

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

WORKBRAIN CORPORATION

Three and nine months ended September 30, 2005
(Unaudited)

CANADIAN GAAP

WORKBRAIN CORPORATION

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

	<u>September 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 15,239	\$ 30,165
Short-term investments	32,596	20,912
Accounts receivable, net of allowance for doubtful accounts of \$520 (December 31, 2004 - \$362).....	17,248	12,410
Other	<u>6,084</u>	<u>3,780</u>
Total current assets	71,167	67,267
Property and equipment (note 2).....	3,691	2,879
Other	576	-
Intangibles (note 3)	79	235
Goodwill (note 3)	<u>2,545</u>	<u>2,545</u>
Total assets	<u>\$ 78,058</u>	<u>\$ 72,926</u>
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 2,357	\$ 1,302
Accrued payroll	2,702	5,125
Accrued liabilities	1,775	1,213
Deferred revenue	12,068	12,852
Current portion of capital lease and other obligations (note 4).....	1,900	778
Current portion of leasehold inducements	<u>61</u>	<u>54</u>
Total current liabilities	20,863	21,324
Long-term liabilities:		
Capital lease and other obligations, net of current portion (note 4).....	2,255	1,064
Leasehold inducements, net of current portion.....	<u>47</u>	<u>24</u>
Total long-term liabilities.....	2,302	1,088
Total liabilities.....	<u>23,165</u>	<u>22,412</u>
Shareholders' equity:		
Common shares (note 5):		
Authorized - unlimited		
Issued and outstanding - 17,692,775 (December 31, 2004 - 17,416,290)	64,721	63,802
Contributed surplus	6,436	5,859
Deferred stock-based compensation	(1,906)	(2,240)
Cumulative translation adjustment.....	(127)	(127)
Deficit	<u>(14,231)</u>	<u>(16,780)</u>
Total shareholders' equity	54,893	50,514
Total liabilities and shareholders' equity	<u>\$ 78,058</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.

CANADIAN GAAP

WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenue:				
Licence	\$ 5,443	\$ 4,140	\$ 16,328	\$ 11,972
Service, maintenance and other	16,411	11,867	48,565	27,237
Total revenue	<u>21,854</u>	<u>16,007</u>	<u>64,893</u>	<u>39,209</u>
Cost of revenue:				
Licence	115	7	426	199
Service, maintenance and other	11,556	7,752	34,777	19,523
Cost of revenue recoveries, net.....	—	—	—	(168)
Total cost of revenue	<u>11,671</u>	<u>7,759</u>	<u>35,203</u>	<u>19,554</u>
Gross profit.....	<u>10,183</u>	<u>8,248</u>	<u>29,690</u>	<u>19,655</u>
Gross margin	46.6%	51.5%	45.8%	50.1%
Operating expenses:				
Sales and marketing	3,852	3,229	12,391	9,669
Research and development (note 9).....	3,352	2,262	9,624	6,981
General and administrative	1,348	1,275	4,916	3,477
Amortization of acquisition-related intangibles	34	75	156	292
Amortization of stock-based compensation*.....	310	368	910	917
Total operating expenses	<u>8,896</u>	<u>7,209</u>	<u>27,997</u>	<u>21,336</u>
Income (loss) from operations	1,287	1,039	1,693	(1,681)
Interest income, net	305	204	931	689
Income (loss) before provision for income taxes.....	1,592	1,243	2,624	(992)
Provision for income taxes.....	—	—	75	—
Net income (loss)	<u>\$ 1,592</u>	<u>\$ 1,243</u>	<u>\$ 2,549</u>	<u>\$ (992)</u>
Net income (loss) per share (note 10):				
Basic	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ 0.14</u>	<u>\$ (0.06)</u>
Basic weighted average number of common shares outstanding	<u>17,657</u>	<u>16,899</u>	<u>17,589</u>	<u>16,765</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ 0.14</u>	<u>\$ (0.06)</u>
Diluted weighted average number of common shares outstanding	<u>18,020</u>	<u>17,419</u>	<u>17,977</u>	<u>16,765</u>

*Note:

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Amortization of stock-based compensation:				
Cost of revenue - service, maintenance and other	\$ 109	\$ 149	\$ 315	\$ 351
Sales and marketing	112	124	344	300
Research and development.....	21	23	58	68
General and administrative	68	72	193	198
	<u>\$ 310</u>	<u>\$ 368</u>	<u>\$ 910</u>	<u>\$ 917</u>

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

WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

(Unaudited)

	<u>Common Shares</u>	<u>Common Shares</u>	<u>Contributed</u>	<u>Deferred</u>	<u>Cumulative</u>	<u>Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Surplus</u>	<u>Stock-based</u>	<u>Translation</u>		<u>Shareholders'</u>
				<u>Compensation</u>	<u>Adjustment</u>		<u>Equity</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
Deferred stock-based compensation	-	-	3,303	(3,303)	-	-	-
Cumulative impact of change in accounting policy.....	-	-	498	-	-	(498)	-
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.....	272,535	907	-	-	-	-	907
Issuance of common shares on warrants exercised	3,950	12	-	-	-	-	12
Deferred stock-based compensation	-	-	577	(577)	-	-	-
Amortization of stock-based compensation	-	-	-	911	-	-	911
Net income	-	-	-	-	-	2,549	2,549
Balances at September 30, 2005.....	<u>17,692,775</u>	<u>\$ 64,721</u>	<u>\$ 6,436</u>	<u>\$ (1,906)</u>	<u>\$ (127)</u>	<u>\$ (14,231)</u>	<u>\$ 54,893</u>

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WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Cash flows from operating activities:				
Net income (loss)	\$ 1,592	\$ 1,243	\$ 2,549	\$ (992)
Adjustments to reconcile net income (loss) to net cash used for operating activities:				
Depreciation	802	546	2,076	1,585
Amortization of acquisition-related intangibles	34	75	156	292
Amortization of stock-based compensation	310	369	911	922
Amortization of leasehold inducements	(21)	(7)	(50)	(36)
Foreign exchange loss (gain)	(1,333)	(1,032)	(894)	38
Change in operating assets and liabilities:				
Accounts receivable	876	(1,548)	(4,838)	(4,174)
Other assets	46	(466)	(2,190)	(967)
Accounts payable	(370)	(193)	1,135	117
Accrued payroll	(2,464)	198	(2,423)	505
Accrued liabilities	(216)	315	562	(253)
Deferred revenue	(2,041)	(317)	(784)	1,390
Net cash used for operating activities	(2,785)	(817)	(3,790)	(1,573)
Cash flows from investing activities:				
Purchase of short-term investments	(24,615)	(32,282)	(11,684)	(25,616)
Purchase of property and equipment	(1,148)	(702)	(2,657)	(2,124)
Net cash used for investing activities	(25,763)	(32,984)	(14,341)	(27,740)
Cash flows from financing activities:				
Proceeds on issuance of common shares upon exercise of stock options	208	436	907	1,198
Proceeds on issuance of common shares upon exercise of warrants	-	-	12	-
Proceeds on sale and leaseback of property and equipment	1,168	802	1,954	1,483
Repayment of obligations under capital lease	(125)	(51)	(562)	(78)
Net cash provided by financing activities	1,251	1,187	2,311	2,603
Foreign exchange gain (loss) on cash held in foreign currency	1,333	1,032	894	(38)
Change in cash and cash equivalents	(25,964)	(31,582)	(14,926)	(26,748)
Cash and cash equivalents, beginning of period	41,203	42,861	30,165	38,027
Cash and cash equivalents, end of period	\$ 15,239	\$ 11,279	\$ 15,239	\$ 11,279
Supplemental cash flow information:				
Cash paid for interest	\$ 26	\$ 6	\$ 77	\$ 10
Non-cash investing and financing activities:				
Deferred stock-based compensation	\$ 96	\$ 499	\$ 577	\$ 3,818
Property and equipment and other assets financed by capital lease obligations	\$ -	\$ -	\$ 921	\$ -
Lease inducements provided by landlord	\$ 80	\$ -	\$ 80	\$ -

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WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three and nine months ended September 30, 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.

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

The information furnished reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. The operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results expected for any succeeding quarter or the entire fiscal year ending on December 31, 2005.

b) Revenue recognition:

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

Following the requirements of SOP 97-2, the Company recognizes licence revenue when all of the following have occurred:

- persuasive evidence of an arrangement exists;
- delivery of the software product to the customer has occurred;
- the amount of the fees to be paid by the customer is fixed or determinable; and
- collection of these fees is probable.

Persuasive evidence of an arrangement: The Company requires a written contract signed by both the customer and the Company or a purchase order from those customers who have previously negotiated a standard licence arrangement with the Company.

Delivery has occurred: Typically, the Company delivers its software electronically. If undelivered products or services exist in an arrangement that are essential to the functionality of a delivered product, delivery is not considered to have occurred until these products or services are delivered. In instances where delivery is electronic and all other criteria for revenue recognition have been achieved, the product is considered delivered when the software is sent to the customer electronically or the access code to download the software from the internet has been provided to the customer.

Fee is fixed and determinable: Customers generally pay in the following manner: for perpetual licences, customers pay according to terms consistent with the Company's standard business practice, for maintenance and support, customers pay annually at the beginning of the year, and for services, customers pay either monthly, as services are performed, or based on specific deliverables.

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(Unaudited)

Collectibility is probable: The Company assesses collectibility on a customer-by-customer basis. The Company performs a credit review on certain new customers, based on established criteria, which evaluates the customer's financial position and ability to pay. If it is determined from the outset of an arrangement that collectibility is not probable based upon the credit review process, revenue is recognized on a cash-collected basis.

SOP 97-2, as modified, generally requires revenue earned on software arrangements involving multiple elements, such as software products, PCS and services (including implementation, hosting and training) to be allocated to each element based on the relative fair values of the elements. The fair value of an element must be based on evidence that is specific to the vendor. The Company limits its assessment of vendor-specific objective evidence of fair value ("VSOE") for each element to the price charged when the same element is sold separately. If VSOE of all undelivered elements exists but evidence does not exist for one or more delivered elements, then revenue is recognized using the residual method. Under the residual method, the fair value of the undelivered elements is deferred, and the remaining portion of the arrangement fee is recognized as revenue related to the delivered elements.

The Company analyzes all of the elements included in its multiple-element arrangements to determine whether there is sufficient VSOE to allocate revenue to the PCS component. The Company establishes VSOE for PCS based on a contract-specified renewal price provided to the customer where the rate is substantive. Accordingly, if all other revenue recognition criteria are met, revenue from licenses is recognized upon delivery using the residual method in accordance with SOP 98-9 and PCS revenue is recognized ratably over the PCS term.

When perpetual licenses and services are elements of the same arrangement, the Company determines if there is sufficient VSOE to allocate revenue to the services components. Accordingly, if all other revenue recognition criteria are met and the services are not essential to the functionality of the software, revenue from perpetual licences is recognized upon delivery using the residual method and services revenue is recognized as the services are provided.

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.

In accordance with the SOP 97-2, when the Company is unable to establish fair value for an undelivered element, and the only undelivered element is support, the entire arrangement fee is deferred and recognized ratably over the support period. If revenue from an arrangement is deferred due to the inability to establish fair value, the Company defers the direct and incremental costs associated with the arrangement. As such, the Company defers the commissions paid on contracts that are deferred to match those costs ratably against the revenue.

To date, many 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.

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.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three and nine months ended September 30, 2005

(Unaudited)

c) 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 and nine months ended September 30, 2005 and 2004 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Cost of revenue - service, maintenance and other.....	\$ 616	\$ 382	\$ 529	\$ (193)
Sales and marketing.....	137	71	75	(54)
Research and development.....	292	208	256	(97)
General and administrative.....	294	230	347	292
	<u>\$ 1,339</u>	<u>\$ 891</u>	<u>\$ 1,207</u>	<u>\$ (52)</u>

2. Property and equipment:

	September 30, 2005	December 31, 2004
Computer equipment.....	\$ 3,490	\$ 2,988
Office furniture and equipment	2,056	1,764
Computer software.....	1,048	854
Leasehold improvements.....	283	239
	6,877	5,845
Less: Accumulated depreciation.....	(3,186)	(2,966)
Net book value of property and equipment	<u>\$ 3,691</u>	<u>\$ 2,879</u>

At September 30, 2005, the cost and accumulated depreciation of assets under capital lease included above were \$3,799,000 and \$1,482,000, respectively (December 31, 2004 - \$1,848,000 and \$493,000, respectively).

3. Intangibles and goodwill:

	September 30, 2005	December 31, 2004
Customer relationships.....	\$ 325	\$ 325
Developed technology	408	408
Purchased in-process research and development.....	205	205
	938	938
Less: Accumulated amortization	(859)	(703)
Total intangibles.....	79	235
Goodwill	2,545	2,545
Total intangibles and goodwill.....	<u>\$ 2,624</u>	<u>\$ 2,780</u>

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(Unaudited)

4. Capital lease and other obligations:

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

	<u>September 30,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
2005	\$ 434	\$ 862
2006	2,050	783
2007	1,468	341
2008	<u>489</u>	<u>—</u>
	4,441	1,986
Less: Amounts representing interest (at an effective rate of approximately 6%)	<u>(286)</u>	<u>(144)</u>
Balance of capital lease and other obligations.....	4,155	1,842
Less: Current portion	<u>(1,900)</u>	<u>(778)</u>
Capital lease and other obligations, net of current portion	<u>\$ 2,255</u>	<u>\$ 1,064</u>

The Company has an agreement in place for a non-committed lease line of credit for up to \$4,137,000 (Cdn. \$4,804,000) with the equipment finance arm of a Canadian chartered bank to finance selected property and equipment purchases. At September 30, 2005, a total of \$3,222,000 (Cdn. \$3,742,000) had been drawn by the Company under the line 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.

The Company has also entered into lending agreements to finance the acquisition of other assets. Repayment terms with respect to these financings have been reflected in the above table.

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

Unlimited number of common shares without par value.

b) Transactions:

September 30, 2005:

The Company issued 272,535 and 3,950 common shares to stock option and warrant holders for total consideration of \$907,000 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.

WORKBRAIN CORPORATION

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c) Stock option plan:

The Company's stock option plan (the "Plan") was implemented to encourage ownership of the Company by directors, officers, employees and consultants of the Company and its subsidiaries. The maximum number of common shares which may be set aside for issuance under the Plan is 2,740,000 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. Generally, options issued under the Plan vest over a three- to five-year period. Any option granted which, for any reason, is canceled or terminated prior to its exercise, will become available for grant under the Plan. In accordance with the Plan, the exercise price of options is based on the quoted market price of the Company's common shares on the date of grant.

Options may be granted under the Plan to be exercised during a period of up to 10 years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, officer, employee or consultant of the Company or one of its subsidiaries, as applicable. Options issued under the Plan are non-transferable. During 2003, the Company extended the term of all 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 September 30, 2005 and December 31, 2004, and the changes during the periods then ended is presented below:

	September 30, 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.....	205,000	14.22	391,183	10.91
Exercised.....	(272,535)	3.35	(561,755)	3.65
Forfeited.....	(68,485)	9.83	(174,077)	6.87
Outstanding, end of period	<u>1,160,733</u>	\$ 9.82	<u>1,296,753</u>	\$ 7.13
Options exercisable, end of period	<u>499,958</u>	\$ 7.09	<u>538,854</u>	\$ 3.95
Weighted average per share fair value of options granted during the period		\$ 3.30		\$ 4.84

All options granted during the nine months ended September 30, 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 September 30, 2005	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at September 30, 2005	Weighted Average Exercise Price
\$ 0.94	2,208	1.3	\$ 0.94	2,208	\$ 0.94
3.13 - 4.03	297,888	2.7	3.71	260,881	3.67
5.18 - 7.35	192,348	4.9	6.21	81,984	6.11
11.15 - 15.72	<u>668,289</u>	4.7	13.61	<u>154,885</u>	13.48
\$ 0.94 - 15.72	<u>1,160,733</u>		\$ 9.82	<u>499,958</u>	\$ 7.09

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(Unaudited)

f) Warrants issued:

As at September 30, 2005, there are 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.

All of these warrants were unexercised at September 30, 2005.

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 contributions (net of all withdrawals) during the prior six-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. The contributions accrued for the three and nine months ended September 30, 2005 amounted to \$14,000 and \$59,000, respectively.

6. Commitments:

Future minimum lease payments under non-cancelable operating leases, as of September 30, 2005, are as follows:

2005	\$	278
2006		1,184
2007		976
2008		711
2009		722
Thereafter.....		<u>645</u>
Total minimum lease payments.....	\$	<u>4,516</u>

Rent expense for the three and nine months ended September 30, 2005 was \$508,000 and \$1,210,000, respectively (September 30, 2004 - \$386,000 and \$1,114,000, respectively). 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.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three and nine months ended September 30, 2005

(Unaudited)

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.

9. Research and development expenses:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Gross research and development expenses	\$ 3,354	\$ 2,333	\$ 9,808	\$ 7,127
Less: Investment tax credits realized	(2)	(71)	(184)	(146)
Net research and development expenses	<u>\$ 3,352</u>	<u>\$ 2,262</u>	<u>\$ 9,624</u>	<u>\$ 6,981</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 September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net income (loss):				
Basic and diluted net income (loss).....	<u>\$ 1,592</u>	<u>\$ 1,243</u>	<u>\$ 2,549</u>	<u>\$ (992)</u>
Weighted average number of common shares outstanding (in thousands of shares):				
Common shares.....	17,657	16,899	17,589	16,765
Effect of stock options issued	338	314	362	–
Effect of warrants outstanding	<u>25</u>	<u>206</u>	<u>26</u>	<u>–</u>
Diluted	<u>18,020</u>	<u>17,419</u>	<u>17,977</u>	<u>16,765</u>
Net income (loss) per share:				
Basic	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ 0.14</u>	<u>\$ (0.06)</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ 0.14</u>	<u>\$ (0.06)</u>

For the nine months ended September 30, 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.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three and nine months ended September 30, 2005

(Unaudited)

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 and nine months ended September 30, 2005, the total expense incurred by the Company from such law firm for legal services and other services aggregated to \$47,000 and \$106,000, respectively (2004 - \$80,000 and \$144,000, respectively).

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 September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenue by geographic location:				
United States	\$ 18,696	\$ 13,453	\$ 54,206	\$ 34,145
United Kingdom	1,438	1,448	5,931	2,869
Canada	1,076	499	2,338	1,588
Asia Pacific	644	607	2,418	607
	<u>\$ 21,854</u>	<u>\$ 16,007</u>	<u>\$ 64,893</u>	<u>\$ 39,209</u>

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

	September 30, 2005	December 31, 2004
Property and equipment by geographic location:		
Canada	\$ 3,237	\$ 2,731
United States	417	148
United Kingdom	37	—
	<u>\$ 3,691</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 nine months ended September 30, 2005 and 2004, no customers of the Company accounted for 10% or greater of net revenue.

13. Reclassification:

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