

making sense

{into dollars}

workbrain

2003 Annual Report

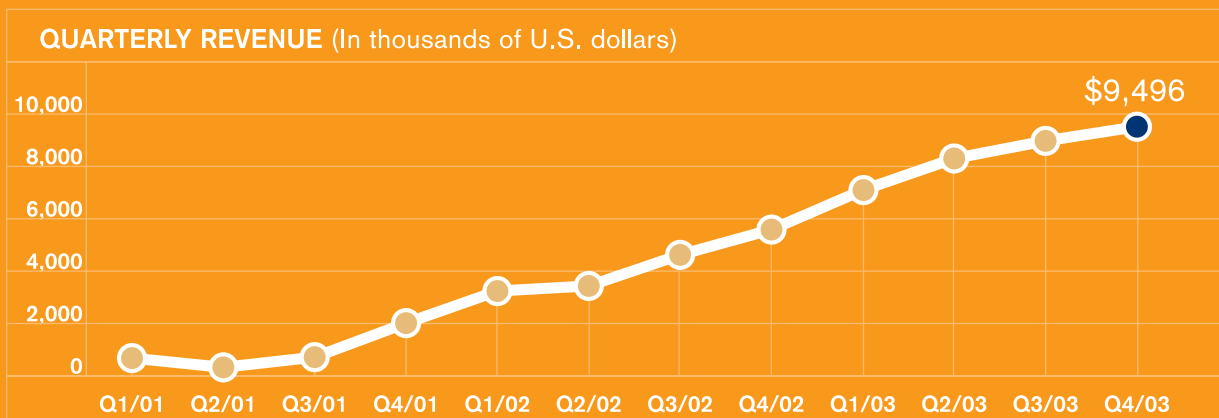
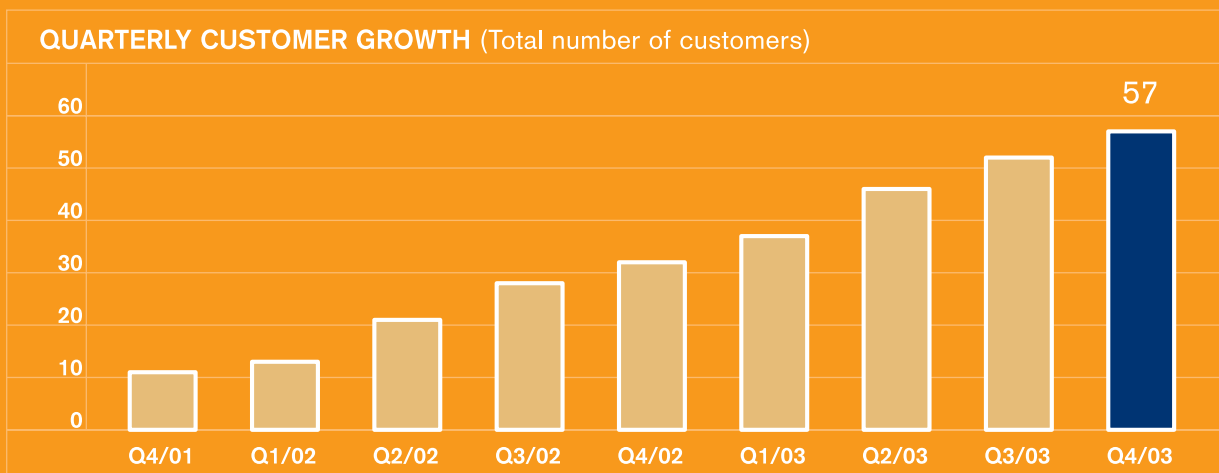
Our promise is simple: We save our customers money.

That promise makes sense to British Airways, Kohler Company, AMC Theatres and over 50 other blue chip customers. These customers chose Workbrain to **optimize the deployment and management** of their workforces.

Scheduling employees. Managing employee time. Communicating with employees. These mission critical workforce management processes are expensive and time-consuming for the largest, most complex organizations in the world.

Workbrain's software solutions help large enterprises optimize workforce management to dramatically reduce labour costs and improve productivity. **Workbrain solutions drive profitability** for our customers.

As a result, Workbrain has established itself as a leader in the rapidly growing enterprise workforce management market.



dear shareholder,



David Ossip
President and Chief Executive Officer

Workbrain has had a tremendous year. We have grown revenue by over 100% while realizing GAAP profitability for the year. We have fortified our balance sheet with cash provided by operations and through our successful initial public offering. And we bolstered our leadership position in the enterprise workforce management market by adding new clients such as Kohler, General Mills, Wachovia and more than 20 other large enterprises to our growing list of Global 2000 customers.

Our Value Proposition

Workbrain solutions save companies money. Since our inception in 1999, we have continued to develop and deploy solutions that deliver significant labour cost reductions and dramatic workforce productivity improvements.

By combining employee scheduling, time and attendance, employee self-service, and workforce analytics onto a single web-based platform, Workbrain delivers quantifiable business benefits:

- Reduced gross payroll
- Elimination of paper-based HR transactions
- Increased workforce productivity
- Reduced IT infrastructure costs

Industry analyst Gartner estimates savings from fully integrated workforce management solutions at 5% to 10% of a company's gross payroll expenditure – millions of dollars annually for large enterprise customers.

British Airways is one of the world's largest international airlines, serving 550 destinations in more than 130 countries worldwide through oneworld and its other alliances. The airline has invested more than a billion dollars in new products designed to redefine business travel for the 21st century.

The airline's North American operations sought a solution to automate its complex pay rules and reduce the errors and administrative overhead associated with a manual, paper-based timekeeping system. British Airways planned to leverage the same workforce management platform to automate complex employee transactions.



customer case study:

british airways

2003 Financial Results

Our strong customer value proposition helped us grow revenue to US\$33.8 million in 2003, which represents 101% growth over the previous year. This growth was driven by sales to new customers, progress on current projects, and follow-on sales to our existing client base.

Our bottom line results were also positive. We have achieved our objective of GAAP profitability during a year of excellent revenue growth and continued investment in distribution and in research and development.

Net income for the year totalled US\$1.2 million or 9 cents per share on a fully-diluted basis. Profitability has been driven by controlled and focused growth, careful expense management, and an increase in higher margin software licence revenue.

Fiscally responsible growth contributed to a strong balance sheet in 2003.

We generated US\$2.2 million from operations and ended the year with working capital of over US\$40 million. We continue to focus on growing the business by controlling spending and expanding our customer base.

The retail and manufacturing industries were our strongest markets in 2003; each segment contributed approximately 30% of our total annual revenue. Significant customers on the retail front included Winn Dixie, REI and The TJX Companies; key additions to our list of manufacturing clients included L'Oréal, Smurfit Stone Container Corporation, and Kohler Company.

solution:

Workbrain's airline-specific workforce management solutions automate 100% of British Airways' pay rules and manage complex processes including attendance control and overtime management.

British Airways employees use Workbrain from desktop computers and kiosks to complete self-service functions such as trading shifts, managing schedules, requesting leave and communicating with managers.

benefits:

Workbrain automates mission critical workforce management processes to help British Airways achieve the following benefits:

- Payroll reduction of 1% due to reduced payroll errors and improved overtime management
- Reduction of staff required for the timekeeping function, as time required to complete timekeeping tasks has been reduced by more than two-thirds
- Increased workforce satisfaction due to convenient employee self-service capabilities

Growth continues in the transportation industry, with new clients such as US Airways and Overnite Transportation Company, as well as in the financial services, healthcare, and law enforcement sectors.

Products and Services

Our rapid growth in targeted industries is a direct result of our commitment to building and deploying robust, industry-specific solutions designed to meet the specific needs of our clients.

- Workbrain for Retail was released this year with fully integrated labour forecasting and schedule optimization for the retail industry.
- Workbrain 4, released in July, is a pure internet application built for maximum performance and flexibility. It scales to support tens of thousands of employees, and includes industry-specific functionality for manufacturing, transportation and healthcare.
- Workbrain's Speed 2 Value Methodology is a comprehensive implementation methodology and consulting toolkit that enables the rapid deployment of Workbrain solutions. Clients can go live on the system in as little as 90 days, allowing them to realize benefits quickly and achieve rapid return on their investment.



Toronto Police Service includes 10,000 officers, administrative staff and volunteers, and is the 6th largest police force in North America. Previous methods of scheduling officers and volunteers, tracking equipment resources, and calculating wages were based on non-standard, paper-based processes.

Legacy systems made it difficult for managers and elected officials to obtain timely data regarding labour costs, scheduling, and the availability of officers and resources in a critical environment.

customer case study:

toronto police service

Workbrain's consistent success against our competitors has been driven by our unique industry-specific solutions. We compete effectively by offering deeper functionality, superior technology, and proven implementation methodology geared toward our large, multi-site enterprise customers.

The strength of Workbrain's offering has been validated by industry awards including HR Executive's Product of the Year, and Forbes' Best of the Web. In Forrester Research's September 2003 report no other workforce management vendor scored as high as Workbrain for current product functionality and strategic vision.

Partnership Strategy

As a market leader we have the opportunity to pursue alliances with world-class business partners. In 2003, we added significant new partnerships that extend our global sales and marketing reach. Exult will use our technology to provide workforce management solutions to its business process outsourcing customers. IBM's Retail On Demand utilizes Workbrain's time and

“Overall savings from reducing errors and improved management of overtime are estimated to be 1% of the total gross bill for staff payroll, although, over time, this could amount to as much as 5%.”

Steve Pruneau,
British Airways, Information Age

solution:

Toronto Police Service is deploying Workbrain to automate employee time tracking and pay calculations, including special events, court time, and overtime. Workbrain's Parading tool uses personnel availability data, equipment and vehicle inventory and other information to assist sergeants with accurate and rapid deployment of resources.

Integration with the emergency call system helps supervisors quickly identify what officers are available and dispatch them to the scene.

benefits:

Workbrain delivers significant operational benefits to Toronto Police Service:

- Efficient deployment of officers and resources to augment public safety
- Increased public accountability through accurate and timely record keeping
- Effective labour cost control and reduced administration

Toronto Police Service can now efficiently deploy officers to serve and protect with a greater degree of certainty and feedback.

attendance and scheduling solutions in their global product. Our relationship with Fujitsu HyperSoftware Technologies introduces Workbrain to the Japanese market through a reseller relationship.

These new relationships complement our established alliances with Accenture, BearingPoint, Fidelity Employer Services Company, Oracle, BEA, Microsoft, and SAP.

A Look Ahead...

At Workbrain, we consider our ability to deliver unparalleled cost savings a major competitive advantage in the workforce management industry. The strength of Workbrain's products, technology, and delivery capabilities positions us uniquely for continued success.

Workbrain has achieved 10 consecutive quarters of revenue growth. We intend to continue to capitalize on expansion in the workforce management market, which is expected to grow at double the rate of the overall enterprise application market and to exceed US\$6.8 billion dollars annually by 2006.¹ We will continue to grow by gaining additional market share.

We expect fiscal 2004 to be another exceptional year for Workbrain. We will continue to work with our customers and partners to develop and deliver innovative and robust workforce management solutions.

¹ IDC Worldwide Integrated Workforce Management Application Forecast and Analysis 2002-2006



Winn Dixie Stores, Inc. is the 8th largest grocer in the United States with more than 110,000 employees in over 1,000 retail grocery stores and facilities across 12 states and the Bahamas.

The sheer volume of employees requiring time, attendance and leave management across different geographic regions, as well as the need for timely workforce reporting, called for a totally integrated solution.

customer case study:

winn dixie

The following key 2004 strategic objectives will help us maintain our strong market momentum:

1. *Expand our worldwide distribution capabilities* to significantly increase international market share.
2. *Broaden our network of strategic relationships* to increase our distribution capabilities.
3. *Enhance our industry-specific software applications* in key customer industries such as retail, manufacturing, transportation, healthcare, financial services, and law enforcement.
4. *Deepen our relationships with existing customers* to recognize opportunities to add further value and to provide additional solutions and benefits.
5. *Pursue a disciplined acquisition approach* that will enhance the functionality of our product offerings, expand our market opportunity, and broaden our customer base.

“Workbrain delivers scalability across the enterprise while giving us the flexibility to address the unique rules that exist at the plant level.”

Jim Hess, Kohler Company

solution:

Workbrain for Retail met Winn Dixie's requirements with a fully integrated workforce management solution for time and attendance, leave management and workforce analytics.

The 100% web-based application scales to meet the needs of Winn Dixie's large workforce and provides retail-specific features like shift trading, uniform requisitions and detailed store associate skills data.

benefits:


Workbrain for Retail allows Winn Dixie to:

- Accurately and consistently apply business and pay rules across the organization
- Integrate a total solution into their existing architecture with a minimal burden on IT
- Provide access and self-service to employees in their workplace and their homes

Management can control labour and administration costs by minimizing payroll errors, accelerating processing times, and making staffing decisions with timely workforce information.

Workbrain has forged a leadership position in the large enterprise workforce management industry. The cornerstone of our success is the ability to consistently deliver significant cost savings to our customers. We do this, by hiring and retaining the industry's very best and creating innovative solutions with compelling value for our customers.

In 2004, Workbrain's overarching goal is to enhance our leadership position in the enterprise workforce management market. By focusing on fulfilling our strategic and financial objectives, we believe we can continue to create value for our shareholders.



Sincerely,

David Ossip
President and Chief Executive Officer



Scott Yaphe

Peter Dey

David Goldman

Roger Martin

David Ossip

Governance

Workbrain's management and Board of Directors are committed to achieving superior corporate governance. The Board and management agree that the discipline imposed by adherence to a thoughtful, comprehensive corporate governance policy is inherently beneficial for the Company as a whole. To that end, the Board has developed a tailored governance policy in accordance with the mandate of the Toronto Stock Exchange.

The Board of Directors has an obligation to oversee the management and affairs of the Company on behalf of all investors. The Board's aims are to attain corporate objectives and to create value for shareholders. Management is directed by both the Board as a whole and by committees of the Board.

The Board of Directors includes an audit committee, a compensation committee and a corporate governance committee. The corporate governance committee is responsible for advising and overseeing the application of the corporate governance policy within the Company and advising the Board of Directors in filling any vacancies on the Board. Each of these committees is comprised entirely of independent directors.

There are currently five directors of Workbrain Corporation, each elected annually. The Board meets no fewer than four times per year. Eligible directors are compensated for their position with common shares of the Company to further align their interests with those of the shareholders. David Ossip is CEO and the only member of management to serve on the Board. Four of the five directors are independent.

Board member and corporate governance committee chair Peter Dey is a recognized expert in the field of corporate governance. Mr. Dey chaired the Toronto Stock Exchange Committee on corporate governance which released its report in 1994. He was also Canada's representative to the Organization for Economic Cooperation and Development Task Force which developed the OECD Principles of Corporate Governance released in May of 1999. He is a director of The International Corporate Governance Network.

Board Chair Roger Martin is the Dean and Professor of Strategy at the Joseph L. Rotman School of Management at the University of Toronto. Mr. Martin has written extensively about issues pertaining to corporate governance, including his book, *The Responsibility Virus*. His work has also been published in noted publications including the *Globe and Mail*, *Time Magazine*, and the *Harvard Business Review*. He is also Chair of the Ontario Task Force on Competitiveness, Productivity and Economic Progress.

The Board of Directors is committed to the ongoing development and implementation of a corporate governance system for Workbrain that reflects the current best governance practices.

workbrain financial report

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Management's Discussion and Analysis

For the years ended December 31, 2003, 2002 and 2001

Selected Consolidated Financial Information

The following table sets out selected consolidated financial information for the years ended December 31, 2003, 2002 and 2001 and as at those dates. The selected consolidated financial information has been derived from our audited consolidated financial statements. You should read the following selected consolidated financial information in conjunction with our audited consolidated financial statements and the notes thereto and with Management's Discussion and Analysis.

Year ended December 31, (Amounts in U.S. Dollars, in Thousands, Except Per Share Data)	2003	2002	2001
Consolidated Statement of Operations Data			
Revenue			
Licence	\$ 10,361	\$ 4,320	\$ 1,181
Service, maintenance and other	23,456	12,529	2,557
Net revenue	33,817	16,849	3,738
Cost of revenue			
Licence	318	83	–
Service, maintenance and other	17,061	8,623	1,170
Cost of revenue accruals (recoveries), net	(561)	(359)	972
Total cost of revenue	16,818	8,347	2,142
Gross profit	16,999	8,502	1,596
Gross margin (%)	50.3%	50.5%	42.7%
Operating expenses			
Sales and marketing	8,804	5,905	4,989
Research and development	5,153	3,456	3,366
General and administrative	1,614	2,215	1,783
Amortization of acquisition-related intangibles	336	–	–
Amortization of stock-based compensation	84	268	711
Total operating expenses	15,991	11,844	10,849
Income (loss) from operations	1,008	(3,342)	(9,253)
Interest income, net	232	260	476
Accretion on preferred shares	–	–	(529)
Net income (loss)	\$ 1,240	\$ (3,082)	\$ (9,306)
Net income (loss) per share			
Basic	\$ 0.09	\$ (0.24)	\$ (0.76)
Basic weighted average number of common shares outstanding	13,249	12,589	11,618
Diluted	\$ 0.09	\$ (0.24)	\$ (0.76)
Diluted weighted average number of common shares outstanding	13,949	12,589	11,618

December 31, (Amounts in U.S. Dollars, in Thousands)	2003	2002	2001
Consolidated Balance Sheet Data			
Cash and cash equivalents and short-term investments	\$ 46,693	\$ 15,301	\$ 13,490
Working capital	41,443	8,968	12,215
Total assets	61,865	24,023	16,753
Deferred revenue	9,232	10,390	2,649
Long-term liabilities	125	99	139
Total shareholders' equity	46,929	10,184	12,884

You should read the following discussion in conjunction with the selected consolidated financial information and with our audited consolidated financial statements and the notes thereto.

Forward-looking Statements

Certain statements included in this document constitute forward-looking statements, including those identified by the expressions *anticipate, believe, plan, estimate, expect, intend* and similar expressions to the extent they relate to us or our management. The forward-looking statements are not historical facts but reflect our current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under *Risk Factors*.

Overview

Workbrain develops, markets, implements, and supports software that helps large organizations optimally deploy and manage their workforces. Our solutions automate workforce management processes such as labour forecasting, employee schedule optimization, time and attendance, workforce analytics and employee self-service. We market and sell our products through both direct and indirect channels to maximize market coverage in a cost-effective manner. We have a direct sales force that sells our software in North America and Europe. Our sales channels are supported through marketing and implementation relationships with leading systems integrators such as Accenture, IBM and BearingPoint, Business Process Outsourcers (BPOs) such as Exult and FESCO and resellers such as Fujitsu HST.

Revenue and Expenses

We generate revenue from licensing our software products and providing related services, including implementation, consulting, training, hosting and post-contract customer support (PCS). Licences for our products are typically perpetual licences for a specified number of users. In addition, customers often purchase implementation services from us to help them configure our software to meet their specific needs, which is typically billed on a time and materials basis. Customers generally enter into renewable annual maintenance contracts that provide for software updates and product support services. Our revenue has grown each quarter for the past ten fiscal quarters. We have grown our revenue through sales to new customers as well as through sales of additional products and services to our existing customers.

Cost of licence revenue consists primarily of the cost of third-party software we have licensed. Cost of service, maintenance and other revenue consists primarily of personnel and related costs incurred in providing implementation, consulting, training, hosting and PCS services. Cost of revenue accruals (recoveries), net consists of accruals and recoveries of zero-profit provisions.

Sales and marketing expenses consist primarily of personnel and related costs associated with our sales and marketing functions as well as commissions, seminars, trade shows, advertising and other promotional expenses. Research and development expenses consist primarily of personnel and related costs associated with the development of our software product. General and administrative expenses consist primarily of personnel and related costs associated with our administrative and finance functions, as well as professional fees and other general corporate expenses. Amortization of stock-based compensation relates primarily to charges on stock options granted to consultants.

Interest Income

Our interest income is related to our invested cash and short-term investments. We invest our excess cash in short-term investment-grade interest-bearing securities. Interest income fluctuates based upon the amount of funds available for investment and prevailing interest rates.

Significant Accounting Policies

Revenue Recognition

Our revenue is derived primarily from licence fees and service fees. We license software under non-cancelable licence agreements and provide services, including implementation, consulting, training, hosting, and PCS to our customers. In certain cases, we also provide customers with hardware related to our software offerings. We recognize revenue in accordance with Canadian GAAP, which, in our circumstances, is consistent with the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 97-2, *Software Revenue Recognition* and related provisions (SOP 97-2).

To date, most of our arrangements with customers have involved services that have been determined to be essential to the functionality of the software. Accordingly, the revenue from such arrangements has been recognized under contract accounting using the percentage of completion method to measure progress towards completion. We use either the completion of contractual milestones or the ratio of incurred costs to estimated total costs, as appropriate, as the measure of our progress on each contract. If a loss on a contract is considered probable, all of that loss will be recognized at the date determinable.

Under certain of our arrangements, entered into in 2000 and 2001, where estimating the final outcome of a contract was impractical, except to assure that no loss would be incurred, we used a zero estimate of profit until results could be estimated more precisely. Under this method, the portion of total contract revenue earned to date was determined by measuring progress towards completion. We then recorded an equal amount of costs against the revenue. Cost of revenue was adjusted to recognize the profit element from the arrangement once we were able to estimate total revenue and total costs, which, in our circumstances, was at the time of substantial contract completion. We do not anticipate using the zero-profit method in the future.

Implementation, consulting, and training fees, when not essential to the functionality of the software, are recognized as delivered to the customer, based on the prices charged when these services are sold separately to customers.

Hosting fees are recognized monthly as hosting services are provided to the customer, based upon contractually-stated renewal prices provided to customers.

PCS fees are recognized ratably over the term of the support contract, which is generally one year in length, based on the contractually-stated renewal prices provided to our customers.

Hardware fees are recognized as hardware is delivered to our customers, once the risks and rewards of ownership have passed to the customer, based on the prices charged when hardware is sold separately to customers.

Accounts receivable reflected on the consolidated balance sheet represent amounts from fees that are due from customers for which revenue has previously been recognized. Fees that have been prepaid but do not yet qualify for recognition as revenue under our revenue recognition policy are reflected as deferred revenue on the consolidated balance sheet.

Research and Development Costs

Research and development costs, net of investment tax credits, are charged to the consolidated statement of operations in the year in which they are incurred unless the criteria for deferral are met, including the establishment of technological feasibility.

Based on our product development process, technological feasibility is established once a working model has been produced and tested. To date, development costs incurred between the completion of a working model and the point where a product is released have been insignificant. Accordingly, all research and development costs have been charged to the consolidated statement of operations in the year in which they were incurred, net of related investment tax credits.

We are entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. As a Canadian Controlled Private Corporation (CCPC), certain investment tax credits were refundable to us. As a public company, investment tax credits are non-refundable, but can be applied against our future income tax liabilities and are subject to a 10-year carryforward period. Investment tax credits are recognized once we have reasonable assurance that the amounts will be realized.

Investment tax credits have been accounted for as a reduction of the related expenditures for items expensed in the consolidated statement of operations and a reduction of the related asset cost for items capitalized on the consolidated balance sheet.

Significant Accounting Estimates

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses to prepare our consolidated financial statements in conformity with Canadian GAAP. Actual results could differ from these estimates.

Significant estimates in our consolidated financial statements include the valuation of accounts receivable, intangibles and goodwill, and the determination of the amount and timing of revenue to be recognized. In our determination of the valuation of accounts receivable, including the allowance for doubtful accounts, we rely on current customer information and our planned course of action as well as assumptions about future business and economic conditions. We have estimated the useful life of our intangibles based upon rapidly changing industry trends and changes in our customers' businesses. In our determination of the amount and timing of revenue to be recognized, we rely on assumptions supporting our revenue recognition policy. Estimates of the percentage of completion for customer projects are based upon current actual and forecasted information and contractual terms. Vendor-specific objective evidence (VSOE) we have established on our licence and service elements is based upon the prices charged when we sell specific elements to customers separately or contractually-stated renewal prices. Changes in our business practices or sales arrangements may impact our ability to establish VSOE on current or newly offered elements, thereby changing the amount and timing of revenue recognized.

Recent Accounting Pronouncements

Stock-based Compensation

In September 2003, the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*, to require the recording of compensation expense on the granting of all stock-based compensation awards, including stock options to employees, calculated using the fair-value method. We will adopt this standard on January 1, 2004, retroactively without restatement, and, accordingly, will record a charge to our opening deficit on January 1, 2004 of \$537,000 related to stock options granted on or after January 1, 2002.

Generally Accepted Accounting Principles

In July 2003, the CICA released Handbook Section 1100, *Generally Accepted Accounting Principles*. This Section establishes standards for financial reporting in accordance with Canadian GAAP, and describes what constitutes Canadian GAAP and its sources. This Section also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, when a matter is not dealt with explicitly in the primary sources of GAAP. The new standard is effective on a prospective basis beginning January 1, 2004. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Consolidation of Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities (AcG-15)*. AcG-15 addresses the consolidation of variable interest entities (VIEs), which are entities which have insufficient equity at risk to finance their operations without additional subordinated financial support and/or entities whose equity investors lack one or more of the specified essential characteristics of a controlling financial interest. AcG-15 provides specific guidance for determining when an entity is a VIE and who, if anyone, should consolidate the VIE. AcG-15 will be applied in the Company's year beginning January 1, 2005. Enterprises with VIEs entities are required to provide certain disclosure related to their interests in the VIEs in periods beginning on or after January 1, 2004. We do not expect the adoption of this standard to have an impact on our consolidated financial statements.

Asset Retirement Obligations

In March 2003, the CICA issued Handbook Section 3110, *Asset Retirement Obligations*. This Section establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated retirement costs. This Section applies to legal obligations associated with the retirement of a tangible long-lived asset that result from its acquisition, construction, development or normal operation. This Section covers the obligations of both lessors and lessees in connection with leased assets, whether imposed by a lease agreement or by a party other than the lessor, except for those obligations of a lessee that meet the definition of either minimum lease payments or contingent rentals in Section 3065, *Leases*, and are accounted for in accordance with that Section. This guideline is effective for our 2004 fiscal year, with early adoption encouraged. We do not expect the adoption of this standard to have an impact on our consolidated financial statements.

Results of Operations

The following table sets out, as a percentage of net revenue, selected consolidated financial information for the years ended December 31, 2003, 2002 and 2001:

Year ended December 31, (Percentage of Net Revenue)	2003	2002	2001
Consolidated Statement of Operations Data			
Revenue			
Licence	30.6%	25.6%	31.6%
Service, maintenance and other	69.4	74.4	68.4
Net revenue	100.0	100.0	100.0
Cost of revenue			
Licence	0.9	0.5	–
Service, maintenance and other	50.5	51.1	31.3
Cost of revenue accruals (recoveries), net	(1.7)	(2.1)	26.0
Total cost of revenue	49.7	49.5	57.3
Gross margin	50.3	50.5	42.7
Operating expenses			
Sales and marketing	26.0	35.0	133.5
Research and development	15.3	20.5	90.0
General and administrative	4.8	13.2	47.7
Amortization of acquisition-related intangibles	1.0	–	–
Amortization of stock-based compensation	0.2	1.6	19.0
Total operating expenses	47.3	70.3	290.2
Income (loss) from operations	3.0	(19.8)	(247.5)
Interest income, net	0.7	1.5	12.7
Accretion on preferred shares	–	–	(14.2)
Net income (loss)	3.7%	(18.3)%	(249.0)%

Comparison of Years Ended December 31, 2003 and 2002

Revenue

Licence revenue increased 139.8% to \$10.4 million in the year ended December 31, 2003 compared with \$4.3 million in the year ended December 31, 2002. The growth was substantially attributable to an increase in the number of customers to 57 at December 31, 2003 compared to 32 at December 31, 2002. Growth was also a result of significant investments in sales infrastructure, primarily an increase in the number of direct sales personnel as well as a substantial expansion of marketing programs. We expect licence revenue to increase in dollar amounts and as a percentage of net revenue as we expect to continue to add new customers and continue to invest in sales infrastructure in future periods.

Service, maintenance and other revenue increased 87.2% to \$23.5 million in the year ended December 31, 2003 compared with \$12.5 million in the year ended December 31, 2002. The increase was primarily attributable to additional product implementation projects related to new customers as well as a growing installed base.

Cost of Revenue

Cost of licence revenue increased 283.1% to \$318,000 in the year ended December 31, 2003 compared with \$83,000 in the year ended December 31, 2002, and represented 3.1% and 1.9% of licence revenue for each year, respectively. The increase in the dollar amount and as a percentage of licence revenue of the cost of licence revenue reflected the sale of a greater number of third-party software licences in the year ended December 31, 2003 compared with the prior year.

Cost of service, maintenance and other revenue increased 97.9% to \$17.1 million in the year ended December 31, 2003 compared with \$8.6 million in the year ended December 31, 2002, and represented 72.7% and 68.8% of service, maintenance and other revenue for each year, respectively. The increase in the cost of service, maintenance and other revenue in dollar amount and as a percentage of service, maintenance and other revenue in the year ended December 31, 2003, related primarily to the increase in the number of customer support, implementation and training personnel and related costs necessary to support our larger customer base and new product implementations. The average number of customer support, implementation and training personnel grew to 129 in the year ended December 31, 2003 compared to 54 in the year ended December 31, 2002. We expect the cost of service, maintenance and other revenue to increase in future periods as we expect to add personnel to service our growing customer base.

Cost of revenue accruals (recoveries), net was \$(561,000) in the year ended December 31, 2003 compared with \$(359,000) in the year ended December 31, 2002, and represented (1.7)% and (2.1)% of net revenue for each year, respectively. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2003 results from the reversal, during 2003, of zero-profit provisions made in 2002 related to projects that were completed during 2003. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2002 results from the reversal, during 2002, of zero-profit provisions made in 2000 and 2001 related to projects that were completed during 2002. We expect the amounts of any future accrual or recovery of zero-profit provisions to be minimal as substantially all projects where revenue was recognized using the zero-profit method were completed by December 31, 2003.

Operating Expenses

Sales and marketing expenses increased 49.1% to \$8.8 million in the year ended December 31, 2003 compared with \$5.9 million in the year ended December 31, 2002, and represented 26.0% and 35.0% of net revenue for each year, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales and marketing workforce, which grew to an average of 50 personnel in the year ended December 31, 2003 compared to an average of 35 in the year ended December 31, 2002; increases in their related travel expenses in both North America and Europe; and increased marketing activities, including trade shows and promotional expenses. The decrease as a percentage of net revenue is due to increased productivity as our sales and marketing workforce continues to grow. We expect sales and marketing expenses to increase in dollar amount in future periods as we expect to continue to add to our sales force and increase marketing activities.

Research and development expenses increased 49.1% to \$5.2 million in the year ended December 31, 2003 compared with \$3.5 million in the year ended December 31, 2002, and represented 15.3% and 20.5% of net revenue for each year, respectively. The increase in dollar amount in the year ended December 31, 2003 over the prior year was primarily attributable to increased staffing and associated support invested in order to expand and enhance our product offering. The average number of research and development personnel grew to 62 in the year ended December 31, 2003 compared to 45 in the year ended December 31, 2002. The increase in research and development expenses was offset by investment tax credits of \$540,000 realized in the year ended December 31, 2003 compared to \$144,000 realized in the year ended December 31, 2002. Up to December 31, 2003, all research and development costs have been expensed as incurred. We intend to increase research and development expenditures in dollar amount in future periods as we expect to continue to enhance our products and introduce new functionality.

General and administrative expenses decreased 27.1% to \$1.6 million in the year ended December 31, 2003 compared with \$2.2 million in the year ended December 31, 2002, and represented 4.8% and 13.2% of net revenue for each year, respectively. The decrease in dollar amount was primarily the result of the inclusion of a foreign exchange gain of \$1.7 million in general and administrative expenses in the year ended December 31, 2003, which more than offset an increase in the number of administrative and financial personnel and increases in professional fees and other general corporate expenses necessary to manage and support our growth. The average number of administrative and financial personnel grew to 25 in the year ended December 31, 2003, compared to 20 in the year ended December 31, 2002. The decrease as a percentage of net revenue is partly due to efficiencies in general and administrative expenses as our revenue grows. We anticipate that general and administrative expenses will increase in dollar amount in future periods due in part to the increased costs associated with being a public company.

Amortization of stock-based compensation decreased 68.7% to \$84,000 for the year ended December 31, 2003 compared with \$268,000 in the year ended December 31, 2002 and represented 0.2% and 1.6% of net revenue, respectively. The decrease in dollar amount and as a percentage of net revenue is due to the fact that most options granted to consultants were fully vested and amortized by the beginning of 2003.

Interest income, net decreased to \$232,000 in the year ended December 31, 2003 compared with \$260,000 in the year ended December 31, 2002, primarily due to a decrease in prevailing interest rates in the year ended December 31, 2003 compared to the prior year. The increase in cash balances in the year ended December 31, 2003 is primarily attributable to cash provided by our public offering in December, 2003.

Income taxes. The differences between the effective tax rates and the statutory combined Canadian federal and provincial tax rates are explained in note 14 of the notes to our audited consolidated financial statements.

Acquisition

Effective April 1, 2003, we acquired the net operating assets of Workforce Logistics Inc., a provider of schedule optimization software. The acquisition enhanced our existing workforce management solution with additional schedule optimization functionality. Following this acquisition, we also began to recognize revenue from Workforce Logistics Inc.'s customers. Revenue attributable to the acquisition was less than \$1.2 million for the year ended December 31, 2003.

Amortization of acquisition-related intangibles relates to intangible assets acquired from Workforce Logistics Inc. and was \$336,000 for the year ended December 31, 2003.

We intend to continue to pursue selective strategic acquisitions that will expand and add functionality to our product offerings, augment our distribution channels, expand our market opportunity and broaden our customer base. We have no present agreements or commitments with respect to any prospective acquisition or investment.

Comparison of Years Ended December 31, 2002 and 2001

Revenue

Licence revenue increased 265.8% to \$4.3 million in the year ended December 31, 2002 compared with \$1.2 million in the year ended December 31, 2001. The growth was substantially attributable to an increase in the number of customers to 32 at December 31, 2002 compared to 11 at December 31, 2001; this was a result of significant investments in sales infrastructure, primarily an increase in the number of direct sales personnel as well as a substantial expansion of marketing programs.

Service, maintenance and other revenue increased 390.0% to \$12.5 million in the year ended December 31, 2002 compared with \$2.6 million in the year ended December 31, 2001. The increase was primarily attributable to additional product implementation projects related to new customers as well as a growing installed base.

Cost of Revenue

Cost of licence revenue increased to \$83,000 in the year ended December 31, 2002 compared with \$0 in the year ended December 31, 2001, and represented 1.9% and 0.0% of licence revenue for each period, respectively. The increase in the dollar amount and as a percentage of licence revenue of the cost of licence revenue reflected our first sales of third-party software licences in the year ended December 31, 2002.

Cost of service, maintenance and other revenue increased 637.0% to \$8.6 million in the year ended December 31, 2002 compared with \$1.2 million in the year ended December 31, 2001, and represented 68.8% and 45.8% of service, maintenance and other revenue for each period, respectively. The increase in the cost of service, maintenance and other revenue in dollar amount and as a percentage of service, maintenance and other revenue in the year ended December 31, 2002, related primarily to the increase in the number of customer support, implementation and training personnel and related costs necessary to support a larger customer base and new product implementations. The average number of customer support, implementation and training personnel grew to 54 in the year ended December 31, 2002 compared to 25 in the year ended December 31, 2001.

Cost of revenue accruals (recoveries), net was \$(359,000) in the year ended December 31, 2002 compared with \$972,000 in the year ended December 31, 2001, and represented (2.1)% and 26.0% of net revenue for each period, respectively. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2002 results from the reversal, during 2002, of zero-profit provisions made in 2000 and 2001 related to projects that were completed during 2002. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2001 results from the accruals of zero-profit provisions related to progress during 2001 on on-going projects where the zero-profit method was applied.

Operating Expenses

Sales and marketing expenses increased 18.4% to \$5.9 million in the year ended December 31, 2002 compared with \$5.0 million in the year ended December 31, 2001, and represented 35.0% and 133.5% of net revenue for each period, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales and marketing workforce, which grew to an average of 35 personnel in the year ended December 31, 2002 compared to an average of 30 in the year ended December 31, 2001; increases in their related travel expenses in North America; and increased marketing activities, including trade shows and promotional expenses. The decrease as a percentage of net revenue was due to increased productivity as our sales and marketing workforce continued to grow.

Research and development expenses increased 2.7% to \$3.5 million in the year ended December 31, 2002 compared with \$3.4 million in the year ended December 31, 2001, and represented 20.5% and 90.0% of net revenue for each period, respectively. The increase in dollar amount in the year ended December 31, 2002 over the comparative period in the prior year was primarily attributable to increased staffing and associated support required to expand and enhance our product offering. The average number of research and development personnel grew to 45 in the year ended December 31, 2002 compared to 23 in the year ended December 31, 2001. The increase in research and development expenses was offset by investment tax credits of \$144,000 realized in the year ended December 31, 2002 compared to \$0 realized in the year ended December 31, 2001.

General and administrative expenses increased 24.2% to \$2.2 million in the year ended December 31, 2002 compared with \$1.8 million in the year ended December 31, 2001, and represented 13.2% and 47.7% of net revenue for each period, respectively. The increase in dollar amount was primarily the result of an increase in the number of administrative and financial personnel and increases in professional fees and other general corporate expenses necessary to manage and support our growth. The average number of administrative and financial personnel grew to 20 in the year ended December 31, 2002 compared to 15 in the year ended December 31, 2001.

Amortization of stock-based compensation decreased 62.3% to \$268,000 for the year ended December 31, 2002 compared with \$711,000 in the year ended December 31, 2001 and represented 1.6% and 19.0% of net revenue, respectively. The decrease in dollar amount and as a percentage of net revenue related to fully vested grants expensed in the year ended December 31, 2001.

Interest income, net decreased to \$260,000 in the year ended December 31, 2002 compared with \$476,000 in the year ended December 31, 2001, due to the combination of a decrease in average cash balances on hand and a decrease in prevailing interest rates in 2002 compared to 2001. The decrease in cash balances was primarily attributable to cash used in our operations.

Income taxes. The differences between the effective tax rates and the statutory combined Canadian federal and provincial tax rates are explained in note 14 of the notes to our consolidated financial statements.

Liquidity and Capital Resources

We have historically financed our operations through the sale of shares and through the cash generated by our operations. In December 2003, we raised \$32.4 million, net of offering costs, through the sale of 3.3 million common shares in a public offering. In April 2001, we raised \$11.8 million, net of offering costs, through the sale of 3.0 million Class B preferred shares; we issued an additional 0.5 million Class B preferred shares at that time to the purchasers of the December 2000 Class B round of financing to reduce their effective per share price to be equivalent to that of the April 2001 Class B round. At December 31, 2003 we had cash and cash equivalents and short-term investments of \$46.7 million and working capital of \$41.4 million.

Cash provided by (used in) operating activities for the years ended December 31, 2003, 2002 and 2001 was \$2.2 million, \$2.9 million and \$(6.9 million), respectively. Cash provided by operations in the year ended December 31, 2003 was the result of our net income of \$1.2 million and non-cash charges for depreciation and amortization totalling \$1.9 million which was offset by a net increase in working capital requirements. Cash provided by operations in the year ended December 31, 2002 was primarily the result of a net decrease in working capital requirements, which included a significant increase in deferred revenue. Cash used in operations in the year ended December 31, 2001 was primarily the result of the net loss for the year, which was partially offset by a net decrease in working capital requirements, which included a significant increase in deferred revenue.

Our investing activities consist of the purchase and sale of short-term investments, the purchase of property and equipment and a business combination transaction. In the year ended December 31, 2003, we used cash of \$1.4 million in the acquisition of the net operating assets of Workforce Logistics Inc. In the years ended December 31, 2003, 2002 and 2001, we purchased property and equipment, principally computers and related software for our growing employee base, of \$2.3 million, \$1.1 million and \$433,000, respectively. We expect that our investment in property and equipment will continue to increase as our employee base continues to grow. In the year ended December 31, 2001, we purchased \$8.9 million in short-term investments, which were sold in early 2002. In the year ended December 31, 2002, we purchased \$8.9 million in short-term investments, which were sold in early 2003. In the year ended December 31, 2003, we purchased \$8.7 million in short-term investments.

Our financing activities consist primarily of the issuance of share capital. In the year ended December 31, 2003, 2002 and 2001, \$32.9 million, \$7,000 and \$11.9 million of cash was provided by our financing activities, respectively. In 2003, we raised \$32.4 million from the issuance of common shares in a public offering and \$520,000 from stock options exercised during the year. In 2001, we raised \$11.8 million from the issuance of a round of Class B preferred shares.

We had cash, cash equivalents and short-term investments totalling \$46.7 million, \$15.3 million and \$13.5 million at December 31, 2003, 2002 and 2001, respectively. We believe that our current cash and short-term investments and anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

Foreign Exchange Management

We enter into transactions in multiple currencies (primarily U.S. and Canadian dollars) and, therefore, we are subject to gains and losses due to fluctuations between those currencies. We have, from time to time, entered into forward contracts intended to manage portions of this risk. Forward contracts are not recorded in our consolidated financial statements on their inception. Any unrealized or realized gains or losses from such financial instruments are recognized in our income or loss from operations in the year in which they are incurred.

To date, the majority of our cash inflows, primarily cash received from our customers, have been denominated in U.S. dollars. However, a significant portion of our operating cash outflows have been denominated in Canadian dollars. In addition, we have historically kept our excess cash in U.S. dollar denominated investments. To assist us in managing our U.S. and Canadian dollar denominated cash flows, during 2003, we entered into a series of forward contracts with our bank to sell U.S. dollars and buy Canadian dollars at set intervals to cover our expected Canadian dollar denominated operating expenses. We entered into contracts during 2003 to sell a total of US\$18.0 million in exchange for Cdn\$27.7 million beginning in January 2003 and ending in June 2004. Of the contracts entered into during 2003, at December 31, 2003, contracts remained outstanding to sell US\$3.7 million in exchange for Cdn\$5.2 million.

We recorded a realized foreign exchange gain of approximately US\$1.3 million related to contracts completed within 2003. In addition, we recorded an unrealized foreign exchange gain of US\$366,000 on the contracts that were still outstanding at December 31, 2003. These gains made up the majority of the \$2.0 million total foreign exchange gain that we recorded for the year ended December 31, 2003.

Since the proceeds we raised from our public offering in December 2003 were denominated in Canadian dollars, we no longer are required to sell U.S. dollars in order to fund our Canadian dollar denominated operating expenses. We now maintain a Canadian dollar treasury in addition to our U.S. treasury. We expect to use those funds to cover our future Canadian dollar denominated operating expenses. Despite this change in our treasury management practices, we are still subject to gains and losses due to fluctuations between the U.S. and Canadian dollars. As we continue to expand our operations internationally, we will be subjected to additional potential gains and losses against currencies in addition to our exposure to the Canadian dollar.

Selected Consolidated Quarterly Financial Information

The following table sets out unaudited selected consolidated financial information for each of the eight quarters for the periods ended up to December 31, 2003. In the opinion of management, this information has been presented on the same basis as the audited consolidated financial statements appearing elsewhere in this annual report, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with our audited consolidated financial statements and the notes thereto. The operating results for any quarter should not be relied upon as any indication of results for any future period.

Quarter ended (Amounts in U.S. Dollars, in Thousands, Except Per Share Data, Unaudited)	2003				2002			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Consolidated Statement of Operations Data								
Revenue								
Licence	\$ 2,521	\$ 2,555	\$ 2,883	\$ 2,402	\$ 1,481	\$ 918	\$ 781	\$ 1,140
Service, maintenance and other	6,975	6,400	5,402	4,679	4,095	3,694	2,647	2,093
Net revenue	9,496	8,955	8,285	7,081	5,576	4,612	3,428	3,233
Cost of revenue								
Licence	39	19	112	148	74	–	9	–
Service, maintenance and other	4,913	4,503	4,396	3,249	3,058	2,974	1,489	1,102
Cost of revenue accruals (recoveries), net	(8)	(911)	112	246	77	(324)	(401)	289
Total cost of revenue	4,944	3,611	4,620	3,643	3,209	2,650	1,097	1,391
Gross profit	4,552	5,344	3,665	3,438	2,367	1,962	2,331	1,842
Gross margin (%)	47.9%	59.7%	44.2%	48.6%	42.4%	42.5%	68.0%	57.0%
Operating expenses								
Sales and marketing	2,588	2,088	2,322	1,806	1,947	1,384	1,289	1,285
Research and development	1,711	1,369	1,323	750	1,209	930	754	563
General and administrative	293	319	445	557	782	499	555	379
Amortization of acquisition-related intangibles	125	127	84	–	–	–	–	–
Amortization of stock-based compensation	81	–	2	1	9	41	107	111
Total operating expenses	4,798	3,903	4,176	3,114	3,947	2,854	2,705	2,338
Income (loss) from operations	(246)	1,441	(511)	324	(1,580)	(892)	(374)	(496)
Interest income, net	62	50	56	64	56	84	58	62
Net income (loss)	\$ (184)	\$ 1,491	\$ (455)	\$ 388	\$(1,524)	\$ (808)	\$ (316)	\$ (434)
Net income (loss) per share								
Basic	\$ (0.01)	\$ 0.11	\$ (0.04)	\$ 0.03	\$ (0.12)	\$ (0.06)	\$ (0.03)	\$ (0.03)
Basic weighted average number of common shares outstanding	14,039	13,299	12,955	12,687	12,591	12,591	12,590	12,586
Diluted	\$ (0.01)	\$ 0.11	\$ (0.04)	\$ 0.03	\$ (0.12)	\$ (0.06)	\$ (0.03)	\$ (0.03)
Diluted weighted average number of common shares outstanding	14,039	13,864	12,955	13,122	12,591	12,591	12,590	12,586

Volatility of Operating Results

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future depending on factors such as demand for our products; the size and timing of orders; progress on our implementation projects; the number, timing and significance of new product announcements by us and our competitors; our ability to develop, introduce and market new and enhanced versions of our products on a timely basis; the level of product and price competition; changes in operating expenses; changes in our sales incentive strategy; sales personnel changes; the mix of direct and indirect sales; and general economic factors, among others.

A significant portion of our expenses are based on our expectations of future revenue and, therefore, are relatively fixed in the short-term. Accordingly, if revenue levels are below our expectations, our operating results are likely to be adversely affected. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance.

Due to all of the foregoing factors, in some future quarter our operating results may be below the expectations of public market analysts and investors. In such event, the price of our common shares would likely be materially adversely affected. Although we have experienced growth in revenue in recent years, there can be no assurance that in the future we will sustain revenue growth or be profitable on a quarterly basis.

Risk Factors

You should carefully consider the following risk factors in addition to the other information contained in this document. The risks and uncertainties below are not the only ones facing us. Additional risks and uncertainties also may impair our business operations, including those risk factors detailed in our disclosure documents filed with securities regulators, which risk factors are incorporated by reference into this document. If any of these risks actually occur, our business may be harmed and our financial condition and results of operations may suffer significantly.

Failure to manage our growth successfully may adversely impact our operating results.

The growth of our operations places a strain on managerial, financial and human resources. Our ability to manage future growth will depend in large part upon a number of factors, including the ability to rapidly:

- build and train sales and marketing staff to create an expanding presence in the evolving marketplace for our products, and to keep staff informed regarding the technical features, issues and key selling points of our products;
- attract and retain qualified technical personnel in order to continue to develop reliable and scalable products and services that respond to evolving customer needs;
- develop customer support capacity as sales increase, so that we can provide customer support without diverting resources from product development efforts; and
- expand our internal management and financial controls significantly, so that we can maintain control over our operations and provide support to other functional areas within Workbrain as the number of our personnel and our size increases.

Our quarterly revenue and operating results can be difficult to predict and can fluctuate substantially, which may harm our results of operations.

Our revenue is difficult to forecast and is likely to fluctuate significantly from quarter to quarter. In addition, our operating results may not follow any past trends. The factors affecting our revenue and results, many of which are outside of our control, include:

- competitive conditions in our industry, including new products, product announcements and special pricing offered by our competitors;
- market acceptance of our products;
- our ability to hire, train and retain sufficient sales and professional services staff;
- our ability to complete our service obligations related to product sales in a timely manner;
- varying size, timing and contractual terms of orders for our products, which may delay the recognition of revenue;
- our ability to maintain existing relationships and to create new relationships to assist with our sales and marketing efforts;
- the discretionary nature of our customers' purchase and budget cycles and changes in their budgets for, and timing of, software, implementation services and related purchases;
- the length and variability of the sales cycles for our products;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- general weakening of the economy resulting in a decrease in the overall demand for computer software and services or otherwise affecting our customers' capital investment levels in workforce management software;
- changes in our pricing policies and the pricing policies of our competitors;
- timing of product development and new product initiatives; and
- changes in the mix of revenue attributable to substantially lower-margin service revenue as opposed to higher-margin product licence revenue.

Because our quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of our sales prospects into revenue could cause us to plan or budget inaccurately, and those variations could adversely affect our financial results. Delays, reductions in the amount or cancellations of customers' purchases would adversely affect our revenue, results of operations and financial condition.

We face intense competition from several software competitors. If we do not compete effectively with these competitors, our revenue may not grow and could decline.

We have experienced, and expect to continue to experience, intense competition from a number of software companies. Our competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, results of operations and financial condition. Many of our competitors and potential competitors have significantly greater financial, technical, marketing and service resources than we have. Many of these companies also have a larger installed base of users, longer operating histories or greater name recognition than we have. Our competitors may also establish or strengthen co-operative relationships with systems integrators, third-party consulting firms or other parties with whom we have relationships, thereby limiting our ability to promote our products and limiting the number of consultants available to implement our software. Even if our competitors provide products with more limited workforce management system functionality than our products, these products may incorporate other capabilities of interest to some customers and may be appealing to some customers because they would reduce the number of different types of software used to run their business. Further, our competitors may be able to respond more quickly than we can to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products.

If we are required to change our pricing models to compete successfully, our margins and operating results may be adversely affected.

The intensely competitive market in which we conduct our business may require us to reduce our prices. If our competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other software products, we may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would be likely to reduce our margins and could adversely affect our operating results. Some of our competitors may bundle software products that compete with ours for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, limit the prices that we can charge for our products. If we cannot offset price reductions with a corresponding increase in the number of sales or with lower spending, then the reduced software licence revenue resulting from lower prices would adversely affect our margins and operating results.

Management's Responsibility for Financial Reporting

The consolidated financial statements of Workbrain Corporation and all the information in this annual report are the responsibility of management and have been approved by the Company's Board of Directors.

The consolidated financial statements were prepared by management in conformity with Canadian generally accepted accounting principles and necessarily include amounts that are based on management's best estimates and judgments. Information presented elsewhere in this report is consistent with the information in the consolidated financial statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded from loss, liabilities are recognized and that financial records are reliable.

The Board of Directors carries out its responsibility for the oversight of management's preparation of the consolidated financial statements principally through its Audit Committee. The Audit Committee is comprised entirely of directors who are not officers or employees of the Company. The Audit Committee meets periodically with management and the external auditors to review internal controls, auditing and financial reporting matters.

The consolidated financial statements have been reviewed by the external auditors, KPMG LLP, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee, with and without management present.

Management acknowledges its responsibility to provide financial information that is representative of the Company's operations, is consistent and reliable, and is relevant for the informed evaluation of the Company's activities.



David Ossip
President and Chief Executive Officer



Matthew Chapman
Chief Financial Officer

Auditors' Report

To the Shareholders of Workbrain Corporation:

We have audited the consolidated balance sheets of Workbrain Corporation as at December 31, 2003 and 2002 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada

February 13, 2004

Consolidated Balance Sheets

December 31, (Amounts in U.S. Dollars, in Thousands, Except Per Share Data)	2003	2002
Assets		
Current assets		
Cash and cash equivalents	\$ 38,027	\$ 6,370
Short-term investments (note 3)	8,666	8,931
Accounts receivable, net of allowance for doubtful accounts of \$300 (2002 – \$266)	6,929	5,027
Other	2,632	2,380
Total current assets	56,254	22,708
Property and equipment (note 4)	2,464	1,315
Intangibles (note 5)	602	–
Goodwill (note 5)	2,545	–
Total assets	\$ 61,865	\$ 24,023
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 1,504	\$ 777
Accrued payroll	2,460	1,549
Accrued liabilities	1,514	983
Deferred revenue	9,232	10,390
Current portion of capital lease obligation (note 6)	51	–
Current portion of leasehold inducements	50	41
Total current liabilities	14,811	13,740
Long-term liabilities		
Capital lease obligation, net of current portion (note 6)	54	–
Leasehold inducements, net of current portion	71	99
Total long-term liabilities	125	99
Total liabilities	14,936	13,839
Shareholders' equity		
Common shares (note 7)		
Authorized – unlimited		
Issued and outstanding – 16,632,104 (2002 – 6,362,845)	60,905	1,007
Class A preferred shares (note 8)		
Authorized – Nil (2002 – unlimited, issuable in series)		
Issued and outstanding – Nil (2002 – 1,297,686)	–	4,680
Class B preferred shares (note 8)		
Authorized – Nil (2002 – unlimited, issuable in series)		
Issued and outstanding – Nil (2002 – 4,932,009)	–	19,963
Contributed surplus	2,058	1,756
Deferred stock-based compensation	(180)	(128)
Cumulative translation adjustment	(127)	(127)
Deficit	(15,727)	(16,967)
Total shareholders' equity	46,929	10,184
Total liabilities and shareholders' equity	\$ 61,865	\$ 24,023
Commitments (note 9)		
Guarantees (note 10)		

See accompanying Notes to Consolidated Financial Statements



On behalf of the Board of Directors:

Roger Martin
Director



David Goldman
Director

Consolidated Statements of Operations

Year ended December 31, (Amounts in U.S. Dollars, in Thousands, Except Per Share Data)	2003	2002	2001
Revenue			
Licence (note 11)	\$ 10,361	\$ 4,320	\$ 1,181
Service, maintenance and other	23,456	12,529	2,557
Net revenue	33,817	16,849	3,738
Cost of revenue			
Licence	318	83	–
Service, maintenance and other	17,061	8,623	1,170
Cost of revenue accruals (recoveries), net	(561)	(359)	972
Total cost of revenue	16,818	8,347	2,142
Gross profit	16,999	8,502	1,596
Operating expenses			
Sales and marketing	8,804	5,905	4,989
Research and development (note 12)	5,153	3,456	3,366
General and administrative	1,614	2,215	1,783
Amortization of acquisition-related intangibles	336	–	–
Amortization of stock-based compensation*	84	268	711
Total operating expenses	15,991	11,844	10,849
Income (loss) from operations	1,008	(3,342)	(9,253)
Interest income, net	232	260	476
Accretion on preferred shares	–	–	(529)
Net income (loss)	\$ 1,240	\$ (3,082)	\$ (9,306)
Net income (loss) per share (note 13)			
Basic	\$ 0.09	\$ (0.24)	\$ (0.76)
Basic weighted average number of common shares outstanding	13,249	12,589	11,618
Diluted	\$ 0.09	\$ (0.24)	\$ (0.76)
Diluted weighted average number of common shares outstanding	13,949	12,589	11,618

*Note: The amortization of stock-based compensation relates to operating expenses as follows:

Year ended December 31,	2003	2002	2001
Amortization of stock-based compensation			
Sales and marketing	\$ 2	\$ 8	\$ 307
Research and development	–	13	41
General and administrative	82	247	363
	\$ 84	\$ 268	\$ 711

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Year ended December 31, (Amounts in U.S. Dollars, in Thousands)	2003	2002	2001
Cash flows from operating activities			
Net income (loss)	\$ 1,240	\$ (3,082)	\$ (9,306)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities			
Depreciation	1,389	606	386
Amortization of acquisition-related intangibles	336	–	–
Amortization of stock-based compensation	203	375	751
Amortization of leasehold inducements	(19)	(40)	(36)
Accretion on preferred shares	–	–	529
Loss on disposal of property and equipment	–	–	32
Change in operating assets and liabilities, net of acquired balances			
Accounts receivable	(1,541)	(3,465)	(1,141)
Other assets	(173)	(1,487)	(570)
Accounts payable	948	444	(135)
Accrued payroll	906	879	556
Accrued liabilities	168	946	(115)
Deferred revenue	(1,256)	7,741	2,160
Net cash provided by (used for) operating activities	2,201	2,917	(6,889)
Cash flows from investing activities			
Purchase of short-term investments	(8,666)	(8,931)	(8,870)
Sale of short-term investments	8,931	8,376	494
Payments made on the acquisition of the net operating assets of Workforce Logistics Inc., net of cash acquired	(1,390)	–	–
Purchase of property and equipment	(2,310)	(1,113)	(433)
Net cash used for investing activities	(3,435)	(1,668)	(8,809)
Cash flows from financing activities			
Repayment of obligations under capital lease	(55)	–	–
Proceeds on issuance of common shares upon exercise of stock options	520	7	–
Proceeds on issuance of common shares in public offering	32,426	–	–
Proceeds on issuance of Class B preferred shares	–	–	11,750
Receipt of payment from share purchase loans receivable	–	–	108
Net cash provided by financing activities	32,891	7	11,858
Change in cash and cash equivalents	31,657	1,256	(3,840)
Cash and cash equivalents, beginning of year	6,370	5,114	8,954
Cash and cash equivalents, end of year	\$ 38,027	\$ 6,370	\$ 5,114
Supplemental cash flow information			
Cash paid for			
Interest	\$ 8	\$ –	\$ –
Income taxes	\$ –	\$ –	\$ –
Non-cash investing and financing activities			
Deferred stock-based compensation	\$ 255	\$ 233	\$ 688
Leasehold improvements financed by landlord	\$ –	\$ –	\$ 216
Property and equipment financed by capital lease	\$ 160	\$ –	\$ –
Acquisition of Workforce Logistics Inc. partially financed by common shares	\$ 2,309	\$ –	\$ –
Acquisition of Workforce Logistics Inc. partially financed by warrants	\$ 47	\$ –	\$ –

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(Amounts in U.S. Dollars, in Thousands, Except Share Data)	Common Shares		Class A Preferred Shares		Class B Preferred Shares	
	Shares	Amount	Shares	Amount	Shares	Amount
Balances at December 31, 2000	6,464,000	\$ 1,000	1,297,686	\$ 2,963	1,488,406	\$ 5,737
Issuance of common shares for services rendered	19,876	-	-	-	-	-
Cancellation of common shares	(128,000)	-	-	-	-	-
Payments of share purchase loans receivable	-	-	-	-	-	-
Issuance of Class B preferred shares	-	-	-	-	2,981,366	11,750
Issuance of additional Class B preferred shares	-	-	-	-	462,237	-
Transfer of debt component of preferred shares to equity	-	-	-	1,717	-	2,476
Deferred stock-based compensation	-	-	-	-	-	-
Amortization of stock-based compensation	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
Balances at December 31, 2001	6,355,876	1,000	1,297,686	4,680	4,932,009	19,963
Issuance of common shares for services rendered	4,969	-	-	-	-	-
Issuance of common shares on stock options exercised	2,000	7	-	-	-	-
Deferred stock-based compensation	-	-	-	-	-	-
Amortization of stock-based compensation	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
Balances at December 31, 2002	6,362,845	1,007	1,297,686	4,680	4,932,009	19,963
Issuance of common shares for services rendered	5,517	-	-	-	-	-
Issuance of common shares on stock options exercised	288,864	520	-	-	-	-
Issuance of common shares and warrants on the acquisition of the net operating assets of Workforce Logistics Inc.	446,183	2,309	-	-	-	-
Conversion of Class A and Class B preferred shares into common shares	6,229,695	24,643	(1,297,686)	(4,680)	(4,932,009)	(19,963)
Issuance of common shares on public offering	3,299,000	32,426	-	-	-	-
Deferred stock-based compensation	-	-	-	-	-	-
Amortization of stock-based compensation	-	-	-	-	-	-
Net income	-	-	-	-	-	-
Balances at December 31, 2003	16,632,104	\$ 60,905	-	\$ -	-	\$ -

Consolidated Statements of Shareholders' Equity (continued)

(Amounts in U.S. Dollars, in Thousands, Except Share Data)	Contributed Surplus	Share Purchase Loans Receivable	Deferred Stock-based Compensation	Cumulative Translation Adjustment	Total Shareholders' Deficit	Total Shareholders' Equity
Balances at December 31, 2000	\$ 805	\$ (78)	\$ (333)	\$ (127)	\$ (4,579)	\$ 5,388
Issuance of common shares for services rendered	80	-	(80)	-	-	-
Cancellation of common shares	-	-	-	-	-	-
Payments of share purchase loans receivable	30	78	-	-	-	108
Issuance of Class B preferred shares	-	-	-	-	-	11,750
Issuance of additional Class B preferred shares	-	-	-	-	-	-
Transfer of debt component of preferred shares to equity	-	-	-	-	-	4,193
Deferred stock-based compensation	608	-	(608)	-	-	-
Amortization of stock-based compensation	-	-	751	-	-	751
Net loss	-	-	-	-	(9,306)	(9,306)
Balances at December 31, 2001	1,523	-	(270)	(127)	(13,885)	12,884
Issuance of common shares for services rendered	20	-	(20)	-	-	-
Issuance of common shares on stock options exercised	-	-	-	-	-	7
Deferred stock-based compensation	213	-	(213)	-	-	-
Amortization of stock-based compensation	-	-	375	-	-	375
Net loss	-	-	-	-	(3,082)	(3,082)
Balances at December 31, 2002	1,756	-	(128)	(127)	(16,967)	10,184
Issuance of common shares for services rendered	40	-	(40)	-	-	-
Issuance of common shares on stock options exercised	-	-	-	-	-	520
Issuance of common shares and warrants on the acquisition of the net operating assets of Workforce Logistics Inc.	47	-	-	-	-	2,356
Conversion of Class A and Class B preferred shares into common shares	-	-	-	-	-	-
Issuance of common shares on public offering	-	-	-	-	-	32,426
Deferred stock-based compensation	215	-	(215)	-	-	-
Amortization of stock-based compensation	-	-	203	-	-	203
Net income	-	-	-	-	1,240	1,240
Balances at December 31, 2003	\$ 2,058	\$ -	\$ (180)	\$ (127)	\$ (15,727)	\$ 46,929

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)

Years ended December 31, 2003, 2002 and 2001

Workbrain Corporation (the Company) develops, markets, implements, and supports software that helps large organizations optimally deploy and manage their workforces. The Company's solutions automate workforce management processes such as labour forecasting, employee schedule optimization, time and attendance, workforce analytics and employee self-service. The Company markets and sells its products through both direct and indirect channels, primarily in North America and Europe.

1/ Significant accounting policies

a/ Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are presented in U.S. dollars.

b/ Principles of consolidation

These consolidated financial statements include the accounts of Workbrain Corporation and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

c/ Revenue recognition

The Company's revenue is derived primarily from licence fees and service fees. The Company licenses software under non-cancelable licence agreements and provides services, including implementation, consulting, training, hosting and post-contract customer support (PCS) to its customers. In certain cases, the Company also provides customers with hardware related to its software offerings. The Company recognizes revenue in accordance with Canadian GAAP, which, in the Company's circumstances, is consistent with the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 97-2 *Software Revenue Recognition* and related provisions (SOP 97-2).

To date, most of the Company's arrangements with customers have involved services that have been determined to be essential to the functionality of the software. Accordingly, the revenue from such arrangements has been recognized under contract accounting using the percentage of completion method to measure progress toward completion. The Company uses either the completion of contractual milestones or the ratio of incurred costs to estimated total costs, as appropriate, as the measure of its progress on each contract. If a loss on a contract is considered probable, all of that loss will be recognized at the date determinable.

Under certain of the Company's arrangements, entered into in 2000 and 2001, where estimating the final outcome of a contract was impractical, except to assure that no loss would be incurred, the Company used a zero estimate of profit until results could be estimated more precisely. Under this method, the portion of total contract revenue earned to date was determined by measuring progress toward completion. The Company then recorded an equal amount of costs against the revenue. Cost of revenue was adjusted to recognize the profit element from the arrangement once the Company was able to estimate total revenue and total costs, which, in the Company's circumstances, was at the time of substantial contract completion.

Implementation, consulting and training fees, when not essential to the functionality of the software, are recognized as delivered to the customer, based on the prices charged when these services are sold separately to customers.

Hosting fees are recognized monthly as hosting services are provided to the customer, based upon contractually-stated renewal prices provided to customers.

PCS fees are recognized ratably over the term of the support contract, which is generally one year in length, based on the contractually-stated renewal prices provided to customers.

Hardware fees are recognized as hardware is delivered to the customer, once the risks and rewards of ownership have passed to the customer, based on the prices charged when hardware is sold separately to customers.

Accounts receivable reflected on the consolidated balance sheet represent amounts from fees that are due from customers for which revenue has previously been recognized. Fees that have been prepaid but do not yet qualify for recognition as revenue under the Company's revenue recognition policy are reflected as deferred revenue on the consolidated balance sheet.

d/ Research and development costs

Research and development costs, net of investment tax credits, are charged to the consolidated statement of operations in the year in which they are incurred unless the criteria for deferral are met, including the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established once a working model has been produced and tested. To date, development costs incurred between the completion of a working model and the point where a product is released have been insignificant. Accordingly, all research and development costs have been charged to the consolidated statement of operations in the year in which they were incurred, net of related investment tax credits.

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. As a Canadian Controlled Private Corporation (CCPC), certain investment tax credits were refundable to the Company. As a public company, investment tax credits are non-refundable, but can be applied against the Company's future income tax liabilities and are subject to a 10-year carryforward period. Investment tax credits are recognized once the Company has reasonable assurance that the amounts will be realized.

Investment tax credits have been accounted for as a reduction of the related expenditures for items expensed in the consolidated statement of operations and a reduction of the related asset cost for items capitalized on the consolidated balance sheet.

e/ Use of estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses to prepare these consolidated financial statements in conformity with Canadian GAAP. Actual results could differ from these estimates.

Significant estimates in these consolidated financial statements include the valuation of accounts receivable, intangibles and goodwill, and the determination of the amount and timing of revenue to be recognized. In its determination of the valuation of accounts receivable, including the allowance for doubtful accounts, management relies on current customer information and its planned course of action as well as assumptions about future business and economic conditions. Management has estimated the useful life of its intangibles based upon rapidly changing industry trends and changes in its customers' businesses. In its determination of the amount and timing of revenue to be recognized, management relies on assumptions supporting its revenue recognition policy. Estimates of the percentage of completion for customer projects are based upon current actual and forecasted information and contractual terms. Vendor-specific objective evidence (VSOE) established by management on the Company's licence and service elements is based upon the prices charged when the Company sells specific elements to customers separately or contractually-stated renewal prices. Changes in the Company's business practices or sales arrangements may impact its ability to establish VSOE on current or newly offered elements, thereby changing the amount and timing of revenue recognized.

f/ Concentrations of credit risk

Financial instruments potentially exposing the Company to a concentration of credit risk principally consist of cash equivalents, short-term investments and accounts receivable.

Cash equivalents consist of highly liquid instruments, such as deposits with major commercial banks, the maturities of which are less than three months from the date of purchase.

Short-term investments consist of commercial paper, the maturities of which are more than three months but less than one year from the date of purchase. Short-term investments are measured at the lower of amortized cost and market.

The Company sells its products directly to end users and indirectly via resellers who remarket the product to end users. The Company maintains reserves for potential credit losses and returns, but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

At December 31, 2003, one customer represented 18.2% of the balance of accounts receivable. At December 31, 2002, four customers represented 13.2%, 12.9%, 12.5% and 10.6% of the balance of accounts receivable, respectively.

g/ Financial instruments

The Company's financial instruments consist of cash equivalents, short-term investments, accounts receivable, accounts payable, accrued payroll, accrued liabilities and capital lease obligations.

Fair value

The Company determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses. Financial instruments are recorded at their cost in these consolidated financial statements, which approximates their fair values.

Foreign exchange risk

The Company enters into transactions in multiple currencies (primarily U.S. and Canadian dollars) and is, therefore, subject to gains and losses due to fluctuations between those currencies. The Company has, from time to time, entered into forward contracts intended to manage portions of this risk and does not hold or use any derivative instruments for speculative purposes.

The Company does not account for these forward contracts using hedge accounting and therefore, any variations in these instruments' fair value are marked-to-market on a current basis in the Company's consolidated statement of operations.

h/ Foreign currency translation

The U.S. dollar is the Company's functional currency. Balances of the Company denominated in currencies other than the U.S. dollar have been translated into U.S. dollars. On the balance sheet, monetary items have been translated into U.S. dollars at exchange rates prevailing at the balance sheet date and non-monetary items have been translated at historical exchange rates. Amounts included in the Company's consolidated statement of operations have been translated at the average exchange rates for the year, except for depreciation and amortization which have been translated at historical rates. Exchange gains and losses resulting from the translation of amounts into U.S. dollars are reflected in the consolidated statement of operations in the year in which they occurred.

Foreign exchange gains (losses) included in the net income (loss) for the years ended December 31, 2003, 2002 and 2001 were \$2,026,000, \$(48,000) and \$(7,000), respectively.

i/ Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and are depreciated over their estimated useful lives. Leasehold improvements are recorded at cost and depreciated over the lesser of their estimated useful lives or the term of the related lease. Property and equipment under capital lease is initially recorded at the present value of the minimum lease payments at the inception of the lease. The depreciation policies for property and equipment, by category, are as follows:

Asset	Basis	Rate
Computer equipment	Straight-line	2 years
Office furniture and equipment	Straight-line	5 years or term of lease
Computer software	Straight-line	2 years
Leasehold improvements	Straight-line	Term of lease

j/ Intangibles

Intangibles are recorded at cost and are amortized over their estimated useful lives, as follows:

Asset	Basis	Rate
Customer relationships	Straight-line	2 years
Developed technology	Straight-line	3 years
Purchased in-process research and development	Straight-line	1 year

k/ Goodwill

The Company evaluates goodwill annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying value to its fair value. The fair values of reporting units are estimated using a discounted cash flow approach. To the extent a reporting unit's carrying amount exceeds its fair value, an impairment of goodwill exists. Impairment is measured by comparing the fair value of goodwill, determined in a manner similar to a purchase price allocation, to its carrying amount.

l/ Impairment of long-lived assets

The Company reviews the carrying values of its property and equipment and intangibles for impairment on a regular basis or whenever events or circumstances indicate that the carrying amount may not be recoverable. If their carrying value exceeds the amount recoverable, based on undiscounted estimated future cash flows, a write-down to their fair value is charged to the consolidated statement of operations.

m/ Income taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial accounting and tax bases of assets and liabilities and are measured using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of future income tax assets and liabilities.

n/ Income (loss) per share

Basic income (loss) per share has been computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. Diluted income (loss) per share includes the effect, if any, of securities with dilutive potential on the Company's common shares.

Potentially dilutive items to the Company's common shares include stock options and warrants issued by the Company. All Class A and Class B preferred shares were converted into common shares immediately prior to December 11, 2003 and have been retroactively reflected as common shares in the calculation of basic income (loss) per share. A reconciliation of the numerator and denominator used in the calculation of the Company's diluted income (loss) per share is disclosed in note 13.

o/ Stock-based compensation

The Company has one stock-based compensation plan, which is described in note 7. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on the exercise of stock options or the purchase of shares is credited to shareholders' equity. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to contributed surplus.

A fair value-based method of accounting is applied to all stock-based payments to non-employees and to employee awards that are direct awards of shares, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. A fair value-based method of accounting is also applied to stock-based compensation to a reseller of the Company's software (note 11).

The following table reports pro forma amounts for net income (loss) and basic and diluted income (loss) per share including stock-based compensation expense for options issued to employees and directors under the Company's stock-based compensation plan, determined based on the fair value-based method. The fair values of option grants made to employees, prior to the Company's public offering, were estimated using the minimum value method, with the following assumptions: risk-free interest rates ranging from 3% to 6%, dividend yield of 0% and expected lives of options of four years. The fair values of option grants made to employees after the Company's public offering and to non-employees were estimated using a Black Scholes model, with the following assumptions: expected volatility ranging from 31% to 99%, risk-free interest rates ranging from 3% to 6%, dividend yield of 0% and expected lives of options of four years.

December 31,	2003	2002	2001
Net income (loss)			
As reported	\$ 1,240	\$ (3,082)	\$ (9,306)
Pro forma	\$ (661)	\$ (3,538)	\$ (9,596)
Basic income (loss) per share			
As reported	\$ 0.09	\$ (0.24)	\$ (0.76)
Pro forma	\$ (0.05)	\$ (0.28)	\$ (0.78)
Diluted income (loss) per share			
As reported	\$ 0.09	\$ (0.24)	\$ (0.76)
Pro forma	\$ (0.05)	\$ (0.28)	\$ (0.78)

p/ Guarantees

Obligations under guarantees are not recognized in the financial statements but are disclosed in accordance with The Canadian Institute of Chartered Accountants' Accounting Guideline AcG-14. The guideline does not apply to product warranties.

2/ Acquisition of Workforce Logistics Inc.

Effective April 1, 2003, the Company acquired the net operating assets of Workforce Logistics Inc. (Workforce) for total consideration of \$3,800,000. Workforce is a provider of software solutions that automate employee scheduling processes in large organizations. The acquisition was accounted for using the purchase method, whereby the results of operations of Workforce have been included in the consolidated statement of operations, shareholders' equity and cash flows from the date of acquisition.

The fair values of the net assets acquired were as follows:

Working capital	\$	249
Property and equipment		68
Customer relationships		325
Developed technology		408
Purchased in-process research and development		205
Goodwill		2,545
Net assets	\$	3,800

Intangible assets, consisting of customer relationships, developed technology and purchased in-process research and development, are being amortized over two years, three years, and one year, respectively.

At the date of acquisition, the total consideration consisted of \$2,900,000 in promissory notes issued to the shareholders of Workforce, \$400,000 in promissory notes held in escrow for the shareholders of Workforce, and \$500,000 in acquisition-related costs. Subsequently, the Company entered into subscription agreements with the shareholders of Workforce, whereby the promissory notes issued and held in escrow were exchanged for cash, common shares and warrants, resulting in the following total consideration:

Cash	\$	917
Cash held in escrow		27
373,053 common shares		1,931
73,130 common shares held in escrow		378
Warrants exercisable into 94,612 common shares		47
Acquisition-related costs		500
Total consideration	\$	3,800

The cash and common shares held in escrow will be released after one year, based on satisfaction of indemnification requirements, as defined in the acquisition agreement.

The fair values of common shares, at \$5.18, and warrants, at \$0.50, are based on the stated values in the subscription agreements, which were entered into subsequent to the issuance of promissory notes and provided the shareholders of Workforce with an option to receive cash consideration for amounts equal to the assigned values.

Each warrant is exercisable into one common share, at an exercise price of \$5.18. Warrants expire at the earlier of three years from the date of issue, or 20 days after a liquidation event, as defined in the warrant agreement.

3/ Short-term investments

At December 31, 2003, the Company had \$800,000 of restricted short-term investments related to security posted against foreign exchange forward contracts (2002 – \$75,000).

4/ Property and equipment

December 31,	2003	2002
Computer equipment	\$ 2,399	\$ 1,067
Office furniture and equipment	1,200	722
Computer software	1,127	399
Leasehold improvements	231	231
	4,957	2,419
Less: Accumulated depreciation	(2,493)	(1,104)
Total property and equipment	\$ 2,464	\$ 1,315

At December 31, 2003, the cost and accumulated depreciation of assets under capital lease included above were \$160,000 and \$57,000, respectively (2002 – nil and nil).

5/ Intangibles and goodwill

December 31,	2003	2002
Customer relationships	\$ 325	\$ –
Developed technology	408	–
Purchased in-process research and development	205	–
	938	–
Less: Accumulated amortization	(336)	–
Total intangibles	602	–
Goodwill	2,545	–
Total intangibles and goodwill	\$ 3,147	\$ –

6/ Capital lease obligation

The following are the Company's minimum lease payments under non-cancelable capital leases:

December 31,	2003	2002
2004	\$ 56	\$ –
2005	56	–
Thereafter	–	–
	112	–
Less: Amounts representing interest (at an effective interest rate of 6%)	(7)	–
Balance of capital lease obligation	105	–
Less: Current portion	(51)	–
Capital lease obligation, net of current portion	\$ 54	\$ –

7/ Common shares**a/ Authorized**

Unlimited number of common shares without par value.

b/ Transactions

2003: The Company issued 3,299,000 common shares for cash consideration of \$32,426,000 (net of offering costs of \$3,311,000) in a public offering on December 11, 2003.

The Company issued 446,183 common shares valued at \$2,309,000 in partial consideration for the acquisition of Workforce Logistics Inc. The Company issued 5,517 common shares to directors for no cash consideration as a portion of fees for directorship services rendered. In addition, the Company issued 288,864 common shares to a director and employees for total consideration of \$520,000 under stock option exercises.

2002: The Company issued 4,969 common shares to a director for no cash consideration as a portion of fees for directorship services rendered. In addition, the Company issued 2,000 common shares to an employee for consideration of \$7,000 under a stock option exercise.

2001: The Company issued 19,876 common shares to directors for no cash consideration as a portion of their fees for directorship services rendered. In addition, the forgiveness feature was cancelled related to 256,000 common shares under a forgivable share purchase loan arrangement made to a founding employee in 1999. A total of 128,000 common shares originally issued under that arrangement were purchased for cancellation by the Company and \$30,000 in cash consideration was received from the employee related to the remaining 128,000 common shares.

c/ Stock option plan

The Company's stock option plan (the Plan) was implemented to encourage ownership of the Company by directors, officers, employees and consultants of the Company and its subsidiaries. The maximum number of common shares which may be set aside for issuance under the Plan is 2,740,000 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. Generally, options issued under the Plan vest over a three to five year period. Any option granted which, for any reason, is cancelled or terminated prior to its exercise will become available for grant under the Plan. In accordance with the Plan, the exercise price of options is based on the quoted market price of the Company's common shares on the date of grant.

Options may be granted under the Plan to be exercised during a period of up to ten years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, officer, employee or consultant of the Company or one of its subsidiaries, as applicable. Options issued under the Plan are non-transferable. During 2003, the Company extended the term of all outstanding stock options granted to employees from four years to seven years.

d/ Continuity of options issued under the Plan

A summary of the status of the Plan as of December 31, 2003, 2002 and 2001, and the changes during the years ended December 31, 2003, 2002 and 2001 is presented below:

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,492,340	\$ 3.05	1,102,960	\$ 2.73	942,047	\$ 2.93
Granted	611,704	7.35	432,940	3.95	345,340	3.18
Exercised	(288,864)	1.80	(2,000)	3.25	–	–
Forfeited	(173,778)	4.34	(41,560)	3.80	(184,427)	4.43
Outstanding, end of year	1,641,402	4.74	1,492,340	3.05	1,102,960	2.73
Options exercisable, end of year	826,210	\$ 3.08	806,558	\$ 2.48	402,996	\$ 2.45

e/ Summary of the balances of options issued under the Plan

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2003	Weighted Average Exercise Price
\$ 0.63 to 0.94	163,759	3.1	\$ 0.87	163,759	\$ 0.87
3.13 to 3.60	432,182	2.7	3.25	413,682	3.25
4.03 to 4.38	487,107	5.1	4.04	219,045	4.04
5.18 to 7.25	394,378	6.3	6.27	28,850	5.73
10.77 to 11.86	163,976	6.1	10.91	874	10.84
\$ 0.63 to 11.86	1,641,402	4.6	\$ 4.74	826,210	\$ 3.08

f/ Warrants issued

As part of the acquisition of the net operating assets of Workforce Logistics Inc., effective April 1, 2003, the Company issued warrants that are exercisable into 94,612 common shares upon the payment of \$5.18 per share by the holder of the warrants which expire in June 2006.

As at December 31, 2003, there are warrants outstanding exercisable into 247,263 common shares (2002 – 229,636) upon the payment of \$4.03 per share by the holder of the warrants. The warrants have expiry dates ranging from April 20, 2006 to December 31, 2008. The Company may be required to issue additional warrants that are exercisable for up to 21,226 common shares.

All of these warrants are unexercised at December 31, 2003.

8/ Preferred shares

The Class A and Class B preferred shares were converted, on a one-for-one basis, into common shares of the Company immediately prior to the completion of the public offering of the Company's common shares on December 11, 2003.

After the above conversion, the Class A and Class B preferred shares were deleted from the Company's authorized share capital.

9/ Commitments

Future minimum lease payments under non-cancelable operating leases, as of December 31, 2003, are as follows:

2004	\$	931
2005		674
2006		215
Thereafter		–
Total minimum lease payments	\$	1,820

Rent expense for the year ended December 31, 2003 was \$1,285,000 (2002 – \$843,000; 2001 – \$456,000). The Company is also responsible for certain common area costs at its various leased premises.

10/ Guarantees

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. Historically, the Company has made no payments relating to these indemnifications, and the Company is not subject to any pending litigation on this matter.

11/ Stock-based compensation related to licence revenue

Year Ended December 31,	2003	2002	2001
Gross licence revenue	\$ 10,480	\$ 4,427	\$ 1,221
Less: Stock-based compensation related to licence revenue	(119)	(107)	(40)
Net licence revenue	\$ 10,361	\$ 4,320	\$ 1,181

The stock-based compensation related to licence revenue results from warrants that have been issued to a reseller of the Company's software based on customer referrals from that reseller.

12/ Research and development expenses

Year Ended December 31,	2003	2002	2001
Gross research and development expenses	\$ 5,693	\$ 3,600	\$ 3,366
Less: Investment tax credits realized	(540)	(144)	–
Net research and development expenses	\$ 5,153	\$ 3,456	\$ 3,366

13/ Net income (loss) per share

The following table presents a reconciliation of the numerators and denominators used in the calculations of the basic and diluted net income (loss) per share. The table retroactively reflects the conversion of the Class A and Class B preferred shares into common shares that took place immediately prior to December 11, 2003.

Year Ended December 31,	2003	2002	2001
Net income (loss)			
Net income (loss)	\$ 1,240	\$ (3,082)	\$ (9,306)
Preferred share accretion	–	–	529
Basic and diluted income (loss)	\$ 1,240	\$ (3,082)	\$ (8,777)
Weighted average number of common shares outstanding			
Common shares	13,249	12,589	11,618
Effect of stock options issued	584	–	–
Effect of warrants outstanding	116	–	–
Diluted	13,949	12,589	11,618
Net income (loss) per share			
Basic	\$ 0.09	\$ (0.24)	\$ (0.76)
Diluted	\$ 0.09	\$ (0.24)	\$ (0.76)

At December 31, 2002 and 2001 stock options and warrants outstanding were not included in the calculation of diluted loss per share because the Company had losses for those years, and to do so would have been anti-dilutive.

14/ Income taxes**a/ Income tax rate reconciliation**

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to net income (loss) before income taxes. These differences result from the following items:

Year Ended December 31,	2003	2002	2001
Combined Canadian basic federal and provincial income tax rate			
	36.6%	38.6%	42.1%
Increase (decrease) in income tax rate resulting from			
Permanent differences	(73.8)	(4.7)	(9.2)
Change in valuation allowance	101.3	(26.5)	(22.7)
Change in enacted rates	(64.1)	(7.4)	(10.2)
Effective income tax rate	0.0%	0.0%	0.0%

b/ Components of future income taxes

The components of the temporary differences which have created future income tax assets and liabilities are as follows:

December 31,	2003	2002
Future income tax assets		
Deferred revenue recognized for tax purposes	\$ 2,998	\$ 2,504
Non-capital income tax loss carryforwards	1,007	850
Share issue costs	450	–
Net capital loss carryforwards	444	–
Research and development expenditure carryforwards	358	577
Other	134	42
	5,391	3,973
Less: Valuation allowance	(5,270)	(3,973)
Net future income tax assets	121	–
Future income tax liabilities		
Net book value of intangible assets in excess of tax bases	(121)	–
Future income taxes	\$ –	\$ –

c/ Tax losses

As of December 31, 2003, the Company had non-capital income tax loss carryforwards of approximately \$846,000 available to reduce future years' income for Canadian tax purposes. These losses will expire at various dates between 2007 and 2010.

The Company also had non-capital income tax loss carryforwards of approximately \$1,871,000 available to reduce future years' income for U.S. tax purposes. These losses will expire in 2021 and 2023.

15/ Segmented information

The Company reviewed its operations and determined that it operates in a single reportable operating segment, the workforce management software market. The single reportable operating segment derives its revenue from the sale of software solutions including related services, training and hardware. The following information provides the required enterprise-wide disclosures:

Year Ended December 31,	2003	2002	2001
Revenue by geographic location			
United States	\$ 29,685	\$ 11,671	\$ 2,659
United Kingdom	2,180	3,975	1,067
Canada	1,952	1,203	12
	\$ 33,817	\$ 16,849	\$ 3,738

Revenue is attributed to geographic locations based on the location of the external customer.

December 31,	2003	2002
Property and equipment by geographic location		
Canada	\$ 2,299	\$ 1,208
United States	165	107
	\$ 2,464	\$ 1,315

Substantially all intangibles and goodwill recognized in the consolidated financial statements are held by one of the Company's Canadian subsidiaries.

During the year ended December 31, 2003, no customers of the Company accounted for over 10% of net revenue. During the year ended December 31, 2002, one customer of the Company accounted for 23.6% of net revenue. During the year ended December 31, 2001, three customers of the Company accounted for 28.5%, 19.2% and 17.8% of net revenue, respectively.

Board of Directors

Roger Martin **Chair of the Board**

Mr. Martin is Dean and Professor of Strategy at the Joseph L. Rotman School of Management at the University of Toronto. Mr. Martin is Chair of the Ontario Task Force on Competitiveness, Productivity, and Economic Progress, serves as a director on the board of The Thomson Corporation, and serves as a trustee of The Hospital for Sick Children.

David Ossip **President and Chief Executive Officer**

Mr. Ossip has served as Workbrain's Chief Executive Officer since 1999. Under his leadership Workbrain has been selected as a 2003 winner of Canada's 50 Best Managed Companies and recognized by Profit Magazine as the second fastest growing company in Canada. Mr. Ossip is a member of the Young Presidents' Organization.

Peter Dey **Partner, Osler, Hoskin & Harcourt LLP**

Mr. Dey is a Partner of Osler, Hoskin & Harcourt, and is an internationally-recognized corporate governance expert. Mr. Dey chaired the Toronto Stock Exchange Committee on corporate governance. In addition, Mr. Dey was Canada's representative to the Organization for Economic Cooperation and Development Task Force, and was elected as a director of The International Corporate Governance Network. Mr. Dey is a former Chairman of Morgan Stanley Canada Limited, and a former Chairman of the Ontario Securities Commission.

David Goldman **Executive Chairman of Mamma.com Inc.**

Mr. Goldman is a management consultant, following 35 years of senior executive leadership in the mining industry. Mr. Goldman is Executive Chairman of Mamma.com Inc., and a former director of Falconbridge Limited, Noranda Forest Inc., Tritech Ltd. and Phoenix Life Sciences Inc. He is a past Chair of both the Faculty of Engineering Advisory Board of McGill University, and of the John Molson School of Business MBA Case Competition Advisory Board.

Scott Yaphe **Partner of ABS Ventures**

Mr. Yaphe is a Partner of the technology fund ABS Ventures. He previously served as Director of Corporate Development at Saraide, and as a management consultant at A.T. Kearney. Mr. Yaphe sits on the Board of Directors of technology companies, including IQ Financial Systems and SynchronOSS.

Officers

David Ossip **President and Chief Executive Officer**

Mr. Ossip has served as Workbrain's Chief Executive Officer since 1999. Under his leadership Workbrain has been selected as a 2003 winner of Canada's 50 Best Managed Companies and recognized by Profit Magazine as the second fastest growing company in Canada. Mr. Ossip is a member of the Young Presidents' Organization.

David Stein **Co-founder and Executive Vice President**

Mr. Stein is an experienced labour management strategist. Mr. Stein co-founded Workbrain in 1999 and served as Senior Vice President before being appointed to his current role of Executive Vice President in 2003. Mr. Stein is a frequent speaker and writer on workforce management. From 1996 to 1999, Mr. Stein worked for BML, where he held the position of Manager of Enterprise Sales.

Stephen A. DeBacco **Senior Vice President**

Mr. DeBacco joined Workbrain in 2000 with more than 15 years of experience in the enterprise software industry. In 2003, Mr. DeBacco was promoted to Senior Vice President Worldwide Sales & Marketing, from his position as Vice President Sales. Mr. DeBacco is formerly the Director of Southeast Sales Operations at Ariba Incorporated, and he was part of the initial management team at FASTech Integration, and General Motors/Fanuc Robotics Corporation.

Robert Marsh **Senior Vice President**

Mr. Marsh joined Workbrain in 2002 as Vice President Customer Solutions. In 2003, Mr. Marsh was appointed Senior Vice President Operations, responsible for all aspects of product development, customer implementations, support and training. Prior to joining Workbrain, Mr. Marsh was Global Director of Business Solutions for Celestica Inc., and held senior management positions at Atos Origin.

Matthew Chapman **Chief Financial Officer**

Mr. Chapman joined Workbrain in 2000 as Director of Finance. In 2002, Mr. Chapman served as Vice President Finance and in 2003, he was appointed Chief Financial Officer. In 1999, Mr. Chapman worked in the investment banking division of a major North American investment dealer.

AMC Theatres • American Airlines • Avon • Baptist Health System • BellSouth Communications
Big Y Foods • British Airways • Burlington Coat Factory • C&S Wholesale Grocers • Delphi
Earthlink • General Mills • Kohler • Overnite Transportation • Owens-Illinois • REI
Smurfit Stone • St. Joseph's Healthcare • Tennessee Valley Authority • The TJX Companies
Toronto Police Service • Tyson Foods • United Rentals • US Airways • Wachovia • Winn Dixie

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