work smarter work faster work better

workbrain

2004 ANNUAL REPORT

Smarter

Workbrain helps large organizations work smarter by optimizing their workforce supply chains. By providing visibility into the key processes required to optimally manage the workforce, organizations can proactively plan, manage and measure workforce performance. Workbrain's customers can gain significant competitive advantage by linking all elements of the workforce supply chain, from labor planning and schedule optimization through to complex pay generation.

Workbrain delivers the workforce visibility and optimization tools needed to generate significant labor cost savings.

Faster

Time is money, and Workbrain is focused on saving both. By assessing and enabling employees with the right skills to handle both current and future needs, Workbrain customers improve workforce performance and proficiency. By automating key workplace activities, and allowing managers to deal with exceptions only, key tasks are completed faster.

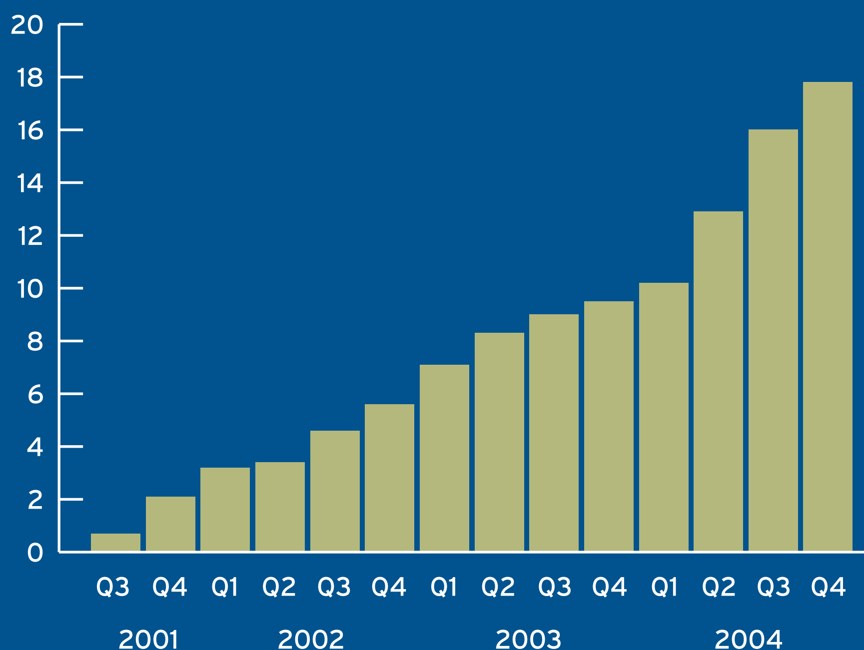
Workbrain delivers significant time and cost savings.

Better

By deploying the right employees with the right skills to the right jobs, organizations can work better. Productivity and service levels increase. Workplace efficiency and employee morale increase. Labor efficiency and quality improve.

Workbrain delivers significant service and productivity improvements.

Our ability to help our clients work **smarter, faster and better** has translated into tremendous growth for Workbrain.



Workbrain in Action

Employee	Manager	COO
› Manage your schedule online – at work or at home › Request time off with the ease of an ATM › Verify time worked and expected pay	› Forecast your staffing requirements › Create optimized employee working schedules › Manage day-to-day operations using proactive real-time alerts	› Optimally balance labor requirements, service levels and costs › Proactively manage and adhere to labor compliance regulations › Ensure consistency and predictability through enterprise-wide business intelligence

Large companies face the challenge of ensuring the right people with the right skills do the right jobs at the right time, at the lowest possible cost. Workbrain decreases labor costs, and increases service levels and productivity for large organizations with large payrolls.

Workbrain solutions not only optimize the efficient deployment of employees, they also ensure compliance with applicable labor laws and regulatory directives to minimize labor liability issues.

10,000 employees:	**$25,000 per year average salary**
Gross annual payroll:	**$250 million**
Workforce management savings:	**5% of gross payroll**
Total annual savings:	**$12.5 million**

The benefits of an optimized workforce management solution can be recognized quickly and the corresponding return on investment goes straight to the bottom line.

Generating rapid and substantial return on investment – that's what drives our business.

Dear Shareholder,

In 2004, we delivered on our growth agenda.

We exceeded our 2004 growth targets, signed a record number of new blue chip clients and expanded our global distribution capabilities, to the benefit of our shareholders, customers, partners and employees.

We delivered real results and real savings to our clients by helping them to work *smarter, faster and better*.

Our innovative vision, industry leading products and dedicated team of professionals enabled our clients to significantly reduce their labor costs, improve the service levels of their operations and ensure compliance with government, union and corporate requirements.

We continue to believe that our ability to deliver unparalleled cost savings is a major competitive advantage in the workforce management industry. Our products, technology and delivery capabilities position us uniquely for continued success.

We intend to continue to set the industry vision, to deliver comprehensive solutions, and to increase our share of the growing market for enterprise workforce management solutions.

I would like to personally thank the Workbrain family – our valued customers, partners and employees – for rewarding our vision with results and making us one of the fastest growing software companies in North America.

I look forward to continued success in 2005.

Sincerely,

(signed)
David Ossip

Among our many achievements for the year, we are happy to report:

- Our fifth consecutive year of increasing revenues
- Annual revenue growth of 69%, to US$57 million
- Our third consecutive year of positive cashflow
- Continued expansion of our global operations to over 500 employees, and increased capabilities in the UK, Australia, and the Western United States
- The addition of marquee customers in our key markets of retail, manufacturing, transportation, healthcare, financial services and the public sector
- A record number of large enterprise customers completed successful deployments of Workbrain solutions
- Enhanced relationships with our partners that extend the reach and global availability of Workbrain solutions
- The release of Workbrain 4.1, the latest version of our industry leading workforce management suite
- We were recognized as one of "Canada's 50 Best Managed Companies" for the second consecutive year

Leadership

Workbrain is a leader in workforce management applications for large and complex organizations.

Leadership Requires Vision

Workbrain is a leader in providing workforce management applications for large and complex organizations.

Leadership is about setting the vision and direction for the market, and creating new opportunities for customers to achieve significant and lasting business benefits.

Recognizing that Workbrain's approach and products increase efficiency and competitive position, successful companies from a range of industries have selected Workbrain to manage their workforces – companies like British Airways, Target Corporation, Citibank and Limited Brands.

Workbrain meets the savings and compliance demands of large organizations by delivering robust, dynamic and scalable applications that deliver a quick return on investment and advanced reporting that meets today's onerous compliance standards.

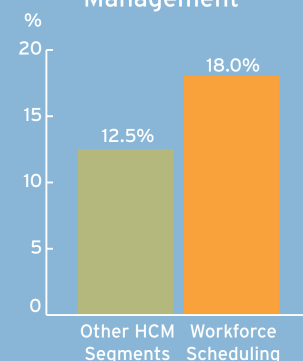
Labor costs are one of the biggest line items on the income statement. Meeting mandated compliance standards requires control of the processes that generate employee payroll expenses. Workbrain solutions automate workforce processes and ensure that appropriate data is retained and secured, thereby supporting the client's compliance efforts, including the *Sarbanes-Oxley Act*, US Department of Labor regulations and complex union agreements.

Workbrain's philosophy, design and product capability have been praised by industry analysts, partners and customers.

Customers, industry experts and investors recognize Workbrain's market leadership and status as one of the fastest growing software companies in North America.

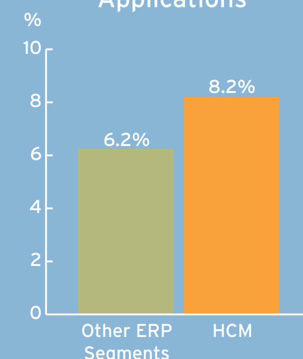
Workbrain is a clear leader in a rapidly growing market.

Human Capital Management



2005 growth estimates of leading HCM market segments

Enterprise Applications



2005 growth estimates of enterprise application market segments

> Annual revenue growth of 69%, to $57 million in 2004

> 5th consecutive year of rapid revenue growth

> 3rd consecutive year of positive cashflow

> The largest companies and government organizations around the world rely on Workbrain to help them work smarter, faster and better.

That is what it means to be a leader.

Planning

Using Workbrain's labor budgeting and long-term forecasting applications, large organizations can ensure that labor planning aligns with corporate objectives and projections. Integration with recruitment applications and Workbrain's own scheduling suite ensures efficient profiling, selection and on-boarding of the desired labor contingent.

Visibility

Workbrain's business intelligence combines the power of enterprise-wide workforce management with sophisticated reporting and analytics to provide a single view into the processes that drive workforce performance. Proactive alerts, timely access to workforce performance metrics and analysis of performance variances help Workbrain customers drive continuous operational improvement.

Deployment

Industry-tailored employee scheduling solutions optimize labor deployment so enterprises can better serve customers and meet dynamic production demands. By accurately forecasting short-term labor requirements and generating best-fit employee schedules, Workbrain ensures that the right employees with the right skills are scheduled at the right time.

Compliance

When scheduling and paying their workforces, large and complex organizations must comply with a range of requirements, including Sarbanes-Oxley, US Department of Labor regulations and union contracts. Workbrain's time and attendance solution delivers 100% pay rule automation, full audit tracking and schedule validation to help customers avoid the risks and costs of non-compliance.

Execution

For Workbrain, execution is about taking goals and translating them into measurable objectives that are consistently achieved. Workbrain focuses on planning and execution to realize the goals of rapid growth and customer satisfaction. By instilling a culture of execution, Workbrain has surpassed growth targets, and continually increased customer satisfaction.

Service

In 2004, Workbrain expanded operations, with enhanced facilities in London, Melbourne and Southern California to serve the growing needs of a growing client base. The new facilities and over 500 employees worldwide supported Workbrain's growth agenda, and brought Workbrain closer to its customers, thereby increasing their satisfaction levels.

Workbrain gets the job done.

Workbrain has made significant investments to help clients and partners achieve success. By completing comprehensive training programs, following Workbrain's proprietary implementation guides and processes and calling on Workbrain's industry and technical expertise, employees, partners and clients improved the effectiveness of client teams, increased project quality and improved customer satisfaction.

To meet the demands of growing and widely distributed workforces, Workbrain conducted extensive application performance testing at the IBM Benchmark Center. The performance testing simulated usage of Workbrain solutions for a test population of 500,000 employees, and returned rapid application response times under high-demand conditions.

The exceptional results were achieved as part of Workbrain's Platform Benchmarking program – an initiative that tests Workbrain solutions on key operating platforms to provide customers with the lowest cost of computing in the workforce management market.

Workbrain provides its customers with an unparalleled level of support. Clients can log in to Workbrain's Customer Support Hub to report issues directly and to monitor the status of their support requests.

"Workbrain's deployment team brought considerable expertise to our project, and we have worked together successfully to execute Workbrain's implementation methodology."

Mike Laddon, CIO, Longs Drug Store Corporation

Product Development

The cycle of product innovation continued with the release of Workbrain 4.1, the latest version of the Workbrain product suite. It contained over 150 enhancements to better serve key industry segments.

To meet the demand for increased visibility into business practices, Workbrain Intelligence was also launched in 2004. Workbrain Intelligence is a workforce analysis tool that provides real-time data to better monitor and manage workforce performance. Using Workbrain Intelligence, managers can analyze industry-specific labor metrics against key performance indicators, and can generate ad-hoc queries on demand. Workbrain's unique event-driven reports enable delivery of real-time actionable alerts, such as avoidable overtime costs or impending violations of workforce regulations.

Workbrain has combined its market-leading workforce management software with flexible deployment options to meet the needs of its broad customer base. Workbrain Hosted, for example, provides a high-performance infrastructure to those organizations with limited IT resources. Workbrain Jump Start provides organizations with the infrastructure required to start their Workbrain implementation while they ready their internal infrastructure.

To address organizations with less complex requirements, Workbrain Express was introduced in 2004. Workbrain Express is a fully integrated workforce management suite that incorporates time and attendance, employee scheduling and leave management. It is built for speed and flexibility – hardware and services can be deployed in as little as 10 weeks – supporting rapid ROI for Workbrain Express customers.

Sales

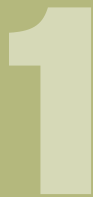
Workbrain's strong sales force, rigorous management processes and focus on understanding client needs have led to the development of specific solutions for business. These solutions have been readily adopted by customers, resulting in record sales growth in 2004 as Workbrain continued to grow the size, skill sets and geographic reach of its sales force.

Organizational

To increase the efficiency and scalability of Workbrain's growing organization, Stephen DeBacco was appointed as Chief Operating Officer. A key contributor at Workbrain since 2000, Stephen focuses on the alignment of strategic goals and operating metrics and results.

Discipline

Above all, Workbrain has defined its vision for long-term leadership in the enterprise workforce management market and has pursued a disciplined plan to fulfill this vision. At the end of 2003, Workbrain committed to five specific strategic objectives. In 2004, Workbrain delivered significant results against these objectives.



Expand Workbrain's worldwide distribution capabilities:

Workbrain expanded worldwide distribution capabilities through new regional offices in London, Melbourne and Irvine, with new customers in each of these areas helping to increase international revenue.

Broaden Workbrain's network of strategic relationships:

Workbrain broadened its network of strategic relationships and increased distribution capabilities with new and existing partner organizations. New relationships with Lawson and Unicru, as well as increased focus on established partners – IBM, Accenture and BearingPoint – supported Workbrain's distribution and delivery of the best workforce management solutions.

3

Enhance Workbrain's industry-specific software applications:

Workbrain enhanced the functionality of its products through the release of Workbrain 4.1. By combining market research, input from client-led product advisory councils and the knowledge of Workbrain's industry experts, over 150 product enhancements were introduced. Workbrain's continued focus on providing deep functionality for key markets allowed clients to realize larger benefits, follow best practices and deploy Workbrain solutions faster.

4

Deepen Workbrain's relationships with existing customers:

Workbrain deepened its relationships with its existing customers. The Customer Success team worked closely with customers to identify their specific needs and to develop solutions. Thanks to initiatives such as new training programs at Workbrain University and the annual Velocity conference, many of Workbrain's customers recognized new opportunities for savings through the purchase of additional products and services.

5

Pursue a disciplined acquisition approach:

Workbrain pursued a disciplined acquisition approach, looking for opportunities to enhance its current offerings. Workbrain will continue to pursue opportunities that accelerate business results and provide a strategic and cultural fit with the growing organization.

Workbrain set a course and followed it. By holding focus on long-term growth and customer satisfaction, Workbrain has achieved continued success in 2004 and established itself as a leader in the field of enterprise workforce management.

Governance

The corporate governance practices of Workbrain are aligned with the guidelines adopted by the Toronto Stock Exchange. The Board continues to monitor and assess developments pertaining to corporate governance and will make changes as required.

The current size of the Board is suited to Workbrain's circumstances and allows for its function as a decision-making body. Of seven Directors, five Directors are independent from Workbrain.

Workbrain separates the positions of Chief Executive Officer and Chairman of the Board.

The Board of Directors is accountable to shareholders for the conduct of Workbrain's business and affairs, and to establish policies and procedures designed to promote and monitor good corporate governance and effective corporate management. The role of the Board of Directors is to supervise management and to focus on stewardship rather than day-to-day operations. Workbrain's Board of Directors currently has an Audit Committee, a Corporate Governance Committee and a Human Resources & Compensation Committee. A summary of each committee's responsibilities follows.

Audit Committee

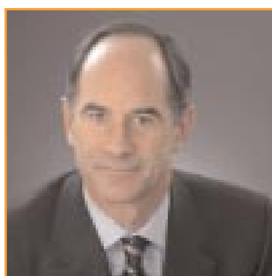
The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities in relation to: the integrity of Workbrain's financial statements and internal control systems; compliance with legal and regulatory requirements; the qualifications, independence and performance of the external auditor; and risk management, financial planning, investment and capital-raising activities. The Audit Committee supervises the adequacy of Workbrain's internal accounting controls and financial reporting practices and procedures and the quality and integrity of audited and unaudited interim financial statements, including thorough discussions with the external auditor. The Audit Committee reviews business plans and operating and capital budgets, meets with management and the Chief Financial Officer to keep informed of all significant financial matters, and meets with the external auditor to ensure its independence from management and that it is provided with sufficient resources to carry out its mandate. The Audit Committee is responsible for ensuring efficient and effective assessment of management of risk throughout Workbrain.

Corporate Governance Committee

The Corporate Governance Committee is responsible for advising and making recommendations to the Board of Directors in the development and monitoring of Workbrain's approach to corporate governance and all matters relating to corporate governance practices including: all matters relating to the stewardship role of the Board of Directors; the size and composition of the Board of Directors including the identification of new nominees; compensation of the Directors; and such procedures as may be necessary to allow the Board of Directors to function independently of management. The Corporate Governance Committee periodically reviews the size, composition and compensation of the Board of Directors and its

Board of Directors

(i) Audit Committee
(ii) Corporate Governance Committee
(iii) Human Resources & Compensation Committee

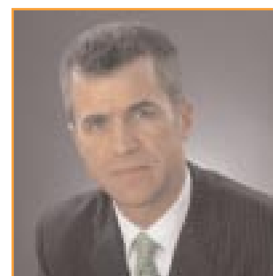


Roger Martin i, iii

Chair of the Board of Directors
Dean and Professor of Strategy at the Joseph L. Rotman School of Management at the University of Toronto

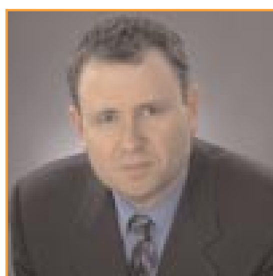
David Ossip

President and CEO of Workbrain Corporation



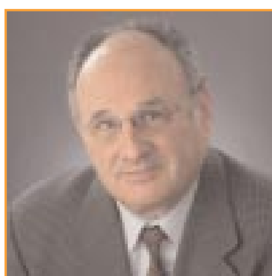
Gerald Throop Chair i

Executive Vice President and Head of Capital Markets, Rockwater Capital Corporation and First Associates Investments Inc.



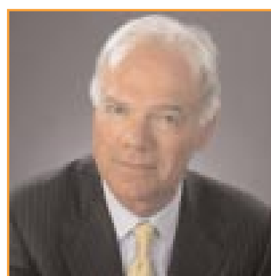
Alon Ossip ii

Partner of Goodman and Carr LLP



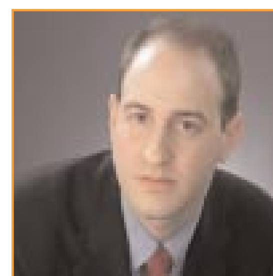
David Goldman Chair iii, i, ii

Executive Chairman of Mamma.com Inc.



Peter Dey Chair ii

Partner of Osler, Hoskin & Harcourt LLP



Scott Yaphe i, ii, iii

Partner of ABS Ventures

committees. The Committee also assesses the effectiveness of the Board of Directors and its individual members, and the appropriateness and effectiveness of its committee structures and mandates. The Corporate Governance Committee also reviews the Chief Executive Officer's goals and objectives at the start of each year, provides an appraisal of the Chief Executive Officer's performance for the most recently completed year, and is responsible for succession planning in respect of Workbrain's Chief Executive Officer.

Human Resources & Compensation Committee

The Human Resources & Compensation Committee (the "Compensation Committee") assists the Board of Directors to ensure that Workbrain maintains a high calibre of executive management and a total compensation plan that is competitive, motivating and rewarding for participants. The Compensation Committee reviews and makes recommendations to the Board of Directors regarding the appointment of executive officers and the establishment of, and any material changes to, executive compensation programs, including that of the Chief Executive Officer. The Compensation Committee approves and reports to the Board of Directors on management succession plans. The Compensation Committee is also responsible for overseeing employee compensation and benefits plans.

Disclosure Policy

The Disclosure Policy ensures that Workbrain's communications to the investment community, the media and the general public are timely, factual and accurate. The policy articulates legal obligations with respect to confidential corporate information, identifies spokespersons authorized to communicate with third parties, and establishes procedures pertaining to appropriate disclosure of material information in accordance with all legal requirements. A disclosure committee is responsible for administering and overseeing practices set forth in the policy, and setting "black-out" periods prior to the disclosure of certain financial information and material changes.

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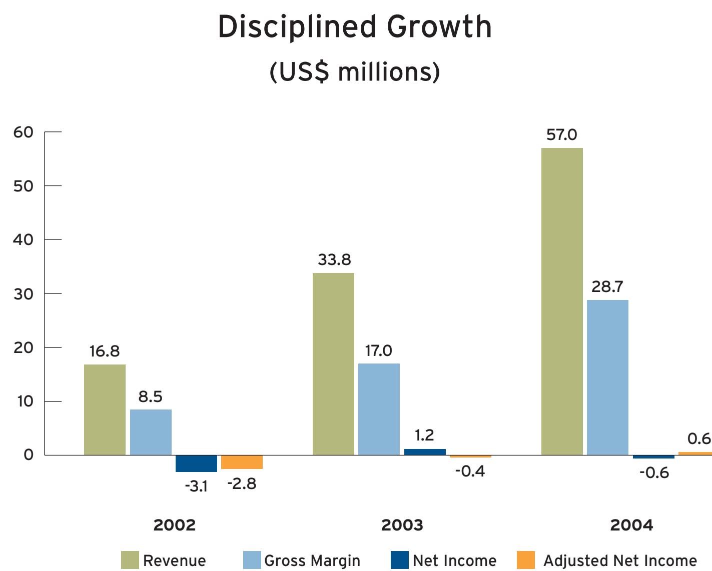


Adjusted net income excludes stock-based compensation charges, foreign exchange and amortization of acquisition-related intangibles.

Selected Consolidated Annual Financial Information

The following table sets out selected consolidated financial information for the years ended December 31, 2004, 2003 and 2002 and as at those dates. The selected consolidated financial information has been derived from our audited consolidated financial statements which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). You should read the following selected consolidated financial information in conjunction with our audited consolidated financial statements and the notes thereto and with Management's Discussion and Analysis.

Years ended December 31, (Amounts in U.S. Dollars, in Thousands, Except per Share Data)	**2004**	2003	2002
Consolidated Statement of Operations Data:			
Revenue:			
Licence	**$ 16,340**	$ 10,361	$ 4,320
Service, maintenance and other	**40,663**	23,456	12,529
Net revenue	**57,003**	33,817	16,849
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	**28,328**	16,818	8,347
Gross profit	**28,675**	16,999	8,502
Gross margin (%)	**50.3%**	50.3%	50.5%
Operating expenses:			
Sales and marketing	**13,847**	8,804	5,905
Research and development	**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	**30,140**	15,991	11,844
Income (loss) from operations	**(1,465)**	1,008	(3,342)
Interest income, net	**910**	232	260
Net income (loss)	**$ (555)**	$ 1,240	$ (3,082)
Net income (loss) per share:			
Basic	**$ (0.03)**	$ 0.09	$ (0.24)
Basic weighted average number of common shares outstanding	**16,871**	13,249	12,589
Diluted	**$ (0.03)**	$ 0.09	$ (0.24)
Diluted weighted average number of common shares outstanding	**16,871**	13,949	12,589

December 31, (Amounts in U.S. Dollars, in Thousands)	**2004**	2003	2002
Consolidated Balance Sheet Data:			
Cash and cash equivalents and short-term investments	**$ 51,077**	$ 46,693	$ 15,301
Working capital	**45,943**	41,443	8,968
Total assets	**72,926**	61,865	24,023
Deferred revenue	**12,852**	9,232	10,390
Long-term liabilities	**1,088**	125	99
Total shareholders' equity	**50,514**	46,929	10,184

You should read the following discussion in conjunction with the selected consolidated financial information and with our audited consolidated financial statements and the notes thereto. Additional information relating to Workbrain Corporation ("we", "us" or "Workbrain"), including our most recent annual information form, is available on SEDAR at www.sedar.com. This management's discussion and analysis is prepared as of February 17, 2005.

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. These forward-looking statements are not facts, promises or guarantees; rather, they reflect our current expectations regarding future results or events. These forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual results, activities, performance or events to differ materially from current expectations. These risks include risks related to our revenue growth, operating results, industry, products, and litigation, as well as the matters discussed under *Risk Factors*. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date on which they were made. We disclaim any obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

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, Europe and Australia. Our sales channels are supported through marketing and implementation relationships with systems integrators and business process outsourcers.

Revenue and Expenses

We generate revenue from licensing our software products and providing related services, including implementation, consulting, training, hosting and post-contract customer support (PCS), and from providing certain hardware related to our software offerings. Licences for our products are typically perpetual licences for a specified number of users. In addition, customers often purchase implementation services from us to help them configure our software to meet their specific needs, which is typically billed on a time and materials basis. Customers also generally enter into renewable annual maintenance contracts that provide for software updates and product support services. Our revenue has grown each quarter for the past 14 fiscal quarters. We have grown our revenue through sales to new customers as well as through sales of additional products and services to our existing customers.

Cost of licence revenue consists primarily of the cost of third-party software we have licenced. Cost of service, maintenance and other revenue consists primarily of personnel and related costs incurred in providing implementation, consulting, training, hosting and PCS services, as well as the cost of data collection devices. Cost of revenue accruals (recoveries), net consists of accruals and recoveries of zero-profit provisions, which are further described under *Significant Accounting Policies*.

Sales and marketing expenses consist primarily of personnel and related costs associated with our sales and marketing functions as well as commissions, seminars, trade shows, advertising and other promotional expenses. Research and development expenses consist primarily of personnel and related costs associated with the development of our software product. General and administrative expenses consist primarily of personnel and related costs associated with our administrative and finance functions, as well as professional fees and other general corporate expenses. Amortization of stock-based compensation after December 31, 2003 relates primarily to charges on stock options granted to employees whereas amortization of stock-based compensation prior to that date related primarily to charges on stock options granted to consultants.

Interest Income

Our interest income is derived from our invested cash and short-term investments. We invest our excess cash in short-term investment-grade interest-bearing securities. Interest income fluctuates primarily as a result of changes in the amount of funds available for investment and prevailing interest rates.

Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

Significant Accounting Estimates

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

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

Recent Accounting Pronouncements

Stock-based Compensation. Effective January 1, 2004, Canadian GAAP required us 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 we 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.

Financial Instruments. In January 2005, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, Section 1530, *Comprehensive Income*, and Section 3865, *Hedges*. The new standards will be effective for interim and annual financial statements commencing in 2007. Earlier adoption is permitted. Most significantly for us, the new standards will require presentation of a separate statement of comprehensive income. Derivative financial instruments will be recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income. The existing hedging principles of Accounting Guideline AcG-13, *Hedging Relationships*, will be maintained. We are assessing the impact of the new standards.

Overall Performance and Results of Operations

The following table sets out, as a percentage of net revenue, selected consolidated financial information for the years ended December 31, 2004, 2003 and 2002:

Years ended December 31, (Percentage of Net Revenue)	**2004**	2003	2002
Consolidated Statement of Operations Data:			
Revenue:			
Licence	**28.7%**	30.6%	25.6%
Service, maintenance and other	**71.3**	69.4	74.4
Net revenue	**100.0**	100.0	100.0
Cost of revenue:			
Licence	**0.5**	0.9	0.5
Service, maintenance and other	**49.5**	50.5	51.1
Cost of revenue accruals (recoveries), net	**(0.3)**	(1.7)	(2.1)
Total cost of revenue	**49.7**	49.7	49.5
Gross margin	**50.3**	50.3	50.5
Operating expenses:			
Sales and marketing	**24.3**	26.0	35.0
Research and development	**16.9**	15.3	20.5
General and administrative	**8.8**	4.8	13.2
Amortization of acquisition-related intangibles	**0.7**	1.0	-
Amortization of stock-based compensation	**2.2**	0.2	1.6
Total operating expenses	**52.9**	47.3	70.3
Income (loss) from operations	**(2.6)**	3.0	(19.8)
Interest income, net	**1.6**	0.7	1.5
Net income (loss)	**(1.0)%**	3.7%	(18.3)%

Comparison of Years Ended December 31, 2004 and 2003

Revenue:

Licence revenue increased 57.7% to $16.3 million in the year ended December 31, 2004 compared with $10.4 million in the year ended December 31, 2003. The growth was substantially attributable to an increase in the cumulative number of new customers to 90 at December 31, 2004 compared with 57 at December 31, 2003. The growth was indirectly attributable to 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, enhance our current products and develop new products, and continue to invest in sales and marketing infrastructure in future periods. Licence revenue as a percentage of net revenue declined to 28.7% in the year ended December 31, 2004 compared with 30.6% in the year ended December 31, 2003, as a result of faster growth in service, maintenance and other revenue.

Service, maintenance and other revenue increased 73.4% to $40.7 million in the year ended December 31, 2004 compared with $23.5 million in the year ended December 31, 2003. The increase was primarily attributable to additional product implementation projects related to new customers as well as our growing installed base, which has continued to purchase services.

Cost of Revenue:

Cost of licence revenue decreased 7.5% to $294,000 in the year ended December 31, 2004 compared with $318,000 in the year ended December 31, 2003, and represented 1.8% and 3.1% of licence revenue for each year, respectively. The decrease in the dollar amount and as a percentage of licence revenue of the cost of licence revenue reflected the sale of a smaller number of third-party software licences in the year ended December 31, 2004 compared with the prior year.

Cost of service, maintenance and other revenue increased 65.3% to $28.2 million in the year ended December 31, 2004 compared with $17.1 million in the year ended December 31, 2003, and represented 69.4% and 72.7% of service, maintenance and other revenue for each year, respectively. The increase in the cost of service, maintenance and other revenue in dollar amount in the year ended December 31, 2004 related primarily to the increase in the number of customer support, implementation and training personnel and related costs necessary to support our larger customer base and new product implementations. The average number of customer support, implementation and training personnel grew to 214 in the year ended December 31, 2004 compared with 129 in the year ended December 31, 2003. The decrease in the cost of service, maintenance and other revenue as a percentage of service, maintenance and other revenue in the year ended December 31, 2004 related primarily to increased operating efficiencies of our services operations, especially professional services. We expect the cost of service, maintenance and other revenue to increase in dollar amounts in future periods as we expect to add personnel to service new customers and our growing customer base.

Cost of revenue accruals (recoveries), net was $(168,000) in the year ended December 31, 2004 compared with $(561,000) in the year ended December 31, 2003, and represented (0.3)% and (1.7)% of net revenue for each year, respectively. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2004 results from the reversal, during 2004, of zero-profit provisions made in 2003 related to projects that were completed during 2004. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2003 results from the reversal, during 2003, of zero-profit provisions made in 2002 and 2001 related to projects that were completed during 2003. We expect the amounts of any future accrual or recovery of zero-profit provisions to be minimal as substantially all projects where revenue was recognized using the zero-profit method were completed by December 31, 2004.

Operating Expenses:

Sales and marketing expenses increased 57.3% to $13.8 million in the year ended December 31, 2004 compared with $8.8 million in the year ended December 31, 2003, and represented 24.3% and 26.0% of net revenue for each year, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales and marketing workforce, which grew to an average of 65 personnel in the year ended December 31, 2004 compared with an average of 50 in the year ended December 31, 2003, increases in their related travel expenses in both North America and Europe and increased marketing activities, including trade shows and promotional expenses. The decrease as a percentage of net revenue is due to increased productivity as our sales and marketing workforce continues to grow. We expect sales and marketing expenses to increase in dollar amount in future periods as we expect to continue to add to our sales force and increase our marketing activities.

Research and development expenses increased 87.3% to $9.7 million in the year ended December 31, 2004 compared with $5.2 million in the year ended December 31, 2003, and represented 16.9% and 15.3% of net revenue for each year, respectively. The increase in dollar amount in the year ended December 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 97 in the year ended December 31, 2004 compared with 62 in the year ended December 31, 2003. The increase in research and development expenses was offset by investment tax credits of $149,000 realized in the year ended December 31, 2004 compared with $540,000 realized in the year ended December 31, 2003. Up to December 31, 2004, all research and development costs have been expensed as incurred. We intend to increase research and development expenditures in dollar amount in future periods as we expect to continue to enhance our products and introduce new product functionality.

General and administrative expenses increased 212.2% to $5.0 million in the year ended December 31, 2004 compared with $1.6 million in the year ended December 31, 2003, and represented 8.8% and 4.8% of net revenue for each year, respectively. The increase in dollar amount was primarily the result of the inclusion of a lower foreign exchange gain of $339,000 in the year ended December 31, 2004 compared with the inclusion a foreign exchange gain of $1.7 million in the year ended December 31, 2003. In addition, the average number of administrative and financial personnel grew to 41 in the year ended December 31, 2004 compared with 25 in the year ended December 31, 2003. The lower foreign exchange gain more than offset the efficiencies in general and administrative expenses we have experienced as our revenue grows. We anticipate that general and administrative expenses will increase in dollar amount in future periods due in part to the increasing costs associated with being a public company.

Amortization of acquisition-related intangibles relates to intangible assets acquired from Workforce Logistics Inc. during 2003 and increased 9.2% to $367,000 in the year ended December 31, 2004, compared with $336,000 in the year ended December 31, 2003, and represented 0.7% and 1.0% of net revenue for each year, respectively. The increase is primarily attributable to only a partial year's amortization being included in the year ended December 31, 2003, since the acquisition was completed effective April 1, 2003. We expect this charge to decrease in future periods as a portion of the intangibles were fully amortized by December 31, 2004.

Amortization of stock-based compensation increased to $1.2 million for the year ended December 31, 2004 compared with $84,000 in the year ended December 31, 2003 and represented 2.2% and 0.2% 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, beginning on January 1, 2004, required us to 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 $910,000 in the year ended December 31, 2004 compared with $232,000 in the year ended December 31, 2003, primarily due to an increase in the amount of funds available for investment in the year ended December 31, 2004 compared with the prior year.

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

Foreign exchange. We maintain a Canadian dollar-denominated treasury to fund our Canadian denominated operating expenses, in addition to our U.S. dollar-denominated treasury. As a result, we are subject to gains and losses due to fluctuations in the exchange rate between the U.S. and Canadian dollars. We recorded a net foreign exchange gain of approximately $400,000 for the year ended December 31, 2004, compared with a net foreign exchange gain of $2.0 million included in the year ended December 31, 2003. The gain included in the year ended December 31, 2004 was primarily as a result of an appreciation in the value of the Canadian dollar over the period (from 0.77 U.S. dollars at December 31, 2003 to 0.83 U.S. dollars at December 31, 2004). As we continue to expand our operations internationally, we will be subjected to additional potential gains and losses against currencies other than the U.S. dollar, in addition to our exposure to the Canadian dollar.

Net income (loss) decreased by $1.8 million to a net loss of $(555,000) in the year ended December 31, 2004 compared with net income of $1.2 million in the year ended December 31, 2003. The decrease was partially related to the inclusion of a lower foreign exchange gain of $400,000 in the year ended December 31, 2004, compared with a foreign exchange gain of $2.0 million included in the year ended December 31, 2003. The decrease was also related to the inclusion of a stock-based compensation expense of $1.2 million in the year ended December 31, 2004, compared with $84,000 in the year ended December 31, 2003, due to the adoption of the new accounting standard described above.

Adjusted net income (loss), as defined below, increased by $1.0 million to adjusted net income of $649,000 in the year ended December 31, 2004 compared with adjusted net loss of $(366,000) in the year ended December 31, 2003. The increase in adjusted net income (loss) was due to an increase in gross margin (after adjusting for the effect of foreign exchange) as well as a decrease in operating expenses as a percentage of net revenue (after adjusting for the effect of foreign exchange).

Adjusted net income (loss) is a non-GAAP measure related to net income (loss) and is defined by us as net income (loss) excluding foreign exchange gains or losses, stock-based compensation charges and amortization of acquisition-related intangibles. We believe that this measure enhances an overall understanding of our operational results by revealing trends in our core operating margins, while removing the effects of short-term fluctuations in foreign exchange rates, changes in non-cash stock-based compensation expenses which relate primarily to a recent accounting pronouncement, and non-cash expenses relating to acquisitions. Adjusted net income (loss) is a supplemental measure and should not be construed as an alternative to net income as defined under Canadian GAAP as a measure of profitability. Our method of measuring adjusted net income (loss) is unlikely to be comparable to similar measures provided by other companies. A reconciliation of the Canadian GAAP information to the adjusted information is provided in the following table (tabular amounts in thousands of U.S. dollars):

Years ended December 31,	**2004**	2003
Net income (loss)	**$ (555)**	$ 1,240
Add back:		
Foreign exchange gain	**(400)**	(2,026)
Amortization of stock-based compensation	**1,237**	84
Amortization of acquisition-related intangibles	**367**	336
Adjusted net income (loss)	**$ 649**	$ (366)

Comparison of Years Ended December 31, 2003 and 2002

Revenue:

Licence revenue increased 139.8% to $10.4 million in the year ended December 31, 2003 compared with $4.3 million in the year ended December 31, 2002. The growth was substantially attributable to an increase in the cumulative number of new customers to 57 at December 31, 2003 compared with 32 at December 31, 2002. Growth was also a result of significant investments in sales infrastructure, primarily an increase in the number of direct sales personnel as well as a substantial expansion of marketing programs.

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

Cost of Revenue:

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

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

Cost of revenue accruals (recoveries), net was $(561,000) in the year ended December 31, 2003 compared with $(359,000) in the year ended December 31, 2002, and represented (1.7)% and (2.1)% of net revenue for each year, respectively. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2003 results from the reversal, during 2003, of zero-profit provisions made in 2002 related to projects that were completed during 2003. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2002 results from the reversal, during 2002, of zero-profit provisions made in 2001 and 2000 related to projects that were completed during 2002.

Operating Expenses:

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

Research and development expenses increased 49.1% to $5.2 million in the year ended December 31, 2003 compared with $3.5 million in the year ended December 31, 2002, and represented 15.3% and 20.5% of net revenue for each year, respectively. The increase in dollar amount in the year ended December 31, 2003 over the prior year was primarily attributable to increased staffing and associated support invested in order to expand and enhance our product offering. The average number of research and development personnel grew to 62 in the year ended December 31, 2003 compared with 45 in the year ended December 31, 2002. The increase in research and development expenses was offset by investment tax credits of $540,000 realized in the year ended December 31, 2003 compared with $144,000 realized in the year ended December 31, 2002. Up to December 31, 2003, all research and development costs were expensed as incurred. Research and development expenses decreased as a percentage of net revenue as a result of an increase in the number of customers that have licenced our products.

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

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

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

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

Acquisition. Effective April 1, 2003, we acquired the net operating assets of Workforce Logistics Inc., a provider of schedule optimization software. The acquisition enhanced our existing workforce management solution with additional schedule optimization functionality. Following this acquisition, we also began to recognize revenue from Workforce Logistics Inc.'s customers. Revenue attributable to the acquisition was less than $1.2 million for the year ended December 31, 2003. Amortization of acquisition-related intangibles relates to intangible assets acquired from Workforce Logistics Inc. and was $336,000 for the year ended December 31, 2003.

Foreign exchange. We maintain a Canadian dollar-denominated treasury to fund our Canadian denominated operating expenses, in addition to our U.S. dollar-denominated treasury. As a result, we are subject to gains and losses due to fluctuations in the exchange rate between the U.S. and Canadian dollars. We recorded a net foreign exchange gain of approximately $2.0 million for the year ended December 31, 2003, compared with a foreign exchange loss of $(48,000) included in the year ended December 31, 2002. The gain included in the year ended December 31, 2003 was primarily as a result of forward exchange contracts entered into in 2003 at favourable rates, as more fully described under *Foreign Exchange Management*.

Net income (loss) increased by $4.3 million to net income of $1.2 million in the year ended December 31, 2003 compared with a net loss of $(3.1 million) in the year ended December 31, 2002. The increase was primarily related to a reduction in operating expenditures as a percentage of revenue in the year ended December 31, 2003 compared with the year ended December 31, 2002 and to the discontinuation of the zero-profit revenue recognition method. The increase was also related to the inclusion of a foreign exchange gain of $2.0 million in the year ended December 31, 2003, compared with a foreign exchange loss of $(48,000) included in the year ended December 31, 2002.

Adjusted net loss, as defined below, decreased by $2.4 million to an adjusted net loss of $(366,000) in the year ended December 31, 2003 compared with an adjusted net loss of $(2.8) million in the year ended December 31, 2002. The decrease in adjusted net loss was primarily due to operating efficiencies and the discontinuation of the zero-profit revenue recognition method described above.

Adjusted net loss is a non-GAAP measure related to net income (loss) and is defined as net income (loss) excluding foreign exchange gains or losses, stock-based compensation charges and amortization of acquisition-related intangibles. We believe that this measure enhances an overall understanding of our operational results by revealing trends in our core operating margins, while removing the effects of short-term fluctuations in foreign exchange rates, changes in non-cash stock-based compensation expenses which relate primarily to a recent accounting pronouncement, and non-cash expenses relating to acquisitions. Adjusted net loss is a supplemental measure and should not be construed as an alternative to net income as defined under Canadian GAAP as a measure of profitability. Our method of measuring adjusted net loss is unlikely to be comparable to similar measures provided by other companies. A reconciliation of the Canadian GAAP information to the adjusted information is provided in the following table (tabular amounts in thousands of U.S. dollars):

Years ended December 31,	2003	2002
Net income (loss)	$ 1,240	$ (3,082)
Add back:		
Foreign exchange loss (gain)	(2,026)	48
Amortization of stock-based compensation	84	268
Amortization of acquisition-related intangibles	336	-
Adjusted net loss	$ (366)	$ (2,766)

Liquidity and Capital Resources

We have historically financed our operations through the sale of shares and through the cash generated by our operations. In December 2003, we raised $32.4 million, net of offering costs, through the sale of 3.3 million common shares in a public offering. In April 2001, we raised $11.8 million, net of offering costs, through the sale of 3.0 million Class B preferred shares and we issued an additional 0.5 million Class B preferred shares at that time to the purchasers of the December 2000 Class B round of financing to reduce their effective per share price to be equivalent to that of the April 2001 Class B round. At December 31, 2004 we had cash and cash equivalents and short-term investments of $51.1 million and working capital of $45.9 million.

Cash provided by operating activities for the years ended December 31, 2004, 2003 and 2002 was $1.0 million, $1.2 million and $2.9 million, respectively. Cash provided by operations in the year ended December 31, 2004 was the result of our net loss of $(555,000) and non-cash charges for depreciation and amortization totaling $3.8 million which was partially offset by a net increase in working capital requirements. Cash provided by operations in the year ended December 31, 2003 was the result of our net income of $1.2 million and non-cash charges for depreciation and amortization totaling $1.9 million, which was offset by a net increase in working capital requirements. Cash provided by operations in the year ended December 31, 2002 was primarily the result of a net decrease in working capital requirements, which included a significant increase in deferred revenue.

Our investing activities consist of the purchase and maturity of short-term investments, the purchase of property and equipment and a business combination transaction. In the year ended December 31, 2003, we used cash of $1.4 million in the acquisition of the net operating assets of Workforce Logistics Inc. In the years ended December 31, 2004, 2003 and 2002, we purchased property and equipment, principally computers and related software for our growing employee base, of $2.6 million, $2.3 million and $1.1 million, respectively. We expect that our investment in property and equipment will continue to increase as our employee base continues to grow. In the year ended December 31, 2004, we purchased $32.3 million in short-term investments and $20.0 million of short-term investments matured. In the year ended December 31, 2003 we purchased $8.7 million in short-term investments. In the year ended December 31, 2002 we purchased $8.9 million in short-term investments, which matured in early 2003.

Our financing activities consist primarily of the issuance of share capital. In the year ended December 31, 2004, 2003 and 2002, $4.6 million, $32.9 million and $7,000 of cash was provided by our financing activities, respectively. In 2004, we raised $2.0 million and $851,000 from stock option and warrant exercises during the year, respectively. In 2003, we raised $32.4 million from the issuance of common shares in a public offering and $520,000 from stock options exercised during the year.

In the year ended December 31, 2004, $1.9 million of cash was provided by the sale and leaseback of property and equipment. During the second quarter of 2004, we negotiated a non-committed lease line of credit for up to $2.5 million (Cdn$3.0 million) with the equipment finance arm of a Canadian chartered bank to finance selected property and equipment purchases. At December 31, 2004, a total of $1.8 million had been advanced to us in three transactions under the line at a fixed interest rate of approximately 6% for terms ranging from 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. Our other material contractual obligations include the future minimum lease payments relating to our premises, which total $4.1 million.

Contractual Obligations. Payments due by Period (tabular amounts in thousands of U.S. dollars):

	Total	Less Than One Year	Two to Three Years	Four to Five Years	More Than Five Years
Capital lease obligations	**$ 1,986**	$ 862	$ 1,124	$ -	$ -
Leasehold inducements	**78**	54	24	-	-
Operating lease obligations	**4,123**	1,029	1,261	1,169	664
Total contractual obligations	**$ 6,187**	$ 1,945	$ 2,409	$ 1,169	$ 664

We had cash, cash equivalents and short-term investments totalling $51.1 million, $46.7 million and $15.3 million at December 31, 2004, 2003 and 2002, respectively. Total cash flow and cash provided by operations fluctuate quarterly as a result of changes in the timing of payments received and made by us, especially collections from customers and payment of compensation-related expenses; however, for each of the years ended December 31, 2004, 2003 and 2002, cash provided by operations and total cash flow were positive. We believe that our current cash, cash equivalents and short-term investments together with anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

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 opportunities and/or broaden our customer base. We have no present agreements or commitments with respect to any prospective acquisition or investment. However, our total cash position could be significantly reduced if we choose to fund a significant acquisition partly or wholly with cash.

Foreign Exchange Management

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

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

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

The proceeds we raised from our public offering in December 2003 were denominated in Canadian dollars, and we have since maintained a Canadian dollar treasury in addition to our U.S. treasury. During 2004, we used this Canadian dollar treasury as an alternative method of managing our Canadian and U.S. dollar-denominated cash flows, instead of the foreign exchange forward contracts that we used during 2003, which are discussed above. We regularly sell U.S. dollars in order to maintain our Canadian dollar treasury and to fund our Canadian dollar-denominated operating expenses. We are still subject to gains and losses due to fluctuations between the U.S. and Canadian dollars. As we continue to expand our operations internationally, we will be subjected to additional potential gains and losses against currencies in addition to our exposure to the Canadian dollar.

Selected Consolidated Quarterly Financial Information

The following table sets out unaudited selected consolidated financial information for each of the eight quarters for the periods ended up to December 31, 2004. In the opinion of management, this information has been presented on the same basis as the audited consolidated financial statements appearing elsewhere in this annual report, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with our audited consolidated financial statements and the notes thereto. The operating results for any quarter should not be relied upon as any indication of results for any future period.

Quarters ended (Amounts in U.S. Dollars, in Thousands, Except per Share Data, Unaudited)				2004				2003
	Dec 31, 2004	**Sep 30, 2004**	**Jun 30, 2004**	**Mar 31, 2004**	Dec 31, 2003	Sep 30, 2003	Jun 30, 2003	Mar 31, 2003
Consolidated Statement of Operations Data:								
Revenue:								
Licence	**$ 4,368**	**$ 4,140**	**$ 3,703**	**$ 4,129**	$ 2,521	$ 2,555	$ 2,883	$ 2,402
Service, maintenance and other	**13,426**	**11,867**	**9,177**	**6,193**	6,975	6,400	5,402	4,679
Net revenue	**17,794**	**16,007**	**12,880**	**10,322**	9,496	8,955	8,285	7,081
Cost of revenue:								
Licence	**95**	**7**	**96**	**96**	39	19	112	148
Service, maintenance and other	**8,679**	**7,752**	**6,349**	**5,422**	4,913	4,503	4,396	3,249
Cost of revenue accruals (recoveries), net	**-**	**-**	**-**	**(168)**	(8)	(911)	112	246
Total cost of revenue	**8,774**	**7,759**	**6,445**	**5,350**	4,944	3,611	4,620	3,643
Gross profit	**9,020**	**8,248**	**6,435**	**4,972**	4,552	5,344	3,665	3,438
Gross margin (%)	**50.7%**	**51.5%**	**50.0%**	**48.2%**	47.9%	59.7%	44.2%	48.6%
Operating expenses:								
Sales and marketing	**4,178**	**3,229**	**3,572**	**2,868**	2,588	2,088	2,322	1,806
Research and development	**2,669**	**2,262**	**2,451**	**2,268**	1,711	1,369	1,323	750
General and administrative	**1,562**	**1,275**	**1,062**	**1,140**	293	319	445	557
Amortization of acquisition-related intangibles	**75**	**75**	**91**	**126**	125	127	84	-
Amortization of stock-based compensation	**320**	**368**	**320**	**229**	81	-	2	1
Total operating expenses	**8,804**	**7,209**	**7,496**	**6,631**	4,798	3,903	4,176	3,114
Income (loss) from operations	**216**	**1,039**	**(1,061)**	**(1,659)**	(246)	1,441	(511)	324
Interest income, net	**221**	**204**	**212**	**273**	62	50	56	64
Net income (loss)	**$ 437**	**$ 1,243**	**$ (849)**	**$(1,386)**	$ (184)	$ 1,491	$ (455)	$ 388
Net income (loss) per share:								
Basic	**$ 0.03**	**$ 0.07**	**$ (0.05)**	**$ (0.08)**	$ (0.01)	$ 0.11	$ (0.04)	$ 0.03
Basic weighted average number of common shares outstanding	**17,187**	**16,899**	**16,751**	**16,645**	14,039	13,299	12,955	12,687
Diluted	**$ 0.02**	**$ 0.07**	**$ (0.05)**	**$ (0.08)**	$ (0.01)	$ 0.11	$ (0.04)	$ 0.03
Diluted weighted average number of common shares outstanding	**17,819**	**17,419**	**16,751**	**16,645**	14,039	13,864	12,955	13,122

Variation in Operating Results

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

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

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

Results for the Three Months Ending December 31, 2004

Revenue. Net revenue increased 87.4% to $17.8 million for the three months ending December 31, 2004, compared with $9.5 million for the three months ending December 31, 2003. The three months ending December 31, 2004 mark our 14th consecutive quarter of revenue growth. The increase in revenue was primarily attributable to additional product implementation projects related to recent customers as well as to our growing installed base, which has continued to purchase products and services.

Operating expenses increased 83.5% to $8.8 million in the three months ending December 31, 2004, compared with $4.8 million in the three months ending December 31, 2003; however, operating expenses decreased to 49.5% as a percentage of net revenue in the three months ending December 31, 2004, compared with 50.5% of net revenue in the three months ending December 31, 2003. The increase in dollar amount was primarily related to the growth in our employee base, whereas the decrease in percentage terms was primarily related to increases in operating efficiencies, partly offset by increases in stock-based compensation expenses and lower foreign exchange gains.

Net income (loss) increased to net income of $437,000 for the three months ending December 31, 2004, compared with a net loss of $(184,000) for the three months ending December 31, 2003, primarily as a result of this decrease in total operating expenses as a percentage of net revenue.

Liquidity and capital resources. Cash, cash equivalents and short-term investments increased by $5.5 million in the three months ending December 31, 2004, from $45.6 million at September 30, 2004, to $51.1 million at December 31, 2004. The increase in cash, cash equivalents and short-term investments was related primarily to cash provided by operations of $2.6 million for the three months ending December 31, 2004. The increase in cash provided by operations was related primarily to increases in deferred revenue and accrued payroll.

Related Party Transactions

We have entered into certain transactions in the normal course of business with a law firm, a partner of which is a director of Workbrain and the brother of our Chief Executive Officer. Fees charged by that law firm were based on the same hourly rates charged by the applicable professionals to unrelated parties. During the year ended December 31, 2004, total amounts paid by us to such law firm for legal services and other services aggregated $377,000 (2003 – $282,000).

Outstanding Share Data

As at January 31, 2005, there were 17,437,090 common shares outstanding. In addition, a total of 1,273,603 stock options and 37,596 warrants were outstanding, which are exercisable for an equal number of common shares.

Risk Factors

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

Failure to manage our growth successfully may adversely impact our operating results.
The growth of our operations places a strain on managerial, financial and human resources. We believe that our ability to manage future growth will depend in large part upon a number of factors, including our ability to:

- build and train sales and marketing staff to create an expanding presence in the evolving marketplace for our products, and to keep staff informed regarding the technical features, issues and key selling points of our products;
- attract and retain qualified technical personnel in order to continue to develop and deliver reliable and scalable products and services that respond to evolving customer and industry requirements;
- develop customer support capacity as our installed customer base increases; and
- expand our internal management and financial controls significantly, so that we can maintain control over our operations and provide support to other functional areas within Workbrain as the number of our personnel and our size increase.

We may not be able to hire or retain key personnel essential to our business.
We believe that our success depends on key employees, including senior management and key technical resources, to develop, market, and support our products and to manage our business. The loss of one or more of these key employees could have a material adverse effect on our business. The success of our business is also highly dependent on our continuing ability to attract and retain additional, highly-qualified personnel. The failure to attract and retain key personnel could adversely affect our future growth and profitability.

Our revenue can be difficult to predict and can fluctuate substantially, which may harm the results of our operations.
Our revenue is difficult to forecast and is likely to fluctuate significantly from quarter to quarter. We rely on revenue related to a single line of software products. Although we have experienced revenue growth from these products in past periods, there is a risk that revenue from these products will not continue to grow, or will not grow at rates projected by management, or will not follow any past trends. Our anticipated revenue may be reduced by any one, or a combination of, unforeseen market, economic, competitive, or organizational factors, many of which are outside of our control, including:

- competitive conditions in our industry, including new products, product announcements and special pricing offered by our competitors;
- market acceptance of our products;
- our ability to hire, train and retain sufficient sales and services personnel;
- our ability to complete service obligations related to the implementation of our licenced product in a timely manner;
- the varying size, timing and contractual terms of orders for our products, which may delay the recognition of revenue;
- our ability to maintain existing relationships and to create new relationships to assist with our sales and marketing efforts;
- the length and variability of the sales cycles for our products;
- changes in our pricing policies and the pricing policies of our competitors;
- the timing of product developments and new product initiatives;
- changes in the mix of revenue attributable to substantially lower-margin service revenue as opposed to higher-margin product licence revenue;
- the discretionary nature of our customers' purchase and budget cycles and changes in their budgets for, and timing of, software, implementation services and related purchases;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy; and
- a general weakening of the economy, or a weakening of the economic conditions in the particular industries and geographical regions in which we provide solutions, or any political or economic crises, natural disasters, terrorist acts, or other hostilities, which result in a decrease in the overall demand for computer software and services or otherwise affect our customers' investment in workforce management software.

Our quarterly revenue depends largely on the progress we make on existing customer contracts during the quarter, as well as on sales to new and existing customers. Delays, reductions in the amount or cancellations of customers' purchases would adversely affect our revenue. We often complete a large percentage of sales transactions near the end of a quarter. In addition, our quarterly revenue is dependent upon a relatively small number of customers, and the absence of one or more anticipated large transactions in a particular period may have a material effect on revenue in that period. Even minor variations in the rate and timing of sales or our progress on customer contracts could materially impact revenue, which in turn could adversely affect our business and our financial results. If we experience a shortfall in revenue or otherwise fail to meet public market expectations, there could be a material, adverse impact on our business, our financial condition, the results of our operations, and on the market price of our common shares.

Our quarterly and annual operating results may vary significantly between periods, and our expenses may not match anticipated revenues.

Historically, our operating results have varied from quarter to quarter, and we expect this variation to continue. We plan and manage our operating expenses based on anticipated revenue. Since a significant percentage of our expenses are relatively fixed, and because it is difficult to anticipate the revenue that we will realize in any particular quarter until near the end of that quarter, any delay or reduction in revenue could cause significant variations in operating results from quarter to quarter, including potential net losses and negative cash flow. Therefore, the potential causes of reductions or delays in revenue recognition (set out above under the heading *Our revenue can be difficult to predict and can fluctuate substantially, which may harm the results of our operations.*) also apply to our ability to predict and manage quarterly earnings. As a result, such delays or reductions in revenue could materially and adversely affect our business, our financial condition and the results of our operations.

We face substantial competition and we may not compete successfully, which could adversely affect our operating results.

We face significant competition and we expect our competitors to continue to improve the performance of their current products and to introduce new products and new technologies. Many of our competitors have substantially greater financial and other resources with which to pursue research and development, marketing, and distribution of their products. New product announcements or introductions by our competitors could impact our ability to compete effectively. The intensely competitive market in which we conduct our business also could require us to reduce our prices; if our competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other software products, we may be required to lower prices or offer other favourable terms to compete successfully. Any such changes would be likely to reduce our margins and could adversely affect our operating results. Some of our competitors may bundle software products that compete with ours for promotional purposes or as a long-term pricing strategy or provide guarantees of prices and product implementations. These practices could, over time, limit the prices that we can charge for our products. If we cannot offset price reductions with a corresponding increase in the quantity of sales or through lower spending, the reduced revenue resulting from lower prices would adversely affect our margins and operating results. In addition, if one or more of our competitors merges, acquires or partners with another of our competitors, the resulting change in the competitive environment could adversely affect our ability to compete. Competition also may increase if new vendors enter the market. Any reduction in our ability to compete effectively against our current and future competitors could have a material adverse effect on our business, results of operations, and financial condition.

Our industry is subject to rapid technological change and our products may become obsolete.

The market for workforce management solutions is characterized by rapid technological change, including new product introductions by our competitors and new entrants to the market; changes in the industry standard components with which our software inter-operates (such as operating systems, databases and application server technologies); and concomitant changes in customers' technological standards and requirements. We cannot provide assurance that our products will remain highly competitive regardless of such future technological changes. If we fail to anticipate or respond quickly to such changes by bringing new developments to market in a timely and cost-effective manner, our products may become obsolete, which could affect our competitiveness and could have a material adverse effect on our business, results of operations, and financial condition.

We operate internationally, and we face currency fluctuation risks and other risks relating to international operations.

We enter into transactions in multiple currencies and we are subject to gains and losses due to fluctuations between those currencies. The majority of our revenue is denominated in U.S. dollars whereas the majority of our operating expenses are denominated in Canadian dollars. We also generate revenue and incur expenditures in currencies other than the U.S. and Canadian dollars. In addition, we maintain a

Canadian dollar-denominated treasury to fund our Canadian denominated operating expenses, in addition to our U.S. dollar-denominated treasury. Therefore, fluctuations in the exchange rate between the U.S. dollar and other currencies, especially the Canadian dollar, may have a material adverse effect on our business, financial condition, and operating results. We intend to continue to expand our operations internationally, so we may be subject to additional gains and losses against additional currencies. Please see our discussion regarding the impact of foreign exchange and the management of foreign currency risk in the section of this document entitled *Foreign Exchange Management*.

In addition, we generate a material amount of revenue through our overseas operations, and we intend to continue to expand these international operations. These foreign operations face risks arising from local political, legal and economic factors such as varying regulatory requirements, compliance with international and local trade, labour and other laws, and differences in intellectual property protections in certain jurisdictions. We may also face difficulties in managing these international operations, collecting receivables in a timely fashion, and repatriating earnings. These factors could materially impact our international operations and adversely affect the results of our operations as a whole.

Making and integrating acquisitions could impair our operating results.
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 opportunities and/or broaden our customer base. We have no present agreements or commitments with respect to any prospective acquisition or investment. However, if we do make acquisitions, these will involve a number of risks, including: potential reduction in management's attention to our current operations and the potential disruption of these operations; potential difficulties in integrating and retaining all or part of the acquired business and its key personnel; and the potential assumption of disclosed and undisclosed liabilities. Acquisitions may also reduce our cash position and dilute our earnings across a larger shareholder base. Furthermore, we may incorrectly assess the value of an acquisition target or fail to accurately estimate the amount, extent and timing of the costs and benefits associated with an acquisition. These acquisition-related risks could materially and adversely affect our business, our financial condition and the results of our operations.

We may have exposure to greater-than-anticipated tax liabilities.
We are subject to taxes related to our income and to other taxes in the jurisdictions in which we operate. Our tax structure is subject to review by various taxation authorities. The determination of provisions for income taxes and the estimation of tax assets and liabilities require significant judgment. Although we believe our current estimates are reasonable, the taxes we may ultimately owe may differ from the amounts we record in our financial statements which could materially affect our financial results.

Our intellectual property rights may be infringed or we may have to defend ourselves against other parties' intellectual property infringement claims.
We rely on various intellectual property protections, including contractual provisions, patents, copyright, trademark, and legislation governing trade secrets, to protect our intellectual property rights. Despite these measures, third parties may misappropriate our intellectual property, which could result in lost revenue opportunities and impair our ability to compete. Alternatively, we could be subject to claims by third parties that our products or services infringe their intellectual property rights. In either case, we would incur expenditures and may be subject to costly litigation that would divert the attention of our management away from our ongoing business. Third-party claims also could result in damages or other costs (for example, to develop similar non-infringing intellectual property or licence the intellectual property at issue) which could materially disrupt our business, and could adversely affect our financial condition and the results of our operations.

We could face liability claims if our products or services fail to perform as intended.
We are subject to legal proceedings and claims that may arise in the conduct of our business, including product and service warranty claims, which could be substantial. Software products and related services are complex and may contain errors or defects, particularly when configured to meet specific customer requirements. We believe that our current procedures provide a reasonable degree of quality control and the ability to respond to defects and errors found in our products and services. We also seek to limit our liability contractually in accordance with prevailing industry practice. Nevertheless, defects and errors in our products could inhibit or prevent successful customer deployment of our products and cause us to lose customers or require us to pay penalties or damages. A successful product liability claim against us could materially disrupt our business and could adversely affect our financial condition and the results of our operations.

Management's Responsibility for Financial Reporting

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

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

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

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

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

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

(Signed)
David Ossip
President and Chief Executive Officer
February 16, 2005

(Signed)
Matthew Chapman
Chief Financial Officer
February 16, 2005

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.

(Signed)
Chartered Accountants
Toronto, Canada
February 16, 2005

Consolidated Balance Sheets

December 31,
(Amounts in U.S. Dollars, in Thousands, Except per Share Data)

	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)

See accompanying Notes to Consolidated Financial Statements

On behalf of the Board of Directors:

(signed)
Gerald Throop
Director

(signed)
Roger Martin
Director

Consolidated Statements of Operations

Years ended December 31, (Amounts in U.S. Dollars, in Thousands, Except per Share Data)	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	57,003	33,817	16,849
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	28,328	16,818	8,347
Gross profit	28,675	16,999	8,502
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	30,140	15,991	11,844
Income (loss) from operations	(1,465)	1,008	(3,342)
Interest income, net	910	232	260
Net income (loss)	$ (555)	$ 1,240	$ (3,082)
Net income (loss) per share (note 13)**:**			
Basic	$ (0.03)	$ 0.09	$ (0.24)
Basic weighted average number of common shares outstanding	16,871	13,249	12,589
Diluted	$ (0.03)	$ 0.09	$ (0.24)
Diluted weighted average number of common shares outstanding	16,871	13,949	12,589

**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
	$ 1,237	$ 84	$ 268

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

(Amounts in U.S. Dollars, in Thousands, Except Share Data)	Common Shares		Class A Preferred Shares		Class B Preferred Shares	
	Shares	Amount	Shares	Amount	Shares	Amount
Balances at December 31, 2001	6,355,876	$ 1,000	1,297,686	$ 4,680	4,932,009	$ 19,963
Issuance of common shares for services rendered	4,969	-	-	-	-	-
Issuance of common shares on stock options exercised	2,000	7	-	-	-	-
Deferred stock-based compensation	-	-	-	-	-	-
Amortization of stock-based compensation	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
Balances at December 31, 2002	6,362,845	1,007	1,297,686	4,680	4,932,009	19,963
Issuance of common shares for services rendered	5,517	-	-	-	-	-
Issuance of common shares on stock options exercised	288,864	520	-	-	-	-
Issuance of common shares and warrants on the acquisition of the net operating assets of Workforce Logistics Inc.	446,183	2,309	-	-	-	-
Conversion of Class A and Class B preferred shares into common shares	6,229,695	24,643	(1,297,686)	(4,680)	(4,932,009)	(19,963)
Issuance of common shares on public offering	3,299,000	32,426	-	-	-	-
Deferred stock-based compensation	-	-	-	-	-	-
Amortization of stock-based compensation	-	-	-	-	-	-
Net income	-	-	-	-	-	-
Balances at December 31, 2003	16,632,104	60,905	-	-	-	-
Issuance of common shares on stock options exercised	561,755	2,046	-	-	-	-
Issuance of common shares on warrants exercised	222,431	851	-	-	-	-
Cumulative impact of change in accounting policy (note 1(o))	-	-	-	-	-	-
Deferred stock-based compensation	-	-	-	-	-	-
Amortization of stock-based compensation	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
Balances at December 31, 2004	**17,416,290**	**$ 63,802**	**-**	**$ -**	**-**	**$ -**

See accompanying Notes to Consolidated Financial Statements

(Amounts in U.S. Dollars, in Thousands Except Share Data)	Contributed Surplus	Deferred Stock-based Compensation	Cumulative Translation Adjustment	Deficit	Total Shareholders' Equity
Balances at December 31, 2001	$ 1,523	$ (270)	$ (127)	$ (13,885)	$ 12,884
Issuance of common shares for services rendered	20	(20)	-	-	-
Issuance of common shares on stock options exercised	-	-	-	-	7
Deferred stock-based compensation	213	(213)	-	-	-
Amortization of stock-based compensation	-	375	-	-	375
Net loss	-	-	-	(3,082)	(3,082)
Balances at December 31, 2002	1,756	(128)	(127)	(16,967)	10,184
Issuance of common shares for services rendered	40	(40)	-	-	-
Issuance of common shares on stock options exercised	-	-	-	-	520
Issuance of common shares and warrants on the acquisition of the net operating assets of Workforce Logistics Inc.	47	-	-	-	2,356
Conversion of Class A and Class B preferred shares into common shares	-	-	-	-	-
Issuance of common shares on public offering	-	-	-	-	32,426
Deferred stock-based compensation	215	(215)	-	-	-
Amortization of stock-based compensation	-	203	-	-	203
Net income	-	-	-	1,240	1,240
Balances at December 31, 2003	2,058	(180)	(127)	(15,727)	46,929
Issuance of common shares on stock options exercised	-	-	-	-	2,046
Issuance of common shares on warrants exercised	-	-	-	-	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	**$ 5,859**	**$ (2,240)**	**$ (127)**	**$ (16,780)**	**$ 50,514**

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years ended December 31, (Amounts in U.S. Dollars, in Thousands)	**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	**1,034**	1,163	2,910
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	**(14,872)**	(3,435)	(1,668)
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	**4,634**	32,891	7
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	**38,027**	6,370	5,114
Cash and cash equivalents, end of year	**$ 30,165**	$ 38,027	$ 6,370
Supplemental cash flow information:			
Cash paid for:			
Interest	**$ 33**	$ 8	$ -
Income taxes	**$ 10**	$ -	$ -
Non-cash investing and financing activities:			
Deferred stock-based compensation	**$ 3,801**	$ 255	$ 233
Property and equipment financed by capital lease	**$ -**	$ 160	$ -
Acquisition of Workforce Logistics Inc. partially financed by common shares	**$ -**	$ 2,309	$ -
Acquisition of Workforce Logistics Inc. partially financed by warrants	**$ -**	$ 47	$ -

See accompanying Notes to Consolidated Financial Statements

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 accepted accounting principles (Canadian GAAP) and are presented in U.S. dollars.

b) Principles of consolidation:

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

c) Revenue recognition:

The Company's revenue is derived primarily from licence fees and service fees. The Company licenses software under non-cancellable 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.

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.

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)
	$ 400	$ 2,026	$ (48)

i) Property and equipment:

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

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

j) Intangibles:

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

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

k) Goodwill:

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

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:

Years ended December 31,	2003	2002
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.

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	2,545
Net assets	$ 3,800

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

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

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

The cash and common shares held in escrow 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).

4. Property and equipment:

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

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, respectively).

5. Intangibles and goodwill:

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

6. Capital lease obligation:

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

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

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.

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 cancelled or terminated prior to its exercise will become available for grant under the Plan. In accordance with the Plan, the exercise price of options is based on the quoted market price of the Company's common shares on the date of grant.

Options may be granted under the Plan to be exercised during a period of up to 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 it 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.

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	**(174,077)**	**6.87**	(173,778)	4.34	(41,560)	3.80
Outstanding, end of year	**1,296,753**	**7.13**	1,641,402	4.74	1,492,340	3.05
Options exercisable, end of year	**538,354**	**$ 3.95**	826,210	$ 3.08	806,558	$ 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:

	Options Outstanding			Options Exercisable	
Range of exercise prices	**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	**509,659**	5.58	11.72	**41,551**	11.26
$0.63 to 14.47	**1,296,753**	4.60	$ 7.13	**538,354**	$ 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.

8. Commitments:

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

2005	$ 1,029
2006	652
2007	609
2008	584
2009	585
Thereafter	664
Total minimum lease payments	$ 4,123

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:

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

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

12. Research and development expenses:

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

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.

Years ended December 31,	2004	2003	2002
Net income (loss):			
Basic and diluted net income (loss)	$ (555)	$ 1,240	$ (3,082)
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	-	116	-
Diluted	16,871	13,949	12,589
Net income (loss) per share:			
Basic	$ (0.03)	$ 0.09	$ (0.24)
Diluted	$ (0.03)	$ 0.09	$ (0.24)

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:

Years ended December 31,	2004	2003	2002
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	6.0	(64.1)	(7.4)
Effective income tax rate	0.0%	0.0%	0.0%

b) Components of future income taxes:

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

December 31,	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	358	134
	6,811	5,391
Less: Valuation allowance	(6,735)	(5,270)
Net future income tax assets	76	121
Future income tax liabilities:		
Net book value of intangible assets in excess of tax bases	(76)	(121)
Future income taxes	$ -	$ -

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).

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:

Years ended December 31,	2004	2003	2002
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	**1,536**	–	–
	$ 57,003	$ 33,817	$ 16,849

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

December 31,	2004	2003
Property and equipment by geographic location:		
Canada	**$ 2,731**	$ 2,299
United States	**148**	165
	$ 2,879	$ 2,464

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.

Corporate Directory

Canada
250 Ferrand Drive
Suite 1200
Toronto, Ontario
M3C 3G8
Canada
Phone: (416) 421-6700
Fax: (416) 421-8440
Toll Free: (888) 219-9993
www.workbrain.com

United States
3440 Preston Ridge Road
Suite 100
Alpharetta, Georgia
30005
USA
Phone: (678) 713-6014
Fax: (678) 713-6020
Toll Free: (866) 967-5272

100 Bayview Circle
Suite 340
Newport Beach, California
92660
USA
Phone: (949) 753-5454
Fax: (949) 856-2627

Europe
High Holborn House
52-54 High Holborn
London, United Kingdom
WC1
Phone: +44 207 484 5512

Australia
HWT Tower
40 City Road, Level 23
Southbank, Victoria
3006
Phone: +61 (0) 3 9674 0440

Common Stock
Toronto Stock Exchange
Ticker Symbol: WB

Investor Relations
investor@workbrain.com

Bankers
Canadian Imperial Bank of
Commerce, Toronto, Ontario

Auditors
KPMG LLP Chartered
Accountants, Toronto, Ontario

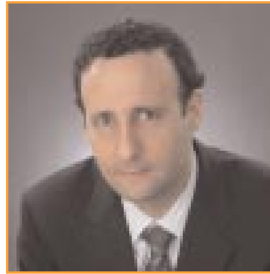
Legal Counsel
Goodman and Carr LLP,
Toronto, Ontario
Torys LLP, Toronto, Ontario

Transfer Agent
Computershare Trust Company of
Canada, Toronto, Ontario

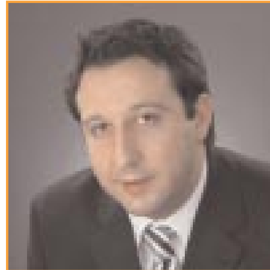
Concept and Design: The Works Design Communications Ltd. (www.worksdesign.com) Printing: Quebecor World MIL Inc.

Senior Management

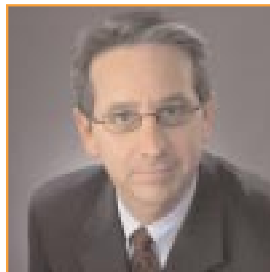
David Ossip
President and CEO



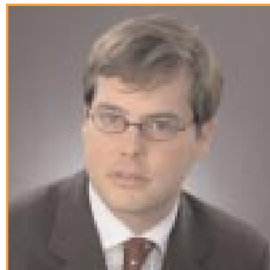
David Stein
Chief Strategy Officer



Stephen A. DeBacco
Chief Operating Officer



Matthew Chapman
Chief Financial Officer



Mark Fowlie
Senior Vice President, Products and Marketing

Workbrain is a leader in the market for large enterprise workforce management solutions.

Our vision for enterprise workforce management, known as workforce supply chain optimization, is changing the way organizations operate.

More and more, large enterprises rely on Workbrain to deliver improved workforce performance.

By linking consistency, optimization and predictability in key workforce management processes, organizations achieve significant benefits with Workbrain. These benefits include improved visibility and labor forecasting, an appropriately skilled and available workforce, effective regulatory compliance, accurate application of labor rules and the efficient deployment of labor to meet operational needs across the organization.

Thanks to our vision and comprehensive product suite, a record number of organizations started using Workbrain in 2004 to improve the efficiency of their workforce supply chain.

Our industry-leading customers, such as Target Corporation, Citibank and Limited Brands, use Workbrain solutions to achieve business benefits that include decreasing their costs, improving the service levels of their operations and ensuring compliance.

We work with some of the world's largest enterprises with the goal of helping them reduce their labor costs by as much as 5%.[1]

workbrain

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[1] Source: Gartner, Inc.