

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

WORKBRAIN CORPORATION

Three and six months ended June 30, 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 and six months ended June 30, 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>June 30,</u> <u>2004</u> | <u>December 31,</u> <u>2003</u> |
|---|--------------------------------|------------------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 42,861 | \$ 38,027 |
| Short-term investments (note 2)..... | 2,000 | 8,666 |
| Accounts receivable, net of allowance for doubtful accounts of \$374 (December 31, 2003 - \$300)..... | 9,555 | 6,929 |
| Other | <u>3,133</u> | <u>2,632</u> |
| Total current assets | 57,549 | 56,254 |
| Property and equipment (note 3)..... | 2,847 | 2,464 |
| Intangibles (note 4) | 385 | 602 |
| Goodwill (note 4)..... | <u>2,545</u> | <u>2,545</u> |
| Total assets | <u>\$ 63,326</u> | <u>\$ 61,865</u> |
| Liabilities and shareholders' equity: | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,814 | \$ 1,504 |
| Accrued payroll..... | 2,767 | 2,460 |
| Accrued liabilities | 946 | 1,514 |
| Deferred revenue | 10,939 | 9,232 |
| Current portion of capital lease obligation (note 5)..... | 266 | 51 |
| Current portion of leasehold inducements..... | <u>48</u> | <u>50</u> |
| Total current liabilities | <u>16,780</u> | <u>14,811</u> |
| Long-term liabilities: | | |
| Capital lease obligation, net of current portion (note 5)..... | 493 | 54 |
| Leasehold inducements, net of current portion | <u>44</u> | <u>71</u> |
| Total long-term liabilities..... | <u>537</u> | <u>125</u> |
| Total liabilities | <u>17,317</u> | <u>14,936</u> |
| Shareholders' equity: | | |
| Common shares (note 6): | | |
| Authorized - unlimited | | |
| Issued and outstanding - 16,851,844 (December 31, 2003 - 16,632,104) | 61,667 | 60,905 |
| Contributed surplus..... | 5,377 | 2,058 |
| Deferred stock-based compensation | (2,448) | (180) |
| Cumulative translation adjustment | (127) | (127) |
| Deficit | <u>(18,460)</u> | <u>(15,727)</u> |
| Total shareholders' equity | <u>46,009</u> | <u>46,929</u> |
| Total liabilities and shareholders' equity..... | <u>\$ 63,326</u> | <u>\$ 61,865</u> |
| Commitments (note 7) | | |
| Guarantees (note 8) | | |

See accompanying Notes to Interim Consolidated Financial Statements

CANADIAN GAAP

WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

| | Three months ended | | Six months ended | |
|---|---------------------------|------------------|-------------------------|------------------|
| | June 30, | | June 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| Revenue: | | | | |
| Licence (note 9) | \$ 3,703 | \$ 2,883 | \$ 7,832 | \$ 5,285 |
| Service, maintenance and other..... | 9,177 | 5,402 | 15,370 | 10,081 |
| Net revenue | <u>12,880</u> | <u>8,285</u> | <u>23,202</u> | <u>15,366</u> |
| Cost of revenue: | | | | |
| Licence..... | 96 | 112 | 192 | 260 |
| Service, maintenance and other..... | 6,349 | 4,396 | 11,771 | 7,645 |
| Cost of revenue accruals (recoveries), net..... | — | 112 | (168) | 358 |
| Total cost of revenue | <u>6,445</u> | <u>4,620</u> | <u>11,795</u> | <u>8,263</u> |
| Gross profit | <u>6,435</u> | <u>3,665</u> | <u>11,407</u> | <u>7,103</u> |
| Gross margin..... | 50.0% | 44.2% | 49.2% | 46.2% |
| Operating expenses: | | | | |
| Sales and marketing | 3,572 | 2,322 | 6,440 | 4,128 |
| Research and development (note 10) | 2,451 | 1,323 | 4,719 | 2,073 |
| General and administrative | 1,062 | 445 | 2,202 | 1,002 |
| Amortization of acquisition-related intangibles | 91 | 84 | 217 | 84 |
| Amortization of stock-based compensation* | <u>320</u> | <u>2</u> | <u>549</u> | <u>3</u> |
| Total operating expenses | <u>7,496</u> | <u>4,176</u> | <u>14,127</u> | <u>7,290</u> |
| Loss from operations..... | (1,061) | (511) | (2,720) | (187) |
| Interest income, net..... | <u>212</u> | <u>56</u> | <u>485</u> | <u>120</u> |
| Net loss | <u>\$ (849)</u> | <u>\$ (455)</u> | <u>\$ (2,235)</u> | <u>\$ (67)</u> |
| Loss per share: | | | | |
| Basic | <u>\$ (0.05)</u> | <u>\$ (0.04)</u> | <u>\$ (0.13)</u> | <u>\$ (0.00)</u> |
| Basic weighted average number of common shares outstanding | <u>16,751</u> | <u>12,955</u> | <u>16,698</u> | <u>12,822</u> |
| Diluted | <u>\$ (0.05)</u> | <u>\$ (0.04)</u> | <u>\$ (0.13)</u> | <u>\$ (0.00)</u> |
| Diluted weighted average number of common shares outstanding | <u>16,751</u> | <u>12,955</u> | <u>16,698</u> | <u>12,822</u> |

*Note:

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

| | Three months ended | | Six months ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| Amortization of stock-based compensation: | | | | |
| Cost of revenue - service, maintenance and other..... | \$ 130 | \$ — | \$ 202 | \$ — |
| Sales and marketing | 105 | 2 | 176 | 2 |
| Research and development..... | 22 | — | 45 | — |
| General and administrative | <u>63</u> | <u>—</u> | <u>126</u> | <u>1</u> |
| | <u>\$ 320</u> | <u>\$ 2</u> | <u>\$ 549</u> | <u>\$ 3</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 | 219,740 | 762 | - | - | - | - | - | - | - | - | 762 |
| Deferred stock-based compensation..... | - | - | - | - | - | - | 3,319 | (3,319) | - | - | - |
| Cumulative impact of change in accounting policy (note 1(b)) | - | - | - | - | - | - | - | 498 | - | (498) | - |
| Amortization of stock-based compensation | - | - | - | - | - | - | - | 553 | - | - | 553 |
| Net loss | - | - | - | - | - | - | - | - | - | (2,235) | (2,235) |
| Balances at June 30, 2004 | <u>16,851,844</u> | <u>\$ 61,667</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>\$ 5,377</u> | <u>\$ (2,448)</u> | <u>\$ (127)</u> | <u>\$ (18,460)</u> | <u>\$ 46,009</u> |

See accompanying Notes to Interim Consolidated Financial Statements

CANADIAN GAAP

WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Unaudited)

| | Three months ended | | Six months ended | |
|--|---------------------------|------------------|-------------------------|------------------|
| | June 30, | | June 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| Cash flows from operating activities: | | | | |
| Net loss | \$ (849) | \$ (455) | \$ (2,235) | \$ (67) |
| Adjustments to reconcile net loss to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 537 | 479 | 1,039 | 743 |
| Amortization of acquisition-related intangibles | 91 | 84 | 217 | 84 |
| Amortization of stock-based compensation | 322 | 26 | 553 | 58 |
| Amortization of leasehold inducements | (16) | 7 | (29) | 7 |
| Unrealized foreign exchange loss (gain) | 644 | (20) | 1,070 | (63) |
| Change in operating assets and liabilities: | | | | |
| Accounts receivable | (1,908) | (61) | (2,626) | (627) |
| Other assets | 460 | 164 | (501) | (316) |
| Accounts payable | 449 | 969 | 310 | 665 |
| Accrued payroll | 1,122 | 497 | 307 | 540 |
| Accrued liabilities | (659) | (516) | (568) | (428) |
| Deferred revenue | 1,263 | (263) | 1,707 | (443) |
| Net cash provided by (used for) operating activities.. | 1,456 | 911 | (756) | 153 |
| Cash flows from investing activities: | | | | |
| Payments made on the acquisition of the net operating assets of Workforce Logistics Inc., net of cash acquired | - | (1,048) | - | (1,048) |
| Sale of short-term investments | 3,721 | - | 6,666 | 8,931 |
| Purchase of property and equipment | (633) | (678) | (1,422) | (1,159) |
| Net cash provided by (used for) investing activities .. | 3,088 | (1,726) | 5,244 | 6,724 |
| Cash flows from financing activities: | | | | |
| Proceeds on issuance of common shares upon exercise of stock options | 647 | 284 | 762 | 411 |
| Proceeds on sale and leaseback of property and equipment | 681 | - | 681 | - |
| Repayment of obligations under capital lease ... | (14) | (1) | (27) | (35) |
| Net cash provided by financing activities | 1,314 | 283 | 1,416 | 376 |
| Foreign exchange gain (loss) on cash held in foreign currency | (644) | 20 | (1,070) | 63 |
| Change in cash and cash equivalents | 5,214 | (512) | 4,834 | 7,316 |
| Cash and cash equivalents, beginning of period | 37,647 | 14,198 | 38,027 | 6,370 |
| Cash and cash equivalents, end of period | <u>\$ 42,861</u> | <u>\$ 13,686</u> | <u>\$ 42,861</u> | <u>\$ 13,686</u> |
| Supplemental cash flow information: | | | | |
| Cash paid for: | | | | |
| Interest | <u>\$ 2</u> | <u>\$ 2</u> | <u>\$ 4</u> | <u>\$ 4</u> |
| Income taxes | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Non-cash investing and financing activities: | | | | |
| Deferred stock-based compensation | <u>\$ 436</u> | <u>\$ 2</u> | <u>\$ 3,319</u> | <u>\$ 3</u> |
| Acquisition of Workforce Logistics Inc. partially financed by common shares | <u>\$ -</u> | <u>\$ 2,309</u> | <u>\$ -</u> | <u>\$ 2,309</u> |
| Acquisition of Workforce Logistics Inc. partially financed by warrants | <u>\$ -</u> | <u>\$ 47</u> | <u>\$ -</u> | <u>\$ 47</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 and six months ended June 30, 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 policy 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 and six months ended on June 30, 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 policy:

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 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.

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 and six months ended June 30, 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 dates 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 periods, 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 loss for the three and six months ended June 30, 2004 and 2003 were as follows:

| | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|-----------------|
| | June 30, | | June 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| Cost of revenue - service, maintenance and other | \$ (287) | \$ 189 | \$ (575) | \$ 565 |
| Sales and marketing | (49) | 48 | (125) | 166 |
| Research and development..... | (152) | 86 | (305) | 255 |
| General and administrative | <u>102</u> | <u>404</u> | <u>62</u> | <u>548</u> |
| | <u>\$ (386)</u> | <u>\$ 727</u> | <u>\$ (943)</u> | <u>\$ 1,534</u> |

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) Loss per share:

Basic loss per share has been computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted 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. To June 30, 2004, potentially dilutive items have not been dilutive to the Company's common shares and, accordingly, no reconciliation of the numerator and denominator used in the calculation of the Company's loss per share is disclosed.

g) Stock-based compensation:

The fair value of option grants prior to December 2, 2003 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 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 44%, risk-free interest rate 3%, dividend yield of 0% and expected lives of options of five 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 and six months ended June 30, 2004

(Unaudited)

The following table reports pro forma amounts for net loss and basic and diluted loss per share, including stock-based compensation expense, based on stock options issued subsequent to January 1, 2002 for the three and six months ended June 30, 2003.

| | Three months ended June 30, 2003 | Six months ended June 30, 2003 |
|-------------------------|---|---|
| Net loss: | | |
| As reported | \$ (455) | \$ (67) |
| Pro forma..... | \$ (510) | \$ (167) |
| Basic loss per share: | | |
| As reported | \$ (0.04) | \$ (0.00) |
| Pro forma..... | \$ (0.04) | \$ (0.01) |
| Diluted loss per share: | | |
| As reported | \$ (0.04) | \$ (0.00) |
| Pro forma..... | \$ (0.04) | \$ (0.01) |

2. Short-term investments:

At June 30, 2004, the Company had no restricted short-term investments related to security posted against foreign exchange forward contracts (December 31, 2003 - \$800,000).

3. Property and equipment:

| | June 30, 2004 | December 31, 2003 |
|--------------------------------------|------------------|----------------------|
| Computer equipment | \$ 2,655 | \$ 2,399 |
| Office furniture and equipment..... | 1,480 | 1,200 |
| Computer software..... | 797 | 1,127 |
| Leasehold improvements | 231 | 231 |
| | 5,163 | 4,957 |
| Less: Accumulated depreciation | (2,316) | (2,493) |
| Total property and equipment..... | \$ 2,847 | \$ 2,464 |

At June 30, 2004, the cost and accumulated depreciation of assets under capital lease included above were \$847,000 and \$194,000, respectively (December 31, 2003 - \$160,000 and \$57,000).

WORKBRAIN CORPORATION

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

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(Unaudited)

4. Intangibles and goodwill:

| | <u>June 30, 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>(553)</u> | <u>(336)</u> |
| Total intangibles | 385 | 602 |
| Goodwill..... | <u>2,545</u> | <u>2,545</u> |
| Total intangibles and goodwill | <u>\$ 2,930</u> | <u>\$ 3,147</u> |

5. Capital lease obligation:

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

| | <u>June 30, 2004</u> | <u>December 31, 2003</u> |
|--|--------------------------|------------------------------|
| 2004..... | \$ 150 | \$ 56 |
| 2005..... | 300 | 56 |
| 2006..... | 246 | - |
| 2007..... | 123 | - |
| Thereafter | <u>-</u> | <u>-</u> |
| | 819 | 112 |
| Less: Amounts representing interest (at an effective interest rate of 6%)..... | <u>(60)</u> | <u>(7)</u> |
| Balance of capital lease obligation | 759 | 105 |
| Less: Current portion..... | <u>(266)</u> | <u>(51)</u> |
| Capital lease obligation, net of current portion..... | <u>\$ 493</u> | <u>\$ 54</u> |

The Company has an agreement in place for a non-committed lease line of credit for up to \$2,238,000 with the equipment finance arm of a Canadian chartered bank to finance selected property and equipment purchases. At June 30, 2004, a total of \$681,000 had been drawn by the Company under the line at a fixed interest rate of approximately 6% for a term of 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.

WORKBRAIN CORPORATION

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(Unaudited)

6. Common shares:

a) Authorized:

Unlimited number of common shares without par value.

b) Transactions:

June 30, 2004:

The Company issued 219,740 common shares to stock option holders for total consideration of \$762,000 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 10 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.

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

d) Continuity of options issued under the Plan:

A summary of the status of the Plan as of June 30, 2004 and December 31, 2003, and the changes during the periods then ended is presented below:

| | <u>June 30, 2004</u> | | <u>December 31, 2003</u> | |
|--|----------------------|--|--------------------------|--|
| | <u>Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Shares</u> | <u>Weighted Average Exercise Price</u> |
| Outstanding, beginning of period..... | 1,641,402 | \$ 4.74 | 1,492,340 | \$ 3.05 |
| Granted | 260,500 | 12.27 | 611,704 | 7.35 |
| Exercised | (219,740) | 3.48 | (288,864) | 1.80 |
| Forfeited..... | <u>(64,699)</u> | 6.48 | <u>(173,778)</u> | 4.34 |
| Outstanding, end of period..... | <u>1,617,463</u> | \$ 6.05 | <u>1,641,402</u> | \$ 4.74 |
| Options exercisable, end of period..... | <u>718,710</u> | \$ 3.30 | <u>826,210</u> | \$ 3.08 |
| Weighted average per share fair value of options granted during the period..... | | \$ 3.09 | | \$ 4.64 |

All options granted during the year ended December 31, 2003 and during the six months ended June 30, 2004 were granted with exercise prices equal to the fair value of our common shares at the grant date.

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

| <u>Range of exercise prices</u> | <u>Options Outstanding</u> | | | <u>Options Exercisable</u> | |
|-------------------------------------|--|--|--|--|--|
| | <u>Number Outstanding at June 30, 2004</u> | <u>Weighted Average Remaining Contractual Life (Years)</u> | <u>Weighted Average Exercise Price</u> | <u>Number Exercisable at June 30, 2004</u> | <u>Weighted Average Exercise Price</u> |
| \$ 0.63 to 0.94 | 149,871 | 2.9 | \$ 0.87 | 149,871 | \$ 0.87 |
| 3.13 to 3.60 | 308,848 | 2.8 | 3.25 | 298,848 | 3.25 |
| 4.03 to 4.38 | 374,840 | 4.8 | 4.03 | 200,615 | 4.04 |
| 5.18 to 7.25 | 376,828 | 6.1 | 6.30 | 53,775 | 5.43 |
| 9.31 to 13.84 | <u>407,076</u> | 6.6 | 11.72 | <u>15,601</u> | 10.75 |
| \$ 0.63 to 13.84 | <u>1,617,463</u> | 5.0 | \$ 6.05 | <u>718,710</u> | \$ 3.30 |

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 June 30, 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 June 30, 2004.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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 Three and six months ended June 30, 2004
 (Unaudited)

7. Commitments:

Future minimum lease payments under non-cancelable operating leases, as of June 30, 2004, are as follows:

| | |
|------------------------------------|-----------------|
| 2004..... | \$ 470 |
| 2005..... | 803 |
| 2006..... | 376 |
| 2007..... | 26 |
| Thereafter | <u>—</u> |
| Total minimum lease payments | <u>\$ 1,675</u> |

Rent expense for the three and six months ended June 30, 2004 was \$349,000 and \$728,000, respectively (June 30, 2003 - \$371,000 and \$652,000). 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:

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Gross licence revenue | \$ 3,705 | \$ 2,907 | \$ 7,836 | \$ 5,340 |
| Less: Stock-based compensation related to licence revenue | <u>(2)</u> | <u>(24)</u> | <u>(4)</u> | <u>(55)</u> |
| Net licence revenue..... | <u>\$ 3,703</u> | <u>\$ 2,883</u> | <u>\$ 7,832</u> | <u>\$ 5,285</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:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|-----------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Gross research and development expenses | \$ 2,488 | \$ 1,379 | \$ 4,794 | \$ 2,149 |
| Less: Investment tax credits realized | <u>(37)</u> | <u>(56)</u> | <u>(75)</u> | <u>(76)</u> |
| Net research and development expenses | <u>\$ 2,451</u> | <u>\$ 1,323</u> | <u>\$ 4,719</u> | <u>\$ 2,073</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 and six months ended June 30, 2004

(Unaudited)

11. Segmented information:

The Company has 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:

| | Three months ended | | Six months ended | |
|---------------------------------|--------------------|-----------------|------------------|------------------|
| | June 30, | | June 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| Revenue by geographic location: | | | | |
| United States | \$ 11,396 | \$ 7,293 | \$ 20,692 | \$ 13,022 |
| United Kingdom | 820 | 626 | 1,421 | 1,467 |
| Canada..... | 664 | 366 | 1,089 | 877 |
| | <u>\$ 12,880</u> | <u>\$ 8,285</u> | <u>\$ 23,202</u> | <u>\$ 15,366</u> |

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

| | June 30, | December 31 |
|--|-----------------|-----------------|
| | 2004 | 2003 |
| Property and equipment by geographic location: | | |
| Canada..... | \$ 2,666 | \$ 2,299 |
| United States | 181 | 165 |
| | <u>\$ 2,847</u> | <u>\$ 2,464</u> |

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

During the six months ended June 30, 2004, one customer of the Company accounted for 10.7% of net revenue (June 30, 2003 - two customers accounted for 11.6% and 10.6% of net revenue, respectively).