



**British Columbia  
Securities Commission**

**QUARTERLY AND YEAR END REPORT  
BC FORM 51-901F (previously Form 61)**

*Freedom of Information and Protection of Privacy Act:* The personal information requested on this form is collected under the authority of and used for the purpose of administering the *Securities Act*. Questions about the collection or use of this information can be directed to the Supervisor, Financial Reporting (604-899-6731), P.O. Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver, BC V7Y 1L2. Toll Free in British Columbia 1-800-373-6393.

INCORPORATED AS PART OF:

Schedule A

Schedule B  
(place X in appropriate category)

**ISSUER DETAILS**

NAME OF ISSUER	FOR QUARTER ENDED	DATE OF REPORT YY/MM/DD
<b>QHR TECHNOLOGIES INC.</b>	<b>June 30, 2003</b>	<b>03/08/05</b>

ISSUER'S ADDRESS **1632 DICKSON AVENUE, SUITE 210**

CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.
<b>Kelowna</b>	<b>BC</b>	<b>V1Y 7T2</b>	<b>(250) 717-5266</b>	<b>(250) 763-3122</b>

CONTACT PERSON	CONTACT'S POSITION	CONTACT TELEPHONE NO.
<b>Al Hildebrandt</b>	<b>President &amp; CEO, Director</b>	<b>(250) 979-1701</b>

CONTACT E-MAIL ADDRESS	WEB SITE ADDRESS
<b>ahildebrandt@qhrsoftware.com</b>	<b>qhrsoftware.com</b>

**CERTIFICATE**

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

<b>"Al Hildebrandt"</b>	<b>AL HILDEBRANDT</b>	<b>03/08/05</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

<b>"Frank Estergaard"</b>	<b>FRANK ESTERGAARD</b>	<b>03/08/05</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

(Electronic signatures should be entered in "quotations")

**QHR TECHNOLOGIES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2003

(Unaudited – Prepared by Management)

**QHR TECHNOLOGIES INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
June 30, 2003 and December 31, 2002

	(Unaudited) June 30, <u>2003</u>	(Audited) December 31, <u>2002</u>
<b><u>ASSETS</u></b>		
Current		
Cash	\$ 84,982	\$ 150,287
Accounts receivable	453,932	292,879
Prepaid expenses and deposits	70,347	39,642
	609,261	482,808
Long-term		
Accounts receivable (Note 3)	126,838	-
Capital	202,537	45,305
	\$ 938,636	\$ 528,113
<b><u>LIABILITIES</u></b>		
Current		
Accounts payable and accrued liabilities	\$ 329,230	\$ 224,214
Due to related parties	65,019	85,019
Current portion bank term loan (Note 4)	<u>23,918</u>	-
	418,167	309,233
Amount before deferred revenue	418,167	309,233
Deferred revenue	925,336	845,378
	1,343,503	1,154,611
Long term		
Bank term loan (Note 4)	115,602	-
Current portion	( 23,918)	-
	91,684	-
Minority interest	13,797	-
	1,448,984	1,154,611
<b><u>SHAREHOLDERS' DEFICIENCY</u></b>		
Share capital (Note 6)	3,672,645	3,672,645
Deficit	( 4,182,993)	( 4,299,143)
	( 510,348)	( 626,498)
	\$ 938,636	\$ 528,113
Business Combination (Note 7)		

SEE ACCOMPANYING NOTES

**QHR TECHNOLOGIES INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the three and six months ended June 30, 2003 and 2002  
(Unaudited – Prepared by Management)

	Three months ended June 30,		Six months ended June 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Revenue				
Software license fees	\$ 402,280	\$ 389,235	\$ 804,758	\$ 585,847
Software services	404,279	274,949	800,130	456,021
Consulting services and other	27,848	27,613	94,401	68,629
	<u>834,407</u>	<u>691,797</u>	<u>1,699,289</u>	<u>1,110,497</u>
Operating Expenses				
Sales and marketing	119,991	102,667	236,588	168,876
Service delivery	233,395	122,068	408,120	231,300
Administrative	244,185	180,315	510,985	320,898
Product management and development	198,999	133,847	418,549	267,551
	<u>796,570</u>	<u>538,897</u>	<u>1,574,242</u>	<u>988,625</u>
Earnings for the period before other items	37,837	152,900	125,047	121,872
Other items:				
Write-down of acquisition goodwill	-	( 37,500)	-	( 74,994)
Minority interest	( 7,099)	-	( 8,897)	-
Net earnings for the period	30,738	115,400	116,150	46,878
Deficit, beginning of period	(4,213,731)	(4,647,299)	(4,299,143)	(4,578,777)
Deficit, end of period	<u><u>\$(4,182,993)</u></u>	<u><u>\$(4,531,899)</u></u>	<u><u>\$(4,182,993)</u></u>	<u><u>\$(4,531,899)</u></u>
Basic and diluted earnings per share	<u><u>\$ -</u></u>	<u><u>\$ 0.01</u></u>	<u><u>\$ 0.01</u></u>	<u><u>\$ -</u></u>
Weighted average number of shares outstanding	<u><u>13,350,759</u></u>	<u><u>12,950,759</u></u>	<u><u>13,350,759</u></u>	<u><u>12,950,759</u></u>
Dilutive effect of stock options	<u><u>22,500</u></u>	<u><u>-</u></u>	<u><u>13,950</u></u>	<u><u>-</u></u>
Dilutive weighted average number of shares outstanding	<u><u>13,373,259</u></u>	<u><u>12,950,759</u></u>	<u><u>13,364,709</u></u>	<u><u>12,950,759</u></u>

SEE ACCOMPANYING NOTES

**QHR TECHNOLOGIES INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the three and six months ended June 30, 2003 and 2002  
(Unaudited – Prepared by Management)

	Three months ended June 30,		Six months ended June 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Operating Activities</b>				
Net earnings for the period	\$ 30,738	\$ 115,400	\$ 116,150	\$ 46,878
Charges to earnings not affecting cash:				
Amortization of capital assets	14,168	7,024	25,827	13,238
Write down of goodwill	-	37,500	-	74,994
Minority interest	7,099	-	8,897	-
	<u>52,005</u>	<u>159,924</u>	<u>150,874</u>	<u>135,110</u>
<b>Changes in non-cash working capital items related to operations</b>				
Accounts receivable	( 131,422)	( 105,745)	( 287,891)	( 240,082)
Prepaid expenses and deposits	25,544	( 468)	( 30,705)	( 6,916)
Accounts payable and accrued liabilities	( 66,373)	( 71,721)	105,016	( 17,807)
Deferred revenue	( 61,149)	321,621	79,958	470,462
	<u>( 181,395)</u>	<u>303,611</u>	<u>17,252</u>	<u>340,767</u>
<b>Financing Activities</b>				
Bank term loan proceeds	118,687	-	118,687	-
Bank term loan repayment	( 3,085)	( 29,914)	( 3,085)	( 45,000)
Promissory note repayment	-	( 39,060)	-	( 78,875)
Decrease in due to related parties	( 10,000)	( 49,054)	( 20,000)	( 37,294)
Proceeds from issuance of convertible debenture	-	-	-	100,000
	<u>105,602</u>	<u>( 118,028)</u>	<u>95,602</u>	<u>( 61,169)</u>
<b>Investing Activities</b>				
Acquisition of capital assets	( 43,563)	( 22,836)	( 183,059)	23,796)
	<u>( 43,563)</u>	<u>( 22,836)</u>	<u>( 183,059)</u>	<u>( 23,796)</u>
Minority interest in cash of subsidiary	4,900	-	4,900	-
Increase (decrease) in cash during the period	( 114,456)	162,747	( 65,305)	255,802
Cash, beginning of period	199,438	114,953	150,287	21,898
Cash, end of period	<u>\$ 84,982</u>	<u>\$ 277,700</u>	<u>\$ 84,982</u>	<u>\$ 277,700</u>
<b>Supplemental disclosure of cash flow information:</b>				
<b>Cash paid for:</b>				
Interest	\$ 1,263	\$ 4,084	\$ 1,263	\$ 6,047
Income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

**QHR TECHNOLOGIES INC.**  
**INTERIM CONSOLIDATED OPERATING EXPENSES**  
for the three months ended June 30, 2003 and 2002  
(Unaudited – Prepared by Management)

	Three months ended June 30,		Six months ended June 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Schedule 1 – SALES AND MARKETING</b>				
Wages and benefits	\$ 78,306	\$ 56,091	\$ 142,921	\$ 106,525
Other	41,685	46,576	93,667	62,351
	<u>\$ 119,991</u>	<u>\$ 102,667</u>	<u>\$ 236,588</u>	<u>\$ 168,876</u>
<b>Schedule 2 – SERVICE DELIVERY</b>				
Wages and benefits	\$ 184,421	\$ 93,823	\$ 311,494	\$ 177,039
Other	48,974	28,245	96,626	54,261
	<u>\$ 233,395</u>	<u>\$ 122,068</u>	<u>\$ 408,120</u>	<u>\$ 231,300</u>
<b>Schedule 3 – ADMINISTRATIVE EXPENSES</b>				
Accounting and audit fees	\$ 3,260	\$ 11,492	\$ 20,760	\$ 11,492
Amortization	14,168	7,024	25,827	13,238
Consulting fees	52,059	13,816	95,684	24,590
Directors' fees	3,000	-	3,000	-
Foreign exchange	5,174	9,342	5,174	9,342
Interest and bank charges	6,977	8,797	7,687	16,139
Legal fees	13,900	7,019	32,199	7,048
Office and miscellaneous	34,708	24,862	81,542	52,785
Rent	23,678	15,332	42,792	33,132
Travel	4,648	1,647	14,859	2,242
Transfer agent fees	5,783	5,681	10,167	9,064
Wages and benefits, including management fees	76,830	75,303	171,294	141,826
	<u>\$ 244,185</u>	<u>\$ 180,315</u>	<u>\$ 510,985</u>	<u>\$ 320,898</u>
<b>Schedule 4 – PRODUCT MANAGEMENT AND DEVELOPMENT</b>				
Wages and benefits	\$ 190,859	\$ 121,157	\$ 393,346	\$ 253,376
Other	8,140	12,690	25,203	14,175
	<u>\$ 198,999</u>	<u>\$ 133,847</u>	<u>\$ 418,549</u>	<u>\$ 267,551</u>

SEE ACCOMPANYING NOTES

**QHR TECHNOLOGIES INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2003  
(Unaudited – Prepared by Management)

Note 1 Interim Reporting

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and follow the same accounting policies and methods of their application as the Company's most recent annual financial statements. These interim financial statements do not include all of the disclosure included in the annual financial statements, and accordingly, they should be read in conjunction with the annual financial statements for the year ended December 31, 2002. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. The results of operations for the interim periods are not necessarily indicative of the results of operations for the entire year.

Note 2 Significant Accounting Policies

a) Principles of Consolidation

These consolidated financial statements include the accounts of QHR Technologies Inc., its wholly-owned subsidiary QHR Software Group Inc., and its 51% owned subsidiary QHR Atlantic Software Group Inc., all incorporated under the laws of the Province of British Columbia. All significant inter-company transactions and balances have been eliminated.

b) Revenue Recognition

The Company recognizes revenue from software licensing pursuant to the terms of its software licensing agreements once its contractual obligations have been fulfilled, the customer acceptance provision have been satisfied and collection is reasonably assured.

The Company recognizes revenue derived from the sale of support and maintenance service contracts on a straight-line basis over the term of the contract. The unearned portion of the contract is shown as deferred revenue.

The Company recognizes all other revenue including implementation and consulting fees as services are rendered.

c) Development Costs

Development costs related to software products developed for sale are expensed as incurred unless they meet the criteria for deferral under generally accepted accounting principles.

Note 3 Long-term Account Receivable

	June 30, <u>2003</u>	December 31, <u>2002</u>
The long-term account receivable is unsecured and payable in monthly amounts of \$3,335 including interest at 5 5/8% per annum.	\$ 158,719	\$ -
Less current portion	31,881	-
	\$ 126,838	-
	\$ 126,838	-

Note 4 Bank Term Loan

The Company has an authorized Small Business Improvement Loan with a bank for a maximum amount of \$250,000 to finance the purchase of capital assets. The loan bears interest at prime plus 3% and is repayable in equal monthly instalments over its 5 year term. The term loan is secured by a General Security Agreement over the assets of the Company, a Chattel Mortgage assigning specific assets financed under the loan and a personal guarantee up to a maximum of \$62,500 by a Director of the Company. The balance of the loan at June 30, 2003 amounted to \$115,602.

Note 5 Related Party Transactions

During the six month periods ended June 30, 2003 and 2002, the Company incurred the following expenses charged by directors, officers and private companies with common directors with the Company and a significant shareholder:

	<u>2003</u>	<u>2002</u>
Consulting fees	\$ 9,000	\$ 10,500
Directors' fees	3,000	-
Management fees	39,000	87,000
Travel	3,000	-
Wages and benefits – administrative expenses	82,000	-
	<u>\$ 136,000</u>	<u>\$ 97,500</u>

These expenses were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

Included in accounts payable at June 30, 2003 is \$6,100 (December 31, 2002: \$7,974) owing to directors, officers of the Company and its subsidiaries and companies with a common director.

Due to related parties at June 30, 2003, in the amount of \$65,019 (December 31, 2002: \$85,019) represents amounts owing to companies with common directors and shareholders with respect to unpaid advances, fees and expenses. These amounts are unsecured, non-interest bearing with no specific terms for repayment.

Note 6 Share Capital

a) Authorized:

100,000,000 Common shares without par value

b) Issued:

	<u>Number</u>	<u>\$</u>
Balance, June 30, 2003 and December 31, 2002	<u>13,350,759</u>	<u>3,672,645</u>

c) Escrow:

At June 30, 2003, 4,427,998 shares are held in escrow by the Company's transfer agent. These shares are released from escrow on the basis of 10% of the original escrow amount (7,380,000) semi-annually to June 28, 2006.

Note 6 Share Capital – (cont'd)

d) Commitments:

Stock-based Compensation Plan

The Company has granted employees and directors common share purchase options. These options are granted with an exercise price equal to the market price of the Company's shares on the date of the grant.

A summary of the status of the stock option plan as of June 30, 2003 and June 30, 2002 and changes during the periods ending on those dates is presented below:

	<u>June 30, 2003</u>		<u>June 30, 2002</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at beginning of period	946,900	\$0.95	976,700	\$1.05
Granted	-	-	50,000	\$0.35
Cancelled	( 1,200)	(\$1.00)	-	-
Options outstanding and exercisable at end of period	<u>945,700</u>	<u>\$0.95</u>	<u>1,026,700</u>	<u>\$1.02</u>

At June 30, 2003, the Company had 945,700 share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
870,700	\$1.00	June 28, 2005
50,000	\$0.35	June 4, 2007
25,000	\$0.35	November 28, 2007
<u>945,700</u>		

Note 6 Share Capital – (cont'd)

d) Commitments: – (cont'd)

Stock-based Compensation Plan – (cont'd)

As disclosed in its accounting policies note, the Company does not record compensation expense on the granting of stock options to employees. Disclosure of pro forma loss and loss per share had the Company elected to follow the fair value method using the Black-Scholes option pricing model is as follows.

	Three months ended June 30,		Six months ended June 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net earnings (loss) for the year as reported	\$ 30,738	\$ 115,400	\$ 116,150	\$ 46,878
Stock-based compensation	-	-	-	(16,731)
Pro forma earnings (loss) for the year	<u>\$ 30,738</u>	<u>\$ 115,400</u>	<u>\$ 116,150</u>	<u>\$ 30,147</u>
Pro forma basic and diluted earnings (loss) per share	<u>\$ -</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ -</u>

Share Purchase Warrants

At June 30, 2003, the Company had 500,000 share purchase warrants outstanding, each warrant entitling the holders thereof the right to purchase one common share for \$1.25 per share. These warrants expire on October 31, 2003.

Note 7 Business Combination – QHR Atlantic

QHR Atlantic Software Group Inc. (“QHR Atlantic”) was formed on March 4, 2003 with the Company owning 51% and the shareholders of Whidden Systems Ltd. (“Whidden”) owning 49%. There were no assets acquired or consideration paid as a result of the March 4, 2003 transaction. Pursuant to a shareholders agreement, QHR Atlantic may repurchase and cancel some or all of the 49% of the common shares of QHR Atlantic owned by the shareholders of Whidden. For every \$2.04 of revenue received by QHR Atlantic, QHR Atlantic has an obligation to repurchase one share from the shareholders of Whidden for \$0.51 per share, subject to the approval of QHR Atlantic’s directors.

The maximum obligation of QHR Atlantic pursuant to the shareholders agreement is \$250,000. If all of the QHR Atlantic common shares owned by the shareholders of Whidden have not been repurchased by December 31, 2009, any further repurchase obligations will be terminated.

Any shares of QHR Atlantic repurchased by QHR Atlantic will be accounted for using the purchase method, which will result in an increase in the Company’s intangible assets (customer lists, software and other intellectual property rights).

Note 7 Business Combination – QHR Atlantic – (cont'd)

At March 31, 2003 QHR Atlantic's revenue resulted in an obligation for QHR Atlantic to repurchase 2% of the common shares of QHR Atlantic from the shareholders of Whidden for \$10,864, resulting in an increase in intangible assets of \$5,540. Pursuant to a modification to the shareholders agreement, requiring the approval of QHR Atlantic's directors prior to any repurchase of shares, and since QHR Atlantic's directors have not yet approved any share repurchase, this transaction was reversed during the three months ended June 30, 2003.

Note 8 Comparative Figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted for the current period.

Note 9 Segmented Information

The Company's revenue is derived from the following geographic segments:

	<u>2003</u>	<u>2002</u>
Canada		
– Software License Fees	\$ 647,283	\$ 462,808
– Software Services	627,657	326,007
– Consulting Services and Other	79,185	48,472
	<hr/> 1,354,125	<hr/> 837,287
United States		
– Software License Fees	157,475	123,039
– Software Services	172,473	130,014
– Consulting Services and Other	15,216	20,157
	<hr/> 345,164	<hr/> 273,210
Total Revenue	<hr/> <u>\$ 1,699,289</u>	<hr/> <u>\$ 1,110,497</u>



**British Columbia  
Securities Commission**

**QUARTERLY AND YEAR END REPORT  
BC FORM 51-901F (previously Form 61)**

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INCORPORATED AS PART OF:

\_\_\_\_\_ Schedule A

  X   Schedule B  
(place X in appropriate category)

**ISSUER DETAILS**

NAME OF ISSUER	FOR QUARTER ENDED	DATE OF REPORT YY/MM/DD
<b>QHR TECHNOLOGIES INC.</b>	<b>June 30, 2003</b>	<b>03/08/05</b>

ISSUER'S ADDRESS **1632 DICKSON AVENUE, SUITE 210**

CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.
<b>Kelowna</b>	<b>BC</b>	<b>V1Y 7T2</b>	<b>(250) 717-5266</b>	<b>(250) 763-3122</b>

CONTACT PERSON	CONTACT'S POSITION	CONTACT TELEPHONE NO.
<b>Al Hildebrandt</b>	<b>President &amp; CEO, Director</b>	<b>(250) 979-1701</b>

CONTACT E-MAIL ADDRESS	WEB SITE ADDRESS
<b>ahildebrandt@qhrsoftware.com</b>	<b>qhrsoftware.com</b>

**CERTIFICATE**

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

<b>"Al Hildebrandt"</b>	<b>AL HILDEBRANDT</b>	<b>03/08/05</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

<b>"Frank Estergaard"</b>	<b>FRANK ESTERGAARD</b>	<b>03/08/05</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

(Electronic signatures should be entered in "quotations")

**QHR TECHNOLOGIES INC.**  
**QUARTERLY REPORT**  
for the six months ended June 30, 2003

- Schedule A: Financial Information  
– See financial statements attached
- Schedule B: Supplementary Information
1. Analysis of expenses and deferred costs:  
Operating Expenses  
– See financial statements attached
  2. Related party transactions:  
– See Note 5 to the financial statements attached
  3. Summary of securities issued and options granted during the period:
    - a) Summary of common shares issued during the period: Nil
    - b) Summary of options granted during the period: Nil
  4. Summary of securities as at the end of the reporting period:
    - a) Description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion:  
– See Note 6 to the financial statements attached
    - b) Number and recorded value for shares issued and outstanding:  
– See Note 6 to the financial statements attached
    - c) Description of options, warrants and convertible securities outstanding including number or amount exercised or conversion price and expiry date, and any recorded value:  
– See Note 6 to the financial statements attached
    - d) Number of shares in each class of shares subject to escrow or pooling agreements:  
– See Note 6 to the financial statements attached
  5. List of Directors and Officers:  
Al Hildebrandt, President, Chief Executive Officer and Director  
Kathy Love, Corporate Secretary  
Dave Goertz, Director  
Jake Epp, Director  
Tom O’Flaherty, Director  
Frank Estergaard, Director  
Dr. Don Rix, Director
- Schedule C: Management Discussion  
– See attached

**QHR TECHNOLOGIES INC.**  
**QUARTERLY REPORT**  
for the six months ended June 30, 2003

Schedule C: Management Discussion and Analysis

**Overview**

QHR Technologies Inc. (the "Company" or "QHR") continues to successfully build its business operations and refine its products on behalf of its customers, employees and shareholders. The business plan is to solidify its reputation as a recognized industry leader in the design, development, marketing and implementation of proprietary human resource ("HR") software products.

Headquartered in Kelowna, British Columbia, Canada, QHR currently services over forty-five client organizations with more than 85,000 employees in North America. The HR software modules currently offered by the Company deliver HR functionality for payroll administration, staff scheduling, HR management and applicant/employee tracking in an integrated format. Collectively these modules are known and marketed by the Company as Quadrant HR™. Trademarks in Canada and the United States protect the proprietary rights of the Company.

QHR has progressed from a development enterprise to a marketing operation beginning to carve out its share of the HR marketplace by proving its concepts in its product offerings and gaining a solid foothold for its business model. QHR has proven that its HR software can be cost effectively configured to reliably meet the specific needs of its clients.

Profitable sales growth has been the best evidence that QHR has moved from a product design firm to a marketing organization. Customer demand appears to have been driven by the practicality of Quadrant HR™, its reliability and ease of use. The system focuses on effective administration of employee information and the articulation of this data into accurate management reports on behalf of the customer. The fundamental design concept is that HR data is only processed once into a single dedicated HR database. From this data repository employee information is utilized to service all the needs of complex, multi-position HR environments.

Customer satisfaction has given QHR a good reputation and a growing share of the HR market. Customer reaction and sales growth indicates that a healthy probability of profitable business growth should exist for the Company in the future.

The transition of QHR into a successful business has taken many years of perseverance. When venture capital for the technology industry all but disappeared, QHR was able to find the development capital it needed through internal sources from the profitability of its operations.

Although it negatively affects the reported profits of QHR, these residual cash flows have been strategically reinvested in the continued development of Quadrant HR™ to improve its integrated functional power while meeting planned timetables.

QHR has now moved into the final phases of its next generation product development schedule. The Company will continue to prove the effectiveness of its fundamental integration concepts that have been engineered in Version 2.0 when it is released in September 2003.

In addition to the resources needed to create its products, QHR continues to face a marketing cycle that takes a considerable period of time and venture capital to develop. Since the fall of 2001, investments have been made to educate prospective clients that Quadrant HR™ can meet the demanding needs of the modern HR manager. This commitment to marketing began to show profitable returns in 2002 and continued during the first two quarters of 2003.

The value of QHR, as determined by the market price of the common shares of the Company, has begun to improve in relation to its technology rights and business operations with market capitalization reaching approximately \$10,000,000. Share price has improved over 300% during the past year.

The Company continues to implement its business plans through its wholly owned subsidiary QHR Software Group Inc. (“QHR Group”) and QHR Atlantic Software Group Inc. (“QHR Atlantic”). These operations are consolidated in the financial statements as at June 30, 2003.

QHR Group is an innovative Western Canadian software design firm headquartered in Kelowna, British Columbia. Operating since 1997, it continues to create proprietary software solutions specially designed to automate all facets of HR issues where complex HR administration is required. The business model of QHR Group focuses strictly on software design, customer development and satisfaction, marketing and implementation of computer software for HR, staff scheduling and payroll management in large enterprise clients such as healthcare facilities. In addition it provides training and software service to all of its clients.

QHR Atlantic was formed to concentrate on market opportunities in Atlantic Canada. Operating out of Halifax, NS its business model concentrates on the marketing of Quadrant HR™ to new customers in Nova Scotia, Prince Edward Island, New Brunswick and Newfoundland. It was established with the principal shareholders of Whidden Systems Ltd., a business that has been a long time supplier of payroll software in eastern Canada.

The shift from product development to sales and earnings growth is the key objective for the future. Accordingly, the Company is committing resources to strengthen its internal sales department. The business model concentrates on generating revenues calculated on the number of employees serviced by its software products. Management’s objective is to increase revenue and earnings at a minimum rate of 30% or better annually.

### **Products**

The main competitive strength of Quadrant HR™ is that it provides a user-friendly product giving HR and payroll administrators the ability to collect and utilize employee information from many sources in one central data repository. It is designed to automate the current business practice of managing employee information with limited computer support such as general-purpose spreadsheet applications in conjunction with other employee systems such as payroll. The wide variety of financial data resulting from the specific HR transactions required to effectively manage HR departments is simply derived from accurate payroll calculations.

Quadrant HR™ eliminates the practice of recording personnel data several different times in different systems in order to capture the data requirements of staff scheduling, human resources and payroll. The software model is designed to provide a reliable single-entry personnel database that is accessible by all managers. This significantly improves the effectiveness and efficiency of the modern HR department.

QHR has developed a unique approach to service customers with complex HR issues such as multiple employee positions, multiple employment contracts and multiple operational facilities such as healthcare enterprises. Quadrant HR™ has been specifically tailored for complex employee environments in large to medium sized operations.

Quadrant HR™ has proven itself as an effective management tool that delivers significant cost efficiencies. The Company will continue to develop, expand and exploit its products in the healthcare marketplace and focus on new markets such as manufacturing and other industries. In the fall of 2003, QHR will release Version 2.0 of Quadrant HR™ that includes its new Staff Scheduling and Web Applicant Tracking modules and substantially completes its original integration objectives for Quadrant HR™.

The Company's software products are designed to provide useful HR automation assistance that handles the unique needs of today's complex HR environment. Quadrant HR™ is designed to provide powerful software support to HR managers for:

- ◆ Payroll processing
- ◆ Compensation planning
- ◆ Performance management
- ◆ Organization/position management
- ◆ Recruitment and selection
- ◆ Compliance reporting
- ◆ Employee relations
- ◆ HR planning
- ◆ Staff scheduling
- ◆ Employee training and development

### **Markets**

QHR currently offers Quadrant HR™ software products in Canada and the United States for primarily healthcare organizations. The market for HR and payroll services is highly competitive, rapidly evolving and subject to rapid technological change. The market development of QHR is indicative of a start-up technology company that is beginning to make the shift from product design and development to marketplace distribution.

It has been essential that Quadrant HR™ become a reliable best-of-breed software product handling multiple HR processes for its clients. Therefore, the continued investment and expenditures in the product development of Quadrant HR™ and related services has been necessary. Its competitive advantage has to be that its products can cost-effectively outperform their competition and its customer service is the best available in the market.

Target markets that are ideal candidates for Quadrant HR™ include:

- ◆ Healthcare facilities
- ◆ Municipalities
- ◆ Public safety organizations such as fire, police and emergency service departments
- ◆ Hotel, casino and entertainment operations
- ◆ Civil services such as post office and military

One of the main barriers to entry into these markets for QHR has been its financial condition and the limited resources at its disposal. QHR is a relatively young company with a good suite of products but must demonstrate to potential customers that we will be able to service any software applications we install. The Company is therefore marketing its products to clients in partnership with other companies including integration companies.

### **Results of Operations**

QHR, QHR Group and QHR Atlantic consolidate their operations for the purpose of financial reporting. The Company's year-end is December 31.

Results of operations are not necessarily indicative of results to be expected in future periods. QHR is an emerging corporation where various trends and factors in the marketplace and product development must be managed in order to achieve revenue growth and profitability. QHR will begin the introduction of the new Version 2.0 of Quadrant HR™ in September 2003.

The business model of the Company has been providing reliable cash flows where operational and financial needs can be reasonably predicted. The Company has been working hard to ensure that operations can be funded from a healthy combination of internal sources of capital as it is required and improving its access to external capital.

Generally accepted accounting principles, as currently applicable to the Company, require the Company to expense all product development costs in the period they are incurred. QHR has invested approximately \$4,200,000 in the development of Quadrant HR™ since this project began and it is not reflected on the balance sheet as an asset. Management believes that Quadrant HR™ software has found an emerging market niche where revenue volume is growing consistently.

The Company's revenues and expenditures are indicative of a creative enterprise that continues to make the transition from product engineering to a marketing oriented company. Significant investment has been required to introduce the Company products to the marketplace and to continue development based on customer requirements. These investments have shown financial returns during the first six months of 2003.

The Company recognized revenues for the six months ending June 30, 2003 of \$1,699,289 compared to \$1,110,497 in 2002, an increase of 53%. Revenues continue to increase due to the investment in marketing initiatives. Revenue recognition was determined by the guidance provided by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants Statement of Position 97-2 entitled "Software Revenue Recognition".

Deferred revenue reached \$925,336 at June 30, 2003 compared to \$845,378 at December 31, 2002, an increase of \$79,958 or 9%.

For the six months ending June 30, 2003, the Company recorded net earnings from operations of \$116,150 compared to net earnings of \$46,878 for same period in 2002, an increase of 147%. Earnings were \$0.01 per share compared to \$0.00 per share for the first six months of 2002. This improvement in profitability is after absorbing the increased investments in product development and marketing initiatives. In addition, management estimate that approximately \$200,000 of expenses incurred in the first six months will be non-recurring in the next six months.

Salaries and benefits for the six-month period ending June 30, 2003 increased to \$980,055 compared to \$552,766 for 2002. This increase of 77% was due to an increase in the number of client services personnel to assist implementation services and sales and marketing personnel to increase marketing activities.

The Company invested \$236,588 in sales and marketing development during the period ending June 30, 2003 compared to \$168,876 at June 30, 2002, an increase of \$67,712 or 40%. This investment was made to continue to add new customers and revenues. New contract successes and future opportunities developed steadily as these marketing expenditures were increased.

Service delivery expenditures for the six-month period ending June 30, 2003 increased to \$408,120 compared to \$231,300 for 2002. This was due primarily to additional client services personnel within QHR Atlantic.

Administration expenditures for the six-month period ending June 30, 2003 increased to \$510,985 compared to \$320,898 for 2002. This was due to additional office costs for QHR Atlantic and new expanded office space in Kelowna, B.C. Consulting and management fees were \$134,684 compared to \$150,590 for 2002. These were spent for market development, investor relations and general management.

Product development expenditures increased to \$418,549 compared to \$267,551 for 2002. The bulk of these expenditures were for continuous improvements to the product line and additional functions such as Web Applicant Tracking and Staff Scheduling that were necessary for Quadrant HR™ to continue to gain market share. These functions will be included in Version 2.0 of Quadrant HR™, which will be released in the fall of 2003.

### **Milestones**

The most critical milestone for the Company has been the ability to maintain continued revenue growth. The Company has received valuable contracts during this period and other marketing prospects look promising.

The viability of the business model of QHR continues and has permitted the Company to deliver another profitable quarter. Earnings per share reached \$0.01 for the six months ending June 30, 2003 compared to \$0.00 per share a year ago. The strength of internal funding from operations allows the Company to remain financially healthy and develop its profitable revenue growth.

During the period, the Company continued to find the resources to advance its product development schedule. The Web Applicant Tracking module has already been successfully developed and installed in a commercial site and is working as planned. The new Staff Scheduling module is nearing completion and initial installations are already underway. Customer interest in this module is extremely strong and early orders are at various stages of implementation.

The Company increased its marketing personnel and efforts during the period. The objective has been to accelerate the adoption rate by customers, a situation that has continued to grow positively.

### **Investor Relations**

The Company's Investor Relations contract of November 27, 2002 with David R. Procter, an independent contractor providing investor relation related services, was concluded in June 2003 by mutual consent.

Originally, the agreement was for a period of one year expiring on November 26, 2003. In consideration of the services provided by Mr. Procter, QHR has paid \$16,000 during the period. No incentive stock options were granted under the terms of this agreement.

### **Legal Proceedings**

There are no legal proceedings in progress.

### **Subsequent Events**

Subsequent to June 30, 2003, the Company has signed a new contract in the amount of \$375,000 with Sisters of Charity Health Service of Ottawa as announced in the July 18, 2003 company news release.

### **Related Party Transactions**

Al Hildebrandt, President, CEO and Director, is paid a salary of \$10,000 per month. The financial statements include \$60,000 paid for the six-month period ending June 30, 2003. An outstanding incentive stock option of 450,000 common shares exercisable at \$1.00 per common share is also in place. These options expire on June 28, 2005.

Gearhead Enterprises Inc., a wholly owned company of a Director of the Company, was paid \$39,000 during the six-month period ending June 30, 2003 for management services. The provision of operational management services concluded on June 30, 2003. Gearhead has an outstanding stock option of 150,000 common shares exercisable at \$1.00 per common share. These options expire on June 28, 2005.

The Corporate Secretary of the Company was paid \$9,000 during the period for administration services. This officer has an outstanding stock option of 5,000 common shares exercisable at \$1.00 per common share. These options expire on June 28, 2005.

A director of QHR Atlantic was paid \$22,000 during the period for management services.

### **Liquidity and Capital Resources**

The Company has a working capital deficiency of \$734,242 at June 30, 2003, an increase of \$62,439 from December 31, 2002. The working capital deficiency includes \$925,336 in deferred revenue (which increased by \$79,958 during the period) that will be covered by the delivery of services during future periods, such as prepaid annual support and maintenance fees, at which time it will be recognized as revenue in the financial statements.

Current assets were \$609,261 at June 30, 2003, an increase of \$126,453 from \$482,808 on December 31, 2002. Current assets less current liabilities before deferred revenue amounted to \$191,094 at June 30, 2003, an improvement of \$17,509 from December 31, 2002.

The Company entered into a sales contract during the first quarter of 2003 resulting in an amount of \$166,414 being receivable over a period of five years, payable at \$3,335 monthly including interest at 5 5/8%. The non-current portion of this receivable in the amount of \$126,838 is excluded from current assets at June 30, 2003.

The balance of the unsecured advances from a company controlled by the Chief Executive Officer, President, control shareholder and Director of the Company was reduced by \$20,000 to \$65,019 at June 30, 2003.

On January 9, 2003 the Company obtained a Small Business Improvement Loan with a bank for an amount of up to \$250,000 to finance the purchase of capital assets. The loan bears interest at prime plus 3% and is repayable in equal monthly instalments over its 5 year term. Security includes a General Security Agreement over the assets of the Company, a Chattel Mortgage assigning specific assets financed under the loan and a personal guarantee of \$62,500 by a Director of the Company. As of June 30, 2003 the amount outstanding on this Capital Term Loan was \$115,602.

### **General Risk Factors and Uncertainties**

The Company's common shares have experienced price volatility but managed to improve due to the success of its operational development. The market for technology issues as a whole has experienced extreme price fluctuations and disinterest by investors. This major decline in interest in technology companies may negatively impact the Company's ability to raise capital, retain employees and continue to implement its business plan should additional capital be required.

The Company is focused on expanding its business through the development and marketing of new products such as Web-Applicant Tracking and Staff Scheduling to an expanding customer base. Future results will depend on the ability to successfully complete these product offerings and market them to new and existing customers. QHR must accumulate the resources to complete these products from a combination of both internal and external sources.

Additional risks and uncertainties that pertain to the growth of QHR operations are detailed below.

### **Lengthy Sales and Implementation Cycles**

The Company currently experiences a lengthy marketing and sales cycle that requires considerable investment of Company resources to attract new customers. There are no assurances of success and approvals of contracts are often subject to delays that are beyond the control of QHR.

Contracts all vary in terms and conditions but usually involve a fixed price per employee for the various HR functions to be delivered. The implementation of software to the satisfaction of the customer involves various periods of time ranging from three months to eighteen months. This situation means that QHR must work closely with its clients to achieve success.

There are no assurances that any negative events in the implementation process for any customer will not have adverse effects on the business plans of QHR, the results of its operations and its financial health.

### **Product Development and Technological Change**

The software industry is characterized by rapid technological change, competition and many new product introductions. The ability of QHR to continue to achieve market success and maintain its competitive advantages will depend on its capability to maintain a competent R&D staff that is current with all technological advances as it pertains to evolving computer hardware, software platforms and operating environments.

### **Foreign Exchange Exposure**

The Company has had some commercial success in the United States. During the six months ending June 30, 2003 about 20% of the Company's revenues have been generated in US dollars while corresponding expenses are incurred in Canadian dollars. This means the Company is exposed to exchange rate fluctuations between the Canadian and U.S. dollar. To date, QHR has not engaged in exchange rate hedging activities.

### **Ability to Attract and Retain Key Personnel**

Corporate success is largely dependent on the performance of its key employees. Failure to retain key employees and to successfully recruit additional key employees with the requisite skills could result in negative operating results in terms of financial health and profitability. Competition for highly skilled management, technical and other employees has decreased somewhat over the past several years, but is still an important growth factor in the software industry.