

WellPoint Systems Inc.

FORM 51-102F1

**Management's Discussion and Analysis
For the Year Ended December 31, 2007**

April 10, 2008

This Management's Discussion and Analysis (MD&A) for WellPoint Systems Inc. ("WellPoint Systems" or the "Company") for the years ended December 31, 2007 and 2006 should be read in conjunction with the audited Consolidated Financial Statements for the year ended December 31, 2007 and the notes that accompany these financial statements filed on SEDAR, which are available at www.sedar.com. The audited Consolidated Financial Statements of WellPoint Systems have been prepared in accordance with accounting policies in accordance with Canadian generally accepted accounting principles (GAAP). All dollar amounts are in Canadian dollars unless otherwise indicated.

The Board of Directors carries out its responsibility for review of the disclosure in this MD&A principally through its Audit Committee, comprised of two independent directors. The Audit Committee reviews this disclosure and recommends its approval to the Board of Directors. This MD&A has been approved by the Board of Directors.

The Company reports on certain non-GAAP measures that are used by management to evaluate the performance of the business. Because non-GAAP measures do not have a standardized meaning, securities regulators require that non-GAAP measures be clearly defined and qualified, reconciled to the nearest GAAP measure, and be given no more prominence than the closest GAAP measures. The definition, calculation, and reconciliation of the non-GAAP measures are provided in the section "Reconciliation of non-GAAP Measures" in this MD&A.

WellPoint Systems is publicly traded on the TSX Venture Exchange under the symbol WPS.

This MD&A is dated as at April 10, 2008.

Forward-looking Statements

All statements in this MD&A that do not directly relate to historical facts constitute "forward-looking statements". These statements represent WellPoint Systems intentions, plans, expectations, and beliefs, and are subject to risks, uncertainties, and other factors that are not in the Company's control. These factors could cause actual results to differ materially from such forward-looking statements. These factors include and are not restricted to the retention of reference customers, customer adoption of new and somewhat unproven software packages, market competition in the energy and mining information systems industry, the Company's ability to attract and retain qualified employees, potential acquisitions and other corporate developments, foreign exchange and other general economic and business conditions. The words "believe", "likely", "expect", "intend", "plan" and similar words, expressions and variations thereof, identify certain of such forward-looking statements. Such statements speak only as of the date of this MD&A. The Company does not intend, and does not assume any obligation, to update these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

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

Management's Discussion and Analysis Contents

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Business Overview

WellPoint Systems is emerging as a leading provider of software and related solutions that help energy and mining companies to better manage mission-critical operations, enterprise assets, and financial systems. The Company helps its customers decrease operating costs and increase earnings through improved financial accounting and management reporting systems; effective utilization of assets; and greater operational efficiency with its midstream and upstream solutions. In addition, its solutions help customers mitigate risk.

Headquartered in Calgary, Alberta, WellPoint Systems Inc. was founded in 1997 and has offices around the world that currently employ 265 people. Approximately 88.3% (2006-87.6%) of revenue is generated from customers in North and South America. The Company currently has 375 customers using WellPoint Systems proprietary solutions that are delivered through three lines of business:

- **WellPoint Financials** – Provides cost-efficient methods for managing all aspects of financial accounting and management reporting, including business intelligence in a solution that supports multi-currency, multi-location and multi-language functionality. WellPoint's systems reduce the time and effort it takes to perform key tasks and offers easy access to current information that meets all of the extensive requirements specific to the energy and mining industries;
- **WellPoint Enterprise Asset Management ("EAM") or Maintenance Repair Operations ("MRO")** – Asset management software that helps companies manage maintenance and warranty programs, improve asset utilization, and manage asset costs. This application accommodates most asset types and has utility across most industries; and
- **WellPoint Operational Efficiency** – These solutions manage the forecasting and reporting of oil volumes (WellPoint OMS (midstream)); commodity transactions, forecasting and scheduling, and contract settlement (WellPoint Energy Broker (midstream)); critical operational data for oil and gas wells (WellPoint Maxwell (upstream));

and managing the complex allocation of balancing volumes of commodities running through pipelines (WellPoint COBRA (midstream)).

Vision and Strategy

WellPoint Systems' vision rests upon the following key strategic initiatives:

- **Exploiting Receptive Markets Internationally** – WellPoint has demonstrated its ability to market its products around the globe. The Company currently conducts operations in the United States and internationally through key offices in: Denver, Colorado; Houston, Texas; Tunis, Tunisia; Moscow, Russia; Pretoria, South Africa; London, England; and Bogota, Columbia. WellPoint Systems' vision generates strong revenue growth from its proprietary software technologies in its primary targets markets in North and South America, as well as internationally. In addition, the Company's vision features continued leadership and growth in the Canadian energy market;
- **Increasing Value for Customers** – WellPoint Systems provides solutions to customers, allowing them to decrease operating costs and increase their earnings, enabling them to achieve greater success;
- **Completing and Integrating Strategic Acquisitions** – WellPoint uses acquisitions to complement a focused corporate strategy. The Company has a history of organic and acquisitive growth through a robust and dynamic acquisition program that is an integral part of WellPoint's overall strategy. The Company has made the following acquisitions in the last two years:
 - August 2007 – Acquired substantially all of the assets of BOLO Systems, Inc. ("BOLO") adding a leading provider of integrated multi-tiered financial, land and production accounting solutions for the oil and gas industry in the United States. The acquisition of BOLO added more than 125 customers, granting WellPoint an increased presence and improved access to the substantial United States energy market. In addition, it enhances WellPoint Systems' professional service capabilities and brings cross-selling opportunities for both BOLO and WellPoint Systems solutions to the combined customer base;
 - March 2007 – Acquired iSoft Technologies (Pty) Ltd. ("iSoft"), allowing WellPoint Systems to add what it believes is the most valuable piece of mining intellectual property (IP) in the Microsoft application world to its portfolio. The ISOFT software focuses on EAM or MRO, which is especially relevant to asset intensive industries like mining, energy, and aerospace & defense; and
 - March 2006 – Acquired IDEAS International, Inc. ("IDEAS"), adding a leading provider of finance and administrative solutions for international oil & gas operations, with more than 175 customers and 39,000 users globally, allowing WellPoint Systems to move forward with its strategy to expand internationally.

WellPoint's strategy is to rapidly and fully integrate acquisitions, allowing the Company to quickly realize any associated benefits and synergies and drive improvements in financial performance.

- **Building on a Strong Platform** – WellPoint is building leadership as a provider of integrated business software to the energy and mining industry based on its commitment to the Microsoft Dynamics AX architecture; and
- **Attracting and Retaining Key People** – WellPoint seeks to be the employer of choice by providing an opportunity to its employees to promote their personal development, growth and success, allowing them to share in the benefits of corporate success in an environment that leads to excellence, passion, and integrity;

The preceding vision and strategy provides WellPoint with the tools and focus to drive continued growth and success.

Business Environment

WellPoint Systems focuses primarily on energy and mining. Management's view is that mineral and oil prices will remain relatively strong. With world commodity prices expected to remain above the average 2007 levels, the prospects for continued prosperity in the energy industry remain positive. As a result, WellPoint Systems' markets are expected to remain strong for the coming years, not only in North and South America but also internationally. The Company anticipates an increase in information technology ("IT") spending in its target markets, given high commodity prices and a growing desire on the part of producers to outsource application development due to the difficulty of recruiting and maintaining qualified IT resources. In addition, with the industry continuing to invest significantly in updating its various software systems in an effort to meet evolving requirements, WellPoint Systems believes that demand for solutions in its core markets will increase in the coming years.

Key Performance Indicators

WellPoint Systems monitors a number of key performance indicators including those set out below:

- **Revenue** provides an overall indication of success and progress toward achieving growing market share;
- **Percentage Gross Margin** measures success in developing and delivering products and services efficiently and on a scalable basis;
- **Net Income Per Share** measures the return to shareholders and also allows management to assess whether acquisition are accretive to earnings;
- **Adjusted EBITDA**, which is Standardized EBITDA¹ excluding foreign exchange gains, financing costs, write down of deferred development costs and goodwill impairment, and after deducting capitalized development expenditures. This serves as a measure of operating performance prior to taking into consideration how the Company is financed, taxed, and how tangible and intangible assets are depreciated or adjusted. It also useful in assessing valuation; and
- **Adjusted Free Cash Flow** which is Standardized Free Cash Flow¹ consisting of cash flow from operating activities less total capitalized expenditures as reported in the Statement of Cash Flows in the GAAP financial statements. This measure takes into account the Company's financing strategy and serves as a measure of the Company's ability to repay debt and invest in future growth.

1. Standardized EBITDA and Standardized Free Cash Flow are non-GAAP measures. Standardized EBITDA and Standardized Free Cash Flow are referenced in accordance with the definition noted in the Canadian Institute of Chartered Accountants ("CICA") draft publication "*Improved Communication with Non-GAAP Financial Measures*" issued by the Canadian Performance Reporting Board of the CICA.

Overall Performance

Events or Activities Impacting the Business in 2007

WellPoint Systems achieved several milestones throughout 2007 including the following:

- Increased total revenue by 80.1% on a year-over-year basis;
- Increased non-Canadian revenue by \$14.3 million in 2007 to \$20.4 million (70.7% of total revenue), from \$6.0 million (37.6% of total revenue) in 2006. This was primarily due to WellPoint's international growth and diversification strategy;

- Reported license revenue of \$10.3 million in 2007, an increase of 74.4% over the prior year;
- Reported record quarterly revenue in each quarter of fiscal 2007 compared with the corresponding quarters in 2006;
- Acquired BOLO and iSoft in 2007. These acquisitions, along with the 2006 acquisition of IDEAS, fundamentally changed WellPoint Systems as it began implementing the strategic vision to exploit US and international markets with world-class software. The success of this strategy has contributed to the Company's improved financial performance in the year ended December 31, 2007;
- Announced largest contract in WellPoint Systems' history. The new South American oil company customer contract totaled US\$6.9 million. This demonstrates that WellPoint's solutions are in demand in large organizations, including national oil companies; and
- Market launch of WellPoint Energy Broker in 2007, the newest addition to the Company's suite of products.

Selected Annual Financial Information

<u>(in thousands)</u>	2007	2006	% Change 2006-2007
Revenue	\$ 28,834	\$ 16,006	80.1%
Gross profit	19,403	10,872	78.5%
Selling, general and administration	13,419	6,889	94.8%
Facilities	1,367	618	121.3%
Research	1,611	642	150.9%
Depreciation and amortization	2,769	1,216	127.7%
Financing and amortization of debt and note payable issue costs	1,948	76	2456.8%
Interest	1,844	584	215.9%
Foreign exchange gain	(1,634)	(22)	7331.1%
Write down of deferred development costs	529		
Goodwill impairment	1,605		
	<u>23,459</u>	<u>10,003</u>	<u>134.5%</u>
Net income (loss) before tax	(4,056)	869	-566.6%
Income tax expense(recovery)	(382)	232	-264.7%
Net income (loss)	<u>\$ (3,674)</u>	<u>\$ 637</u>	<u>-676.6%</u>
Gross profit % of revenue	67.3%	67.9%	
Net income (loss) % of revenue	-12.7%	4.0%	

WellPoint has included the financial results of its 2006 and 2007 acquisitions in its results from the dates of acquisitions as follows: IDEAS–March 10, 2006; iSoft–March 13, 2007; and BOLO–August 13, 2007.

Results of Operation

Revenue-

The following table segments WellPoint's revenues by product and major geography for 2007 and 2006:

Revenue by product type

<u>(in thousands)</u>	2007	2006	% Change 2006-2007
License	\$ 10,350	\$ 5,936	74.4%
Maintenance	6,622	4,340	52.6%
Professional service	11,862	5,730	107.0%
	<u>\$ 28,834</u>	<u>\$ 16,006</u>	<u>80.1%</u>

<u>% of total revenue</u>	2007	2006
License	35.9%	37.1%
Maintenance	23.0%	27.1%
Professional service	41.1%	35.8%
	<u>100.0%</u>	<u>100.0%</u>

Revenue by geography

<u>(in thousands)</u>	2007	2006	% Change 2006-2007
Canada	\$ 8,448	\$ 9,991	-15.4%
United States	10,768	3,231	233.3%
Central and South America	6,266	794	689.1%
Other International	3,353	1,990	68.5%
	<u>\$ 28,834</u>	<u>\$ 16,006</u>	<u>80.1%</u>

<u>% of total revenue</u>	2007	2006
Canada	29.3%	62.4%
United States	37.3%	20.2%
Central and South America	21.7%	5.0%
Other International	11.7%	12.4%
	<u>100.0%</u>	<u>100.0%</u>

WellPoint Systems currently derives revenue from three sources relating to the software packages specifically designed for its key markets. Each product generates revenue from license sales, annual maintenance revenue (based on a percentage of the license fee), and professional services for implementation and related support. Software is licensed to customers in perpetuity, whereby the fair value of the license is separately determinable from maintenance and/or professional service fees. Software license revenue is recognized once the license agreement is signed, the price is fixed or determinable, and the software is delivered to the customer and collectability reasonably assured. Maintenance fee arrangements generally include ongoing customer support, rights to periodic software upgrades, if and when available, and products sold on a subscription basis. Customers are generally charged in advance for maintenance services either annually or monthly. Maintenance fees are initially recorded as deferred revenue and subsequently recognized as income on a monthly basis. Professional service revenue consists of fees charged for product training, consulting, and implementation services.

Revenues increased by 80.1% to \$28.8 million in 2007 as compared with \$16.0 million in 2006. The increase was primarily the result of the strategic acquisitions completed in 2006 and 2007, which increased revenue by \$14.5 million. This included 2007 software license revenue of \$3.8 million, maintenance revenue of \$0.5 million and professional services revenue of \$0.7 million from the US\$6.9 million contract with the new South American customer.

Revenue from outside of Canada increased to \$20.4 million (70.7% of revenue) in 2007 from \$6.0 million (37.6% of revenue) in 2006. This was primarily due to the growth in US revenue following the 2007 acquisitions of BOLO and iSoft, and the increase in revenue from South America.

Revenue from software increased to \$10.3 million in 2007 from \$5.9 million in 2006, with \$4.3 million of the increase attributed to the new South American customer. Maintenance revenue increased to \$6.6 million in 2007 from \$4.4 million in 2006, an increase of 52.6%, as WellPoint now provides maintenance to more than 375 customers worldwide. Revenue from

professional services increased to \$11.9 million from \$5.7 million, an increase of 107% over 2006. The significant percentage increase in professional services revenue was primarily due to the acquisitions completed during the year, the revenue from the new South American customer in 2007, and growth in the Company's organic business resulting from strong license sales in late 2006 and the related professional services delivered in 2007.

The following table sets forth the gross margin by type of product for 2007 and 2006:

<u>(in thousands)</u>	2007	2006	% Change 2006-2007
License	\$ 9,070	\$ 4,651	95.0%
Maintenance and professional services	10,333	6,221	66.1%
Total	<u>\$ 19,403</u>	<u>\$ 10,872</u>	<u>78.5%</u>

<u>% of total revenue</u>	2007	2006
License	87.6%	78.4%
Maintenance and professional services	55.9%	61.8%
Total	<u>67.3%</u>	<u>67.9%</u>

Gross profit consists of revenue less direct costs. Direct costs consist primarily of the costs directly related to revenues including third-party costs. All sales commissions and agents fees are included in sales, general, and administrative expenses.

Gross profit for 2007 was \$19.4 million (67.3% of total revenue) compared with \$10.9 million (67.9% of total revenue) for 2006. The 78.5% increase in gross profit dollars is attributable to and consistent with the 80.2% increase in revenue. Gross profit on license sales increased to 87.6% (2006-78.4%), primarily due to the higher gross margin percentage of software license revenue on software platforms that the Company sells that do not require any payments to third parties. Gross profit on maintenance and support revenue decreased to 55.9% (2006-61.8%), primarily due to the significant increase in lower margin professional services revenue in 2007.

Expenses-

The following table sets forth total expenses by function and as a percentage of total revenue for the periods indicated:

<u>(in thousands)</u>	2007	2006	% Change 2006-2007
Selling, general and administration	\$ 13,419	\$ 6,889	94.8%
Facilities	1,367	618	121.3%
Research	1,611	642	150.9%
	<u>\$ 16,397</u>	<u>\$ 8,149</u>	<u>101.2%</u>

<u>% of total revenue</u>	2007	2006
Selling, general and administration	46.5%	43.0%
Facilities	4.7%	3.9%
Research	5.6%	4.0%
	<u>56.9%</u>	<u>50.9%</u>

Sales, General and Administrative Expenses

Sales, general, and administrative expenses include personnel and related costs for sales and marketing, executives, financial, human resources, and administrative staff. Sales and marketing costs include travel, advertising, commissions for

employees of the Company, fees for agents who sell WellPoint products, trade shows, and other promotional materials. General and administrative costs include legal and professional fees, public company-related costs, insurance, amortization of financing fees related to successful debt issues, and the cost associated with proposed financing transactions that the Company decided not to proceed with.

Sales, general and administrative expenses increased to \$13.4 million (46.5% of revenue) for 2007 compared with \$6.9 million (43.0% of revenue) in 2006. The \$6.5 million increase primarily relates to the agent-related costs for the \$5.0 million in revenue from the new customer in South America, the impact of the 2007 acquisitions, the full year impact of the 2006 acquisition of IDEAS, and additional sales and marketing costs related to international markets. Salaries and benefits account for the largest portion of sales, general, and administrative expenses.

Facilities

Facilities expenses increased to \$1.4 million for 2007 compared with \$0.6 million in 2006. The increase primarily relates to the 2007 acquisitions and also the addition of a new facility in Calgary for research and development activities.

Research and Development

Research costs are expensed as incurred. Development costs are expensed in the year unless management believes they meet the criteria set out under GAAP for deferral and amortization. Furthermore, in accordance with GAAP, development costs are deferred only to the extent that their recovery can reasonably be regarded as assured. Management reviews the applicable criteria on a regular basis and if the criteria are no longer met, any remaining unamortized balance is written off as a charge to income. If the Company defers a portion of development costs, they are amortized over a three-year period. The three-year period is consistent with the historical lifecycle of prior product versions and appropriately matches the product revenue stream with its development costs. Research and development costs include personnel and related costs and consulting fees.

The following table sets forth research expenses and deferred development costs capitalized for 2007 and 2006:

<u>(in thousands)</u>	<u>2007</u>	<u>2006</u>	<u>% Change 2006-2007</u>
Research expenses	\$ 1,611	\$ 642	150.9%
Deferred development costs	3,037	2,155	40.9%
	\$ 4,648	\$ 2,797	66.2%

<u>% of total revenue</u>	<u>2007</u>	<u>2006</u>
Research expenses	5.6%	4.0%
Deferred development costs	10.5%	13.5%
	16.1%	17.5%

In 2007, the Company incurred research and development expenses of \$1.6 million (5.6% of revenue) compared with \$0.6 million (4.0% of revenue) in 2006. The increase is primarily related to the research in connection with ongoing projects undertaken by the companies acquired in 2007. When combined with development expenditures capitalized in the year, the Company invested \$4.6 million (16.1% of revenue) in 2007 compared with \$2.8 million (17.5% of revenue) in 2006. The \$1.8 million increase is primarily attributable to investments in WellPoint Energy Broker, launched in 2007, and additional investments made by the companies acquired in 2007. Following its review of deferred development costs in the fourth quarter of 2007, management determined that \$0.5 million of deferred development costs were required to be written off in 2007 (2006-nil).

WellPoint Systems is committed to enhancing its position as a leading provider of software and related solutions within the energy and mining industries. The Company will increase its investment in the development of new and innovative products

utilizing the Microsoft AX Dynamics architecture. This investment is a fundamental requirement as WellPoint Systems completes its transition to a product-focused company.

Depreciation and Amortization-

Depreciation and amortization expenses increased to \$2.8 million for 2007 as compared with \$1.2 million for 2006. The increase primarily relates to the acquisitions completed in 2006 and 2007 and the commencement of amortization of deferred development costs in connection with WellPoint Energy Broker introduced in 2007.

Financing and amortization of debt and note payable issue costs-

Financing and amortization of debt and note payable issue costs increased to \$1.9 million for 2007 as compared with \$0.1 million for 2006. The increase primarily relates to the costs associated with the new convertible debt and notes payable issued in 2007. In addition, on March 7, 2008, the Company issued a notice of prepayment for the US \$15.0 million note payable, which required the Company to pay all amounts due 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 note payable as a full and final discharge of all amounts owing to the lender. 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 and is included in financing and amortization of debt and note payable issue costs for 2007.

Interest-

Interest expenses include the cash and interest on the Company's interest-bearing obligations. In addition, interest costs include the interest payable on convertible debentures. The interest accretion is a result of the allocation of proceeds received from the issuance of convertible debt to their component parts, measured at their respective fair values at the time of issue or renegotiation. The debt component has been calculated as the present value of the required interest and principal payments, discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued or reduced, when the fair value of the conversion option increases following a change in the conversion price or conversion period. Interest expense is determined on the debt component. The difference between the debt component and the face value of the debenture is classified as shareholders equity-convertible debentures, net of issue costs, and adjusted for income taxes. The debentures are accreted to their face value over their term with a charge to operations included in the interest expense.

Interest expenses increased to \$1.8 million for 2007 as compared with \$0.6 million for 2006. The increase primarily stems from the new financings in 2007 related to the BOLO and iSoft acquisitions. As at December 31, 2007, the Company had approximately \$29.3 million (2006-\$5.2 million) of notes payable and convertible debt, including interest of \$0.4 million (2006-nil). The effective annual interest rate on the \$29.3 million of debt is 15.2%.

Foreign Exchange Gain-

Most of our businesses are organized geographically so that many of our expenses are incurred in the same currency as our revenue, which mitigates some of our exposure to currency fluctuations.

Following the acquisition of BOLO in 2007, the Company significantly increased its net liabilities denominated in United States dollars in connection with approximately US\$20 million of term notes payable and term loan payable issued in connection with the acquisition. During 2007, the Canadian dollar strengthened against the United States dollar and accordingly the Company recorded a foreign exchange gain of \$1.3 million on its US dollar denominated debts. In November, the Company entered into a forward contract to purchase US\$20 million in exchange for \$19,650,000, due February 15, 2008. As at December 31, 2007, the Company estimated the fair value of the foreign exchange forward, 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 was \$176,000. On January 29, 2008, the Company sold the forward contract for net proceeds of \$310,000.

The foreign exchange gain in 2007 was \$1.6 million compared to nil in 2006.

Goodwill Impairment-

As at December 31, 2007 the Company conducted an annual impairment test of the carrying value of goodwill as required under Canadian GAAP. The test determined that the carrying amount of goodwill exceeded its fair value. Consequently, a non-cash charge of \$1.6 million was recorded to write down the carrying amount of goodwill to its estimated fair value.

Income Taxes-

The Company provides for income taxes using the liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities. Future income tax assets and liabilities are measured using tax rates expected to apply in the years that temporary differences are expected to be recovered or settled. Any change to the net future income tax asset or liability is included in operations in the year it occurs.

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax assets considered realizable could change materially in the near term based upon the future taxable income during the carry-forward period. WellPoint operates globally and calculates its tax provision in each of the jurisdictions in which it conducts business. The Company's tax rate is therefore affected by the profitability of its operations in the various jurisdictions as well as the different tax rates that apply and its ability to utilize tax losses.

For 2007 the tax recovery was (\$0.4) million compared to a provision of \$0.2 million in 2006.

Net Income (Loss) and Net Income (Loss) Per Share-

Net loss for 2007 was (\$3.7) million compared with net income of \$0.6 million for 2006. The loss was partially mitigated by a number of factors including: a \$0.3 million increase in gross margin less sales, general and administrative expenses, facilities and research expenses on 2007 revenue growth of \$12.8 million; a \$1.6 million increase in the foreign exchange gain due to the strength of the Canadian dollar in 2007 vs. the United States dollar; and, a reduction in income tax expense of \$0.6 million. This was offset by a \$4.7 million increase in depreciation and amortization, interest expense and financing and amortization of debt and note payable issue costs primarily related to 2007 acquisitions; the write-down of deferred development costs of \$0.5 million; and the goodwill impairment charge of \$1.6 million.

Basic and diluted net income (loss) per share for 2007 was (\$0.093) compared with \$0.019 for 2006. The decrease in basic and diluted net income (loss) per share is primarily a result of the net loss for the year.

Adjusted EBITDA-

Adjusted EBITDA loss was (\$0.2) million in 2007 compared with Adjusted EBITDA of \$0.6 million in 2006. The loss was the result of deferred development costs for WellPoint Energy Broker, which was launched in 2007, as well as additional investments made by the companies acquired in 2007.

Free Cash Flow-

Free cash flow decreased to (\$2.8) million in 2007 as compared with (\$0.2) million in 2006. The decrease is primarily due to additional interest expense in 2007 of \$1.2 million related to the 2007 acquisitions, an increase in capital asset purchases of \$0.2 million due to the growth in operations in 2007, and the balance additional working capital required to support the growth in revenue, primarily related to increase in accounts receivable from the new customer in South America. Subsequent to year end, \$2.4 million of the \$2.9 million due from this customer at December 31, 2007 was collected. If this amount had been collected prior to year end, free cash flow (usage) would have been reduced from (\$2.8) million to approximately (\$1.6) million.

2008 Outlook

During 2007, the Company invested significant capital and management resources to complete the BOLO and iSoft acquisitions and integrate the 2006 acquisition of IDEAS into WellPoint Systems. In 2008, with the acquisitions now in place, the Company will focus on increasing its net income, adjusted EBITDA, and free cash flow, and expects to advance on many fronts, through the following initiatives:

- Establishing deeper partnerships across the globe, including expanded and new agent relationships in international markets. In 2008, the Company particularly intends to focus its activities on increasing market share and driving revenue from opportunities primarily in the US and South American markets;
- Increasing sales and marketing of WellPoint Energy Broker in the North and South American markets and WellPoint EAM and WellPoint MRO solutions worldwide;
- Cross-selling the broad range of WellPoint Systems solutions within the existing base of approximately 375 customers;
- Continuing development of the WellPoint EAM, WellPoint MRO, and WellPoint Energy Broker solutions to expand functionality as well as integration with best practices in the computer software industry; and
- Increasing operational efficiencies to improve net income, Adjusted EBITDA and free cash flow.

Liquidity and Capital Resources

During the year ended December 31, 2007, WellPoint Systems financed the business through cash provided by operations, the issue of long-term notes payable and convertible debentures and bank indebtedness. The Company's cash balance at December 31, 2007 was nil, a decrease of \$2.9 million from the December 31, 2006 balance. The Company's cash flows from operating, financing, and investing activities, as reflected in the Consolidated Statement of Cash Flows, are summarized below.

(in thousands)

	2007	2006
Opening cash	\$ 2,929	\$ 2,457
Operating activities	716	2,142
Financing activities	20,200	4,376
Investing activities	(23,676)	(6,044)
Other	(169)	(2)
Closing cash	<u>\$ -</u>	<u>\$ 2,929</u>

Operating Activities-

Cash provided by operating activities for 2007 was \$0.7 million compared with \$2.1 million for 2006. Operating activities

were affected by an increase in accounts receivable primarily related to the South American customer, which at December 31, 2007 was indebted to the Company in the amount of \$2.9 million, of which \$2.4 million was collected subsequent to year end. The Company has obtained insurance from Export Development Canada ("EDC") for the amount invoiced to the South American customer and in the event of non-payment, the Company is entitled to file a claim with the EDC and recover 90% of the amount invoiced.

Financing Activities-

Cash provided by financing activities for 2007 was \$20.2 million compared with \$4.4 million in 2006.

In 2007, WellPoint Systems financed the acquisition of BOLO by borrowing the sum of US\$15 million from Crown Advisory Services Inc. ("Crown Note"). 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, with the balance of the interest owing capitalized and payable on maturity of the loan. The obligations under the loan are secured by all of the assets of WellPoint Systems and its material operating subsidiaries. Furthermore, in connection with the purchase of BOLO, the Company issued a note payable to the former shareholders of BOLO in the amount of US\$5.0 million with an interest rate of 7% per annum, payable on maturity. In connection with the purchase of BOLO, WellPoint also issued 8.0 million of its own common shares to the former shareholders of BOLO.

In 2007, WellPoint Systems financed the acquisition of iSoft by issuing convertible secured debentures for total gross proceeds of \$4.5 million. The debentures bear interest at a rate of 7.75% per annum, payable quarterly in arrears, and mature as follows: \$0.3 million on December 15, 2009 and \$4.2 million on April 12, 2012. The debentures are convertible at any time at the option of the holders into common shares of WellPoint Systems at a conversion price of \$0.55 per common share. The conversion price is subject to customary adjustments, including an adjustment downwards if WellPoint Systems 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. US\$2.7 million from the issuance of the debentures was used to finance the acquisition of iSoft. The balance of the proceeds were used for general corporate purposes. In connection with the iSoft acquisition, the shareholders of iSoft subscribed for US\$0.5 million (CAD\$0.6 million) of common shares of the Company on a private placement basis at a deemed price of CAD\$0.90 per common share, resulting in the issuance of 703,172 common shares in 2007.

As at December 31, 2007, the Company had outstanding notes payable and convertible debentures including accrued capitalized interest of \$29.3 million (2006-\$5.2 million), with 28.3% of the total debt in convertible debentures and 71.7% in notes payable. Assuming that the convertible debt is not converted prior to maturity, the debt repayment schedule as of year end was as follows:

(in thousands)	Repayment Schedule					
	Years ending December 31					
	2008	2009	2010	2012	Total	Total
	(\$)					%
Notes payable	\$ 822	\$ -	\$ 20,196	\$ -	\$ 21,017	71.7%
Convertible debentures	410	3,690	-	4,200	8,300	28.3%
	\$ 1,232	\$ 3,690	\$ 20,196	\$ 4,200	\$ 29,317	100.0%

As at December 31, 2007, the Company was not in compliance with one of its financial covenants for its US\$15.0 million Crown loan agreement and its \$3.0 million, \$0.3 million and \$4.2 million convertible debenture agreements. The Company obtained a waiver from its lenders in respect of the financial covenant for the period December 31, 2007 to March 31, 2008. As a result of the non-compliance under these agreements, and with the waiver period less than one year from the current balance sheet date, the amounts due under the Crown loan agreement and the convertible debenture agreements noted above have been reclassified as a current liability as at December 31, 2007.

In March 2008, the Company entered into a number of transactions in order to modify its debt structure. The purpose of these transactions was to increase convertible debt and reduce the notes payable, extend out the debt maturity dates, and reduce the cash interest costs associated with the Company's debt. The transactions included the following:

- On March 10, 2008, the Company issued US\$15.2 million, \$2.7 million, and \$1.1 million in new convertible debentures. After financing expenses and first year interest expense for these debentures were paid on closing, net cash proceeds to the Company were \$16.7 million. The interest rate payable in cash on the new debentures is 7.75%. This increases to 15.75% for the \$2.7 million and \$1.1 million convertible debentures if they are not converted to common shares at the agreed upon conversion price of \$0.60 per common share prior to the maturity dates of July 31, 2009 and August 31, 2009, respectively. If the additional 8% interest becomes payable, it will be paid with the issuance of 1,105,425 common shares of the Company. The maturity date on the US\$15.2 million new convertible debenture is April 7, 2013. On March 11, 2008, approximately \$16.2 million from the above financings was used to repay in full the US\$15.0 million Crown Note including all accrued interest, fees, and expenses;
- On March 10, 2008, the Company amended the covenants in its \$3.0 million, \$0.3 million, and \$4.2 million convertible debenture agreements to be the same as the financial covenants in the new US\$15.2 million and \$2.7 million convertible debenture agreements; and
- On March 10, 2008, the Company and Bolo amended the August 10, 2007 note payable. Under the terms of the amendment, the Company has agreed to pay all interest on a quarterly basis in arrears on March 31st, June 30th, September 30th and December 31st 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\$212,329 in 10 equal quarterly payments of US\$21,233 commencing March 31, 2008, and also agreed to increase the interest rate on the Note to 7.75% effective March 10, 2008.

Following this refinancing, the Company had outstanding notes payable and convertible debentures including accrued capitalized interest of \$32.7 million with 81.7% of the total debt in convertible debentures and 18.3% in notes payable. Assuming that the convertible debt is not converted prior to maturity, the debt repayment schedule is as follows:

	Repayment Schedule						Total	Total %
	Years ending December 31							
(in thousands)	2008	2009	2010	2012	2013			
	(\$)							
Notes payable	\$ 884	\$ 84	\$ 5,004	\$ -	\$ -	\$ 5,972	18.3%	
Convertible debentures	-	7,490	-	4,200	15,020	26,710	81.7%	
	\$ 884	\$ 7,574	\$ 5,004	\$ 4,200	\$ 15,020	\$ 32,682	100.0%	

In order for the Company to be in compliance with the new covenants during the next year, the Company will have to generate positive cash flows after deducting the following from cash flows from operating activities (2007-\$0.7 million; 2006-\$2.1 million): deferred development costs (2007-\$3.1 million; 2006-\$2.2 million); scheduled repayments of notes payable of \$0.9 million during the balance of 2008; and, commitments under the acquisition agreements for its 2006 and 2007 acquisitions which, depending on their respective performance in 2008, could result in approximately \$3.4 million in additional consideration to be paid in 2008. At December 31, 2007, the Company had an operating credit facility in place in the amount of \$2.5 million. As at December 31, 2007, the Company had drawn \$2.2 million on this facility. Following the refinancing as noted above, the Company is now permitted to substantially increase its borrowings under an operating credit facility and is currently pursuing a substantial increase in the amount that can be borrowed. Management believes that based upon its 2008 operating plan, it will have sufficient cash flow from operating activities to maintain compliance with the new covenants during the next year. If the Company is unable to maintain compliance with the new covenants, it will have to

seek a waiver from the lenders or, if no waiver is obtained and the lenders demand repayment of the debt, the Company will have to refinance the debt with new debt or equity.

In 2006, the Company issued 10,000,000 units for gross proceeds of \$5.0 million or \$4.2 million net of transaction costs as part of the financing of the IDEAS acquisition. Each unit consisted of one common share of WellPoint Systems, and one half of one common share purchase warrant, with each full warrant exercisable into one Common Share at a price of \$0.62 for a period of 24 months. Subsequent to year end, these common share purchase warrants expired unexercised.

Investing Activities-

The principal use of cash in 2007 related to the acquisitions of BOLO and iSoft. In 2006, the principal use of cash related to the acquisition of IDEAS. The Company also invested \$3.0 million in deferred development during 2007 compared with \$2.2 million in 2006. The Company also paid \$0.8 million in additional consideration in 2007 for the purchase of IDEAS. Depending on the performance, in the second year following the acquisition of IDEAS, the former shareholders could receive additional consideration of up to US\$0.75 million; the BOLO shareholders in first year following the acquisition could receive additional consideration of up to US\$2.2 million; and the iSoft shareholders in the first year following the acquisition could be eligible for an amount not expected to exceed \$0.4 million.

Working Capital-

The following table presents summarized working capital information:

<u>(in thousands)</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 8,035	\$ 7,187
Current liabilities	31,250	4,592
Working capital	\$ (23,215)	\$ 2,595
Working capital ratio	0.3	1.6

As a result of the reclassification of long-term debt and convertible debentures to current liabilities, there was a working capital deficiency of \$23.2 million as at December 31, 2007. This includes \$15.2 million in respect of the Crown Note payable that was repaid on March 11, 2008, and \$6.2 million in convertible debentures, which were amended subsequent to year end. Excluding these amounts from the working capital calculation as at December 31, 2007 would have resulted in a working capital deficiency of \$1.8 million. The decrease in working capital is primarily due to investing activities during 2007. The Company expects that an increased credit facility and cash flow from operations will be sufficient to meet the Company's current requirements for planned growth, debt repayment obligations, earn-out payments, and to fund future capitalized expenditures.

Financial Instruments-

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

It is management's opinion that the company is not exposed to significant interest rate risk. The Company has mitigated some exposure to interest rate risk by entering into fixed-rate long-term debt and debentures. 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.

The Company's credit risk lies in its accounts receivable where balances due can reflect a concentration among a relatively small number of accounts. The Company sells a significant portion of its software and related services to energy 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 EDC in respect of amounts due from the new customer in South America. As at December 31, 2007, the Company had EDC accounts receivable frustration insurance in respect of US\$2.0 million of the \$2.8 million due from this customer. 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 customers in any particular industry or geography.

A substantial portion of the Company's revenues is earned in United States dollars and is exposed to currency fluctuations. 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. The Company has mitigated some of this exchange risk by entering into fixed US dollar futures currency contracts.

Outstanding Share Data-

The following data is as of April 10, 2008.

The Company is authorized to issue an unlimited number of voting common and preferred shares. There are 46,090,562 common shares outstanding.

The Company has the following convertible debentures outstanding as at April 10, 2008: US\$15.2 million, which upon conversion would result in the issuance of 16,668,625 common shares at \$0.90 per common share; and \$11.7 million, which upon conversion would result in 22,328,877 common shares issued at an average conversion price of \$0.52 per common share, based on a range of \$0.34 to \$0.60 per common share.

Pursuant to the completion of the \$1.1 million convertible debenture offering on March 10, 2008, 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. Furthermore, in connection with the completion of this offering, and the \$2.7 million convertible offering on March 10, 2008, if these convertible debentures are not converted to common shares prior to the respective maturity dates in 2009, the Company will be required to issue up to 1,105,425 common shares of the Company as compensation for additional interest at a rate of 8% per annum.

The Company issued 2.7 million common share purchase warrants to Crown in connection with the US\$15.0 million loan received by the Company in 2007, entitling Crown to purchase one common share of WellPoint Systems at an exercise price of US\$0.50 per common share. Following the repayment of the Crown note on March 11, 2008, 900,000 warrants expired unexercised.

The Company has a stock option plan for employees, directors, and consultants. At December 31, 2007, a total of 3,700,000 shares (3,700,000 at December 31, 2006) were reserved for issuance under this plan. Options granted vest over two to four years. As at December 31, 2007, 2,777,877 options were outstanding with a weighted average exercise price of \$0.43 per share.

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.

On a fully diluted basis, if all convertible debentures were converted, warrants exercised, and DSU's redeemed for common shares as at April 10, 2008, the total number of common shares issued and outstanding would be approximately 90.9 million.

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 as 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 method.

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.

Effective January 1, 2008, the Company will adopt the following new CICA Handbook sections: Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments and Section 1535 -Capital Disclosures.

Financial Instruments - Disclosures and Financial 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. The new financial instruments presentation and disclosure requirements were issued in December, 2006 and the Company is assessing the impact on its financial statements.

Capital Disclosures 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. The new capital disclosure requirements were issued in December, 2006 and the Company is assessing the impact on its financial statements.

Selected Quarterly Financial Information and Overview

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

<u>(in thousands)</u>	Fiscal 2007			
	Quarters			
	Fourth	Third	Second	First
Revenue	\$ 7,707	\$ 6,744	\$ 9,460	\$ 4,923
Depreciation and amortization	1,154	730	476	409
Financing and amortization of debt and note payable issue costs	1,613	280	33	22
Interest	870	608	223	143
Foreign exchange loss (gain)	(528)	(1,122)	23	(7)
Write down of deferred development costs	529			
Goodwill impairment	1,605			
Net income (loss) before tax	(5,840)	292	1,582	(90)
Income tax expense(recovery)	(1,141)	94	665	0
Net income (loss)	\$ (4,699)	\$ 198	\$ 917	\$ (90)
Earnings (loss) per share				
Basic	\$ (0.119)	\$ 0.005	\$ 0.025	\$ (0.003)
Diluted	\$ (0.119)	\$ 0.005	\$ 0.020	\$ (0.003)

<u>(in thousands)</u>	Fiscal 2006			
	Quarters			
	Fourth	Third	Second	First
Revenue	\$ 5,346	\$ 4,324	\$ 3,700	\$ 2,636
Depreciation and amortization	313	354	321	229
Financing and amortization of debt and note payable issue costs	19	19	19	19
Interest	148	147	143	146
Foreign exchange loss (gain)	(1)	(1)	(14)	(7)
Net income before tax	691	15	34	129
Income tax expense	228	4	0	0
Net income	\$ 463	\$ 11	\$ 34	\$ 129
Earnings per share				
Basic	\$ 0.013	\$ -	\$ 0.001	\$ 0.005
Diluted	\$ 0.014	\$ -	\$ 0.001	\$ 0.005

Quarterly revenues, expenses, and net income are impacted by a number of external factors including the timing of large transactions, timing of budget approvals of our customers, acquisitions, product mix, seasonality of economic activity, and write down and impairment charges.

Large transactions and acquisitions that affected quarterly results included the following: first quarter of 2006, the acquisition of IDEAS on March 10, 2006; first quarter of 2007, the \$0.5 million WellPoint EAM software license sale and the iSoft acquisition on March 13 2007; second quarter of 2007, the software license sale to the South American customer; and third quarter of 2007, the acquisition of Bolo on August 13, 2007.

Revenue for the fourth quarter of 2007 was \$7.7 million compared with \$5.3 million for the same quarter a year ago. The increase was mainly as a result of revenue growth from the 2007 Bolo and iSoft acquisitions. The Adjusted EBITDA loss for the fourth quarter of 2007 was (\$1.7) million compared with Adjusted EBITDA of \$0.5 million in the same quarter a year ago. The net loss for the fourth quarter of 2007 was (\$4.7) million compared with a net income of \$0.5 million in the same period a year ago. There were a number of factors, some non-cash and one-time that contributed to the net loss in the fourth quarter of 2007, including the following:

- \$0.6 million in business unit operating losses primarily due to a change in revenue mix to lower margin professional services revenue (55% of Q4 2007 total revenue versus 31% in Q4 2006), \$0.7 million in software license fees received in 2007 that will be recognized as revenue in 2008 following installation of the software, and increases in operating expenses including \$0.3 million in additional one-time costs incurred in connection with the new South American customer;
- \$0.5 million non-cash charge consisting of a write-down of deferred development costs;

- \$0.9 million in interest expense primarily related to acquisitions;
- \$1.2 million in depreciation and amortization primarily related to acquisitions;
- \$1.6 million in financing and amortization of debt and notes payable issue costs primarily in connection with the accretion in the Crown note payable as at December 31, 2007 to account for the face value of the debt ultimately paid on March 11, 2008; and
- \$1.6 million non-cash goodwill impairment charge.

The increase in the Q4 loss was partially offset by a \$0.5 million foreign exchange gain.

Related Party Transactions

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.

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.

Business Risks and Uncertainties

The Company is exposed to a number of risks in the normal course of business that have the potential to affect performance. The Company seeks to avoid unnecessary risk and initiates policies and processes to limit any significant risk as much as practical. The following risks and uncertainties should be considered when evaluating WellPoint Systems’ potential:

Ability to attract and retain qualified IT professionals –

The opportunity to work on development projects focused on the latest development languages should provide WellPoint Systems with a base for attracting and retaining the brightest IT professionals available within the international marketplace.

Competition for projects –

The competitive landscape within the energy technology sector remains strong, and therefore, software development companies must remain at the forefront of technological advance. WellPoint Systems is implementing a development strategy based on inherent integration as well as functional superiority, and therefore, should retain a competitive advantage in a majority of the Company’s competitive engagements. This competitive advantage should also help mitigate the cyclical nature of the software industry.

Credit risk concentration with a small number of customers –

The Company works in an industry with a relatively concentrated number of customers. As the vast majority of customers are very established, WellPoint Systems does not believe that the Company is subject to any significant credit risk. With expected growth into new geographic markets, credit risk might increase, albeit most international sales are to larger

companies. Where available, the company obtains EDC accounts receivable frustration insurance to mitigate this risk.

Dependence on a market that has historic volatility-

The Company's products are sold primarily into the energy industry, which historically has had significant shifts in activity and spending due to fluctuations in commodity prices. The Company's revenues are primarily dependent upon spending by energy producers. A reduction in spending by producers could have a material adverse impact on the Company's business, results of operation, and financial condition.

Dependence on key personnel-

The success of the Company is dependent on management and the performance of key personnel and agents in the areas of professional services, product development, marketing, sales, and general management. There is intense competition for qualified personnel and there can be no assurance that the Company will be able to attract and retain qualified personnel. The failure to attract or the loss of any such personnel could adversely affect the success of the business for the period of time required to recruit a replacement.

Foreign currency risk –

As increased international revenues are achieved, exposure to greater foreign currency exchange risk will also increase. As of the date of the document, the Company has not entered into any financial derivative or instrument to hedge the impact of changes in the value of the Canadian dollar vs. the United States dollar. Accordingly, any change in the exchange rate between the Canadian and United States dollar and any other foreign currency that the Company transacts business in will impact net income and comprehensive income of the Company, and there is always a possibility that this risk could adversely impact the Company's operating results.

Long sales cycle for larger software sales –

The average sales cycle for large software sales contracts can range from nine to 12 months, with some extending to 18 months. WellPoint Systems has invested heavily in training for its sales force to ensure that engagements within these sales cycles are as efficient as possible.

Management of growth-

The Company's rapid growth places a significant strain on its financial, operational, and managerial resources. While the Company engages in strategic and operational planning to adequately manage anticipated growth, there can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner to fully manage its growth. There can be no assurance that the Company will be able to manage its growth successfully. Any inability of the Company to manage its growth successfully could have a material adverse effect on the Company's business, financial condition and results of operation.

Technological change –

Software products are always susceptible to competition from the next new programming language. WellPoint Systems products are no different. WellPoint Systems will continue to make changes to existing products as market demands dictate and when it is economically feasible to do so.

Total debt-

As at April 10, 2008, the Company has outstanding notes payable and convertible debentures, including accrued capitalized interest, of approximately \$32.7 million (2006-\$5.2 million), \$8.5 million of which is due in the next two years. Approximately \$25.2 million of this debt is subject to agreements that have covenants requiring the Company to generate certain amounts

of EBITDA, and maintain minimum current ratio and debt to equity levels. The Company will be required to generate positive EBITDA and cash flow from operations in order to meet the requirements under the covenants. Management believes that it will be able to meet these covenants based on its 2008 operating plan, however, there can be no assurance that the Company will be able to meet these covenants.

Reconciliation of Non-GAAP Measures

Adjusted EBITDA-

The Company reports this non-GAAP measure because it is a key measure used by management to evaluate the performance of the business. The Company believes that EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt. It is also used as a valuation metric. The Company believes that EBITDA assists investors in comparing performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

Adjusted EBITDA is Standardized EBITDA¹, excluding foreign exchange gains primarily related to the US dollar denominated debt of the Company and can vary significantly depending on exchange rate fluctuations, which are beyond the control of the Company, and write downs of deferred development costs, goodwill impairment, financing costs and after deducting the annual amount invested in respect of deferred development costs, which, with the implementation of International Financial Reporting Standards in the year ended December 31, 2011, will be required to be expensed on an annual basis.

Adjusted EBITDA is not a calculation based on GAAP and should not be considered to be an alternative to net income in measuring the Company's performance, or used as an exclusive measure of cash flow, because it does not consider the impact of working capital growth, all capital expenditures, debt reductions, and other sources and uses of cash, which are disclosed in the consolidated financial statements. Investors should carefully consider the specific items included in the Company's calculation of Adjusted EBITDA. While Adjusted EBITDA has been disclosed to permit a more complete comparative analysis of the Company's performance and debt servicing ability relative to other companies, investors should be cautioned that Adjusted EBITDA as reported by WellPoint Systems may not be comparable in all instances to Adjusted EBITDA reported by other companies.

The following is a reconciliation of Standardized EBITDA¹ with net income as reported in the consolidated financial statements and the calculation of Adjusted EBITDA.

<u>(in thousands)</u>	<u>2007</u>	<u>2006</u>
Net income (loss)	\$ (3,674)	\$ 637
Interest	1,844	584
Income taxes	(382)	232
Depreciation and amortization	2,769	1,216
Amortization of convertible debt issue costs	114	75
Amortization of long term notes payable issue costs	1,651	
Standardized EBITDA	<u>2,322</u>	<u>2,744</u>
Plus write down of deferred development costs	529	
Plus goodwill impairment	1,605	
Less foreign exchange gain	(1,634)	(22)
Less deferred development costs	(3,037)	(2,155)
Adjusted EBITDA	<u>\$ (215)</u>	<u>\$ 567</u>

<u>(in thousands)</u>	Fiscal 2007			
	Quarters			
	Fourth	Third	Second	First
Net income (loss)	\$ (4,699)	\$ 198	\$ 917	\$ (90)
Interest	870	608	223	143
Income taxes	(1,141)	94	665	0
Depreciation and amortization	1,154	730	476	409
Amortization of convertible debt issue costs	26	33	33	22
Amortization of long term notes payable issue costs	1,580	71		
Standardized EBITDA	(2,208)	1,733	2,314	484
Plus write down of deferred development costs	529	-	-	-
Plus goodwill impairment	1,605			
Less foreign exchange loss (gain)	(528)	(1,122)	23	(7)
Less deferred development costs	(1,072)	(885)	(631)	(448)
Adjusted EBITDA	(1,675)	(274)	1,705	29

<u>(in thousands)</u>	Fiscal 2006			
	Quarters			
	Fourth	Third	Second	First
Net income	\$ 463	\$ 11	\$ 34	\$ 129
Interest	148	147	143	146
Income taxes	228	4	0	0
Depreciation and amortization	313	354	321	229
Amortization of convertible debt issue costs	19	19	19	18
Standardized EBITDA	1,170	535	517	522
Less foreign exchange loss (gain)	(1)	(1)	(14)	(7)
Less deferred development costs	(705)	(429)	(592)	(428)
Adjusted EBITDA	465	105	(89)	87

Free Cash Flow-

The Company reports this non-GAAP measure because it is a key measure used by management to evaluate the financial performance of the business as it takes into account the impact of working capital, all capital expenditures and all debt related financing costs, which are payable in cash. The Company believes that Free Cash Flow is a measure used by investors as an indicator of a company's ability to repay debt, invest in future growth, and make distributions to owners.

Free Cash Flow is not a calculation based on GAAP and should not be considered to be an alternative to the Statement of Cash Flows as a measure of cash flow. Investors should carefully consider the specific items included in the Company's calculation of Free Cash Flow. While Free Cash Flow has been disclosed to permit a more complete comparative analysis of the Company's financial performance and debt serving ability relative to other companies, investors should be cautioned that Free Cash Flow as reported by WellPoint Systems may not be comparable in all instances to this non-GAAP measure reported by other companies.

The following is a reconciliation of Standardized Free Cash Flow¹ with cash flow from operations as reported in the consolidated financial statements:

<u>(in thousands)</u>	2007	2006
Cash flow from operating activities	\$ 716	\$ 2,142
Less deferred development costs	(3,037)	(2,155)
Less purchases of property and equipment	(441)	(146)
Free cash flow	\$ (2,762)	\$ (159)

(in thousands)

Cash flow from operating activities
Less deferred development costs
Less purchases of property and equipment
Free cash flow

Fiscal 2007				
Quarters				
	Fourth	Third	Second	First
\$	1,574	\$ (1,047)	\$ 1,252	\$ (1,063)
	(1,072)	(885)	(631)	(448)
	(90)	(89)	(33)	(229)
\$	412	\$ (2,022)	\$ 587	\$ (1,740)

(in thousands)

Cash flow from operating activities
Less deferred development costs
Less purchases of property and equipment
Free cash flow

Fiscal 2006				
Quarters				
	Fourth	Third	Second	First
\$	1,661	\$ (330)	\$ 834	\$ (23)
	(705)	(429)	(592)	(428)
	(54)	(45)	(28)	(19)
\$	902	\$ (804)	\$ 214	\$ (470)

1. Standardized EBITDA and Standardized Free Cash Flow are non-GAAP measures. Standardized EBITDA and Free Cash Flow are in accordance with the definition noted in the Canadian Institute of Chartered Accountants ("CICA") draft publication "Improved Communication with Non-GAAP Financial Measures" issued by the Canadian Performance Reporting Board of the CICA.

Other MD&A Requirements

Disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so appropriate decisions can be made regarding public disclosure. The Company's CEO and CFO have concluded, based on their evaluation as of December 31, 2007, that the disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that the system of internal controls are sufficient, they do not guarantee that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.