Total Workforce Management.

Enable Business Performance.

2005
Annual Report

workbrain™

Summary

Workbrain is the only provider of Total Workforce Management that helps organizations plan, deploy, and manage their workforce.

Only Workbrain's total approach to workforce management links long-term workforce planning with 'day-of operations', aligning workforce execution with business strategy.

Our solutions reduce costs, increase sales, reduce compliance risks, and boost employee satisfaction.

Our clients achieve substantial gains in overall business performance through measurable gains in workforce productivity.

Other vendors offer partial solutions that focus primarily on automation and cost reduction.

Workbrain's Total Workforce Management is a comprehensive solution that transforms workforce operations.

Headquartered in Toronto, with offices around the world, Workbrain has become the fastest growing enterprise software company in our industry.

Total Workforce Management.
Enable Business Performance.

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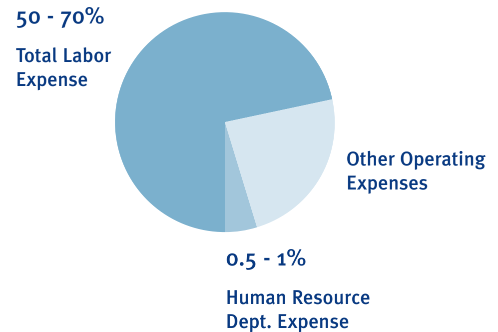
Our Market Opportunity

Why focus on Total Workforce Management?

Traditional Human Resource Management solutions only target human resource department expenses.

Total Workforce Management solutions drive significant improvements to our clients' total labor expenses.

Market growth is being driven by the strong return on investment in Total Workforce Management solutions.



Dear Shareholder,

We are very pleased with our accomplishments in 2005. Record revenue and earnings, the launch of the newest version of our market leading workforce management solution, and recognition as one of the fastest growing technology companies in North America made for a tremendous year.

Our vision of a total workforce management solution and execution against our growth plan has made us the preferred solution provider to the world's largest organizations. In the years to come, we intend to dominate the worldwide market for workforce management solutions by enabling our clients' optimal business performance.

56%

increase in annual revenue over 2004

Our financial results in 2005 are remarkable:

- 6th consecutive year of revenue growth
- $88.7 million in revenue
- 56% increase in annual revenue over 2004
- $3.6 million increase in annual net income over 2004
- $0.17 net income per share
- $49.1 million in cash and investments at December 31, 2005

Over the five years ended December 31, 2005, Workbrain's revenue grew at an absolute rate of 2,273% and at a compound annual growth rate of 192%.

Workbrain's growth is the fastest of any technology company of our size in our industry, and is without rival or precedent. We believe this is a testament to our unique value proposition: total workforce management that enables business performance for large, complex enterprises.

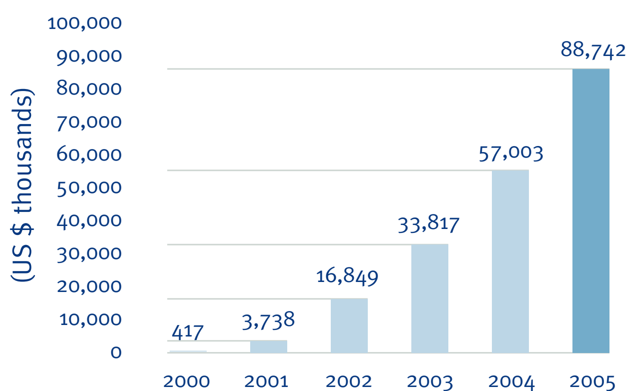
Our remarkable financial results and tremendous growth were driven by major operational milestones including:

- We launched Workbrain® 5, setting the new standard for workforce management solutions for large enterprises.

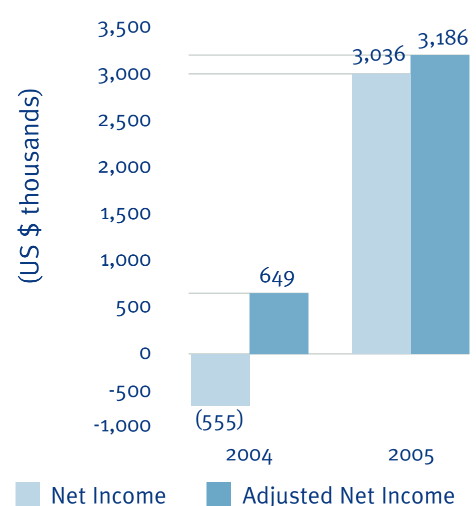
jump

- We introduced Fast Track, our packaged, fixed-fee implementation services initiative to streamline the deployment of our solutions.
- We welcomed a record number of new customers.
- We helped a record number of clients go 'live' across their enterprises.
- We had record attendance of partners, prospects, and customers at our annual Velocity conference in Orlando, Florida, and we made our presence felt at over 25 tradeshows and exhibitions.
- Workbrain placed second in Deloitte's Technology Fast 50 (Canada), and 24th in their Fast 500 ranking of the fastest growing technology companies in North America – a tribute to the talented people at Workbrain and the hard work they put in everyday to keep us ahead of the field.

Revenue Growth



Earnings Growth



We believe that our exclusive focus on total workforce management delivers unmatched value to our clients. In 2005, we welcomed a record number of clients from North America, Europe, Africa and Australia that share our vision. These new clients included:

adidas-Salomon	Ball Corporation	Best Buy
Bristol-Myers Squibb	City of Detroit	Compass Group USA
Formica Corporation	Foschini Limited	Government of Queensland
H&M	Honeywell International	Menards
Mirant	New Jersey State Police	NiSource
Nissan North America	Pacific National	Shoppers Drug Mart
Telus Mobility	Tommy Hilfiger Canada	Verizon

These clients, and many more, join companies such as Target Corporation, International Paper, Citibank, Australia Post, Lifespan, and British Airways who are using Workbrain to transform their workforce operations.

Our customers are recognizing increased sales in addition to material savings.

To our knowledge, Workbrain is the only workforce management solution provider that has measurably increased clients' revenue.

The Aberdeen Group[1] reported that REI's Workbrain implementation increased sales by 1-4%.

Following a Workbrain implementation, RIS News[2] awarded RadioShack the Fusion Award for Store Excellence, noting that sales increased 3% and operating income increased 15%.

Workbrain's retail customers expect natural comparable store sales growth of 1- 4% and gross payroll reduction of 1-5% through Workbrain deployment – a huge opportunity for business value creation. This is the ROI that drives Workbrain's success.

drive

Since 2000, Workbrain's vision has defined the market for workforce management solutions.

Our vision is total workforce management – a unified solution that aligns long-term planning, short-term preparation, and "day of operations" – to enable employers around the world to maximize the operating leverage of their workforce. Already, Workbrain is the first provider of workforce management solutions that ***increase sales*** in addition to reducing workforce-related costs.

To achieve our vision, we have pursued a plan for disciplined growth. According to the plan:

- We have expanded our operations across 3 continents to address the international market;
- We have broadened and strengthened our strategic relationships with our partners to reach new customers and markets and to serve them better;
- We have enhanced our relationships with clients, partners, and prospects; and
- We have enriched the functionality of our industry-specific software applications and improved the quality of the services we supply to clients to further our market leadership.

By committing to this growth plan and adhering to it, we have become one of the fastest growing public technology companies in North America.

[1]Aberdeen Group, Best Practices in Customer Service and Store Performance Management September 2005
[2]RIS News, September 2005

vision and strategy

In October, we unveiled our next generation solution for workforce management – Workbrain 5. Workbrain 5 sets the new standard for enterprise class solutions by optimizing the deployment, management, and measurement of large organizations' workforces. New features of Workbrain 5 include:

Workforce Planning
– the first web-based solution to be fully integrated with labor forecasting, scheduling and time and attendance;

Real-Time Self-Scheduling
– streamlining labor deployment for healthcare employees; and

Enhanced Retail Schedule Optimization
– the market's only optimized schedule generator is upgraded with faster performance and easy to use parameters like "least cost".

Workbrain 5 also adds groundbreaking auditing capabilities to address Sarbanes-Oxley requirements, Department of Labor standards, and specific provisions of union contracts in a single application. Put simply, Workbrain 5 is the standard in workforce management solutions for large enterprises.

lead

Workbrain also focuses on strategic partnerships to drive our growth. For example, in September, we signed an agreement with Ultimate Software to resell Workbrain Express to Ultimate Software's customer base of 1,300 mid-market companies and new prospects. Ultimate Software is typical of the calibre of the market-leading companies with which we partner. Our partners also include leading systems integrators and business process outsourcers (BPOs) such as Accenture, BearingPoint, ACS, Hewitt, and IBM.

As we move forward, we believe our partners will take on an even greater role in our go-to-market strategy as they sell our solutions and deploy them to their clients. As an example, one of our BPO partners signed a Fortune 500 utility client with more than 20,000 employees in December.

Partner enablement is an important step in Workbrain's growth and maturation, and we are gratified by the foresight and the commitment made by these market leaders to devote their time and resources to selling and deploying Workbrain solutions around the world.

As our business grew in 2005, so did our family – Workbrain added over 200 new employees worldwide to support our growth. Senior executives and regional leaders, many with more than 20 years of experience, have enhanced the capabilities of our professional services operations, rallied the marketing organization, and ensured continued growth and client satisfaction around the world. These new team members are indicative of the high-calibre industry experts that Workbrain attracts and employs throughout the company.

In conclusion, Workbrain fired on all cylinders in 2005.

We generated record revenue, record earnings, and signed a record number of major clients. We launched the newest version of our market-leading application, Workbrain 5, and completed many successful enterprise deployments at some of our largest clients.

Our results for the year surpassed our original growth targets, and made us one of the fastest growing software companies in our market.

In 2005, we also started to realize the benefits of the significant investments we have made to support the long-term growth of our organization.

We look forward to continued success in 2006.

Thank you to the Workbrain family – our clients, partners, and employees – for a magnificent year of achievement.

Sincerely,

Signed

David Ossip
President and Chief Executive Officer

Executive Management

David Ossip
President and CEO

David Stein
Chief Strategy Officer

Stephen A. DeBacco
Chief Operating Officer

Matthew Chapman
Chief Financial Officer

Tony Marzulli
Senior Vice President, Marketing

Susan Hutt
Senior Vice President, Global Services

Daniel Debow
Vice President, Corporate Development

Richard Guttman
Vice President Legal, General Counsel,
and Corporate Secretary

Board of Directors

Roger Martin
Chair of the Board of Directors; member i, iii
Dean and Professor of Strategy at the Joseph L. Rotman
School of Management at the University of Toronto

David Ossip
President and CEO of Workbrain Corporation

Gerald Throop
Chair i
Executive Vice-President and Head of Capital Markets
for Rockwater Capital Corporation and Blackmont
Capital Inc.

Alon Ossip
Member ii
Partner of Goodman and Carr LLP

David Goldman
Chair iii; member i, ii
Chairman of Mamma.com Inc.

Peter Dey
Chair ii
Chairman of Paradigm Capital Inc.

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

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Management's Discussion and Analysis

For the years ended December 31, 2005, 2004 and 2003

The following table sets out selected consolidated financial information for the years ended December 31, 2005, 2004 and 2003 and as at those dates. The selected consolidated financial information has been derived from our audited consolidated financial statements which are prepared in accordance with Canadian GAAP. You should read the following selected consolidated financial information in conjunction with our audited consolidated financial statements and the notes thereto and with Management's Discussion and Analysis.

Consolidated Statements of Operations Data:

Years ended December 31, *(Amounts In U.S. Dollars, In Thousands, Except Per Share Data)*	2005	2004	2003
Revenue:			
Licence	$ 23,063	$ 16,340	$ 10,361
Service, maintenance and other	65,679	40,663	23,456
Net revenue	88,742	57,003	33,817
Cost of revenue:			
Licence	683	294	318
Service, maintenance and other	47,648	28,202	17,061
Cost of revenue accruals (recoveries), net	–	(168)	(561)
Total cost of revenue	48,331	28,328	16,818
Gross profit	40,411	28,675	16,999
Gross margin (%)	45.5%	50.3%	50.3%
Operating expenses:			
Sales and marketing	17,033	13,847	8,804
Research and development	13,254	9,650	5,153
General and administrative	7,076	5,039	1,614
Amortization of acquisition-related intangibles	190	367	336
Amortization of stock-based compensation	1,007	1,237	84
Total operating expenses	38,560	30,140	15,991
Income (loss) from operations	1,851	(1,465)	1,008
Interest income, net	1,260	910	232
Income (loss) before provision for income taxes	3,111	(555)	1,240
Provision for income taxes	75	–	–
Net income (loss)	$ 3,036	$ (555)	$ 1,240
Net income (loss) per share:			
Basic	$ 0.17	$ (0.03)	$ 0.09
Basic weighted average number of common shares outstanding	17,619	16,871	13,249
Diluted	$ 0.17	$ (0.03)	$ 0.09
Diluted weighted average number of common shares outstanding	17,945	16,871	13,949

Consolidated Balance Sheet Data:

Years ended December 31, *(Amounts In U.S. Dollars, In Thousands)*	2005	2004	2003
Cash and cash equivalents and short-term investments	$ 49,063	$ 51,077	$ 46,693
Working capital	50,864	45,943	41,443
Total assets	83,127	72,926	61,865
Deferred revenue	12,166	12,852	9,232
Long-term liabilities	3,333	1,088	125
Total shareholders' equity	55,612	50,514	46,929

You should read the following discussion in conjunction with the selected consolidated financial information and with our audited consolidated financial statements and the notes thereto. Additional information relating to Workbrain Corporation ("we", "us" or "Workbrain"), including our most recent annual information form, is available on SEDAR at www.sedar.com. This management's discussion and analysis is prepared as of February 15, 2006.

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.

Delivery has occurred: Typically, the Company delivers its software electronically. If undelivered products or services exist in an arrangement that is 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 standard business practice, for maintenance and support, customers pay annually at the beginning of the maintenance year, and for professional services, customers pay based on milestone achievements.

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, upgrades, enhancements, PCS, or installation 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 Statement of Position 98-9 *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*, and PCS revenue is recognized ratably over the PCS term.

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

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

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

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 PCS, the entire arrangement fee is deferred and recognized ratably over the PCS 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 the loss is 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. Fees that have been recognized as revenue but have not yet been billed are reflected as accrued revenue on the consolidated balance sheets.

Comparison of Years Ended December 31, 2005 and 2004

Revenue:

Total revenue increased 55.7% to $88.7 million in the year ended December 31, 2005 from $57.0 million in the year ended December 31, 2004.

Licence revenue increased 41.1% to $23.1 million in the year ended December 31, 2005 compared with $16.3 million in the year ended December 31, 2004. The increase in licence revenue was primarily attributable to the addition of 35 new customers in the year ended December 31, 2005 compared with 33 in the year ended December 31, 2004, to the recognition of committed licence backlog from prior years during the year ended December 31, 2005, as well as to the recognition of licence revenue in certain new customer arrangements where services were not essential to the functionality of the software and where the criteria for revenue recognition had been met. 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 61.5% to $65.7 million in the year ended December 31, 2005 compared with $40.7 million in the year ended December 31, 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 132.3% to $683,000 in the year ended December 31, 2005 compared with $294,000 in the year ended December 31, 2004, and represented 3.0% and 1.8% 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 year ended December 31, 2005 compared with the same period of the prior year.

Cost of service, maintenance and other revenue increased 69.0% to $47.6 million in the year ended December 31, 2005 compared with $28.2 million in the year ended December 31, 2004, and represented 72.5% and 69.4% 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 321 in the year ended December 31, 2005 compared with 214 in the year ended December 31, 2004. The increases were also attributable to a net foreign exchange loss of $440,000 allocated to the cost of service, maintenance and other revenue in the year ended December 31, 2005 compared with a net foreign exchange loss of $53,000 allocated to the cost of service, maintenance and other revenue in the year ended December 31, 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 23.0% to $17.0 million in the year ended December 31, 2005 compared with $13.8 million in the year ended December 31, 2004, and represented 19.2% and 24.3% 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 year ended December 31, 2005 compared with an average of 65 in the year ended December 31, 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. 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 37.3% to $13.3 million in the year ended December 31, 2005 compared with $9.7 million in the year ended December 31, 2004, and represented 14.9% and 16.9% of revenue, respectively. The increase in the year ended December 31, 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 151 in the year ended December 31, 2005 compared with 97 in the year ended December 31, 2004. The increase in research and development expenses was offset by investment tax credits of $455,000 earned in the year ended December 31, 2005 compared with $149,000 earned in the year ended December 31, 2004. Up to December 31, 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 40.4% to $7.1 million in the year ended December 31, 2005 compared with $5.0 million in the year ended December 31, 2004, and represented 8.0% and 8.8% 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 43 in the year ended December 31, 2005 compared with 41 in the year ended December 31, 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 $190,000 in the year ended December 31, 2005, compared with $367,000 for the year ended December 31, 2004. 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 $1.0 million for the year ended December 31, 2005 compared with $1.2 million in the year ended December 31, 2004 and represented 1.1% and 2.2% of revenue, respectively. The decrease was attributable to: (i) the forfeiture of unvested options by employees whose employment terminated, including an executive who departed during the three months ended December 31, 2005; (ii) the discontinuation, during 2004, of our previous practice of granting stock options to every new employee and the continuing amortization of deferred stock-based compensation amounts which resulted from such grants; and (iii) the reduced average fair value of ongoing stock option grants.

Interest income, net increased to $1.3 million in the year ended December 31, 2005 compared with $910,000 in the year ended December 31, 2004. The increase in interest income was primarily due to increased yield due to higher interest rates in the year ended December 31, 2005 compared with the year ended December 31, 2004. We will continue to invest in accordance with our investment policy, which emphasizes liquidity and the minimization of risk.

Income taxes. The differences between the effective tax rates and the statutory combined Canadian federal and provincial tax rates are explained in Note 12 of the notes to our audited consolidated financial statements.

Foreign exchange. We maintain a Canadian dollar denominated treasury to fund our Canadian denominated operating expenses, in addition to our U.S. dollar-denominated treasury. As a result, we are subject to gains and losses due to fluctuations in the exchange rate between the U.S. and Canadian dollars. We recorded a net foreign exchange gain of $1.0 million for the year ended December 31, 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 0.857 U.S. dollars at December 31, 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. Gains and losses resulting from the revaluation of certain assets and liabilities, primarily our Canadian dollar treasury, are allocated to the cost of services, maintenance and other revenue and to operating expenses.

Net income (loss). Net income increased by $3.6 million to $3.0 million in the year ended December 31, 2005 compared with net loss of $555,000 in the year ended December 31, 2004. The increase was due primarily to an increase in revenue, to $88.7 million in the year ended December 31, 2005 from $57.0 million in the year ended December 31, 2004, coupled with a decrease in operating expenses as a percent of revenue, to 43.5% in the year ended December 31, 2005 from 52.9% in the year ended December 31, 2004, which was partly offset by a decrease in gross margin as a percent of revenue, to 45.5% in the year ended December 31, 2005 from 50.3% in the year ended December 31, 2004. The increase in net income was also partly attributable to a net foreign exchange gain of $1.0 million in the year ended December 31, 2005 compared with a net gain of $400,000 in the year ended December 31, 2004.

Adjusted net income. Adjusted net income increased by $2.5 million to adjusted net income of $3.2 million in the year ended December 31, 2005 compared with adjusted net income of $649,000 in the year ended December 31, 2004. The increase was due primarily to the increase in revenue described above and to the decrease in operating expenses as a percentage of revenue (after adjusting for the effect of foreign exchange), which was partly offset by a decrease in gross margin as a percent of revenue (after adjusting for the effect of foreign exchange).

Adjusted net income is a non-GAAP measure related to net income (loss) and is defined as net income excluding foreign exchange gains or losses, 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 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 is unlikely to be comparable to similar measures provided by other companies. A reconciliation of the Canadian GAAP information to the adjusted information is provided in the following table (tabular amounts in thousands of U.S. dollars):

Years ended December 31, *(Amounts In U.S. Dollars, In Thousands)*	2005	2004
Net income (loss)	$ 3,036	$ (555)
Add back:		
Foreign exchange (loss) gain	(1,047)	(400)
Amortization of stock-based compensation	1,007	1,237
Amortization of acquisition-related intangibles	190	367
Adjusted net income	$ 3,186	$ 649

Comparison of Years Ended December 31, 2004 and 2003

Revenue:

Total revenue increased 68.6% to $57.0 million in the year ended December 31, 2004 from $33.8 million in the year ended December 31, 2004.

Licence revenue increased 57.7% to $16.3 million in the year ended December 31, 2004 compared with $10.4 million in the year ended December 31, 2003. The growth was substantially attributable to an increase in the cumulative number of new customers to 90 at December 31, 2004 compared with 57 at December 31, 2003. The growth was indirectly attributable to significant investments in sales infrastructure, primarily an increase in the number of direct sales personnel as well as a substantial expansion of marketing programs. We expect licence revenue to increase in dollar amounts as we expect to continue to add new customers, enhance our current products and develop new products, and continue to invest in sales and marketing infrastructure in future periods. Licence revenue as a percentage of net revenue declined to 28.7% in the year ended December 31, 2004 compared with 30.6% in the year ended December 31, 2003, as a result of faster growth in service, maintenance and other revenue.

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

Cost of revenue:

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

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

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

Operating expenses:

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

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

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

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

Amortization of stock-based compensation increased to $1.2 million for the year ended December 31, 2004 compared with $84,000 in the year ended December 31, 2003 and represented 2.2% and 0.2% of net revenue, respectively. The increase in dollar amount and as a percentage of net revenue was the result of the adoption of a new accounting

standard that, beginning on January 1, 2004, required us to expense the fair value of stock options granted to employees since January 1, 2002 over the estimated vesting period of the stock options.

Interest income, net increased to $910,000 in the year ended December 31, 2004 compared with $232,000 in the year ended December 31, 2003, primarily due to an increase in the amount of funds available for investment in the year ended December 31, 2004 compared with the prior year.

Income taxes. The differences between the effective tax rates and the statutory combined Canadian federal and provincial tax rates are explained in Note 12 of the notes to our audited consolidated financial statements.

Foreign exchange. We maintain a Canadian dollar denominated treasury to fund our Canadian denominated operating expenses, in addition to our U.S. dollar-denominated treasury. As a result, we are subject to gains and losses due to fluctuations in the exchange rate between the U.S. and Canadian dollars. We recorded a net foreign exchange gain of approximately $400,000 for the year ended December 31, 2004, compared with a net foreign exchange gain of $2.0 million included in the year ended December 31, 2003. The gain included in the year ended December 31, 2004 was primarily as a result of an appreciation in the value of the Canadian dollar over the period (from 0.774 U.S. dollars at December 31, 2003 to 0.831 U.S. dollars at December 31, 2004). As we continue to expand our operations internationally, we will be subjected to additional potential gains and losses against currencies other than the U.S. dollar, in addition to our exposure to the Canadian dollar.

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

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

Adjusted net income (loss) is a non-GAAP measure related to net income (loss) and is defined by us as net income (loss) excluding foreign exchange gains or losses, stock-based compensation charges and amortization of acquisition related intangibles. We believe that this measure enhances an overall understanding of our operational results by revealing trends in our core operating margins, while removing the effects of short-term fluctuations in foreign exchange rates, changes in non-cash stock-based compensation expenses which relate primarily to a recent accounting pronouncement, and non-cash expenses relating to acquisitions. Adjusted net income (loss) is a supplemental measure and should not be construed as an alternative to net income as defined under Canadian 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):

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

Liquidity and Capital Resources

We have historically financed our operations through the sale of shares and through the cash generated by our operations. In December 2003, we raised $32.4 million, net of offering costs, through the sale of 3.3 million common shares in a public offering. At December 31, 2005 we had cash and cash equivalents and short-term investments of $49.1 million and working capital of $50.9 million.

Cash provided by (used for) operating activities for the years ended December 31, 2005, 2004, and 2003 was ($1.6 million), $1.0 million, and $1.2 million respectively. Cash used for operations in the year ended December 31, 2005 was primarily the result of increases in accounts receivable and accrued revenue totaling $10.0 million, which were partially offset by our net income of $3.0 million and by non-cash charges for depreciation and amortization totaling $4.3 million. Cash provided by operations in the year ended December 31, 2004 was the result of our net loss of $555,000 and non-cash charges for depreciation and amortization totaling $3.8 million, partially offset by a net increase in working capital requirements. Cash provided by operations in the year ended December 31, 2003 was the result of our net income of $1.2 million and non-cash charges for depreciation and amortization totaling $1.9 million, which were partially offset by a net increase in working capital requirements.

Our investing activities consist of the purchase and maturity of short-term investments and the purchase of property and equipment. In addition, in the year ended December 31, 2003, we used cash of $1.4 million in the acquisition of the net operating assets of Workforce Logistics Inc. In the years ended December 31, 2005, 2004, and 2003, we purchased property and equipment, principally computers and related software for our growing employee base, of $4.3 million, $2.6 million, and $2.3 million respectively. We expect that our investment in property and equipment will continue to increase as our employee base continues to grow. In the year ended December 31, 2005 we purchased $32.5 million in short-term investments and $20.9 million of short-term investments matured. In the year ended December 31, 2004, we purchased $32.3 million in short-term investments and $20.0 million of short-term investments matured. In the year ended December 31, 2003 we purchased $8.7 million in short-term investments and $8.9 million of short-term investments matured.

Our financing activities consist primarily of the issuance of share capital. In the years ended December 31, 2005, 2004, and 2003, $3.3 million, $4.6 million, and $32.9 million of cash was provided by our financing activities, respectively. In 2005, we raised $1.0 million from stock option exercises and $12,000 from warrant exercises. In 2004, we raised $2.0 million from stock option exercises and $851,000 from warrant exercises. In 2003, we raised $32.4 million from the issuance of common shares in a public offering and $520,000 from stock options exercised during the year.

In the year ended December 31, 2005, $3.2 million of cash was provided by the sale and leaseback of property and equipment. During 2004, we negotiated a non-committed lease line of credit with an equipment finance lender to finance selected property and equipment purchases. This line of credit was subsequently expanded to a total limit of $4.3 million (Cdn$5.1 million). At December 31, 2005, an accumulation of $4.1 million had been advanced to the Company through transactions under the line of credit at fixed rates of interest approximating 6% for terms ranging from 24 to 36 months. Under the agreement, advances bear interest at fixed or floating benchmark rates plus 2%. Capital lease obligations are secured by the equipment that has been financed. In additional to our lease line, we have also entered into other lending agreements to finance our acquisition of assets.

We had cash, cash equivalents and short-term investments totaling $49.1 million, $51.1 million, and $46.7 million at December 31, 2005, 2004, and 2003 respectively. Total cash flow and cash provided by operations fluctuate quarterly as a result of changes in the timing of payments received and made by us, especially collections from customers and payment of compensation-related expenses. We believe that our current cash, cash equivalents and short-term investments together with anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

We intend to continue to pursue selective strategic acquisitions that will expand and add functionality to our product offerings, augment our distribution channels, expand our market opportunities and/or broaden our customer base. We have no present agreements or commitments with respect to any prospective acquisition or investment. However, our total cash position could be significantly reduced if we choose to fund a significant acquisition partly or wholly with cash.

Contractual Obligations

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

	Total	Less Than One Year	Two to Three Years	Four to Five Years	More Than Five Years
Capital lease obligations	$ 6,128	$ 2,637	$ 3,189	$ 302	$ –
Leasehold inducements	112	56	56	–	–
Operating lease obligations	4,294	1,195	1,729	1,370	–
Total contractual obligations	$ 10,534	$ 3,888	$ 4,974	$ 1,672	$ –

Foreign Exchange Management

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

To date, the majority of our cash inflows, primarily cash received from our customers, have been denominated in U.S. dollars, whereas the majority of our operating cash outflows have been denominated in Canadian dollars. To assist us in managing our U.S. and Canadian dollar denominated cash flows, we maintain both Canadian and U.S. dollar treasuries. We regularly sell U.S. dollars in order to maintain our Canadian dollar treasury and fund our Canadian dollar denominated operating expenses. We are subject to gains and losses due to fluctuations between the U.S. and Canadian dollars. As we continue to expand our operations internationally, we will be subjected to additional potential gains and losses against currencies in addition to our exposure to the Canadian dollar.

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 unfavourable 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.

Selected consolidated quarterly financial information

The following table sets out unaudited selected consolidated financial information for each of the eight quarters for the periods ended up to December 31, 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 2005 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.

Consolidated Statements of Operations Data:

Quarters Ended	2005				2004			
	Dec 31, 2005	Sep 30, 2005	Jun 30, 2005	Mar 31, 2005	Dec 31, 2004	Sep 30, 2004	Jun 30, 2004	Mar 31, 2004
(Amounts In U.S. Dollars, In Thousands, Except Per Share Data, Unaudited)								
Revenue:								
Licence	$ 6,735	$ 5,443	$ 5,762	$ 5,123	$ 4,368	$ 4,140	$ 3,703	$ 4,129
Service, maintenance and other	17,114	16,411	16,302	15,852	13,426	11,867	9,177	6,193
Total revenue	23,849	21,854	22,064	20,975	17,794	16,007	12,880	10,322
Cost of revenue:								
Licence	257	115	216	95	95	7	96	96
Service, maintenance and other	12,871	11,556	11,939	11,282	8,679	7,752	6,349	5,422
Cost of revenue accruals (recoveries), net	–	–	–	–	–	–	–	(168)
Total cost of revenue	13,128	11,671	12,155	11,377	8,774	7,759	6,445	5,350
Gross profit	10,721	10,183	9,909	9,598	9,020	8,248	6,435	4,972
Gross margin (%)	45.0%	46.6%	44.9%	45.8%	50.7%	51.5%	50.0%	48.2%
Operating expenses:								
Sales and marketing	4,642	3,852	4,555	3,984	4,178	3,229	3,572	2,868
Research and development	3,630	3,352	3,316	2,956	2,669	2,262	2,451	2,268
General and administrative	2,160	1,348	1,818	1,750	1,562	1,275	1,062	1,140
Amortization of acquisition-related intangibles	34	34	48	74	75	75	91	126
Amortization of stock-based compensation	97	310	320	280	320	368	320	229
Total operating expenses	10,563	8,896	10,057	9,044	8,804	7,209	7,496	6,631
Income (loss) from operations	158	1,287	(148)	554	216	1,039	(1,061)	(1,659)
Interest income, net	329	305	310	316	221	204	212	273
Income (loss) before provision for income taxes	487	1,592	162	870	437	1,243	(849)	(1,386)
Provision for income taxes	–	–	–	75	–	–	–	–
Net income (loss)	$ 487	$ 1,592	$ 162	$ 795	$ 437	$ 1,243	$ (849)	$(1,386)
Net income (loss) per share:								
Basic	$ 0.03	$ 0.09	$ 0.01	$ 0.05	$ 0.03	$ 0.07	$ (0.05)	$ (0.08)
Basic weighted average number of common shares outstanding	17,711	17,657	17,622	17,487	17,187	16,899	16,751	16,645
Diluted	$ 0.03	$ 0.09	$ 0.01	$ 0.04	$ 0.02	$ 0.07	$ (0.05)	$ (0.08)
Diluted weighted average number of common shares outstanding	17,997	18,020	18,042	17,951	17,819	17,419	16,751	16,645

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 market demand for our products and services, 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 is below our expectations, our operating results are likely to be adversely affected. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance.

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

Results for the Three Months Ending December 31, 2005

Revenue. Net revenue increased 34.0% to $23.8 million for the three months ending December 31, 2005, compared with $17.8 million for the three months ending December 31, 2004. The increase in revenue was primarily attributable to the addition of 11 new customers in the three months ended December 31, 2005 compared with 5 new customers in the three months ended December 31, 2004, to the recognition of licence revenue in certain new customer arrangements where services were not essential to the functionality of the software and where the criteria for revenue recognition had been met during the three months ended December 31, 2005, and to the recognition of revenue from a larger committed backlog during the three months ended December 31, 2005 compared with the three months ended December 31, 2004.

Operating expenses increased 20.0% to $10.6 million in three months ending December 31, 2005, compared with $8.8 million in the three months ending December 31, 2004, but decreased as a percentage of revenue, to 44.3% of net revenue in three months ending December 31, 2005, compared with 49.5% of net revenue in the three months ending December 31, 2004. The increase in dollar amount was primarily related to the growth in our employee base, whereas the decrease in percentage terms was primarily related to increases in operating efficiencies in our sales & marketing organization as well as to a decrease in stock based compensation expenses. Seasonal factors affecting fourth quarter operating expenses included an increase in sales compensation expense relating to bonuses based on the achievement of annual sales targets.

Net income increased to $487,000 for the three months ending December 31, 2005, compared with net income of $437,000 for the three months ending December 31, 2004, primarily as a result of the decrease in total operating expenses as a percentage of revenue noted above and to higher interest income, which were partially offset by the lower gross margin in three months ending December 31, 2005 compared with the three months ending December 31, 2004.

Liquidity and capital resources. Cash, cash equivalents and short-term investments increased by $1.2 million in the three months ending December 31, 2005, from $47.8 million at September 30, 2005, to $49.1 million at December 31, 2005. The increase in cash, cash equivalents and short-term investments was related primarily to cash provided by operations of $2.2 million for the three months ending December 31, 2005. Cash provided by operations in the three months ended December 31, 2005 was related primarily to our net income and non-cash charges as well as the seasonal effect of accrued payroll liabilities relating to employee bonuses.

Related Party Transactions

We have entered into certain transactions in the normal course of business with a law firm, a partner of which is a director of Workbrain and the brother of our Chief Executive Officer. Fees charged by that law firm were based on the same hourly rates charged by the applicable professionals to unrelated parties. During the year ended December 31, 2005, the total expense incurred by us from such law firm for legal and other services aggregated $124,000, compared with $177,000 during the year ended December 31, 2004.

Outstanding Share Data

As at December 31, 2005, there were 17,730,825 common shares issued and outstanding. In addition, a total of 1,147,528 stock options and 37,596 warrants were outstanding, which are exercisable for an equal number of common shares.

Risk factors

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

Failure to manage our growth successfully may adversely impact our operating results.

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

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

Our revenue can be difficult to predict and can fluctuate substantially, which may harm the results of our operations.

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

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

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

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

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

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

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

We may not be able to hire or retain key personnel essential to our business.

We believe that our success depends on key employees, including senior management and key technical resources, to develop, market, and support our products and to manage our business. The loss of one or more of these key employees could have a material adverse effect on our business. The success of our business is also highly dependent on our continuing ability to attract and retain additional, highly-qualified personnel. The failure to attract and retain key personnel could adversely affect our future growth and profitability.

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

We enter into transactions in multiple currencies and we are subject to gains and losses due to fluctuations between those currencies. The majority of our revenue is denominated in U.S. dollars whereas the majority of our operating expenses are denominated in Canadian dollars. We also generate revenue and incur expenditures in currencies other than the U.S. and Canadian dollars. In addition, we maintain a Canadian dollar-denominated treasury to fund our Canadian denominated operating expenses, in addition to our U.S. dollar-denominated treasury. Therefore, fluctuations in the exchange rate between the U.S. dollar and other currencies, especially the Canadian dollar, may have a material adverse effect on our business, financial condition, and operating results. We intend to continue to expand our operations internationally, so we may be subject to additional gains and losses against additional currencies. Please see our discussion on regarding the impact of foreign exchange and the management of foreign currency risk in the section of this document entitled 'Foreign Exchange Management'.

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

We could face liability claims if our products or services fail to perform as intended.

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

Our intellectual property rights may be infringed or we may have to defend ourselves against other parties' intellectual property infringement claims.

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

Making and integrating acquisitions could impair our operating results.

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

We may have exposure to greater-than-anticipated tax liabilities.

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

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

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

Management's Responsibility for Financial Reporting

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

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

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

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

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

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

signed

David Ossip
President and Chief Executive Officer
February 15, 2006

signed

Matthew Chapman
Chief Financial Officer
February 15, 2006

Auditors' report

To the Shareholders of Workbrain Corporation:

We have audited the consolidated balance sheets of Workbrain Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada
February 15, 2006

Consolidated Balance Sheets

Years ended December 31, (Amounts In U.S. Dollars, In Thousands, Except Share Data)	2005	2004
Assets:		
Current assets:		
Cash and cash equivalents	$ 16,566	$ 30,165
Short-term investments	32,497	20,912
Accounts receivable, net of allowance for doubtful accounts of $505 (2004 – $362)	19,129	12,410
Accrued revenue	3,245	–
Other	3,609	3,780
Total current assets	75,046	67,267
Property and equipment *(note 3)*	4,999	2,879
Other	492	–
Intangibles *(note 4)*	45	235
Goodwill *(note 4)*	2,545	2,545
Total assets	$ 83,127	$ 72,926
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	$ 1,697	$ 1,302
Accrued payroll	5,455	5,125
Accrued liabilities	2,427	1,213
Deferred revenue	12,166	12,852
Current portion of capital lease and other obligations *(note 5)*	2,381	778
Current portion of leasehold inducements	56	54
Total current liabilities	24,182	21,324
Long-term liabilities:		
Capital lease and other obligations, net of current portion *(note 5)*	3,277	1,064
Leasehold inducements, net of current portion	56	24
Total long-term liabilities	3,333	1,088
Total liabilities	27,515	22,412
Shareholders' equity:		
Common shares *(note 6)*:		
Authorized - unlimited		
Issued and outstanding – 17,730,825 (2004 – 17,416,290)	67,414	63,802
Contributed surplus	2,069	3,619
Cumulative translation adjustment	(127)	(127)
Deficit	(13,744)	(16,780)
Total shareholders' equity	55,612	50,514
Total liabilities and shareholders' equity	$ 83,127	$ 72,926

Commitments *(note 7)*
Guarantees *(note 8)*
Contingencies *(note 9)*

On behalf of the Board of Directors:

signed *signed*

Gerald Throop
Director

Roger Martin
Director

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Operations

Years ended December 31, *(Amounts In U.S. Dollars, In Thousands, Except Per Share Data)*	2005	2004	2003
Revenue:			
Licence	$ 23,063	$ 16,340	$ 10,361
Service, maintenance and other	65,679	40,663	23,456
Net revenue	88,742	57,003	33,817
Cost of revenue:			
Licence	683	294	318
Service, maintenance and other	47,648	28,202	17,061
Cost of revenue accruals (recoveries), net	–	(168)	(561)
Total cost of revenue	48,331	28,328	16,818
Gross profit	40,411	28,675	16,999
Operating expenses:			
Sales and marketing	17,033	13,847	8,804
Research and development *(note 10)*	13,254	9,650	5,153
General and administrative	7,076	5,039	1,614
Amortization of acquisition-related intangibles	190	367	336
Amortization of stock-based compensation*	1,007	1,237	84
Total operating expenses	38,560	30,140	15,991
Income (loss) from operations	1,851	(1,465)	1,008
Interest income, net	1,260	910	232
Income (loss) before provision for income taxes	3,111	(555)	1,240
Provision for income taxes	75	–	–
Net income (loss)	$ 3,036	$ (555)	$ 1,240
Net income (loss) per share *(note 11):*			
Basic	$ 0.17	$ (0.03)	$ 0.09
Basic weighted average number of common shares outstanding	7,619	16,871	13,249
Diluted	$ 0.17	$ (0.03)	$ 0.09
Diluted weighted average number of common shares outstanding	17,945	16,871	13,949

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

Years ended December 31,	2005	2004	2003
Amortization of stock-based compensation:			
Cost of revenue – service, maintenance and other	$ 361	$ 468	$ –
Sales and marketing	355	418	2
Research and development	54	88	–
General and administrative	237	263	82
	$ 1,007	$ 1,237	$ 84

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Shareholders' Equity

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

	Common Shares		Class A Preferred Shares	
	Shares	Amount	Shares	Amount
Balances at December 31, 2002	6,362,845	$ 1,007	1,297,686	$ 4,680
Issuance of common shares for services rendered	5,517	–	–	–
Issuance of common shares on stock options exercised	288,864	520	–	–
Issuance of common shares and warrants on the acquisition of the net operating assets of Workforce Logistics Inc	446,183	2,309	–	–
Conversion of Class A and Class B preferred shares into common shares	6,229,695	24,643	(1,297,686)	(4,680)
Issuance of common shares on public offering	3,299,000	32,426	–	–
Amortization of stock-based compensation	–	–	–	–
Net income	–	–	–	–
Balances at December 31, 2003	16,632,104	60,905	–	–
Issuance of common shares on stock options exercised	561,755	2,046	–	–
Issuance of common shares on warrants exercised	222,431	851	–	–
Cumulative impact of change in accounting policy *(note 1(o))*	–	–	–	–
Amortization of stock-based compensation	–	–	–	–
Net loss	–	–	–	–
Balances at December 31, 2004	17,416,290	63,802	–	–
Issuance of common shares on stock options exercised	310,585	1,043	–	–
Issuance of common shares on warrants exercised	3,950	12	–	–
Amortization of stock-based compensation	–	–	–	–
Transfer of stock-based compensation to common shares related to stock options and warrants exercised	–	2,557	–	–
Net income	–	–	–	–
Balances at December 31, 2005	17,730,825	$ 67,414	–	$ –

See accompanying Notes to Consolidated Financial Statements

Class B Preferred Shares		Contributed	Cumulative Translation		Total Shareholders'
Shares	Amount	Surplus	Adjustment	Deficit	Equity
4,932,009	$ 19,963	$ 1,628	$ (127)	$ (16,967)	$ 10,184
–	–	–	–	–	–
–	–	–	–	–	520
–	–	47	–	–	2,356
(4,932,009)	(19,963)	–	–	–	–
–	–	–	–	–	32,426
–	–	203	–	–	203
–	–	–	–	1,240	1,240
–	–	1,878	(127)	(15,727)	46,929
–	–	–	–	–	2,046
–	–	–	–	–	851
–	–	498	–	(498)	–
–	–	1,243	–	–	1,243
–	–	–	–	(555)	(555)
–	–	3,619	(127)	(16,780)	50,514
–	–	–	–	–	1,043
–	–	–	–	–	12
–	–	1,007	–	–	1,007
–	–	(2,557)	–	–	–
–	–	–	–	3,036	3,036
–	$ –	$ 2,069	$ (127)	$ (13,744)	$ 55,612

Consolidated Statements of Cash Flows

Years ended December 31, *(Amounts In U.S. Dollars, In Thousands)*	2005	2004	2003
Cash flows from operating activities:			
Net income (loss)	$ 3,036	$ (555)	$ 1,240
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	3,095	2,211	1,389
Amortization of acquisition-related intangibles	190	367	336
Amortization of stock-based compensation	1,007	1,243	203
Amortization of leasehold inducements	(46)	(43)	(19)
Unrealized foreign exchange gain	(640)	(1,342)	(1,038)
Change in operating assets and liabilities, net of acquired balances:			
Accounts receivable	(6,719)	(5,481)	(1,904)
Accrued revenue	(3,245)	(368)	363
Other assets	369	(780)	(173)
Accounts payable	475	(202)	948
Accrued payroll	330	2,665	906
Accrued liabilities	1,214	(301)	168
Deferred revenue	(686)	3,620	(1,256)
Net cash provided by (used for) operating activities	(1,620)	1,034	1,163
Cash flows from investing activities:			
Purchase of short-term investments	(32,497)	(32,282)	(8,666)
Maturity of short-term investments	20,912	20,036	8,931
Payments made on the acquisition of the net operating assets of Workforce Logistics Inc., net of cash acquired	–	–	(1,390)
Purchase of property and equipment	(4,289)	(2,626)	(2,310)
Net cash used for investing activities	(15,874)	(14,872)	(3,435)
Cash flows from financing activities:			
Proceeds on issuance of common shares upon exercise of stock options	1,043	2,046	520
Proceeds on issuance of common shares upon exercise of warrants	12	851	–
Proceeds on issuance of common shares in public offering	–	–	32,426
Proceeds on sale and leaseback of property and equipment	3,201	1,873	–
Repayment of obligations under capital lease	(1,001)	(136)	(55)
Net cash provided by financing activities	3,255	4,634	32,891
Foreign exchange gain on cash held in foreign currency	640	1,342	1,038
Change in cash and cash equivalents	(13,599)	(7,862)	31,657
Cash and cash equivalents, beginning of year	30,165	38,027	6,370
Cash and cash equivalents, end of year	$ 16,566	$ 30,165	$ 38,027
Supplemental cash flow information:			
Cash paid for:			
Interest	$ 119	$ 33	$ 8
Income taxes	$ 11	$ 10	$ –
Non-cash investing and financing activities:			
Property and equipment and other assets financed by capital lease obligations	$ 1,616	$ –	$ 160
Lease inducements provided by landlord	$ 80	$ –	$ –
Acquisition of Workforce Logistics Inc. partially financed by common shares	$ –	$ –	$ 2,309
Acquisition of Workforce Logistics Inc. partially financed by warrants	$ –	$ –	$ 47

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(Amounts In U.S. Dollars, Tabular Amounts in Thousands, Except Per Share Data)
Years ended December 31, 2005, 2004 and 2003

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, Europe and Australia.

1. Significant accounting policies:

a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are presented in U.S. dollars.

b) Principles of consolidation:

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

c) Revenue recognition:

The Company's revenue is derived primarily from licence fees and service fees. The Company licences software under non-cancelable licence agreements and provides services, including implementation, consulting, training, hosting and postcontract 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 maintenance 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, *Modification of SOP 97-2, Software Revenue Recognition With Respect to Certain Transactions*, and PCS revenue is recognized ratably over the PCS term.

When perpetual licences and professional 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 SOP 97-2, when the Company is unable to establish fair value for an undelivered element, and the only undelivered element is PCS, the entire arrangement fee is deferred and recognized ratably over the PCS 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 the loss is 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. Fees that have been recognized as revenue but have not yet been billed are reflected as accrued revenue on the consolidated balance sheets.

d) Research and development costs:

Research and development costs, net of investment tax credits, are charged to the consolidated statements of operations in the year in which they are incurred unless the criteria for deferral are met, including the establishment of technological feasibility.

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

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

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

e) Use of estimates:

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

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

f) Concentrations of credit risk:

Financial instruments potentially exposing the Company to a concentration of credit risk principally consist of cash and cash equivalents, short-term investments and accounts receivable.

Cash equivalents consist of highly liquid instruments, such as deposits with major commercial banks, the maturities of which are three months or less from the date of purchase.

Short-term investments consist of commercial paper, the maturities of which are more than three months but less than one year from the date of purchase. Short-term investments are measured at the lower of amortized cost and market.

The Company sells its products directly to end users and indirectly via resellers who remarket the product to end users. The Company maintains reserves for potential credit losses, but historically has not experienced any significant losses in excess of its reserves related to individual customers or groups of customers in any particular industry or geographic area.

At December 31, 2005, no customers represented 10% of the balance of accounts receivable. At December 31, 2004, two customers represented 13.9% and 11.4% of the balance of accounts receivable, respectively.

g) Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued payroll, accrued liabilities and capital lease and other obligations.

Fair values: The Company determines the fair values of its financial instruments based on quoted market values or discounted cash flow analyses. Financial instruments are recorded at their cost in these consolidated financial statements, which approximates their fair values.

Foreign exchange risk: The Company enters into transactions in multiple currencies (primarily U.S. and Canadian dollars) and is, therefore, subject to gains and losses due to fluctuations between those two currencies. The Company has, from time to time, entered into forward contracts intended to manage portions of this risk and does not hold or use any derivative instruments for speculative purposes.

The Company does not account for these forward contracts using hedge accounting and therefore, any variations in these instruments' fair value are marked-to-market on a current basis in the Company's consolidated statements of operations.

h) Foreign currency translation:

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

Foreign exchange gains (losses) included in the net income (loss) for the years ended December 31, 2005, 2004 and 2003 were as follows:

Years ended December 31,	2005	2004	2003
Cost of revenue – service, maintenance and other	$ 440	$ 53	$ 183
Sales and marketing	133	(18)	51
Research and development	140	26	92
General and administrative	334	339	1,700
	$ 1,047	$ 400	$ 2,026

i) Property and equipment:

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

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

j) Intangibles:

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

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

k) Goodwill:

The Company evaluates goodwill annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying value to its fair value. The fair values of reporting units are estimated using a discounted cash flow approach. To the extent a reporting unit's carrying amount exceeds its fair value, an impairment of goodwill exists. Impairment is measured by comparing the fair value of goodwill, determined in a manner similar to a purchase price allocation, to its carrying amount. During the first quarter of fiscal 2004 and 2005, the Company performed its annual impairment test and determined that there was no goodwill impairment in fiscal 2004 or 2005.

l) Impairment of long-lived assets:

The Company reviews the carrying values of its property and equipment and intangibles for impairment on a regular basis or whenever events or circumstances indicate that the carrying amount may not be recoverable. If their carrying value exceeds the amount recoverable, based on undiscounted estimated future cash flows, a write-down to their fair value is charged to the consolidated statements of operations.

m) Income taxes:

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial accounting and tax bases of assets and liabilities and are measured using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of future income tax assets and liabilities.

n) Net income (loss) per share:

Basic net income (loss) per share has been computed by dividing net income (loss) by the weighted average number of common shares outstanding for the year. Diluted net income (loss) per share includes the effect, if any, of securities with dilutive potential on the Company's common shares.

Potentially dilutive items to the Company's common shares include stock options and warrants issued by the Company. All Class A and Class B preferred shares were converted into common shares immediately prior to December 11, 2003 and have been retroactively reflected as common shares in the calculation of basic net income (loss) per share. A reconciliation of the numerator and denominator used in the calculation of the Company's diluted net income (loss) per share is disclosed in note 11.

o) Stock-based compensation:

The Company has one stock-based compensation plan, which is described in note 6.

Effective January 1, 2004, Canadian GAAP requires the Company to estimate the fair value of stock-based compensation to employees and to expense the fair value over the estimated vesting period of the stock options. In accordance with the transition rules, the fair value of stock options granted to employees since January 1, 2002 was determined using the

Black-Scholes option pricing model, and the Company recorded an adjustment to opening deficit at January 1, 2004 in the amount of $498,000, representing the expense for the 2002 and 2003 fiscal years. The offset to deficit is an increase in contributed surplus. The financial statements for periods prior to January 1, 2004 have not been restated.

The fair value of option grants prior to the date of the Company's initial public offering was estimated using the minimum value method with the following assumptions: risk-free interest rates ranging from 3% to 6%, dividend yield of 0% an expected lives of options of five years. Subsequent to the date of the Company's initial public offering, the fair value of option grants was estimated using the Black-Scholes option pricing model, with the following assumptions: expected volatility ranging from 27% to 44%, risk-free interest rates of 3% to 5%, dividend yield of 0% and expected lives of options of three to five and a half years.

The following table reports pro forma amounts for net income (loss) and basic and diluted net income (loss) per share, including stock-based compensation expense, based on stock options issued subsequent to January 1, 2002 for the year ended December 31, 2003:

Net income (loss):		
As reported	$	1,240
Pro forma	$	(661)
Basic net income (loss) per share:		
As reported	$	0.09
Pro forma	$	(0.05)
Diluted net income (loss) per share:		
As reported	$	0.09
Pro forma	$	(0.05)

p) Guarantees:

Obligations under guarantees are not recognized in the financial statements but are disclosed in accordance with The Canadian Institute of Chartered Accountants' Accounting Guideline AcG-14. The guideline does not apply to product warranties.

2. Acquisition of Workforce Logistics Inc.:

Effective April 1, 2003, the Company acquired the net operating assets of Workforce Logistics Inc. (Workforce) for total consideration of $3,800,000. Workforce is a provider of software solutions that automate employee scheduling processes in large organizations. The acquisition was accounted for using the purchase method, whereby the results of operations of Workforce have been included in the consolidated statements of operations, shareholders' equity and cash flows from the date of acquisition.

The fair values of the net assets acquired were as follows:

Working capital	$	249
Property and equipment		68
Customer relationships		325
Developed technology		408
Purchased in-process research and development		205
Goodwill		2,545
Net assets	$	3,800

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

At the date of acquisition, the total consideration consisted of $2,900,000 in promissory notes issued to the shareholders of Workforce, $400,000 in promissory notes held in escrow for the shareholders of Workforce, and $500,000 in acquisition related costs. Subsequently, the Company entered into subscription agreements with the shareholders of Workforce,

whereby the promissory notes issued and held in escrow were exchanged for cash, common shares and warrants, resulting in the following total consideration:

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

The cash and common shares held in escrow were released after one year, based on satisfaction of indemnification requirements, as defined in the acquisition agreement.

The fair values of common shares, at $5.18, and warrants, at $0.50, are based on the stated values in the subscription agreements, which were entered into subsequent to the issuance of promissory notes and provided the shareholders of Workforce with an option to receive cash consideration for amounts equal to the assigned values.

Each warrant was exercisable into one common share, at an exercise price of $5.18.

In 2004 and 2005, all warrants issued to the shareholders of Workforce were either exercised or forfeited according to their terms. Accordingly, during 2004, 12,764 shares were issued to warrant holders for proceeds of $66,000 and during 2005, 3,950 shares were issued to warrant holders for proceeds of $12,000.

3. Property and equipment:

December 31,	2005	2004
Computer equipment	$ 3,799	$ 2,988
Office furniture and equipment	2,924	1,764
Computer software	979	854
Leasehold improvements	513	239
	8,215	5,845
Less: Accumulated depreciation	(3,216)	(2,966)
Total property and equipment	$ 4,999	$ 2,879

At December 31, 2005, the cost and accumulated depreciation of assets under capital lease included above were $5,740,000 and $2,036,000, respectively (2004 - $2,220,000 and $540,000).

4. Intangibles and goodwill:

December 31,	2005	2004
Customer relationships	$ 325	$ 325
Developed technology	408	408
Purchased in-process research and development	205	205
	938	938
Less: Accumulated amortization	(893)	(703)
Total intangibles	45	235
Goodwill	2,545	2,545
Total intangibles and goodwill	$ 2,590	$ 2,780

5. Capital lease and other obligations:

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

December 31,	2005	2004
2005	$ –	862
2006	2,637	783
2007	2,037	341
2008	1,152	–
2009	151	–
2010	151	–
	6,128	1,986
Less: Amounts representing interest (at an effective rate of approximately 6%)	(470)	(144)
Balance of capital lease and other obligations	5,658	1,842
Less: Current portion	(2,381)	(778)
Capital lease and other obligations, net of current portion	$ 3,277	1,064

The Company has an agreement in place for a non-committed lease line of credit for up to $4,341,000 (Cdn. $5,070,000) with an equipment finance lender to finance selected property and equipment purchases. To December 31, 2005, a total of $4,089,000 (Cdn. $4,776,000) had been drawn by the Company under the line at a fixed interest rate of approximately 6% for terms of 24 to 36 months. Under the agreement, advances bear interest at fixed or floating benchmark rates plus 2%. Capital lease obligations are secured by the equipment that has been financed.

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

6. Common shares:

a) Authorized:

Unlimited number of common shares without par value.

b) Transactions:

2005: The Company issued 310,585 and 3,950 common shares to stock option and warrant holders for consideration of $1,043,000 and $12,000, respectively, under stock option and warrant exercises.

2004: The Company issued 561,755 and 222,431 common shares to stock option and warrant holders for consideration of $2,046,000 and $851,000, respectively, under stock option and warrant exercises.

2003: The Company issued 3,299,000 common shares for cash consideration of $32,426,000 (net of offering costs of $3,311,000) in a public offering on December 11, 2003.

The Company issued 446,183 common shares valued at $2,309,000 in partial consideration for the acquisition of Workforce. The Company issued 5,517 common shares to directors for no cash consideration as a portion of fees for directorship services rendered. In addition, the Company issued 288,864 common shares to a director and employees for total consideration of $520,000 under stock option exercises.

c) Stock option plan:

The Company's stock option plan (the Plan) was implemented to encourage ownership of the Company by directors, officers, employees and consultants of the Company and its subsidiaries. The maximum number of common shares which may be set aside for issuance under the Plan is 2,740,000 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company

when required by law or regulatory authority. Generally, options issued under the Plan vest over a three-to-five-year period. Any option granted which, for any reason, is cancelled or terminated prior to its exercise will become available for grant under the Plan. In accordance with the Plan, the exercise price of options is based on the quoted market price of the Company's common shares on the date of grant.

Options may be granted under the Plan to be exercised during a period of up to ten years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, officer, employee or consultant of the Company or one of it subsidiaries, as applicable. Options issued under the Plan are non-transferable. During 2003, the Company extended the term of all then outstanding stock options granted to employees from four years to seven years.

d) Continuity of options issued under the Plan:

A summary of the status of the Plan as of December 31, 2005, 2004 and 2003, and the changes during the years ended December 31, 2005, 2004 and 2003 is presented below:

	2005		2004		2003	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	**1,296,753**	**$ 7.13**	1,641,402	$ 4.74	1,492,340	$ 3.05
Granted	**304,500**	**13.05**	391,183	10.91	611,704	7.35
Exercised	**(310,585)**	**3.38**	(561,755)	3.65	(288,864)	1.80
Forfeited	**(143,140)**	**11.32**	(174,077)	6.87	(173,778)	4.34
Outstanding, end of year	**1,147,528**	**9.89**	1,296,753	7.13	1,641,402	4.74
Options exercisable, end of year	**503,061**	**$ 7.68**	538,354	$ 3.95	826,210	$ 3.08
Weighted average fair value of options granted during the year		**$ 3.27**		$ 4.84		$ 3.09

All options granted during the years ended December 31, 2005, 2004 and 2003 were granted with exercise prices equal to the underlying fair value of the common shares at the grant date.

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

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number Outstanding at December 31, 2005	Weighted Average Remaining Contractual Life(Years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2005	Weighted Average Exercise Price
$ 0.94	2,208	1.0	$ 0.94	2,208	$ 0.94
3.13 – 4.03	259,823	2.6	3.74	229,453	3.70
5.18 – 7.75	189,098	4.6	6.23	84,609	6.08
9.65 – 14.32	522,874	4.4	12.61	138,578	12.75
14.58 – 15.65	173,525	4.8	15.00	48,213	15.00
$ 0.94 – 15.65	1,147,528	4.1	$ 9.89	503,061	$ 7.68

f) Warrants outstanding:

As at December 31, 2005, there were warrants outstanding exercisable into 37,596 common shares (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.

g) Employee stock ownership plan:

During 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 total contributions expense related to the ESOP for the year ended December 31, 2005 amounted to $71,000.

7. Commitments:

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

2006	$ 1,195
2007	996
2008	733
2009	727
2010	643
Total minimum lease payments	$ 4,294

Rent expense for the year ended December 31, 2005 was $1,756,000 (2004 - $1,363,000; 2003 - $1,285,000). The Company is also responsible for certain common area costs at its various leased premises.

8. 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.

9. 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.

10. Research and development expenses:

Years ended December 31,	2005	2004	2003
Gross research and development expenses	$ 13,709	$ 9,799	$ 5,693
Less: Investment tax credits	(455)	(149)	(540)
Net research and development expenses	$ 13,254	$ 9,650	$ 5,153

11. Net income (loss) per share:

The following table presents a reconciliation of the numerators and denominators used in the calculations of the basic

and diluted net income (loss) per share. The table retroactively reflects the conversion of the Class A and Class B preferred shares into common shares that took place immediately prior to December 11, 2003.

Years ended December 31,	2005	2004	2003
Net income (loss):			
Basic and diluted net income (loss)	$ 3,036	$ (555)	$ 1,240
Weighted average number of common shares outstanding:			
Common shares	17,619	16,871	13,249
Effect of stock options issued	300	–	584
Effect of warrants outstanding	26	–	116
Diluted	17,945	16,871	13,949
Net income (loss) per share:			
Basic	$ 0.17	$ (0.03)	$ 0.09
Diluted	$ 0.17	$ (0.03)	$ 0.09

At December 31, 2004, stock options and warrants outstanding were not included in the calculation of diluted loss per share because the Company reported a loss that year and to do so would have been anti-dilutive. In 2005, options totalling 379,882 (2003 - nil) that were anti-dilutive have been excluded from the calculation.

12. Income taxes:

a) Income tax rate reconciliation:

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to net income (loss) before income taxes. These differences result from the following items:

Years ended December 31,	2005	2004	2003
Combined Canadian basic federal and provincial income tax rate	36.1%	36.1%	36.6%
Increase (decrease) in income tax rate resulting from:			
Permanent differences	(6.9)	144.6	(73.8)
Change in valuation allowance	(26.3)	(186.7)	101.3
Change in enacted rates	(0.4)	6.0	(64.1)
Effective income tax rate	2.5%	0.0%	0.0%

b) Components of future income taxes:

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

December 31,	2005	2004
Future income tax assets:		
Deferred revenue recognized for tax purposes	$ 4,162	$ 4,753
Non-capital income tax loss carryforwards	474	1,243
Share issue costs	188	321
Net capital loss carryforwards	–	71
Research and development expenditure carryforwards	588	65
Long-term assets	690	330
Other	31	28
	6,133	6,811
Less: Valuation allowance	(6,092)	(6,735)
Net future income tax assets	41	76
Future income tax liabilities:		
Net book value of intangible assets in excess of tax bases	(41)	(76)
Future income taxes	$ –	$ –

c) Tax losses:

As of December 31, 2005, the Company had non-capital income tax loss carryforwards of approximately $726,000 available to reduce future years' income for Canadian tax purposes. These losses will expire in 2014. In addition, the Company has research and development expenses amounting to $1,627,000 that can be carried forward indefinitely and applied against future taxable income.

The Company also had non-capital income tax loss carryforwards of approximately $509,000 available to reduce future years' income for United Kingdom tax purposes. These losses can be carried forward indefinitely.

13. Related party transactions:

The Company has entered into certain transactions in the normal course of business with a law firm, a partner of which is a director of the Company. During the year ended December 31, 2005, the total expense incurred by the Company from such law firm for legal services and other services aggregated to $124,000 (2004 - $177,000).

14. Segmented information:

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

Years ended December 31,	2005	2004	2003
Revenue by geographic location:			
United States	$ 73,422	$ 49,859	$ 29,685
United Kingdom	7,673	3,673	2,180
Canada	3,153	1,935	1,952
Asia-Pacific	4,494	1,536	–
	$ 88,742	$ 57,003	$ 33,817

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

December 31,	2005	2004
Property and equipment by geographic location:		
Canada	$ 4,390	$ 2,731
United States	496	148
United Kingdom	113	–
	$ 4,999	$ 2,879

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

During the years ended December 31, 2005, 2004 and 2003, no customers of the Company accounted for over 10% of net revenue.

15. Reclassification:

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

Corporate Governance

The corporate governance practices of Workbrain are aligned with the guidelines adopted by the Ontario Securities Commission. The Board continues to monitor and assess developments pertaining to corporate governance and will revise its practices as required.

Workbrain has implemented a Code of Business Conduct and Ethics to clearly state our expectations of our directors, officers and employees. Workbrain also implemented a Whistleblower Policy that enables employees to anonymously report financial misconduct directly to the Chair of the Audit Committee.

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

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

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

Audit Committee

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

Human Resources & Compensation Committee

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

Corporate Governance Committee

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

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

Disclosure Policy

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

Further information regarding Workbrain's Corporate Governance including brief biographies of the Directors, mandates of the Board and its committees, and the Code of Business Conduct and Ethics is available at www.workbrain.com and in filings made from time to time by the company.

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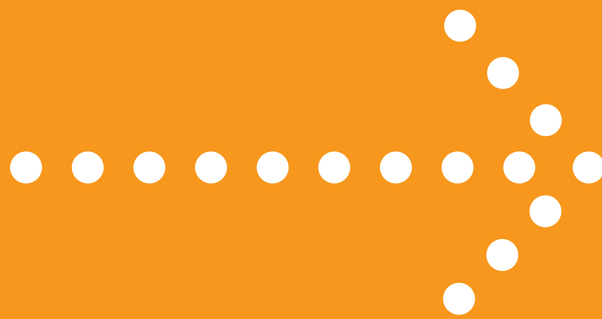
Design: outcome design + communications
Print: Copycat Inc.



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