WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

You should read the following management's discussion and analysis ("MD&A") in conjunction with our interim consolidated financial statements for the three-month period ended March 31, 2004 and the notes thereto, and with our annual audited consolidated financial statements, including the notes thereto, and our annual MD&A for the year ended December 31, 2003.

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 associated with our business and the economic environment in which the business operates. Should one ore more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual results or events may differ materially from current expectations. Risks and uncertainties are discussed in detail in materials we file with the securities regulatory authorities from time to time, including in our most recently filed Annual Information Form. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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.

Comparison of Three Months Ended March 31, 2004 and 2003

Revenue:

Total revenue increased 45.8% to $10.3 million in the three months ended March 31, 2004 from $7.1 million in the three months ended March 31, 2003.

Licence revenue increased 71.9% to $4.1 million in the three months ended March 31, 2004 compared with $2.4 million in the three months ended March 31, 2003. The growth was substantially attributable to an increase in the number of customers to 67 at March 31, 2004 compared with 37 at March 31, 2003. 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 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 32.4% to $6.2 million in the three months ended March 31, 2004 compared with $4.7 million in the three months ended March 31, 2003. The increase was primarily attributable to additional product implementation projects related to new customers as well as a growing installed base, which provides recurring maintenance and hosting revenue.

Cost of revenue:

Cost of licence revenue decreased 35.1% to $96,000 in the three months ended March 31, 2004 compared with $148,000 in the three months ended March 31, 2003, and represented 2.3% and 6.2% of licence revenue, respectively. The decrease in the dollar amount and as a percentage of licence revenue of the cost of licence revenue reflected the sale of fewer third-party software licenses in the three months ended March 31, 2004 compared with the prior year.

Cost of service, maintenance and other revenue increased 66.9% to $5.4 million in the three months ended March 31, 2004 compared with $3.2 million in the three months ended March 31, 2003, and represented 87.6% and 69.4% of service, maintenance and other revenue, 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 three months ended March 31, 2004 related primarily to the increase in the number of implementation, customer support, training and hosting personnel and related costs necessary to support our larger customer base and new and pending product implementations. The average number of customer support, implementation and training personnel grew to 157 in the three months ended March 31, 2004 compared with 102 in the three months ended March 31, 2003. The cost of service, maintenance and other revenue also increased as a result of the inclusion of a foreign exchange loss of $(288,000) in the three months ended March 31, 2004 compared to a foreign exchange gain of $376,000 in the three months ended March 31, 2003. We expect the cost of service, maintenance and other revenue to increase in absolute terms but to decrease as a percentage of revenue in future periods, as we expect to increase our service, maintenance and other revenues as we continue to add personnel to service our growing customer base.

Cost of revenue accruals (recoveries), net was $(168,000) in the three months ended March 31, 2004 compared with $246,000 in the three months ended March 31, 2003. The cost of revenue accruals (recoveries), net, in the three months ended March 31, 2004 resulted from the reversal of zero-profit provisions related to a project that was substantially completed during the three months ended March 31, 2004. The cost of revenue accruals (recoveries), net, in the three months ended March 31, 2003 resulted from the recording of zero-profit provisions related to projects using that method during the three months ended March 31, 2003. We expect the amounts of any future accrual or recovery of zero-profit provisions to be negligible, since all projects where revenue was recognized using the zero-profit method are now substantially complete.

Operating expenses:

Sales and marketing expenses increased 58.8% to $2.9 million in the three months ended March 31, 2004 compared with $1.8 million in the three months ended March 31, 2003, and represented 27.8% and 25.5% of net revenue, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales and marketing workforce, which grew to an average of 58 personnel in the three months ended March 31, 2004 compared with an average of 46 in the three months ended March 31, 2003, increases in their related travel expenses in both North America and abroad, and increased marketing activities, including trade shows and promotional expenses. The increase as a percentage of net revenue is due to a more rapid expansion of our sales and marketing staff, which was partly offset by increased productivity of our existing sales and marketing personnel. 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 our marketing activities in North America and abroad.

Research and development expenses increased 202.4% to $2.3 million in the three months ended March 31, 2004 compared with $750,000 in the three months ended March 31, 2003, and represented 22.0% and 10.6% of net revenue, respectively. The increase in dollar amount in the three months ended March 31, 2004 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 85 in the three months ended March 31, 2004 compared with 56 in the three months ended March 31, 2003. Research and development expenses also increased as a result of the inclusion of a foreign exchange loss of $(153,000) in the three months ended March 31, 2004 compared to a foreign exchange gain of $170,000 in the three months ended March 31, 2003. 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 increased 104.7% to $1.1 million in the three months ended March 31, 2004 compared with $557,000 in the three months ended March 31, 2003, and represented 11.0% and 7.9% of net revenue, respectively. We increased the number of administrative and financial personnel, and there were 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 35 in the three months ended March 31, 2004 compared with 25 in the three months ended March 31, 2003. The increase in general and administrative costs as a percent of revenue was primarily the result of the inclusion of a foreign exchange loss of $(41,000) included in general and administrative expenses in the three months ended March 31, 2004 compared with a foreign exchange gain of $143,000 included in general and administrative expenses in the three months ended March 31, 2003. We anticipate that general and administrative expenses will increase in dollar amount in future periods as we expect to continue to grow our customer base.

Amortization of acquisition-related intangibles was $126,000 in the three months ended March 31, 2004, compared with $nil for the same period of the prior year. This expense relates to our acquisition of the net operating assets of Workforce Logistics Inc. in April 2003, which enhanced our existing workforce management solution with additional schedule optimization functionality. 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/or broaden our customer base. We have no present agreements or commitments with respect to any prospective acquisition or investment.

Amortization of stock-based compensation increased to $229,000 for the three months ended March 31, 2004 compared with $1,000 in the three months ended March 31, 2003 and represented 2.2% and 0.0% of net revenue, respectively. The increase in dollar amount and as a percentage of net revenue was the result of the adoption of a new accounting standard that requires that we expense the fair value of stock options granted to employees since January 1, 2002 over the estimated vesting period of the stock options.

Interest income, net increased to $273,000 in the three months ended March 31, 2004 compared with $64,000 in the three months ended March 31, 2003, primarily due to an increase in cash balances in the three months ended March 31, 2004 compared with the three months ended March 31, 2003. We will continue to invest in accordance with our investment policy, which emphasizes liquidity and the minimization of risk.

Foreign exchange. Since the completion of our initial public offering in December 2003, we have maintained a Canadian dollar-denominated treasury in addition to our U.S. dollar-denominated treasury. We use those Canadian funds to cover our Canadian dollar denominated operating expenses. We are subject to gains and losses due to fluctuations between the U.S. and Canadian dollars. We recorded a net foreign exchange loss of approximately $(557,000) for the three months ended March 31, 2004. This loss was primarily related to a decline in the value of the Canadian dollar against the U.S. dollar over the period. 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.

Liquidity and Capital Resources

At March 31, 2004 we had cash and cash equivalents and short-term investments of $43.4 million and working capital of $40.2 million.

Cash provided by (used in) operating activities for the three months ended March 31, 2004 and 2003 was ($2.2 million) and ($758,000), respectively. Cash used in operations in the three months ended March 31, 2004 was primarily the result of our net loss of $1.4 million, and a net increase in working capital requirements, which relates primarily to an increase in accounts receivable and other short-term assets and to a decrease in accounts payable and accrued payroll. The latter relates primarily to the payment of employee bonuses for the 2003 fiscal year. These were partly offset by non-cash charges for depreciation and amortization totaling $846,000 and an increased in deferred revenue of $444,000, from $9.2 million at December 31, 2003 to $9.7 million at March 31, 2004, and an unrealized foreign exchange loss of $426,000. Cash used in operations in the three months ended March 31, 2003 was primarily the result of an increase in accounts receivable and other short-term assets and to a decrease in accounts payable during the quarter.

Investment activities during the three months ended March 31, 2004 consisted of the purchase of property and equipment totaling $789,000, which was more than offset by the sale of short-term investments totaling $2.9 million. We expect that our investment in property and equipment will continue to increase as our employee base and customer base continue to grow.

Financing activities during the three months ended March 31, 2004 consisted of the issuance of share capital pursuant to stock option exercises.

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.

Share capital at March 31, 2004 consisted of 16,665,969 common shares issued and outstanding.