

Interim Consolidated Financial Statements  
(Expressed in U.S. dollars)

**WORKBRAIN CORPORATION**

Three-month period ended March 31, 2004  
(Unaudited)

**NOTICE TO READER**

Management has compiled the comparative unaudited interim financial information of Workbrain Corporation, consisting of the statements of operations and cash flows for the three months ended March 31, 2003. An accounting firm has not reviewed or audited the above-noted comparative financial information.

## WORKBRAIN CORPORATION

**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Amounts in U.S. Dollars, In Thousands, Except Share Data)  
(Unaudited)

	<u>March 31,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
Assets:		
Current assets:		
Cash and cash equivalents .....	\$ 37,647	\$ 38,027
Short-term investments (note 2).....	5,721	8,666
Accounts receivable, net of allowance for doubtful accounts of \$351 (2003 - \$300) .....	7,647	6,929
Other .....	<u>3,593</u>	<u>2,632</u>
Total current assets .....	54,608	56,254
Property and equipment (note 3).....	2,751	2,464
Intangibles (note 4) .....	476	602
Goodwill (note 4).....	<u>2,545</u>	<u>2,545</u>
Total assets .....	<u>\$ 60,380</u>	<u>\$ 61,865</u>
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable .....	\$ 1,365	\$ 1,504
Accrued payroll.....	1,645	2,460
Accrued liabilities .....	1,605	1,514
Deferred revenue .....	9,676	9,232
Current portion of capital lease obligation (note 5).....	51	51
Current portion of leasehold inducements.....	<u>50</u>	<u>50</u>
Total current liabilities .....	<u>14,392</u>	<u>14,811</u>
Long-term liabilities:		
Capital lease obligation, net of current portion (note 5).....	41	54
Leasehold inducements, net of current portion .....	<u>58</u>	<u>71</u>
Total long-term liabilities.....	<u>99</u>	<u>125</u>
Total liabilities .....	<u>14,491</u>	<u>14,936</u>
Shareholders' equity:		
Common shares (note 6):		
Authorized - unlimited		
Issued and outstanding -16,665,969 (December 31, 2003 - 16,632,104) .....	61,020	60,905
Contributed surplus.....	4,941	2,058
Deferred stock-based compensation .....	(2,230)	(180)
Cumulative translation adjustment .....	(127)	(127)
Deficit .....	<u>(17,715)</u>	<u>(15,727)</u>
Total shareholders' equity .....	<u>45,889</u>	<u>46,929</u>
Total liabilities and shareholders' equity .....	<u>\$ 60,380</u>	<u>\$ 61,865</u>
Commitments (note 7)		
Guarantees (note 8)		

See accompanying Notes to Interim Consolidated Financial Statements

## WORKBRAIN CORPORATION

## INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Revenue:		
Licence (note 9) .....	\$ 4,129	\$ 2,402
Service, maintenance and other.....	<u>6,193</u>	<u>4,679</u>
Net revenue .....	<u>10,322</u>	<u>7,081</u>
Cost of revenue:		
Licence.....	96	148
Service, maintenance and other.....	5,422	3,249
Cost of revenue accruals (recoveries), net.....	<u>(168)</u>	<u>246</u>
Total cost of revenue .....	<u>5,350</u>	<u>3,643</u>
Gross profit .....	<u>4,972</u>	<u>3,438</u>
Gross margin.....	48.2%	48.6%
Operating expenses:		
Sales and marketing .....	2,868	1,806
Research and development (note 10) .....	2,268	750
General and administrative .....	1,140	557
Amortization of acquisition-related intangibles .....	126	-
Amortization of stock-based compensation* .....	<u>229</u>	<u>1</u>
Total operating expenses .....	<u>6,631</u>	<u>3,114</u>
Income (loss) from operations.....	(1,659)	324
Interest income, net.....	<u>273</u>	<u>64</u>
Net income (loss).....	<u>\$ (1,386)</u>	<u>\$ 388</u>
Income (loss) per share (note 11):		
Basic .....	<u>\$ (0.08)</u>	<u>\$ 0.03</u>
Basic weighted average number of common shares outstanding.....	<u>16,645</u>	<u>12,687</u>
Diluted .....	<u>\$ (0.08)</u>	<u>\$ 0.03</u>
Diluted weighted average number of common shares outstanding.....	<u>16,645</u>	<u>13,122</u>

\*Note:

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

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Amortization of stock-based compensation:		
Cost of revenue - service, maintenance and other .....	\$ 72	\$ -
Sales and marketing .....	71	-
Research and development.....	23	-
General and administrative .....	<u>63</u>	<u>1</u>
	<u>\$ 229</u>	<u>\$ 1</u>

See accompanying Notes to Interim Consolidated Financial Statements

## WORKBRAIN CORPORATION

## INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

(Unaudited)

	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, 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 .....	33,865	115	-	-	-	-	-	-	-	-	115
Deferred stock-based compensation.....	-	-	-	-	-	-	2,883	(2,883)	-	-	-
Cumulative impact of change in accounting policy (note 1(b)) .....	-	-	-	-	-	-	-	602	-	(602)	-
Amortization of stock-based compensation .....	-	-	-	-	-	-	-	231	-	-	231
Net loss .....	=	=	=	=	=	=	=	=	=	(1,386)	(1,386)
Balances at March 31, 2004.....	<u>16,665,969</u>	<u>\$ 61,020</u>	<u>=</u>	<u>\$ =</u>	<u>=</u>	<u>\$ =</u>	<u>\$ 4,941</u>	<u>\$ (2,230)</u>	<u>\$ (127)</u>	<u>\$ (17,715)</u>	<u>\$ 45,889</u>

See accompanying Notes to Interim Consolidated Financial Statements

## WORKBRAIN CORPORATION

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Unaudited)

	<u>March 31,</u>	
	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income (loss).....	\$ (1,386)	\$ 388
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation.....	502	264
Amortization of acquisition-related intangibles .....	126	-
Amortization of stock-based compensation .....	231	32
Amortization of leasehold inducements .....	(13)	-
Foreign exchange loss (gain).....	426	(43)
Change in operating assets and liabilities:		
Accounts receivable .....	(718)	(566)
Other assets.....	(961)	(480)
Accounts payable.....	(139)	(304)
Accrued payroll.....	(815)	43
Accrued liabilities.....	91	88
Deferred revenue.....	444	(180)
Net cash used for operating activities .....	<u>(2,212)</u>	<u>(758)</u>
Cash flows from investing activities:		
Sale of short-term investments.....	2,945	8,931
Purchase of property and equipment.....	(789)	(481)
Net cash provided by investing activities.....	<u>2,156</u>	<u>8,450</u>
Cash flows from financing activities:		
Proceeds on issuance of common shares upon exercise of stock options.....	115	127
Repayment of obligations under capital lease .....	(13)	(34)
Net cash provided by financing activities.....	<u>102</u>	<u>93</u>
Foreign exchange gain (loss) on cash held in foreign currency.....	<u>(426)</u>	<u>43</u>
Change in cash and cash equivalents.....	(380)	7,828
Cash and cash equivalents, beginning of period.....	<u>38,027</u>	<u>6,370</u>
Cash and cash equivalents, end of period .....	<u>\$ 37,647</u>	<u>\$ 14,198</u>
Supplemental cash flow information:		
Cash paid for:		
Interest .....	<u>\$ 2</u>	<u>\$ -</u>
Income taxes .....	<u>\$ -</u>	<u>\$ -</u>
Non-cash investing and financing activities:		
Deferred stock-based compensation.....	<u>\$ 2,883</u>	<u>\$ 1</u>

See accompanying Notes to Interim Consolidated Financial Statements

**WORKBRAIN CORPORATION**

**Notes to Interim Consolidated Financial Statements**

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

Three-month period ended March 31, 2004

(Unaudited)

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 interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are presented in U.S. dollars. The notes presented in these interim consolidated financial statements include only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all matters disclosed in the Company's annual audited consolidated financial statements. They should be read in conjunction with the audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2003.

These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual financial statements, with the exception of the change in accounting policies set out below.

The information furnished reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. The operating results for the three months ended on March 31, 2004 are not necessarily indicative of the results expected for any succeeding quarter or the entire fiscal year ending on December 31, 2004.

**b) Change in accounting policies:**

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, we determined the fair value of stock options granted to employees since January 1, 2002 using the Black-Scholes Option Pricing Model, and recorded an adjustment to opening retained earnings in the amount of \$602,000, representing the expense for the 2002 and 2003 fiscal years. The offset to retained earnings is an increase in our contributed surplus.

**c) 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 interim consolidated financial statements. Actual results could differ from those estimates.

Significant estimates in these interim 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 lives 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.

## WORKBRAIN CORPORATION

**Notes to Interim Consolidated Financial Statements**

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

Three-month period ended March 31, 2004

(Unaudited)

**d) 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 interim consolidated balance sheets, 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 interim consolidated statements of operations have been translated at the average exchange rates for the period, 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 interim consolidated statements of operations in the period in which they occurred.

Foreign exchange gains (losses) included in the net income (loss) for the three-month period ended was \$(557,000) (March 31, 2003 - \$807,000).

**e) Goodwill:**

The Company is required to evaluate goodwill annually or whenever events or changes in 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. 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 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 the period.

**f) 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. A reconciliation of the numerator and denominator used in the calculation of the Company's diluted income (loss) per share is disclosed in note 11.

**g) Stock-based compensation:**

The fair value of option grants prior to December 2, 2003 were estimated using the minimum value method with the following assumptions: risk-free interest rates ranging from 5% to 6%, dividend yield of 0% and expected lives of options of five years. Subsequent to December 2, 2003, the fair value of option grants was estimated using a Black-Scholes model, with the following assumptions: expected volatility ranging from 31% to 33%, risk-free interest rate 3%, dividend yield of 0% and expected lives of options of five years.

**2. Short-term investments:**

At March 31, 2004, the Company had \$675,000 of restricted short-term investments related to security posted against foreign exchange forward contracts (December 31, 2003 - \$800,000).

## WORKBRAIN CORPORATION

## Notes to Interim Consolidated Financial Statements

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

Three-month period ended March 31, 2004

(Unaudited)

## 3. Property and equipment:

	<u>March 31, 2004</u>	<u>December 31, 2003</u>
Computer equipment .....	\$ 2,835	\$ 2,399
Office furniture and equipment.....	1,407	1,200
Computer software.....	1,273	1,127
Leasehold improvements .....	<u>231</u>	<u>231</u>
	5,746	4,957
Less: Accumulated depreciation .....	<u>(2,995)</u>	<u>(2,493)</u>
Total property and equipment .....	<u>\$ 2,751</u>	<u>\$ 2,464</u>

At March 31, 2004, the cost and accumulated depreciation of assets under capital lease included above were \$160,000 and \$72,000, respectively (December 31, 2003 - \$160,000 and \$57,000).

## 4. Intangibles and goodwill:

	<u>March 31, 2004</u>	<u>December 31, 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>(462)</u>	<u>(336)</u>
Total intangibles .....	476	602
Goodwill.....	<u>2,545</u>	<u>2,545</u>
Total intangibles and goodwill .....	<u>\$ 3,021</u>	<u>\$ 3,147</u>

## 5. Capital lease obligation:

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

	<u>March 31, 2004</u>	<u>December 31, 2003</u>
2004.....	\$ 42	\$ 56
2005.....	56	56
Thereafter .....	<u>—</u>	<u>—</u>
	98	112
Less: Amounts representing interest (at an effective interest rate of 6%).....	<u>(6)</u>	<u>(7)</u>
Balance of capital lease obligation .....	92	105
Less: Current portion.....	<u>(51)</u>	<u>(51)</u>
Capital lease obligation, net of current portion.....	<u>\$ 41</u>	<u>\$ 54</u>

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three-month period ended March 31, 2004

(Unaudited)

6. Common shares:

a) Authorized:

Unlimited number of common shares without par value.

b) Transactions:

March 31, 2004:

The Company issued 33,865 common shares to a former director and employees for total consideration of \$115,000 under stock option exercises.

December 31, 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. ("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.

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

## WORKBRAIN CORPORATION

## Notes to Interim Consolidated Financial Statements

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

Three-month period ended March 31, 2004

(Unaudited)

## d) Continuity of options issued under the Plan:

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

	March 31, 2004		December 31, 2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period.....	1,641,402	\$ 4.74	1,492,340	\$ 3.05
Granted .....	131,500	13.27	611,704	7.35
Exercised .....	(33,865)	3.41	(288,864)	1.80
Forfeited.....	<u>(14,570)</u>	7.84	<u>(173,778)</u>	4.34
Outstanding, end of period.....	<u>1,724,467</u>	5.39	<u>1,641,402</u>	4.74
Options exercisable, end of period.....	<u>845,406</u>	\$ 3.16	<u>826,210</u>	\$ 3.08

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

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number Outstanding at March 31, 2004	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at March 31, 2004	Weighted Average Exercise Price
\$ 0.63 to 0.94	163,759	2.9	\$ 0.87	163,759	\$ 0.87
3.13 to 3.60	403,382	2.5	3.25	391,132	3.25
4.03 to 4.38	478,372	4.8	4.04	252,577	4.04
5.18 to 7.25	390,378	6.1	6.27	33,600	5.63
10.77 to 13.84	<u>288,576</u>	6.3	11.97	<u>4,338</u>	10.99
\$ 0.63 to 13.84	<u>1,724,467</u>	4.6	\$ 5.39	<u>845,406</u>	\$ 3.16

## 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.

As at March 31, 2004, there are warrants outstanding exercisable into 247,263 common shares (December 31, 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.

All of these warrants were unexercised at March 31, 2004.

## WORKBRAIN CORPORATION

## Notes to Interim Consolidated Financial Statements

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

Three-month period ended March 31, 2004

(Unaudited)

**7. Commitments:**

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

2004.....	\$	698
2005.....		674
2006.....		215
Thereafter .....		—
Total minimum lease payments .....	\$	<u>1,587</u>

Rent expense for the quarter ended March 31, 2004 was \$379,000 (March 31, 2003 - \$281,000). The Company is also responsible for certain common area costs at its various leased premises.

**8. 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.

**9. Stock-based compensation related to licence revenue:**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<u><b>2004</b></u>	<u><b>2003</b></u>
Gross licence revenue .....	\$ 4,131	\$ 2,433
Less: Stock-based compensation related to licence revenue .....	<u>(2)</u>	<u>(31)</u>
Net licence revenue.....	<u>\$ 4,129</u>	<u>\$ 2,402</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.

**10. Research and development expenses:**

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<u><b>2004</b></u>	<u><b>2003</b></u>
Gross research and development expenses .....	\$ 2,306	\$ 770
Less: Investment tax credits realized .....	<u>(38)</u>	<u>(20)</u>
Net research and development expenses .....	<u>\$ 2,268</u>	<u>\$ 750</u>

## WORKBRAIN CORPORATION

## Notes to Interim Consolidated Financial Statements

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

Three-month period ended March 31, 2004

(Unaudited)

**11. Income (loss) per share:**

The following table presents a reconciliation of the numerators and denominators used in the calculations of the basic and diluted income (loss) per share.

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net income (loss):		
Basic and diluted net income (loss).....	\$ (1,386)	\$ 388
Weighted average number of common shares outstanding (in thousands of shares):		
Common shares .....	16,645	12,687
Effect of stock options issued.....	-	397
Effect of warrants outstanding.....	-	38
Diluted.....	<u>16,645</u>	<u>13,122</u>
Net income (loss) per share:		
Basic .....	\$ (0.08)	\$ 0.03
Diluted .....	\$ (0.08)	\$ 0.03

At March 31, 2004, stock options and warrants outstanding were not included in the calculation of diluted loss per share because the Company had losses for that period and to do so would have been anti-dilutive.

**12. 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:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Revenue by geographic location:		
United States .....	\$ 9,296	\$ 5,729
United Kingdom .....	601	841
Canada.....	425	511
	<u>\$ 10,322</u>	<u>\$ 7,081</u>

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2004</b>	<b>2003</b>
Property and equipment by geographic location:		
Canada.....	\$ 2,572	\$ 2,299
United States .....	179	165
	<u>\$ 2,751</u>	<u>\$ 2,464</u>

**WORKBRAIN CORPORATION**

**Notes to Interim Consolidated Financial Statements**

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

Three-month period ended March 31, 2004

(Unaudited)

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

During the three-month period ended March 31, 2004, two customers of the Company accounted for 11.9% and 11.0% of net revenue, respectively (March 31, 2003 - four customers accounted for 14.3%, 13.0%, 11.0% and 10.0% of net revenue, respectively).