

Financial Statements of

WORKBRAIN CORPORATION

Years ended December 31, 2004, 2003 and 2002



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CANADIAN GAAP

AUDITORS' REPORT

To the Shareholders of
WORKBRAIN CORPORATION:

We have audited the consolidated balance sheets of Workbrain Corporation as at December 31, 2004 and 2003 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004. 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, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

CHARTERED ACCOUNTANTS

Toronto, Canada
February 16, 2005

WORKBRAIN CORPORATION
CONSOLIDATED BALANCE SHEETS
(Amounts in U.S. Dollars, In Thousands, Except Share Data)

	December 31,	
	2004	2003
Assets:		
Current assets:		
Cash and cash equivalents	\$ 30,165	\$ 38,027
Short-term investments (note 3).....	20,912	8,666
Accounts receivable, net of allowance for doubtful accounts of \$362 (2003 - \$300).....	12,410	6,929
Other.....	3,780	2,632
Total current assets.....	67,267	56,254
Property and equipment (note 4).....	2,879	2,464
Intangibles (note 5)	235	602
Goodwill (note 5).....	2,545	2,545
Total assets	\$ 72,926	\$ 61,865
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 1,302	\$ 1,504
Accrued payroll.....	5,125	2,460
Accrued liabilities	1,213	1,514
Deferred revenue.....	12,852	9,232
Current portion of capital lease obligation (note 6).....	778	51
Current portion of leasehold inducements.....	54	50
Total current liabilities	21,324	14,811
Long-term liabilities:		
Capital lease obligation, net of current portion (note 6).....	1,064	54
Leasehold inducements, net of current portion.....	24	71
Total long-term liabilities.....	1,088	125
Total liabilities.....	22,412	14,936
Shareholders' equity:		
Common shares (note 7):		
Authorized - unlimited		
Issued and outstanding - 17,416,290 (2003 - 16,632,104).....	63,802	60,905
Contributed surplus	5,859	2,058
Deferred stock-based compensation	(2,240)	(180)
Cumulative translation adjustment.....	(127)	(127)
Deficit.....	(16,780)	(15,727)
Total shareholders' equity	50,514	46,929
Total liabilities and shareholders' equity	\$ 72,926	\$ 61,865
Commitments (note 8)		
Guarantees (note 9)		
Contingencies (note 10)		

On behalf of the Board of Directors:

"Gerald Throop"
Director

"Roger Martin"
Director

See accompanying Notes to Consolidated Financial Statements

WORKBRAIN CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Years ended December 31,		
	2004	2003	2002
Revenue:			
Licence (note 11).....	\$ 16,340	\$ 10,361	\$ 4,320
Service, maintenance and other	40,663	23,456	12,529
Net revenue.....	<u>57,003</u>	<u>33,817</u>	<u>16,849</u>
Cost of revenue:			
Licence	294	318	83
Service, maintenance and other	28,202	17,061	8,623
Cost of revenue accruals (recoveries), net	(168)	(561)	(359)
Total cost of revenue	<u>28,328</u>	<u>16,818</u>	<u>8,347</u>
Gross profit.....	<u>28,675</u>	<u>16,999</u>	<u>8,502</u>
Operating expenses:			
Sales and marketing	13,847	8,804	5,905
Research and development (note 12).....	9,650	5,153	3,456
General and administrative	5,039	1,614	2,215
Amortization of acquisition-related intangibles	367	336	–
Amortization of stock-based compensation*.....	1,237	84	268
Total operating expenses.....	<u>30,140</u>	<u>15,991</u>	<u>11,844</u>
Income (loss) from operations	(1,465)	1,008	(3,342)
Interest income, net	910	232	260
Net income (loss)	<u>\$ (555)</u>	<u>\$ 1,240</u>	<u>\$ (3,082)</u>
Net income (loss) per share (note 13):			
Basic	<u>\$ (0.03)</u>	<u>\$ 0.09</u>	<u>\$ (0.24)</u>
Basic weighted average number of common shares outstanding	<u>16,871</u>	<u>13,249</u>	<u>12,589</u>
Diluted.....	<u>\$ (0.03)</u>	<u>\$ 0.09</u>	<u>\$ (0.24)</u>
Diluted weighted average number of common shares outstanding	<u>16,871</u>	<u>13,949</u>	<u>12,589</u>

*Note:

The amortization of stock-based compensation relates to cost of revenue and operating expenses as follows:

	Years ended December 31,		
	2004	2003	2002
Amortization of stock-based compensation:			
Cost of revenue - service, maintenance and other	\$ 468	\$ –	\$ –
Sales and marketing	418	2	8
Research and development.....	88	–	13
General and administrative	263	82	247
	<u>\$ 1,237</u>	<u>\$ 84</u>	<u>\$ 268</u>

See accompanying Notes to Consolidated Financial Statements

WORKBRAIN CORPORATION

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		Contributed Surplus	Deferred Stock-based Compensation	Cumulative Translation Adjustment	Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balances at December 31, 2001.....	6,355,876	\$ 1,000	1,297,686	\$ 4,680	4,932,009	\$ 19,963	\$ 1,523	\$ (270)	\$ (127)	\$ (13,885)	\$ 12,884
Issuance of common shares for services rendered	4,969	-	-	-	-	-	20	(20)	-	-	-
Issuance of common shares on stock options exercised.....	2,000	7	-	-	-	-	-	-	-	-	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.....	6,362,845	1,007	1,297,686	4,680	4,932,009	19,963	1,756	(128)	(127)	(16,967)	10,184
Issuance of common shares for services rendered	5,517	-	-	-	-	-	40	(40)	-	-	-
Issuance of common shares on stock options exercised.....	288,864	520	-	-	-	-	-	-	-	-	520
Issuance of common shares and warrants on the acquisition of the net operating assets of Workforce Logistics Inc.	446,183	2,309	-	-	-	-	47	-	-	-	2,356
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	-	-	-	-	-	-	-	-	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.....	16,632,104	60,905	-	-	-	-	2,058	(180)	(127)	(15,727)	46,929
Issuance of common shares on stock options exercised.....	561,755	2,046	-	-	-	-	-	-	-	-	2,046
Issuance of common shares on warrants exercised	222,431	851	-	-	-	-	-	-	-	-	851
Cumulative impact of change in accounting policy (note 1(o)).....	-	-	-	-	-	-	498	-	-	(498)	-
Deferred stock-based compensation	-	-	-	-	-	-	3,303	(3,303)	-	-	-
Amortization of stock-based compensation	-	-	-	-	-	-	-	1,243	-	-	1,243
Net loss	-	-	-	-	-	-	-	-	-	(555)	(555)
Balances at December 31, 2004.....	<u>17,416,290</u>	<u>\$ 63,802</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 5,859</u>	<u>\$ (2,240)</u>	<u>\$ (127)</u>	<u>\$ (16,780)</u>	<u>\$ 50,514</u>

See accompanying Notes to Consolidated Financial Statements

WORKBRAIN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in U.S. Dollars, In Thousands)

	Years ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	\$ (555)	\$ 1,240	\$ (3,082)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	2,211	1,389	606
Amortization of acquisition-related intangibles	367	336	—
Amortization of stock-based compensation	1,243	203	375
Amortization of leasehold inducements	(43)	(19)	(40)
Unrealized foreign exchange gain	(1,342)	(1,038)	(7)
Change in operating assets and liabilities, net of acquired balances:			
Accounts receivable	(5,481)	(1,541)	(3,465)
Other assets	(1,148)	(173)	(1,487)
Accounts payable	(202)	948	444
Accrued payroll	2,665	906	879
Accrued liabilities	(301)	168	946
Deferred revenue	3,620	(1,256)	7,741
Net cash provided by operating activities	<u>1,034</u>	<u>1,163</u>	<u>2,910</u>
Cash flows from investing activities:			
Purchase of short-term investments	(32,282)	(8,666)	(8,931)
Maturity of short-term investments	20,036	8,931	8,376
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	(2,626)	(2,310)	(1,113)
Net cash used for investing activities	<u>(14,872)</u>	<u>(3,435)</u>	<u>(1,668)</u>
Cash flows from financing activities:			
Proceeds on issuance of common shares upon exercise of stock options	2,046	520	7
Proceeds on issuance of common shares upon exercise of warrants	851	—	—
Proceeds on issuance of common shares in public offering	—	32,426	—
Proceeds on sale and leaseback of property and equipment	1,873	—	—
Repayment of obligations under capital lease	(136)	(55)	—
Net cash provided by financing activities	<u>4,634</u>	<u>32,891</u>	<u>7</u>
Foreign exchange gain on cash held in foreign currency	1,342	1,038	7
Change in cash and cash equivalents	(7,862)	31,657	1,256
Cash and cash equivalents, beginning of year	<u>38,027</u>	<u>6,370</u>	<u>5,114</u>
Cash and cash equivalents, end of year	<u>\$ 30,165</u>	<u>\$ 38,027</u>	<u>\$ 6,370</u>
Supplemental cash flow information:			
Cash paid for:			
Interest	<u>\$ 33</u>	<u>\$ 8</u>	<u>\$ —</u>
Income taxes	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ —</u>
Non-cash investing and financing activities:			
Deferred stock-based compensation	<u>\$ 3,801</u>	<u>\$ 255</u>	<u>\$ 233</u>
Property and equipment financed by capital lease	<u>\$ —</u>	<u>\$ 160</u>	<u>\$ —</u>
Acquisition of Workforce Logistics Inc. partially financed by common shares	<u>\$ —</u>	<u>\$ 2,309</u>	<u>\$ —</u>
Acquisition of Workforce Logistics Inc. partially financed by warrants	<u>\$ —</u>	<u>\$ 47</u>	<u>\$ —</u>

See accompanying Notes to Consolidated Financial Statements

WORKBRAIN CORPORATION

Notes to Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)
Years ended December 31, 2004, 2003 and 2002

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 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 2001 and 2000, 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.

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Accounts receivable reflected on the consolidated balance sheets represent amounts due from customers from fees 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 sheets.

d) Research and development costs:

Research and development costs, net of investment tax credits, are charged to the consolidated statements 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 statements 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 statements of operations and a reduction of the related asset cost for items capitalized on the consolidated balance sheets.

e) Use of estimates:

Management of the Company has 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 these consolidated financial statements. 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 business and economic conditions in the future period over which the receivables are collectible. Management has estimated the useful life of its intangibles taking into account the risk of 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 and 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 three months or less 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.

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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, 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, 2004, two customers represented 13.9% and 11.4% of the balance of accounts receivable, respectively. At December 31, 2003, one customer represented 18.2% of the balance of accounts receivable.

g) Financial instruments:

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

Fair values:

The Company determines the fair values 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 two 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 statements 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 consolidated balance sheets, monetary items have been translated into U.S. dollars at exchange rates prevailing at the balance sheet dates and non-monetary items have been translated at historical exchange rates. Amounts included in the Company's consolidated statements 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 statements 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, 2004, 2003 and 2002 were as follows:

	Years ended December 31,		
	2004	2003	2002
Cost of revenue - service, maintenance and other	\$ 53	\$ 183	\$ -
Sales and marketing	(18)	51	-
Research and development	26	92	-
General and administrative	339	1,700	(48)
	<u>\$ 400</u>	<u>\$ 2,026</u>	<u>\$ (48)</u>

WORKBRAIN CORPORATION

Notes to Consolidated Financial Statements

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

<u>Asset</u>	<u>Basis</u>	<u>Rate</u>
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:

<u>Asset</u>	<u>Basis</u>	<u>Rate</u>
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. During the first quarter of fiscal 2004, the Company performed its annual impairment test and determined that there was no goodwill impairment in fiscal 2004.

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 statements 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.

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n) Net income (loss) per share:

Basic net 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 net 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 net income (loss) per share. A reconciliation of the numerator and denominator used in the calculation of the Company's diluted net 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.

Effective January 1, 2004, Canadian GAAP requires the Company to estimate the fair value of stock-based compensation to employees and to expense the fair value over the estimated vesting period of the stock options. In accordance with the transition rules, the fair value of stock options granted to employees since January 1, 2002 was determined using the Black-Scholes option pricing model, and the Company recorded an adjustment to opening deficit at January 1, 2004 in the amount of \$498,000, representing the expense for the 2002 and 2003 fiscal years. The offset to deficit is an increase in contributed surplus. The financial statements for periods prior to January 1, 2004 have not been restated.

The fair value of option grants prior to the date of the Company's initial public offering was 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 five years. Subsequent to the date of the Company's initial public offering, the fair value of option grants was estimated using the Black-Scholes option pricing model, with the following assumptions: expected volatility ranging from 31% to 44%, risk-free interest rate of 3%, dividend yield of 0% and expected lives of options of four to five years.

The following table reports pro forma amounts for net income (loss) and basic and diluted net income (loss) per share, including stock-based compensation expense, based on stock options issued subsequent to January 1, 2002 for years ended December 31, 2003 and 2002:

	<u>Years ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
Net income (loss):		
As reported.....	\$ 1,240	\$ (3,082)
Pro forma	\$ (661)	\$ (3,538)
Basic net income (loss) per share:		
As reported.....	\$ 0.09	\$ (0.24)
Pro forma	\$ (0.05)	\$ (0.28)
Diluted net income (loss) per share:		
As reported.....	\$ 0.09	\$ (0.24)
Pro forma	\$ (0.05)	\$ (0.28)

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.

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(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)
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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 statements 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	<u>2,545</u>
Net assets	<u>\$ 3,800</u>

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	<u>500</u>
Total consideration	<u>\$ 3,800</u>

The cash and common shares held in escrow were 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, 2004, the Company had no restricted short-term investments related to security posted against foreign exchange forward contracts (2003 - \$800,000).

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4. Property and equipment:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Computer equipment.....	\$ 2,988	\$ 2,399
Office furniture and equipment	1,764	1,200
Computer software	854	1,127
Leasehold improvements.....	<u>239</u>	<u>231</u>
	5,845	4,957
Less: Accumulated depreciation.....	<u>(2,966)</u>	<u>(2,493)</u>
Total property and equipment	<u>\$ 2,879</u>	<u>\$ 2,464</u>

At December 31, 2004, the cost and accumulated depreciation of assets under capital lease included above were \$2,220,000 and \$540,000, respectively (2003 - \$160,000 and \$57,000).

5. Intangibles and goodwill:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Customer relationships.....	\$ 325	\$ 325
Developed technology	408	408
Purchased in-process research and development.....	<u>205</u>	<u>205</u>
	938	938
Less: Accumulated amortization	<u>(703)</u>	<u>(336)</u>
Total intangibles.....	235	602
Goodwill	<u>2,545</u>	<u>2,545</u>
Total intangibles and goodwill.....	<u>\$ 2,780</u>	<u>\$ 3,147</u>

6. Capital lease obligation:

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

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
2004	\$ -	\$ 56
2005	862	56
2006	783	-
2007	<u>341</u>	<u>-</u>
	1,986	112
Less: Amounts representing interest (at an effective rate of approximately 6%)	<u>(144)</u>	<u>(7)</u>
Balance of capital lease obligation	1,842	105
Less: Current portion	<u>(778)</u>	<u>(51)</u>
Capital lease obligation, net of current portion	<u>\$ 1,064</u>	<u>\$ 54</u>

The Company has an agreement in place for a non-committed lease line of credit for up to \$2,493,000 (Cdn. \$3,000,000) with the equipment finance arm of a Canadian chartered bank to finance selected property and equipment purchases. At December 31 2004, a total of \$1,796,000 (Cdn. \$2,161,000) had been drawn by the Company under the line at a fixed interest rate of approximately 6% for terms of 24 to 36 months. Under the agreement, advances bear interest at fixed or floating benchmark rates plus 2%. Capital lease obligations are secured by the equipment that has been financed.

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7. **Common shares:**

a) **Authorized:**

Unlimited number of common shares without par value.

b) **Transactions:**

2004:

The Company issued 561,755 and 222,431 common shares to stock option and warrant holders for consideration of \$2,046,000 and \$851,000, respectively, under stock option and warrant exercises.

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. 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.

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 canceled 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 then outstanding stock options granted to employees from four years to seven years.

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d) Continuity of options issued under the Plan:

A summary of the status of the Plan as of December 31, 2004, 2003 and 2002, and the changes during the years ended December 31, 2004, 2003 and 2002 is presented below:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,641,402	\$ 4.74	1,492,340	\$ 3.05	1,102,960	\$ 2.73
Granted	391,183	10.91	611,704	7.35	432,940	3.95
Exercised	(561,755)	3.65	(288,864)	1.80	(2,000)	3.25
Forfeited	<u>(174,077)</u>	6.87	<u>(173,778)</u>	4.34	<u>(41,560)</u>	3.80
Outstanding, end of year	<u>1,296,753</u>	7.13	<u>1,641,402</u>	4.74	<u>1,492,340</u>	3.05
Options exercisable, end of year	<u>538,354</u>	\$ 3.95	<u>826,210</u>	\$ 3.08	<u>806,558</u>	\$ 2.48
Weighted average fair value of options granted during the year		\$ 4.84		\$ 3.09		\$ 1.13

All options granted during the year ended December 31, 2004, 2003 and 2002 were granted with exercise prices equal to the underlying fair value of the common shares at the grant date.

e) Summary of the balances of options issued under the Plan:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2004	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2004	Weighted Average Exercise Price
\$0.63 to 0.94	114,371	2.14	\$ 0.89	114,871	\$ 0.89
3.13 to 3.60	182,596	2.48	3.28	181,096	3.28
4.03	224,704	4.16	4.03	126,384	4.03
5.18 to 7.25	265,423	5.59	6.27	74,452	6.11
9.31 to 14.47	<u>509,659</u>	5.58	11.72	<u>41,551</u>	11.26
\$0.63 to 14.47	<u>1,296,753</u>	4.60	\$ 7.13	<u>538,354</u>	\$ 3.95

f) Warrants issued:

As part of the acquisition of the net operating assets of Workforce 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. At December 31, 2004, 81,848 such warrants remained outstanding.

As at December 31, 2004, there were warrants outstanding exercisable into 37,596 common shares (2003 - 247,263) 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.

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8. Commitments:

Future minimum lease payments under non-cancelable operating leases, as of December 31, 2004, are as follows:

2005	\$ 1,029
2006	652
2007	609
2008	584
2009	585
Thereafter.....	<u>664</u>
Total minimum lease payments.....	<u>\$ 4,123</u>

Rent expense for the year ended December 31, 2004 was \$1,363,000 (2003 - \$1,285,000, 2002 - \$843,000). The Company is also responsible for certain common area costs at its various leased premises.

9. 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.

10. Contingencies:

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations, or liquidity of the Company, the ultimate outcome of any litigation is uncertain. Were an unfavourable outcome to occur, the impact could be material to the Company.

The Company does not believe that it is probable that a liability has been incurred nor does it believe that the amount of any loss can be reasonably estimated. Accordingly, no liability has been accrued for these matters.

11. Stock-based compensation related to licence revenue:

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Gross licence revenue.....	\$ 16,346	\$ 10,480	\$ 4,427
Less: Stock-based compensation related to licence revenue.....	<u>(6)</u>	<u>(119)</u>	<u>(107)</u>
Net licence revenue	<u>\$ 16,340</u>	<u>\$ 10,361</u>	<u>\$ 4,320</u>

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.

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12. Research and development expenses:

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Gross research and development expenses.....	\$ 9,799	\$ 5,693	\$ 3,600
Less: Investment tax credits realized.....	<u>(149)</u>	<u>(540)</u>	<u>(144)</u>
Net research and development expenses	<u>\$ 9,650</u>	<u>\$ 5,153</u>	<u>\$ 3,456</u>

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.

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income (loss):			
Basic and diluted net income (loss).....	<u>\$ (555)</u>	<u>\$ 1,240</u>	<u>\$ (3,082)</u>
Weighted average number of common shares outstanding:			
Common shares.....	16,871	13,249	12,589
Effect of stock options issued	—	584	—
Effect of warrants outstanding	<u>—</u>	<u>116</u>	<u>—</u>
Diluted	<u>16,871</u>	<u>13,949</u>	<u>12,589</u>
Net income (loss) per share:			
Basic	<u>\$ (0.03)</u>	<u>\$ 0.09</u>	<u>\$ (0.24)</u>
Diluted	<u>\$ (0.03)</u>	<u>\$ 0.09</u>	<u>\$ (0.24)</u>

At December 31, 2004 and 2002, 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:

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Combined Canadian basic federal and provincial income tax rate	36.1%	36.6%	38.6%
Increase (decrease) in income tax rate resulting from:			
Permanent differences.....	144.6	(73.8)	(4.7)
Change in valuation allowance	(186.7)	101.3	(26.5)
Change in enacted rates	<u>6.0</u>	<u>(64.1)</u>	<u>(7.4)</u>
Effective income tax rate.....	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>

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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,	
	2004	2003
Future income tax assets:		
Deferred revenue recognized for tax purposes.....	\$ 4,753	\$ 2,998
Non-capital income tax loss carryforwards.....	1,243	1,007
Share issue costs	321	450
Net capital loss carryforwards.....	71	444
Research and development expenditure carryforwards.....	65	358
Other	<u>358</u>	<u>134</u>
	6,811	5,391
Less: Valuation allowance	<u>(6,735)</u>	<u>(5,270)</u>
Net future income tax assets.....	76	121
Future income tax liabilities:		
Net book value of intangible assets in excess of tax bases.....	<u>(76)</u>	<u>(121)</u>
Future income taxes	<u>\$ —</u>	<u>\$ —</u>

c) Tax losses:

As of December 31, 2004, the Company had non-capital income tax loss carryforwards of approximately \$458,000 available to reduce future years' income for Canadian tax purposes. These losses will expire at various dates between 2007 and 2011.

The Company also had non-capital income tax loss carryforwards of approximately \$2,592,000 available to reduce future years' income for U.S. tax purposes. These losses will expire in 2019 and 2024.

15. Related party transactions:

The Company has entered into certain transactions in the normal course of business with a law firm, a partner of which is a director of the Company. During the year ended December 31, 2004, total amounts paid by the Company to such law firm for legal services and other services aggregated to \$377,000 (2003 - \$282,000).

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16. 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:

	<u>Years ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue by geographic location:			
United States	\$ 49,859	\$ 29,685	\$ 11,671
United Kingdom	3,673	2,180	3,975
Canada	1,935	1,952	1,203
Asia-Pacific	<u>1,536</u>	<u>—</u>	<u>—</u>
	<u>\$ 57,003</u>	<u>\$ 33,817</u>	<u>\$ 16,849</u>

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

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Property and equipment by geographic location:		
Canada	\$ 2,731	\$ 2,299
United States	<u>148</u>	<u>165</u>
	<u>\$ 2,879</u>	<u>\$ 2,464</u>

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

During the years ended December 31, 2004 and 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.