

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 nine month periods ended September 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 October 31, 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.

Significant Accounting Policies

Revenue Recognition

The Company's revenue is derived primarily from licence fees and service fees. The Company licenses software under non-cancellable licence agreements and provides services, including implementation, consulting, training, hosting and post-contract customer support (PCS) to its customers. In certain cases, the Company also provides customers with hardware related to its software offerings. The Company recognizes revenue in accordance with Canadian GAAP, which, in the Company's circumstances, is consistent with the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 97-2 *Software Revenue Recognition* and related provisions (SOP 97-2).

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.

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

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.

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 licences 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 licences 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

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

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.

Comparison of Three Months Ended September 30, 2005 and 2004

Revenue:

Total revenue increased 36.5% to \$21.9 million in the three months ended September 30, 2005 from \$16.0 million in the three months ended September 30, 2004.

Licence revenue increased 31.5% to \$5.4 million in the three months ended September 30, 2005 compared with \$4.1 million in the three months ended September 30, 2004. The growth was attributable to an increase in the number of customers to 114 at September 30, 2005 compared with 85 at September 30, 2004, as well as licence revenue for certain customer arrangements being recognized as a separate element upon delivery of the software. In these customer arrangements, it was determined that the services included in the arrangement were not essential to the functionality of the software. This licence revenue growth is an indirect result of significant investments we have made 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 38.3% to \$16.4 million in the three months ended September 30, 2005 compared with \$11.9 million in the three months ended September 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 to \$115,000 in the three months ended September 30, 2005 compared with \$7,000 in the three months ended September 30, 2004, and represented 2.1% and 0.2% 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, since more recent versions of our software incorporate additional third-party components. Accordingly, the costs associated with licence revenue were greater in the three months ended September 30, 2005 compared with the same period of the prior year.

Cost of service, maintenance and other revenue increased 49.1% to \$11.6 million in the three months ended September 30, 2005 compared with \$7.8 million in the three months ended September 30, 2004, and represented 70.4% and 65.3% 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 357 in the three months ended September 30, 2005 compared with 219 in the three months ended September 30, 2004. Cost of

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

service, maintenance and other revenue included a foreign exchange gain of \$616,000 in the three months ended September 30, 2005 compared with a foreign exchange gain of \$382,000 included in the three months ended September 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 19.3% to \$3.8 million in the three months ended September 30, 2005 compared with \$3.2 million in the three months ended September 30, 2004, and represented 17.6% and 20.2% 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 September 30, 2005 compared with an average of 66 in the three months ended September 30, 2004, and to increased marketing activities, trade shows and promotional expenses. The decrease in sales and marketing expenses as a percentage of revenue was due to the increased productivity of our sales and marketing personnel. Sales and marketing expenses included a foreign exchange gain of \$137,000 in the three months ended September 30, 2005 compared with a foreign exchange gain of \$71,000 included in the three months ended September 30, 2004. 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 48.2% to \$3.4 million in the three months ended September 30, 2005 compared with \$2.3 million in the three months ended September 30, 2004, and represented 15.3% and 14.1% of revenue, respectively. The increase in the three months ended September 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 171 in the three months ended September 30, 2005 compared with 98 in the three months ended September 30, 2004. The increase in research and development expenses was offset by investment tax credits of \$2,000 realized in the three months ended September 30, 2005 compared with \$71,000 realized in the three months ended September 30, 2004. Research and development expenses included a foreign exchange gain of \$292,000 in the three months ended September 30, 2005 compared with a foreign exchange gain of \$208,000 included in the three months ended September 30, 2004. Up to September 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 5.7% to \$1.35 million in the three months ended September 30, 2005 compared with \$1.28 million in the three months ended September 30, 2004, and represented 6.2% and 8.0% of revenue, respectively. 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 grew to 45 in the three months ended September 30, 2005 compared with 41 in the three months ended September 30, 2004. The increase in general and administrative costs was the result of this increase in headcount, as well as increases in other administrative expenses, and was partly offset by the inclusion of a larger foreign exchange gain in the three months ended September 30, 2005 compared with the same period of the prior year. General and administrative expenses included a foreign exchange gain of \$294,000 in the three months ended September 30, 2005 compared with a foreign exchange gain of \$230,000 included in the three months ended September 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 \$34,000 in the three months ended September 30, 2005, compared with \$75,000 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.

Amortization of stock-based compensation was \$310,000 for the three months ended September 30, 2005 compared with \$368,000 in the three months ended September 30, 2004 and represented 1.4% and 2.3% of

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

revenue, respectively. The decreases in dollar amount and as a percentage of revenue were the result of discontinuing our previous practice of granting stock options to every new employee during 2004. Stock-based compensation in 2005 is related to option grants to directors as well as options granted to selected new and existing employees.

Interest income, net increased to \$305,000 in the three months ended September 30, 2005 compared with \$204,000 in the three months ended September 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 September 30, 2005 compared with the three months ended September 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 gain of \$1.3 million for the three months ended September 30, 2005 which was primarily as a result of the appreciation in the value of the Canadian dollar over the period (from 0.816 U.S. dollars at June 30, 2005 to 0.861 U.S. dollars at September 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 \$349,000 to \$1.6 million in the three months ended September 30, 2005 compared with net income of \$1.2 million in the three months ended September 30, 2004. The increase was due primarily to an increase in revenue, to \$21.9 million in the three months ended September 30, 2005 from \$16.0 million in the three months ended September 30, 2004, coupled with a decrease in operating expenses as a percent of revenue, to 40.7% in the three months ended September 30, 2005 from 45.0% in the three months ended September 30, 2004, as well as to the net foreign exchange gain of \$1.3 million in the three months ended September 30, 2005 compared with the net gain of \$891,000 in the three months ended September 30, 2004.

Adjusted net income (loss). Adjusted net income decreased by \$198,000 to adjusted net income of \$597,000 in the three months ended September 30, 2005 compared with adjusted net income of \$795,000 in the three months ended September 30, 2004. The decrease was due to the decrease in gross margin in the three months ended September 30, 2005 compared with the three months ended September 30, 2004, which more than offset the decrease in operating expenditures noted above, after the exclusion of the impact of foreign exchange.

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.

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

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):

	<u>Three months ended September 30,</u>	
	<u>2005</u>	<u>2004</u>
Net income - GAAP	\$ 1,592	\$ 1,243
Add back:		
Foreign exchange (gain)	(1,339)	(891)
Amortization of stock-based compensation	310	368
Amortization of acquisition-related intangibles	34	75
Adjusted net income	<u>\$ 597</u>	<u>\$ 795</u>

Comparison of Nine Months Ended September 30, 2005 and 2004

Revenue:

Total revenue increased 65.5% to \$64.9 million in the nine months ended September 30, 2005 from \$39.2 million in the nine months ended September 30, 2004.

Licence revenue increased 36.4% to \$16.3 million in the nine months ended September 30, 2005 from \$12.0 million in the nine months ended September 30, 2004. The growth was attributable to an increase in the number of customers to 114 at September 30, 2005 compared with 85 at September 30, 2004, as well as licence revenue for certain customer arrangements being recognized as a separate element upon delivery. This licence revenue growth is an indirect result of significant investments we have made in sales and marketing personnel, infrastructure and programs.

Service, maintenance and other revenue increased 78.3% to \$48.6 million in the nine months ended September 30, 2005 from \$27.2 million in the nine months ended September 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 114.1% to \$426,000 in the nine months ended September 30, 2005 compared with \$199,000 in the nine months ended September 30, 2004, and represented 2.6% and 1.7% 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, since more recent versions of our software incorporate additional third-party components. Accordingly, the costs associated with licence revenue were greater in the nine months ended September 30, 2005 compared with the same period of the prior year.

Cost of service, maintenance and other revenue increased 78.1% to \$34.8 million in the nine months ended September 30, 2005 compared with \$19.5 million in the nine months ended September 30, 2004, and represented 71.6% and 71.7% of service, maintenance and other revenue, respectively. This increase 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 324 in the nine months ended September 30, 2005 compared with 188 in the nine months ended September 30, 2004. Cost of service, maintenance and other revenue included a foreign exchange gain of \$529,000 in the nine months ended September 30, 2005 compared with a foreign exchange loss of \$(193,000) included in the nine months ended September 30, 2004.

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

Cost of revenue accruals (recoveries), net was nil in the nine months ended September 30, 2005 compared with \$(168,000) in the nine months ended September 30, 2004. No contracts were accounted for under the zero-profit method during the nine months ended September 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.

Operating expenses:

Sales and marketing expenses increased 28.2% to \$12.4 million in the nine months ended September 30, 2005 compared with \$9.7 million in the nine months ended September 30, 2004, and represented 19.1% and 24.7% 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 76 personnel in the nine months ended September 30, 2005 compared with an average of 62 in the nine months ended September 30, 2004, and to increased marketing activities, trade shows and promotional expenses. Included in marketing activities for the nine months ended September 30, 2005 and September 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. Sales and marketing expenses included a foreign exchange gain of \$75,000 in the nine months ended September 30, 2005 compared with a foreign exchange loss of (54,000) included in the nine months ended September 30, 2004.

Research and development expenses increased 37.9% to \$9.6 million in the nine months ended September 30, 2005 compared with \$7.0 million in the nine months ended September 30, 2004, and represented 14.8% and 17.8% 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 152 in the nine months ended September 30, 2005 compared with 91 in the nine months ended September 30, 2004. The increase in research and development costs was partly offset by investment tax credits of \$184,000 realized in the nine months ended September 30, 2005 compared with \$146,000 realized in the nine months ended September 30, 2004. The decrease in percentage terms was primarily due to the increase in revenue from the nine months ended September 30, 2004 to the nine months ended September 30, 2005, as well as to the inclusion of a foreign exchange gain of \$256,000 in the nine months ended September 30, 2005 compared to a foreign exchange loss of \$(97,000) in the nine months ended September 30, 2004.

General and administrative expenses increased 41.4% to \$4.9 million in the nine months ended September 30, 2005 compared with \$3.5 million in the nine months ended September 30, 2004, and represented 7.6% and 8.9% of revenue, respectively. The increase in dollar amount was attributable to an increase in the number of administrative and financial personnel, to 40 in the nine months ended September 30, 2005 compared with 38 in the nine months ended September 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. General and administrative expenses included a foreign exchange gain of \$347,000 in the nine months ended September 30, 2005 compared with a foreign exchange gain of \$292,000 included in the nine months ended September 30, 2004.

Amortization of acquisition-related intangibles was \$156,000 in the nine months ended September 30, 2005, compared with \$292,000 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.

Amortization of stock-based compensation decreased to \$910,000 for the nine months ended September 30, 2005 compared with \$917,000 in the nine months ended September 30, 2004 and represented 1.4% and 2.3% of revenue, respectively. The decreases in the dollar amount and as a percentage of revenue were the result of discontinuing our previous practice of granting stock options to every new employee during 2004. Stock-based

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

compensation in 2005 is related to option grants to directors as well as options granted to selected new and existing employees.

Interest income increased to \$931,000 in the nine months ended September 30, 2005 compared with \$689,000 in the nine months ended September 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 nine months ended September 30, 2005 compared with the nine months ended September 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 gain of \$1.2 million for the nine months ended September 30, 2005 which was primarily as a result of the appreciation in the value of the Canadian dollar over the period (from 0.831 U.S. dollars at December 31, 2004 to 0.861 U.S. dollars at September 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 \$3.5 million to net income of \$2.5 million in the nine months ended September 30, 2005 compared with a net loss of \$(1.0 million) in the nine months ended September 30, 2004. The increase was due primarily to an increase in revenue, to \$64.9 million in the nine months ended September 30, 2005 from \$39.2 million in the nine months ended September 30, 2004, coupled with a decrease in operating expenses as a percentage of revenue, to 43.1% in the nine months ended September 30, 2005 from 54.4% in the nine months ended September 30, 2004, as well as to the inclusion of a foreign exchange gain of \$1.2 million in the nine months ended September 30, 2005, compared to a foreign exchange loss of \$(52,000) in the same period of the prior year.

Adjusted net income (loss). Adjusted net income increased by \$2.1 million to adjusted net income of \$2.4 million in the nine months ended September 30, 2005 compared with adjusted net income of \$269,000 in the nine months ended September 30, 2004. The increase was due to the increase in revenue and the decrease in operating expenses, after the exclusion of the impact of foreign exchange, as a percentage of revenues in the nine months ended September 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):

	Nine months ended September 30,	
	2005	2004
Net income gain (loss) - GAAP	\$ 2,549	\$ (992)
Add back:		
Foreign exchange (gain) loss	(1,207)	52
Amortization of stock-based compensation	910	917
Amortization of acquisition-related intangibles	156	292
Adjusted net income	<u>\$ 2,408</u>	<u>\$ 269</u>

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

Liquidity and Capital Resources

At September 30, 2005 we had cash and cash equivalents and short-term investments of \$47.8 million and working capital of \$50.3 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 September 30, 2005 and 2004 and the nine months ended September 30, 2005 and 2004 was (\$2.8 million), (\$817,000), (\$3.8 million) and (\$1.6 million), respectively. Cash used in operations in the three months ended September 30, 2005 was primarily the result of decreases in accrued payroll and deferred revenue. Cash used in operations in the three months ended September 30, 2004 was primarily the result of increases in accounts receivable and other assets. Cash used in operations in the nine months ended September 30, 2005 was primarily the result of increases in accounts receivable and other assets. Cash used in operations in the nine months ended September 30, 2004 was primarily the result of the net loss for the period as well as increases in accounts receivable and other assets.

Investment activities during the three months ended September 30, 2005 and 2004 and the nine months ended September 30, 2005 and 2004 included cash used for the purchase of property and equipment totaling \$1.1 million, \$702,000, \$2.7 million and \$2.1 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 September 30, 2005 and 2004 and the nine months ended September 30, 2005 and 2004 was (\$24.6 million), (\$32.3 million), (\$11.7 million) and (\$25.6 million), respectively.

Financing activities during the three months ended September 30, 2005 and 2004 and the nine months ended September 30, 2005 and 2004 consisted primarily of the issuance of share capital pursuant to stock option exercises which totaled \$208,000, \$436,000, \$907,000 and \$1.2 million, respectively. Cash was also provided by the sale and leaseback of property and equipment in the three months ended September 30, 2005 and 2004 and the nine months ended September 30, 2005 and 2004, which totaled \$1.2 million, \$802,000, \$2.0 million and \$1.5 million, respectively. During the nine months ended September 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 September 30, 2005, we had made a number of draws under the line, with a total of \$3.2 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 lease and other obligations noted above, as well as future minimum lease payments under non-cancelable operating leases relating to our premises, which total \$4.5 million as at September 30, 2005.

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

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.

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

Outstanding Share Data

As at September 30, 2005, there were 17,692,775 common shares issued and outstanding. In addition, a total of 1,160,733 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 NINE MONTHS ENDED SEPTEMBER 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 September 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					
Sep 30, 2005	Jun 30, 2005	Mar 31, 2005	Dec 31, 2004	Sep 30, 2004	Jun 30, 2004	Mar 31, 2004	Dec 31, 2003				

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

Consolidated Statement of Operations Data:

Revenue:								
Licence	\$ 5,443	\$ 5,762	\$ 5,123	\$ 4,368	\$ 4,140	\$ 3,703	\$ 4,129	\$ 2,521
Service, maintenance and other	<u>16,411</u>	<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>
Total revenue	<u>21,854</u>	<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>
Cost of revenue:								
Licence	115	216	95	95	7	96	96	39
Service, maintenance and other	11,556	11,939	11,282	8,679	7,752	6,349	5,422	4,913
Cost of revenue accruals (recoveries), net	-	-	-	-	-	-	(168)	(8)
Total cost of revenue	<u>11,671</u>	<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>
Gross profit	<u>10,183</u>	<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>
Gross margin (%)	46.6%	44.9%	45.8%	50.7%	51.5%	50.0%	48.2%	47.9%
Operating expenses:								
Sales and marketing	3,852	4,555	3,984	4,178	3,229	3,572	2,868	2,588
Research and development	3,352	3,316	2,956	2,669	2,262	2,451	2,268	1,711
General and administrative	1,348	1,818	1,750	1,562	1,275	1,062	1,140	293
Amortization of acquisition-related intangibles	34	48	74	75	75	91	126	125
Amortization of stock-based compensation	<u>310</u>	<u>320</u>	<u>280</u>	<u>320</u>	<u>368</u>	<u>320</u>	<u>229</u>	<u>81</u>
Total operating expenses	<u>8,896</u>	<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>
Income (loss) from operations	1,287	(148)	554	216	1,039	(1,061)	(1,659)	(246)
Interest income, net	<u>305</u>	<u>310</u>	<u>316</u>	<u>221</u>	<u>204</u>	<u>212</u>	<u>273</u>	<u>62</u>
Income (loss) before provision for income taxes	1,592	162	870	437	1,243	(849)	(1,386)	(184)
Provision for income taxes	-	-	75	-	-	-	-	-
Net income (loss)	<u>\$ 1,592</u>	<u>\$ 162</u>	<u>\$ 795</u>	<u>\$ 437</u>	<u>\$ 1,243</u>	<u>\$ (849)</u>	<u>\$ (1,386)</u>	<u>\$ (184)</u>
Net income (loss) per share:								
Basic	<u>\$ 0.09</u>	<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>
Basic weighted average number of common shares outstanding	<u>17,657</u>	<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>
Diluted	<u>\$ 0.09</u>	<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>
Diluted weighted average number of common shares outstanding	<u>18,020</u>	<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>

WORKBRAIN CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF INTERIM FINANCIAL RESULTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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.