

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

WORKBRAIN CORPORATION

Three months ended March 31, 2005 and 2004
(Unaudited)

CANADIAN GAAP

WORKBRAIN CORPORATION

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

	<u>March 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 36,198	\$ 30,165
Short-term investments	14,969	20,912
Accounts receivable, net of allowance for doubtful accounts of \$369 (December 31, 2004 - \$362)	13,672	12,410
Other	<u>4,427</u>	<u>3,780</u>
Total current assets	69,266	67,267
Property and equipment (note 2)	3,051	2,879
Intangibles (note 3)	161	235
Goodwill (note 3)	<u>2,545</u>	<u>2,545</u>
Total assets	<u>\$ 75,023</u>	<u>\$ 72,926</u>
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 2,978	\$ 1,302
Accrued payroll	3,327	5,125
Accrued liabilities	1,783	1,213
Deferred revenue	12,897	12,852
Current portion of capital lease obligation (note 4)	870	778
Current portion of leasehold inducements	<u>54</u>	<u>54</u>
Total current liabilities	<u>21,909</u>	<u>21,324</u>
Long-term liabilities:		
Capital lease obligation, net of current portion (note 4)	1,072	1,064
Leasehold inducements, net of current portion	<u>9</u>	<u>24</u>
Total long-term liabilities	<u>1,081</u>	<u>1,088</u>
Total liabilities	<u>22,990</u>	<u>22,412</u>
Shareholders' equity:		
Common shares (note 5):		
Authorized - unlimited		
Issued and outstanding - 17,597,633 (December 31, 2004 - 17,416,290)	64,245	63,802
Contributed surplus	6,014	5,859
Deferred stock-based compensation	(2,114)	(2,240)
Cumulative translation adjustment	(127)	(127)
Deficit	<u>(15,985)</u>	<u>(16,780)</u>
Total shareholders' equity	<u>52,033</u>	<u>50,514</u>
Total liabilities and shareholders' equity	<u>\$ 75,023</u>	<u>\$ 72,926</u>
Commitments (note 6)		
Guarantees (note 7)		
Contingencies (note 8)		

See accompanying Notes to Interim Consolidated Financial Statements.
 These Unaudited Interim Consolidated Financial Statements should be read in conjunction with
 the 2004 annual Consolidated Financial Statements.

WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended March 31,	
	2005	2004
Revenue:		
Licence	\$ 5,123	\$ 4,129
Service, maintenance and other	15,852	6,193
Total revenue	<u>20,975</u>	<u>10,322</u>
Cost of revenue:		
Licence	95	96
Service, maintenance and other	11,282	5,422
Cost of revenue accruals (recoveries), net	—	(168)
Total cost of revenue	<u>11,377</u>	<u>5,350</u>
Gross profit	<u>9,598</u>	<u>4,972</u>
Gross margin	45.8%	48.2%
Operating expenses:		
Sales and marketing	3,984	2,868
Research and development (note 9)	2,956	2,268
General and administrative	1,750	1,140
Amortization of acquisition-related intangibles	74	126
Amortization of stock-based compensation*	280	229
Total operating expenses	<u>9,044</u>	<u>6,631</u>
Income (loss) from operations	554	(1,659)
Interest income, net	316	273
Income (loss) before provision for income taxes	870	(1,386)
Provision for income taxes	75	—
Net income (loss)	<u>\$ 795</u>	<u>\$ (1,386)</u>
Net income (loss) per share (note 10):		
Basic	<u>\$ 0.05</u>	<u>\$ (0.08)</u>
Basic weighted average number of common shares outstanding	<u>17,487</u>	<u>16,645</u>
Diluted	<u>\$ 0.04</u>	<u>\$ (0.08)</u>
Diluted weighted average number of common shares outstanding	<u>17,951</u>	<u>16,645</u>

*Note:

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

	Three months ended March 31,	
	2005	2004
Amortization of stock-based compensation:		
Cost of revenue - service, maintenance and other	\$ 107	\$ 72
Sales and marketing	94	71
Research and development	17	23
General and administrative	62	63
	<u>\$ 280</u>	<u>\$ 229</u>

See accompanying Notes to Interim Consolidated Financial Statements.
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WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 (Amounts in U.S. Dollars, In Thousands, Except Share Data)
 (Unaudited)

	<u>Common Shares</u>		<u>Contributed Surplus</u>	<u>Deferred Stock- Based Compensation</u>	<u>Cumulative Translation Adjustment</u>	<u>Deficit</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balances at December 31, 2003.....	16,632,104	\$ 60,905	\$ 2,058	\$ (180)	\$ (127)	\$ (15,727)	\$ 46,929
Issuance of common shares on stock options exercised.....	561,755	2,046	-	-	-	-	2,046
Issuance of common shares on warrants exercised.....	222,431	851	-	-	-	-	851
Cumulative impact of change in accounting policy.....	-	-	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.....	17,416,290	63,802	5,859	(2,240)	(127)	(16,780)	50,514
Issuance of common shares on stock options exercised.....	177,393	431	-	-	-	-	431
Issuance of common shares on warrants exercised.....	3,950	12	-	-	-	-	12
Deferred stock-based compensation.....	-	-	155	(155)	-	-	-
Amortization of stock-based compensation.....	-	-	-	281	-	-	281
Net income.....	-	-	-	-	-	795	795
Balances at March 31, 2005.....	<u>17,597,633</u>	<u>\$ 64,245</u>	<u>\$ 6,014</u>	<u>\$ (2,114)</u>	<u>\$ (127)</u>	<u>\$ (15,985)</u>	<u>\$ 52,033</u>

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WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Unaudited)

	Three months ended March 31,	
	2005	2004
Cash flows from operating activities:		
Net income (loss)	\$ 795	\$ (1,386)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation	623	502
Amortization of acquisition-related intangibles	74	126
Amortization of stock-based compensation	281	231
Amortization of leasehold inducements	(15)	(13)
Unrealized foreign exchange loss	8	426
Change in operating assets and liabilities:		
Accounts receivable	(1,262)	(718)
Other assets	(647)	(961)
Accounts payable	1,676	(139)
Accrued payroll	(1,798)	(815)
Accrued liabilities	570	91
Deferred revenue	45	444
Net cash provided by (used for) operating activities	<u>350</u>	<u>(2,212)</u>
Cash flows from investing activities:		
Maturity (purchase) of short-term investments	5,943	(9,055)
Purchase of property and equipment	(795)	(789)
Net cash provided by (used for) investing activities	<u>5,148</u>	<u>(9,844)</u>
Cash flows from financing activities:		
Proceeds on issuance of common shares upon exercise of stock options	431	115
Proceeds on issuance of common shares upon exercise of warrants	12	-
Proceeds on sale and leaseback of property equipment	292	-
Repayment of obligations under capital lease	(192)	(13)
Net cash provided by financing activities	<u>543</u>	<u>102</u>
Foreign exchange loss on cash held in foreign currency	(8)	(426)
Change in cash and cash equivalents	6,033	(12,380)
Cash and cash equivalents, beginning of period	<u>30,165</u>	<u>37,527</u>
Cash and cash equivalents, end of period	<u>\$ 36,198</u>	<u>\$ 25,147</u>
Supplemental cash flow information:		
Cash paid for:		
Interest	<u>\$ 24</u>	<u>\$ 2</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash investing and financing activities:		
Deferred stock-based compensation	<u>\$ 155</u>	<u>\$ 2,883</u>

See accompanying Notes to Interim Consolidated Financial Statements.
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the 2004 annual Consolidated Financial Statements.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)
 Three months ended March 31, 2005
 (Unaudited)

Workbrain Corporation (the "Company") develops, markets, implements and supports software that helps large organizations optimally deploy and manage their workforces. The Company's solutions automate workforce management processes, such as labour forecasting, employee schedule optimization, time and attendance, workforce analytics and employee self-service. The Company markets and sells its products through both direct and indirect channels, primarily in North America and Europe.

1. Significant accounting policies:**a) Basis of presentation:**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are presented in U.S. dollars. The notes presented in these interim consolidated financial statements include only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all matters disclosed in the Company's annual audited consolidated financial statements. They should be read in conjunction with the audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2004.

The information furnished reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. The operating results for the three months ended March 31, 2005 are not necessarily indicative of the results expected for any succeeding quarter or the entire fiscal year ending on December 31, 2005.

These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual financial statements.

b) Foreign currency translation:

The U.S. dollar is the Company's functional currency. Balances of the Company denominated in currencies other than the U.S. dollar have been translated into U.S. dollars. On the interim consolidated balance sheets, monetary items have been translated into U.S. dollars at exchange rates prevailing at the balance sheet dates and non-monetary items have been translated at historical exchange rates. Amounts included in the Company's interim consolidated statements of operations have been translated at the average exchange rates for the periods, except for depreciation and amortization, which have been translated at historical rates. Exchange gains and losses resulting from the translation of amounts into U.S. dollars are reflected in the interim consolidated statements of operations in the period in which they occurred.

Foreign exchange gains (losses) included in net income (loss) for the three months ended March 31, 2005 and 2004 were as follows:

	Three months ended	
	March 31,	
	2005	2004
Cost of revenue - service, maintenance and other	\$ 93	\$ (288)
Sales and marketing	(19)	(75)
Research and development	49	(153)
General and administrative	41	(41)
	<u>\$ 164</u>	<u>\$ (557)</u>

c) Goodwill:

The Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying value to its fair value. To the extent a reporting unit's carrying amount exceeds its fair value, an impairment of goodwill exists. Impairment is measured by comparing the fair value of goodwill to its carrying amount. During the first quarter of fiscal 2005, the Company performed its annual impairment test and determined that there was no goodwill impairment in the period.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three months ended March 31, 2005

(Unaudited)

2. Property and equipment:

	<u>March 31, 2005</u>	<u>December 31, 2004</u>
Computer equipment.....	\$ 3,076	\$ 2,988
Office furniture and equipment.....	1,807	1,764
Computer software.....	1,243	854
Leasehold improvements.....	<u>287</u>	<u>239</u>
	6,413	5,845
Less: Accumulated depreciation.....	<u>(3,362)</u>	<u>(2,966)</u>
Total property and equipment.....	<u>\$ 3,051</u>	<u>\$ 2,879</u>

At March 31, 2005, the cost and accumulated depreciation of assets under capital lease included above were \$2,137,000 and \$728,000, respectively (December 31, 2004 - \$1,848,000 and \$493,000).

3. Intangibles and goodwill:

	<u>March 31, 2005</u>	<u>December 31, 2004</u>
Customer relationships.....	\$ 325	\$ 325
Developed technology.....	408	408
Purchased in-process research and development.....	<u>205</u>	<u>205</u>
	938	938
Less: Accumulated amortization.....	<u>(777)</u>	<u>(703)</u>
Total intangibles.....	161	235
Goodwill.....	<u>2,545</u>	<u>2,545</u>
Total intangibles and goodwill.....	<u>\$ 2,706</u>	<u>\$ 2,780</u>

4. Capital lease obligation:

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

	<u>March 31, 2005</u>	<u>December 31, 2004</u>
2005.....	\$ 728	\$ 862
2006.....	892	783
2007.....	435	341
2008.....	<u>16</u>	<u>—</u>
	2,071	1,986
Less: Amounts representing interest (at an effective rate of approximately 6%).....	<u>(129)</u>	<u>(144)</u>
Balance of capital lease obligation.....	1,942	1,842
Less: Current portion.....	<u>(870)</u>	<u>(778)</u>
Capital lease obligation, net of current portion.....	<u>\$ 1,072</u>	<u>\$ 1,064</u>

The Company has an agreement in place for a non-committed lease line of credit for up to \$2,480,000 (Cdn. \$3,000,000) with the equipment finance arm of a Canadian chartered bank to finance selected property and equipment purchases. At March 31 2005, a total of \$1,899,000 (Cdn. \$2,297,000) 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.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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Three months ended March 31, 2005
(Unaudited)

5. Common shares:**a) Authorized:**

Unlimited number of common shares without par value.

b) Transactions:

March 31, 2005:

The Company issued 177,393 and 3,950 common shares to stock option and warrant holders for consideration of \$431,000 and \$12,000, respectively, under stock option and warrant exercises.

December 31, 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.

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 its subsidiaries, as applicable. Options issued under the Plan are non-transferable.

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 27% to 44%, risk-free interest rate of 3%, dividend yield of 0% and expected lives of options of four to five years.

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Notes to Interim Consolidated Financial Statements

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(Unaudited)

d) Continuity of options issued under the Plan:

A summary of the status of the Plan as of March 31, 2005 and December 31, 2004, and the changes during the periods then ended is presented below:

	March 31, 2005		December 31, 2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,296,753	\$ 7.13	1,641,402	\$ 4.74
Granted.....	60,000	14.05	391,183	10.91
Exercised.....	(177,393)	2.44	(561,755)	3.65
Forfeited.....	(19,800)	10.52	(174,077)	6.87
Outstanding, end of period	<u>1,159,560</u>	\$ 8.62	<u>1,296,753</u>	\$ 7.13
Options exercisable, end of period	<u>457,527</u>	\$ 5.67	<u>538,854</u>	\$ 3.95
Weighted average per share fair value of options granted during the period		\$ 3.62		\$ 4.84

All options granted during the three months ended March 31, 2005 and the year ended December 31, 2004 were granted with exercise prices equal to the fair value of the common shares at the grant date.

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at March 31, 2005	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at March 31, 2005	Weighted Average Exercise Price
\$ 0.94	5,008	1.88	\$ 0.94	5,008	\$ 0.94
3.13 to 3.60	155,256	2.19	3.29	153,756	3.29
4.03	199,334	3.94	4.03	126,554	4.03
5.18 to 7.25	253,098	5.38	6.32	100,906	6.35
10.71 to 15.09	<u>546,864</u>	5.25	12.95	<u>71,303</u>	13.07
\$ 0.94 to 15.09	<u>1,159,560</u>	4.63	\$ 8.62	<u>457,527</u>	\$ 5.67

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. During the three months ended March 31, 2005, 3,950 warrants were exercised and the remaining balance of 77,898 warrants were forfeited.

As at March 31, 2005, there were warrants outstanding exercisable into 37,596 common shares (December 31, 2004 - 37,596) upon the payment of \$4.03 per share by the holder of the warrants. The warrants have expiry dates ranging from June 30, 2007 to December 31, 2008. The Company may be required to issue additional warrants that are exercisable for up to 21,226 common shares at an exercise price of \$4.03 per share.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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g) Employee stock ownership plan:

In the first quarter of 2005, the Company implemented an Employee Stock Ownership Plan (the "ESOP") to encourage full-time permanent employees to invest in shares of the Company, and to allow the Company to provide shares as an incentive to employees. Participants in the ESOP contribute a specified percentage of their base salary through payroll deductions. The ESOP administrator uses these deductions to purchase shares on the open market. Semi-annually, the Company makes a contribution of 30% of the employee's contribution (net of all withdrawals) during the prior 6-month period, with which funds the administrator purchases additional shares on the open market on behalf of the participants. The Company accrues its contribution as compensation expense during the period earned by participants, which amounted to \$20,000 for the three months ended March 31, 2005.

6. Commitments:

Future minimum lease payments under non-cancellable operating leases, as of March 31, 2005, are as follows:

2005	\$	918
2006		1,057
2007		839
2008		581
2009		583
Thereafter.....		<u>484</u>
Total minimum lease payments.....	\$	<u>4,462</u>

Rent expense for the three months ended March 31, 2005 was \$415,000 (March 31, 2004 - \$379,000). The Company is also responsible for certain common area costs at its various leased premises.

7. 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.

8. 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.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

9. Research and development expenses:

	Three months ended March 31,	
	2005	2004
Gross research and development expenses	\$ 2,956	\$ 2,306
Less: Investment tax credits realized	—	(38)
Net research and development expenses	<u>\$ 2,956</u>	<u>\$ 2,268</u>

10. 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:

	Three months ended March 31,	
	2005	2004
Net income (loss):		
Basic and diluted net income (loss)	\$ 795	\$ (1,386)
Weighted average number of common shares outstanding:		
Common shares	17,487	16,645
Effect of stock options issued	438	—
Effect of warrants outstanding	26	—
Diluted	<u>17,951</u>	<u>16,645</u>
Net income (loss) per share:		
Basic	<u>\$ 0.05</u>	<u>\$ (0.08)</u>
Diluted	<u>\$ 0.04</u>	<u>\$ (0.08)</u>

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

11. 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 three months ended March 31, 2005, the total expense incurred by the Company from such law firm for legal services and other services aggregated to \$40,000 (March 31, 2004 - \$49,000).

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12. Segmented information:

The Company operates in a single reportable operating segment, the workforce management software market. The single reportable operating segment derives its revenue from the sale of software solutions, including related services, training and hardware. The following information provides the required enterprise-wide disclosures:

	Three months ended	
	March 31,	
	<u>2005</u>	<u>2004</u>
Revenue by geographic location:		
United States	\$ 18,088	\$ 9,296
United Kingdom	1,400	601
Canada	503	425
Asia Pacific Rim	984	—
	<u>\$ 20,975</u>	<u>\$ 10,322</u>

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

	<u>March 31,</u>	<u>December 31,</u>
	<u>2005</u>	<u>2004</u>
Property and equipment by geographic location:		
Canada	\$ 2,875	\$ 2,731
United States	127	148
United Kingdom	49	—
	<u>\$ 3,051</u>	<u>\$ 2,879</u>

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

During the three months ended March 31, 2005, no customers of the Company accounted for 10% or greater of total revenue (March 31, 2004 - two customers accounted for 11.9% and 11.0% of total revenue, respectively).

13. Comparative information:

The Company has reclassified certain prior period information to conform to the current period presentation.