ended December 31, 2007 and 2006

	2007	2006
Canada	\$ 465,539	\$ 1,853,492
United States	33,404,850	8,126,538
Other International	3,683,400	-
	<u>\$37,553,789</u>	<u>\$ 9,980,030</u>

Revenues are attributed to countries based on location of customer. 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. No customers accounted for more than 10% of revenue in 2006.

16. Supplemental cash flow information:

	2007	2006
Interest paid	\$ 1,160,154	\$ 438,032
Changes in non-cash working capital components:		
Accounts receivable	(3,198,927)	(1,683,784)
Prepaid expenses	111,995	(12,455)
Accounts payable and accrued liabilities	2,956,229	920,156
Deferred revenue	236,969	84,322
	<u>\$ 106,266</u>	<u>\$ (691,761)</u>

17. Foreign exchange gain:

	2007	2006
Unrealized foreign exchange gain (loss) on translation of foreign currency denominated debt	\$ 1,331,118	\$ (1,276)
Unrealized foreign exchange gain on risk management (note 18)	176,000	-
Unrealized foreign exchange gain (loss)-other	155,638	(32,212)
Realized foreign exchange gain (loss)	(28,510)	55,480
	<u>\$ 1,634,246</u>	<u>\$ 21,992</u>

18. Financial instruments:

Interest Rate Risk-

The Company has mitigated some exposure to interest rate risk by entering into fixed rate term long term debt and debentures (notes 10 and 11). 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).

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 21

Years ended December 31, 2007 and 2006

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## 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 4, 10 and 21).

The Company has mitigated some of this exchange risk by entering into fixed US dollar futures currency contracts. The estimated fair value of the foreign exchange forward has been determined based on the amount the Company would receive to terminate the contract at year-end. At December 31, 2007, the amount the Company would receive to terminate the foreign exchange forward contract would be approximately \$176,000 (December 31, 2006 – nil).

## 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 has mitigated some of its credit risk by acquiring accounts receivable frustration insurance from the Export Development Canada in respect of amounts due from a large customer in South America. As at December 31, 2007, the Company had accounts receivable frustration insurance in respect of US\$2.0 million of the US\$2.8 million due from this customer. Subsequent to year end, US\$2.4 million due from this customer was paid. 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, convertible debentures, and foreign exchange forward contracts.

The Company, on November 20, 2007 entered a forward foreign exchange contract to sell US\$20 million at 0.9825CDN maturing February 15, 2008. At December 31, 2007 the Company revalued the forward contract at current market rates and recorded a \$176,000 unrealized foreign exchange gain. Subsequent to year end, the Company sold the forward foreign exchange contract prior to maturity for cash consideration of \$310,000.

## 19. 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 (note 4).

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

# WELLPOINT SYSTEMS INC.

Notes to Consolidated Financial Statements, page 22

Years ended December 31, 2007 and 2006

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2008	\$ 1,777,738
2009	1,776,021
2010	1,604,954
2011	973,103
2012	9,658

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## 20. 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 fees from the Company in the amount of \$135,000 (2006-nil) in connection with the issuance of \$4.5 million of convertible debentures in 2007 (2006-nil). Subsequent to year end, the Company paid investment management fees of \$537,000 to Quorum in connection with the issuance of US\$15.2 million and \$2.7 million of convertible debentures (notes 21(c) and (d)).

Note 13(a)(iii) provides details of a \$54,000 share-purchase loan made in 2002 to an officer and director. Due to the uncertainty of timing of cash flows, the fair value of this loan cannot be determined.

## 21. Subsequent events:

a) On February 11, 2008, the Company obtained waivers from its lenders for the US\$15.0 million Crown Note (note 10(b)) and the \$3.0 million, \$0.3 million and \$4.2 million convertible debenture agreements (notes 11 (b) and (c)) in connection with one financial covenant that the Company was not in compliance with as at December 31, 2007. This waiver covers the period from December 31, 2007 to March 31, 2008.

b) 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 \$0.9 million, net of prepaid interest, corporate finance and agents fees and legal fees, and were used for general corporate purposes.

The debentures are 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.

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The convertible debentures are a direct obligation of the Company and are unsecured.

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.

- c) 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 \$2.4 million net of prepaid interest, fees of \$81,000 and legal fees. The net proceeds were used to repay a portion of Crown Note on March 11, 2008 (note 10(b)).

The debentures are 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 15.75% 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 (note 9), the US\$15.2 million convertible secured debenture (note 21 (d)), the US\$5.0 million BOLO Note (notes 10(c) and 21(f)), and the following convertible secured debentures: \$3.0 million, \$0.3 million and \$4.2 million (notes 11 (b) and (c)).

- d) 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 \$13.4 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 (note (10)b)).

The debentures are 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 may at its sole election 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 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

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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 (note 9).

- e) On March 10, 2008 the Company also amended the financial covenants in the \$3.0 million, \$0.3 million and \$4.2 million convertible debentures (notes 11 (b) and (c)) to be in agreement with the financial covenants in the new US\$15.2 million and \$2.7 million convertible debentures noted above.
- f) On March 7, 2008 the Company and Bolo amended the August 10, 2007 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 US\$20,233 commencing March 31, 2008 and to increase the interest rate on the note to 7.75% effective March 10, 2008.
- g) On March 7, 2008, the Company issued Crown a notice of prepayment for the US\$15.0 million Crown Note (note 10(b)) which requires the Company to pay all amounts due within 30 days of the notice date. On March 11, 2008, the Company paid Crown US\$16.2M, in respect of the principal, capitalized interest, interest, fees and all other amounts due under the credit agreement as a full and final discharge of all amounts owing to Crown.

#### 22. Comparative figures:

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