

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

You should read the following management's discussion and analysis ("MD&A") in conjunction with our interim consolidated financial statements for the three and six month periods ended June 30, 2005 and the notes thereto, and with our annual audited consolidated financial statements, including the notes thereto, and our annual MD&A for the year ended December 31, 2004. This MD&A is prepared as of July 29, 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 in our annual MD&A and Annual Information Form 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 leading systems integrators and business process outsourcers.

Comparison of Three Months Ended June 30, 2005 and 2004

Revenue:

Total revenue increased 71.3% to \$22.1 million in the three months ended June 30, 2005 from \$12.9 million in the three months ended June 30, 2004.

Licence revenue increased 55.6% to \$5.8 million in the three months ended June 30, 2005 compared with \$3.7 million in the three months ended June 30, 2004. The growth was substantially attributable to an increase in the number of customers to 108 at June 30, 2005 compared with 77 at June 30, 2004. Growth was also a result of significant investments in sales and marketing personnel, infrastructure and programs. We expect licence revenue to increase in dollar amounts as we expect to continue to add new customers and continue to invest in sales and marketing capabilities in future periods.

Service, maintenance and other revenue increased 77.6% to \$16.3 million in the three months ended June 30, 2005 compared with \$9.2 million in the three months ended June 30, 2004. The increase was primarily attributable to additional product implementation projects related to new customers as well as to a growing installed base, which provides recurring service, maintenance and other revenue.

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

Cost of revenue:

Cost of licence revenue increased 125.0% to \$216,000 in the three months ended June 30, 2005 compared with \$96,000 in the three months ended June 30, 2004, and represented 3.7% and 2.6% of licence revenue, respectively. The increase in the dollar amount and as a percentage of licence revenue of the cost of licence revenue reflected the inclusion of more third-party software licence costs associated with licence revenue in the three months ended June 30, 2005 compared with the same period of the prior year.

Cost of service, maintenance and other revenue increased 88.0% to \$11.9 million in the three months ended June 30, 2005 compared with \$6.3 million in the three months ended June 30, 2004, and represented 73.2% and 69.2% of service, maintenance and other revenue, respectively. These increases related primarily to the increase in the number of implementation, customer support, training and hosting personnel and related costs necessary to support our larger customer base and new and anticipated product implementations. The average number of customer support, implementation and training personnel grew to 319 in the three months ended June 30, 2005 compared with 187 in the three months ended June 30, 2004. In future periods, we expect the cost of service, maintenance and other revenue to increase in absolute terms as we service our growing customer base, but to gradually decrease as a percentage of revenue, as we improve operating efficiency.

Operating expenses:

Sales and marketing expenses increased 27.5% to \$4.6 million in the three months ended June 30, 2005 compared with \$3.6 million in the three months ended June 30, 2004, and represented 20.6% and 27.7% of revenue, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales and marketing workforce, which grew to an average of 77 personnel in the three months ended June 30, 2005 compared with an average of 63 in the three months ended June 30, 2004, and to increased marketing activities, trade shows and promotional expenses. Included in marketing activities for the three months ended June 30, 2005 and June 30, 2004 were seasonal charges associated with our annual Velocity conference for customers, partners and prospects. The decrease in sales and marketing expenses as a percentage of revenue was due to the increased productivity of our sales and marketing personnel. We expect sales and marketing expenses to increase in dollar amount in future periods as we expect to continue to add to our sales force and increase our marketing activities in North America and abroad.

Research and development expenses increased 35.3% to \$3.3 million in the three months ended June 30, 2005 compared with \$2.5 million in the three months ended June 30, 2004, and represented 15.0% and 19.0% of revenue, respectively. The increase in dollar amount in the three months ended June 30, 2005 over the prior year was primarily attributable to increased staffing and associated support in order to expand and enhance our product offering. The average number of research and development personnel grew to 156 in the three months ended June 30, 2005 compared with 92 in the three months ended June 30, 2004. The increase in research and development expenses was offset by investment tax credits of \$182,000 realized in the three months ended June 30, 2005 compared with \$37,000 realized in the three months ended June 30, 2004. The decrease in percentage terms was primarily due to the increase in revenue from the three months ended June 30, 2004 to the three months ended June 30, 2005, as well as to the inclusion of a foreign exchange loss of \$(85,000) in the three months ended June 30, 2005 compared to a foreign exchange loss of \$(152,000) in the three months ended June 30, 2004. Up to June 30, 2005, 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 continue to enhance our products and introduce new functionality.

General and administrative expenses increased 71.2% to \$1.8 million in the three months ended June 30, 2005 compared with \$1.1 million in the three months ended June 30, 2004, and represented 8.2% of revenue in each period. The increase in dollar amount was due primarily to increases in professional fees and other general corporate expenses necessary to manage and support our growth, such as recruiting and information technology expenses. The average number of administrative and financial personnel was 40 in

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

each period. The increase in general and administrative costs was also the result of the inclusion of a foreign exchange gain of \$10,000 in general and administrative expenses in the three months ended June 30, 2005 compared with a foreign exchange gain of \$102,000 included in general and administrative expenses in the three months ended June 30, 2004. We anticipate that general and administrative expenses will increase in dollar amount in future periods in order to support the continuing growth we expect in our customer base.

Amortization of acquisition-related intangibles was \$48,000 in the three months ended June 30, 2005, compared with \$91,000 for the same period of the prior year. This expense relates to our acquisition of the net operating assets of Workforce Logistics Inc. in April 2003, which enhanced our existing workforce management solution with additional schedule optimization functionality.

Amortization of stock-based compensation was \$320,000 for the three months ended June 30, 2005 compared with \$320,000 in the three months ended June 30, 2004 and represented 1.5% and 2.5% of revenue, respectively. The decrease as a percent of revenue was the result of discontinuing our previous practice of granting stock options to all new employees during 2004.

Interest income, net increased to \$310,000 in the three months ended June 30, 2005 compared with \$212,000 in the three months ended June 30, 2004. The increase in interest income was primarily due to an increase in cash balances as well as increased yield due to higher interest rates in the three months ended June 30, 2005 compared with the three months ended June 30, 2004. We will continue to invest in accordance with our investment policy, which emphasizes liquidity and the minimization of risk.

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 loss of \$(297,000) for the three months ended June 30, 2005 which was primarily as a result of the depreciation in the value of the Canadian dollar over the period (from 0.827 U.S. dollars at March 31, 2005 to 0.816 U.S. dollars at June 30, 2005). 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). Net income increased by \$1.0 million to \$162,000 in the three months ended June 30, 2005 compared with a net loss of \$(849,000) in the three months ended June 30, 2004. The increase was due to an increase in revenue, to \$22.1 million in the three months ended June 30, 2005 from \$12.9 million in the three months ended June 30, 2004, coupled with a decrease in operating expenses as a percent of revenue, to 45.6% in the three months ended June 30, 2005 from 58.2% in the three months ended June 30, 2004.

Adjusted net income (loss). Adjusted net income increased by \$879,000 to adjusted net income of \$827,000 in the three months ended June 30, 2005 compared with an adjusted net loss of \$(52,000) in the three months ended June 30, 2004. The increase was due to the increase in revenue and the decrease, after the exclusion of the impact of foreign exchange, as a percentage of revenues, of our operating expenses in three months ended June 30, 2005 compared with the three months ended June 30, 2004.

Adjusted net income (loss) is a non-GAAP measure related to net income (loss) and is defined as net income (loss) excluding foreign exchange (gain) loss, stock-based compensation and amortization of acquisition-related intangibles. We believe that this measure enhances an overall understanding of our operational results and trends. Adjusted net income (loss) is a supplemental measure and should not be construed as an alternative to net income (loss) as defined under Canadian generally accepted accounting principles (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):

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

	Three months ended June 30,	
	2005	2004
Net income (loss) - GAAP	\$ 162	\$ (849)
Add back:		
Foreign exchange loss	297	386
Amortization of stock-based compensation	320	320
Amortization of acquisition-related intangibles	48	91
Adjusted net income (loss)	\$ 827	\$ (52)

Comparison of Six Months Ended June 30, 2005 and 2004

Revenue:

Total revenue increased 85.5% to \$43.0 million in the six months ended June 30, 2005 from \$23.2 million in the six months ended June 30, 2004.

Licence revenue increased 39.0% to \$10.9 million in the six months ended June 30, 2005 from \$7.8 million in the six months ended June 30, 2004. The growth was substantially attributable to an increase in the number of customers to 108 at June 30, 2005 compared with 77 at June 30, 2004. Growth was also a result of significant investments in sales and marketing personnel, infrastructure and programs.

Service, maintenance and other revenue increased 109.2% to \$32.2 million in the six months ended June 30, 2005 from \$15.4 million in the six months ended June 30, 2004. The increase was primarily attributable to additional product implementation projects related to new customers as well as to a growing installed base, which provides recurring service, maintenance and other revenue.

Cost of revenue:

Cost of licence revenue increased 62.0% to \$311,000 in the six months ended June 30, 2005 compared with \$192,000 in the six months ended June 30, 2004, and represented 2.9% and 2.5% of licence revenue, respectively. The increase in the dollar amount and as a percentage of licence revenue of the cost of licence revenue reflected the inclusion of more third-party software licence costs associated with licence revenue in the three months ended June 30, 2005 compared with the same period of the prior year.

Cost of service, maintenance and other revenue increased 97.3% to \$23.2 million in the six months ended June 30, 2005 compared with \$11.8 million in the six months ended June 30, 2004, and represented 72.2% and 76.6% of service, maintenance and other revenue, respectively. These increases related primarily to the increase in the number of implementation, customer support, training and hosting personnel and related costs necessary to support our larger customer base and new and anticipated product implementations. The average number of customer support, implementation and training personnel grew to 307 in the six months ended June 30, 2005 compared with 174 in the six months ended June 30, 2004.

Cost of revenue accruals (recoveries), net was nil in the six months ended June 30, 2005 compared with (\$168,000) in the six months ended June 30, 2004. No contracts were accounted for under the zero-profit method during the six months ended June 30, 2005. Historically, we used the zero-profit method for certain customer arrangements, entered into in 2001 and 2000, where estimating the final outcome of the contract was impractical, except to assure that no loss would be incurred. We do not expect any future accrual or recovery of zero-profit provisions, since all projects where revenue was recognized using that method are now complete.

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

Operating expenses:

Sales and marketing expenses increased 32.6% to \$8.5 million in the six months ended June 30, 2005 compared with \$6.4 million in the six months ended June 30, 2004, and represented 19.8% and 27.8% of revenue, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales and marketing workforce, which grew to an average of 75 personnel in the six months ended June 30, 2005 compared with an average of 60 in the six months ended June 30, 2004, and to increased marketing activities, trade shows and promotional expenses. Included in marketing activities for the six months ended June 30, 2005 and June 30, 2004 were seasonal charges associated with our annual Velocity conference for customers, partners and prospects. The decrease in sales and marketing expenses as a percentage of revenue was due to the increased productivity of our sales and marketing personnel.

Research and development expenses increased 32.9% to \$6.3 million in the six months ended June 30, 2005 compared with \$4.7 million in the six months ended June 30, 2004, and represented 14.6% and 20.3% of revenue, respectively. The increase in dollar amount 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 143 in the six months ended June 30, 2005 compared with 89 in the six months ended June 30, 2004. The increase in research and development costs was partly offset by investment tax credits of \$182,000 realized in the six months ended June 30, 2005 compared with \$75,000 realized in the six months ended June 30, 2004. The decrease in percentage terms was primarily due to the increase in revenue from the six months ended June 30, 2004 to the six months ended June 30, 2005, as well as to the inclusion of a foreign exchange loss of \$(36,000) in the six months ended June 30, 2005 compared to a foreign exchange loss of \$(305,000) in the six months ended June 30, 2004.

General and administrative expenses increased 62.0% to \$3.6 million in the six months ended June 30, 2005 compared with \$2.2 million in the six months ended June 30, 2004, and represented 8.3% and 9.5% of revenue, respectively. The increase in dollar amount was attributable to an increase in the number of administrative and financial personnel, to 38 in the six months ended June 30, 2005 compared with 37 in the six months ended June 30, 2004, as well as to increases in professional fees and other general corporate expenses necessary to manage and support our growth, such as recruiting and information technology expenses. The decrease in general and administrative costs as a percentage of revenue reflects improvements in our operating efficiency as we grow our business.

Amortization of acquisition-related intangibles was \$122,000 in the six months ended June 30, 2005, compared with \$217,000 for the same period of the prior year. This expense relates to our acquisition of the net operating assets of Workforce Logistics Inc. in April 2003, which enhanced our existing workforce management solution with additional schedule optimization functionality.

Amortization of stock-based compensation increased to \$600,000 for the six months ended June 30, 2005 compared with \$549,000 in the six months ended June 30, 2004 and represented 1.4% and 2.4% of revenue, respectively. The increase in dollar amount was the result of options granted to certain new and existing employees, whereas the decrease in percentage terms was the result of discontinuing our previous practice of granting stock options to all new employees during 2004.

Interest income increased to \$626,000 in the six months ended June 30, 2005 compared with \$485,000 in the six months ended June 30, 2004. The increase in interest income was due to an increase in cash balances as well as increased yield due to higher interest rates in the six months ended June 30, 2005 compared with the six months ended June 30, 2004. We will continue to invest in accordance with our investment policy, which emphasizes liquidity and the minimization of risk.

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

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 loss of approximately \$(132,000) for the six months ended June 30, 2005 which was primarily as a result of the depreciation in the value of the Canadian dollar over the period (from 0.831 U.S. dollars at December 31, 2004 to 0.816 U.S. dollars at June 30, 2005). 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). Net income increased by \$3.2 million to net income of \$957,000 in the six months ended June 30, 2005 compared with a net loss of \$(2.2 million) in the six months ended June 30, 2004. The increase was due to an increase in revenue, to \$43.0 million in the six months ended June 30, 2005 from \$23.2 million in the six months ended June 30, 2004, coupled with a decrease in operating expenses as a percentage of revenue, to 44.4% in the six months ended June 30, 2005 from 60.9% in the six months ended June 30, 2004, as well as to the inclusion of a foreign exchange loss of \$(132,000) in the six months ended June 30, 2005, compared to a foreign exchange loss of \$(943,000) in the same period of the prior year.

Adjusted net income (loss). Adjusted net income increased by \$2.3 million to adjusted net income of \$1.8 million in the six months ended June 30, 2005 compared with adjusted net loss of \$(526,000) in the six months ended June 30, 2004. The increase was due to the increase in revenue and the decrease of operating expenses, after the exclusion of the impact of foreign exchange, as a percentage of revenues in the six months ended June 30, 2005 compared with the same period of the prior year.

Adjusted net income (loss) is a non-GAAP measure related to net income (loss) and is defined as net income (loss) excluding foreign exchange (gain) loss, stock-based compensation and amortization of acquisition related intangibles. We believe that this measure enhances an overall understanding of our operational results and trends. Adjusted net income (loss) is a supplemental measure and should not be construed as an alternative to net income (loss) as defined under Canadian generally accepted accounting principles (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):

	Six months ended June 30,	
	2005	2004
Net income (loss) - GAAP	\$ 957	\$ (2,235)
Add back:		
Foreign exchange loss	132	943
Amortization of stock-based compensation	600	549
Amortization of acquisition-related intangibles	122	217
Adjusted net income (loss)	<u>\$ 1,811</u>	<u>\$ (526)</u>

Liquidity and Capital Resources

At June 30, 2005 we had cash and cash equivalents and short-term investments of \$49.2 million and working capital of \$47.8 million, compared with cash and cash equivalents and short-term investments of \$51.1 million and working capital of \$45.9 million at December 31, 2004.

Cash provided by (used in) operating activities for the three months ended June 30, 2005 and 2004 and the six months ended June 30, 2005 and 2004 was (\$1.4 million), \$1.5 million, (\$1.0 million) and (\$756,000), respectively. Cash used in operations in the three months ended June 30, 2005 was primarily the result of increases in accounts receivable and other assets. Cash provided by operations in the three months ended June 30, 2004 was primarily the result of increases in accrued payroll and deferred revenue. Cash used in

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

operations in the six months ended June 30, 2005 was primarily the result of increases in accounts receivable and other assets. Cash used in operations in the six months ended June 30, 2004 was primarily the result of the net loss for the period, which was partially offset by non-cash depreciation and amortization charges.

Investment activities during the three months ended June 30, 2005 and 2004 and the six months ended June 30, 2005 and 2004 included cash used for the purchase of property and equipment totaling \$714,000, \$633,000, \$1.5 million and \$1.4 million, respectively. We expect that our investment in property and equipment will continue to increase as our employee base and customer base continue to grow. Cash provided by (used for) the net maturity (purchase) of short-term investments during the three months ended June 30, 2005 and 2004 and the six months ended June 30, 2005 and 2004 were \$7.0 million, \$2.2 million, \$12.9 million and \$(6.8 million), respectively.

Financing activities during the three months ended June 30, 2005 and 2004 and the six months ended June 30, 2005 and 2004 consisted primarily of the issuance of share capital pursuant to stock option exercises which totaled \$268,000, \$647,000, \$699,000 and \$762,000, respectively. Cash was also provided by the sale and leaseback of property and equipment in the three months ended June 30, 2005 and 2004 and the six months ended June 30, 2005 and 2004, which totaled \$494,000, \$681,000, \$786,000 and \$681,000, respectively. During the three months ended June 30, 2005, we extended our non-committed lease line of credit with the equipment finance arm of a Canadian chartered bank to finance selected property and equipment purchases. At June 30, 2005, we had made a number of draws under the line, with a total of \$2.2 million outstanding, at fixed interest rates 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. We have also entered into lending agreements to finance the acquisition of other assets, as set out in the notes to our financial statements.

We believe that our current cash and short-term investments and anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

We intend 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.

Contractual Obligations

Our material contractual obligations include the capital equipment lease obligations noted above, as well as future minimum lease payments under non-cancelable operating leases relating to our premises, which total \$4.6 million as at June 30, 2005.

Litigation

We are subject to legal proceedings and claims that arise in the ordinary course of our business. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position, results of operations, or liquidity, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material. We do not believe that it is probable that a liability has been incurred, nor do we believe that the amount of any loss can be reasonably estimated. Accordingly, no liability has been accrued for these matters.

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

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 three and six months ended June 30, 2005, the total expense incurred by us from such law firm for legal and other services aggregated \$19,000 and \$59,000, respectively (June 30, 2004 - \$15,000 and \$64,000, respectively).

Outstanding Share Data

As at June 30, 2005, there were 17,643,166 common shares issued and outstanding. In addition, a total of 1,190,647 stock options and 37,596 warrants were outstanding, which are exercisable for an equal number of common shares.

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

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 June 30, 2005. In the opinion of management, this information has been presented on the same basis as our interim consolidated financial statements and the audited annual consolidated financial statements appearing in our annual report, and include all necessary adjustments, consisting only of normal recurring adjustments, to present fairly the unaudited quarterly results when read in conjunction with our interim consolidated financial statements and the notes thereto and our 2004 annual 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							
	2005		2004				2003	
	Jun 30, 2005	Mar 31, 2005	Dec 31, 2004	Sep 30, 2004	Jun 30, 2004	Mar 31, 2004	Dec 31, 2003	Sep 30, 2003
	(Amounts In U.S. Dollars, In Thousands, Except Per Share Data, Unaudited)							
Consolidated Statement of Operations Data:								
Revenue:								
Licence	\$ 5,762	\$ 5,123	\$ 4,368	\$ 4,140	\$ 3,703	\$ 4,129	\$ 2,521	\$ 2,555
Service, maintenance and other	<u>16,302</u>	<u>15,852</u>	<u>13,426</u>	<u>11,867</u>	<u>9,177</u>	<u>6,193</u>	<u>6,975</u>	<u>6,400</u>
Total revenue	<u>22,064</u>	<u>20,975</u>	<u>17,794</u>	<u>16,007</u>	<u>12,880</u>	<u>10,322</u>	<u>9,496</u>	<u>8,955</u>
Cost of revenue:								
Licence	216	95	95	7	96	96	39	19
Service, maintenance and other	11,939	11,282	8,679	7,752	6,349	5,422	4,913	4,503
Cost of revenue accruals (recoveries), net	-	-	-	-	-	(168)	(8)	(911)
Total cost of revenue	<u>12,155</u>	<u>11,377</u>	<u>8,774</u>	<u>7,759</u>	<u>6,445</u>	<u>5,350</u>	<u>4,944</u>	<u>3,611</u>
Gross profit	<u>9,909</u>	<u>9,598</u>	<u>9,020</u>	<u>8,248</u>	<u>6,435</u>	<u>4,972</u>	<u>4,552</u>	<u>5,344</u>
Gross margin (%)	44.9%	45.8%	50.7%	51.5%	50.0%	48.2%	47.9%	59.7%
Operating expenses:								
Sales and marketing	4,555	3,984	4,178	3,229	3,572	2,868	2,588	2,088
Research and development	3,316	2,956	2,669	2,262	2,451	2,268	1,711	1,369
General and administrative	1,818	1,750	1,562	1,275	1,062	1,140	293	319
Amortization of acquisition-related intangibles	48	74	75	75	91	126	125	127
Amortization of stock-based compensation	<u>320</u>	<u>280</u>	<u>320</u>	<u>368</u>	<u>320</u>	<u>229</u>	<u>81</u>	<u>-</u>
Total operating expenses	<u>10,057</u>	<u>9,044</u>	<u>8,804</u>	<u>7,209</u>	<u>7,496</u>	<u>6,631</u>	<u>4,798</u>	<u>3,903</u>
Income (loss) from operations	(148)	554	216	1,039	(1,061)	(1,659)	(246)	1,441
Interest income, net	<u>310</u>	<u>316</u>	<u>221</u>	<u>204</u>	<u>212</u>	<u>273</u>	<u>62</u>	<u>50</u>
Income (loss) before provision for income taxes	162	870	437	1,243	(849)	(1,386)	(184)	1,491
Provision for income taxes	-	75	-	-	-	-	-	-
Net income (loss)	<u>\$ 162</u>	<u>\$ 795</u>	<u>\$ 437</u>	<u>\$ 1,243</u>	<u>\$ (849)</u>	<u>\$ (1,386)</u>	<u>\$ (184)</u>	<u>\$ 1,491</u>
Net income (loss) per share:								
Basic	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.03</u>	<u>\$ 0.07</u>	<u>\$ (0.05)</u>	<u>\$ (0.08)</u>	<u>\$ (0.01)</u>	<u>\$ 0.11</u>
Basic weighted average number of common shares outstanding	<u>17,622</u>	<u>17,487</u>	<u>17,187</u>	<u>16,899</u>	<u>16,751</u>	<u>16,645</u>	<u>14,039</u>	<u>13,299</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ 0.02</u>	<u>\$ 0.07</u>	<u>\$ (0.05)</u>	<u>\$ (0.08)</u>	<u>\$ (0.01)</u>	<u>\$ 0.11</u>
Diluted weighted average number of common shares outstanding	<u>18,042</u>	<u>17,951</u>	<u>17,819</u>	<u>17,419</u>	<u>16,751</u>	<u>16,645</u>	<u>14,039</u>	<u>13,864</u>

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

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, seasonal events such as our annual conference, changes in our sales incentive strategy, sales personnel changes, the mix of direct and indirect sales and general economic factors, 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 quarters, there can be no assurance that in the future we will sustain revenue growth or be profitable on a quarterly basis.

Additional Information

Additional information relating to us, including our most recently filed Annual Information Form, is available on SEDAR at www.sedar.com.