

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

WORKBRAIN CORPORATION

Three months ended March 31, 2006 and 2005
(Unaudited)

CANADIAN GAAP

WORKBRAIN CORPORATION

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

	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 39,305	\$ 16,566
Short-term investments	7,361	32,497
Accounts receivable, net of allowance for doubtful accounts of \$509 (December 31, 2005 - \$505)	19,652	19,129
Accrued revenue	5,190	3,245
Other	<u>4,147</u>	<u>3,609</u>
Total current assets	75,655	75,046
Property and equipment (note 2)	4,868	4,999
Other	413	492
Intangibles (note 3)	11	45
Goodwill (note 3)	<u>2,545</u>	<u>2,545</u>
Total assets	<u>\$ 83,492</u>	<u>\$ 83,127</u>
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 3,869	\$ 1,697
Accrued payroll	4,151	5,455
Accrued liabilities	2,331	2,427
Deferred revenue	11,060	12,166
Current portion of capital lease and other obligations (note 4)	2,527	2,381
Current portion of leasehold inducements	<u>94</u>	<u>56</u>
Total current liabilities	<u>24,032</u>	<u>24,182</u>
Long-term liabilities:		
Capital lease and other obligations, net of current portion (note 4)	3,114	3,277
Leasehold inducements, net of current portion	<u>105</u>	<u>56</u>
Total long-term liabilities	<u>3,219</u>	<u>3,333</u>
Total liabilities	<u>27,251</u>	<u>27,515</u>
Shareholders' equity:		
Common shares (note 5):		
Authorized - unlimited		
Issued and outstanding - 17,757,493 (December 31, 2005 - 17,730,825)	67,610	67,414
Contributed surplus	2,195	2,069
Cumulative translation adjustment	(127)	(127)
Deficit	<u>(13,437)</u>	<u>(13,744)</u>
Total shareholders' equity	<u>56,241</u>	<u>55,612</u>
Total liabilities and shareholders' equity	<u>\$ 83,492</u>	<u>\$ 83,127</u>
Commitments (note 6)		
Guarantees (note 7)		
Contingencies (note 8)		

See accompanying Notes to Interim Consolidated Financial Statements.
 These Unaudited Interim Consolidated Financial Statements should be read in conjunction with
 the 2005 annual Consolidated Financial Statements.

WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended	
	March 31,	
	2006	2005
Revenue:		
Licence	\$ 7,073	\$ 5,123
Service, maintenance and other	17,868	15,852
Total revenue	<u>24,941</u>	<u>20,975</u>
Cost of revenue:		
Licence	398	95
Service, maintenance and other	12,803	11,282
Total cost of revenue	<u>13,201</u>	<u>11,377</u>
Gross profit	<u>11,740</u>	<u>9,598</u>
Gross margin	47.1%	45.8%
Operating expenses:		
Sales and marketing	5,248	3,984
Research and development (note 9)	4,333	2,956
General and administrative	2,000	1,750
Amortization of acquisition-related intangibles	34	74
Amortization of stock-based compensation*	202	280
Total operating expenses	<u>11,817</u>	<u>9,044</u>
Income (loss) from operations	(77)	554
Interest income, net	384	316
Income before provision for income taxes	307	870
Provision for income taxes	—	75
Net income	<u>\$ 307</u>	<u>\$ 795</u>
Net income per share (note 10):		
Basic	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Basic weighted average number of common shares outstanding	<u>17,738</u>	<u>17,487</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.04</u>
Diluted weighted average number of common shares outstanding	<u>18,011</u>	<u>17,951</u>

*Note:

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

	Three months ended	
	March 31,	
	2006	2005
Amortization of stock-based compensation:		
Cost of revenue - service, maintenance and other	\$ 33	\$ 107
Sales and marketing	95	94
Research and development	6	17
General and administrative	68	62
	<u>\$ 202</u>	<u>\$ 280</u>

See accompanying Notes to Interim Consolidated Financial Statements.
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WORKBRAIN CORPORATION

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

	<u>Common Shares</u>		<u>Contributed Surplus</u>	<u>Cumulative Translation Adjustment</u>	<u>Deficit</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balances at December 31, 2004.....	17,416,290	\$ 63,802	\$ 3,619	\$ (127)	\$ (16,780)	\$ 50,514
Issuance of common shares on stock options exercised.....	310,585	1,043	-	-	-	1,043
Issuance of common shares on warrants exercised.....	3,950	12	-	-	-	12
Amortization of stock-based compensation.....	-	-	1,007	-	-	1,007
Transfer of stock-based compensation to common shares related to stock options and warrants exercised.....	-	2,557	(2,557)	-	-	-
Net income.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,036</u>	<u>3,036</u>
Balances at December 31, 2005.....	17,730,825	67,414	2,069	(127)	(13,744)	55,612
Issuance of common shares on stock options exercised.....	26,668	120	-	-	-	120
Amortization of stock-based compensation.....	-	-	202	-	-	202
Transfer of stock-based compensation to common shares related to stock options exercised.....	-	76	(76)	-	-	-
Net income (loss).....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>307</u>	<u>307</u>
Balances at March 31, 2006.....	<u>17,757,493</u>	<u>\$ 67,610</u>	<u>\$ 2,195</u>	<u>\$ (127)</u>	<u>\$ (13,437)</u>	<u>\$ 56,241</u>

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WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Unaudited)

	Three months ended	
	March 31,	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income	\$ 307	\$ 795
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation	809	623
Amortization of acquisition-related intangibles	34	74
Amortization of stock-based compensation.....	202	281
Leasehold inducements.....	87	(15)
Unrealized foreign exchange loss.....	11	8
Change in operating assets and liabilities:		
Accounts receivable.....	(523)	(1,262)
Accrued revenue	(1,945)	-
Other assets.....	(458)	(647)
Accounts payable.....	2,172	1,676
Accrued payroll.....	(1,304)	(1,798)
Accrued liabilities.....	(96)	570
Deferred revenue.....	(1,107)	45
Net cash provided by (used for) operating activities.....	<u>(1,811)</u>	<u>350</u>
Cash flows from investing activities:		
Purchase of short-term investments.....	(7,361)	-
Maturity of short-term investments.....	32,497	5,943
Purchase of property and equipment	(541)	(795)
Net cash provided by investing activities.....	<u>24,595</u>	<u>5,148</u>
Cash flows from financing activities:		
Proceeds on issuance of common shares upon exercise of stock options.....	120	431
Proceeds on issuance of common shares upon exercise of warrants.....	-	12
Proceeds on sale and leaseback of property equipment	357	292
Repayment of obligations under capital lease	(511)	(192)
Net cash provided by (used for) financing activities.....	<u>(34)</u>	<u>543</u>
Foreign exchange loss on cash held in foreign currency.....	(11)	(8)
Change in cash and cash equivalents.....	22,739	6,033
Cash and cash equivalents, beginning of period.....	16,566	30,165
Cash and cash equivalents, end of period.....	<u>\$ 39,305</u>	<u>\$ 36,198</u>
Supplemental cash flow information:		
Cash paid for:		
Interest.....	<u>\$ 60</u>	<u>\$ 24</u>
Non-cash investing and financing activities:		
Deferred stock-based compensation	<u>\$ -</u>	<u>\$ 155</u>
Property and equipment financed by capital lease	<u>\$ 137</u>	<u>\$ -</u>

See accompanying Notes to Interim Consolidated Financial Statements.

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WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three months ended March 31, 2006

(Unaudited)

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

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

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are presented in U.S. dollars. The notes presented in these interim consolidated financial statements include only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all matters disclosed in the Company's annual audited consolidated financial statements. They should be read in conjunction with the audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2005.

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

The information furnished reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. The operating results for the three months ended March 31, 2006 are not necessarily indicative of the results expected for any succeeding quarter or the entire fiscal year ending on December 31, 2006.

b) Goodwill:

The Company evaluates goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying value to its fair value. 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 2006, the Company performed its annual impairment test and determined that there was no goodwill impairment in the period.

c) Foreign currency translation:

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

Foreign exchange gains (losses) included in net income for the three months ended March 31, 2006 and 2005 were as follows:

	Three months ended	
	March 31,	
	2006	2005
Cost of revenue - service, maintenance and other	\$ (14)	\$ 93
Sales and marketing	(4)	(19)
Research and development.....	(7)	49
General and administrative.....	74	41
	<u>\$ 49</u>	<u>\$ 164</u>

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Notes to Interim Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)
 Three months ended March 31, 2006
 (Unaudited)

2. Property and equipment:

	As at March 31, 2006		
	Cost	Accumulated depreciation	Net book value
Computer equipment.....	\$ 3,625	\$ 1,650	\$ 1,975
Office furniture and equipment.....	3,041	975	2,066
Computer software.....	1,101	513	588
Leasehold improvements.....	570	331	239
Total property and equipment.....	<u>\$ 8,337</u>	<u>\$ 3,469</u>	<u>\$ 4,868</u>

	As at December 31, 2005		
	Cost	Accumulated depreciation	Net book value
Computer equipment.....	\$ 3,799	\$ 1,698	\$ 2,101
Office furniture and equipment.....	2,924	835	2,089
Computer software.....	979	389	590
Leasehold improvements.....	513	294	219
Total property and equipment.....	<u>\$ 8,215</u>	<u>\$ 3,216</u>	<u>\$ 4,999</u>

At March 31, 2006, the cost and accumulated depreciation of assets under capital lease included above were \$6,094,000 and \$2,606,000, respectively (December 31, 2005 - \$5,740,000 and \$2,036,000).

3. Intangibles and goodwill:

	March 31, 2006	December 31, 2005
Customer relationships.....	\$ 325	\$ 325
Developed technology.....	408	408
Purchased in-process research and development.....	205	205
	938	938
Less: Accumulated amortization.....	(927)	(893)
Total intangibles.....	11	45
Goodwill.....	2,545	2,545
Total intangibles and goodwill.....	<u>\$ 2,556</u>	<u>\$ 2,590</u>

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Notes to Interim Consolidated Financial Statements

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 Three months ended March 31, 2006
 (Unaudited)

4. Capital lease and other obligations:

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

	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
2006	\$ 2,225	\$ 2,637
2007	2,241	2,037
2008	1,279	1,152
2009	183	151
2010	<u>152</u>	<u>151</u>
	6,080	6,128
Less: Amounts representing interest (at an effective rate of approximately 6%)	<u>(439)</u>	<u>(470)</u>
Balance of capital lease and other obligations.....	5,641	5,658
Less: Current portion	<u>(2,527)</u>	<u>(2,381)</u>
Capital lease and other obligations, net of current portion	<u>\$ 3,114</u>	<u>\$ 3,277</u>

The Company has an agreement in place for a non-committed lease line of credit for up to \$7,086,000 (Cdn. \$8,269,000) with an equipment lender to finance selected property and equipment purchases. At March 31 2006, a total of \$4,000,000 (Cdn. \$4,669,000) had been drawn by the Company under the line at a fixed interest rate of approximately 6% to 7% for terms of 24 to 36 months. Under the agreement, advances bear interest at fixed or floating benchmark rates between 2% to 2.5%. Capital lease obligations are secured by the equipment that has been financed.

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

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

Unlimited number of common shares without par value.

b) Transactions:

March 31, 2006:

The Company issued 26,668 common shares to stock option holders for consideration of \$120,000 under stock option exercises.

December 31, 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.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)
 Three months ended March 31, 2006
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c) Stock option plan:

The Company's stock option plan (the "Plan") was implemented to encourage ownership of the Company by directors, officers, employees and consultants of the Company and its subsidiaries. The maximum number of common shares which may be set aside for issuance under the Plan is 2,740,000 shares, provided that the Board of Directors of the Company has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company when required by law or regulatory authority. Generally, options issued under the Plan vest over a three-to-five-year period. Any option granted which, for any reason, is 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 its subsidiaries, as applicable. Options issued under the Plan are non-transferable. During 2003, the Company extended the term of all then outstanding stock options granted to employees from four years to seven years.

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

d) Continuity of options issued under the Plan:

A summary of the status of the Plan as of March 31, 2006 and December 31, 2005, and the changes during the periods then ended is presented below:

	<u>March 31, 2006</u>		<u>December 31, 2005</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	1,147,528	\$ 9.89	1,296,753	\$ 7.13
Granted	120,500	11.77	304,500	13.05
Exercised	(26,668)	4.48	(310,585)	3.38
Forfeited	<u>(19,850)</u>	14.04	<u>(143,140)</u>	11.32
Outstanding, end of period	<u>1,221,510</u>	\$ 10.12	<u>1,147,528</u>	\$ 9.89
Options exercisable, end of period	<u>568,277</u>	\$ 8.26	<u>503,061</u>	\$ 7.68
Weighted average per share fair value of options granted during the period		\$ 3.16		\$ 3.27

All options granted during the three months ended March 31, 2006 and the year ended December 31, 2005 were granted with exercise prices equal to the fair value of the common shares at the grant date.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)
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e) Summary of the balances of options issued under the Plan:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number Outstanding at March 31, 2006	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at March 31, 2006	Weighted Average Exercise Price
\$ 0.94	2,208	0.8	\$ 0.94	2,208	\$ 0.94
3.13 to 4.03	244,085	2.4	3.75	228,910	3.73
5.18 to 7.25	178,068	4.4	6.28	98,483	6.23
9.63 to 14.31	637,674	4.3	12.45	163,876	12.78
14.56 to 15.64	159,475	4.5	14.96	74,800	15.08
\$ 0.94 to 15.64	<u>1,221,510</u>	3.9	\$ 10.12	<u>568,277</u>	\$ 8.26

f) Warrants issued:

As at March 31, 2006, there were warrants outstanding exercisable into 37,596 common shares (December 31, 2005 - 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 contributions accrued for the three months ended March 31, 2006 amounted to \$19,000 (March 31, 2005 - \$20,000).

6. Commitments:

Future minimum lease payments under non-cancelable operating leases, as of March 31, 2006, are as follows:

2006	\$ 1,024
2007	1,193
2008	941
2009	877
2010	<u>810</u>
Total minimum lease payments.....	<u>\$ 4,845</u>

Rent expense for the three months ended March 31, 2006 was \$637,000 (March 31, 2005 - \$415,000). The Company is also responsible for certain common area costs at its various leased premises.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three months ended March 31, 2006

(Unaudited)

7. Guarantees:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. Historically, the Company has made no payments relating to these indemnifications, and the Company is not subject to any pending litigation on this matter.

8. Contingencies:

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. While management currently believes the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position, results of operations, or liquidity of the Company, the ultimate outcome of any litigation is uncertain. Were an unfavourable outcome to occur, the impact could be material to the Company.

The Company does not believe that it is probable that a liability has been incurred nor does it believe that the amount of any loss can be reasonably estimated. Accordingly, no liability has been accrued for these matters.

9. Research and development expenses:

	Three months ended March 31,	
	2006	2005
Gross research and development expenses.....	\$ 4,375	\$ 2,956
Less: Investment tax credits realized.....	(42)	—
Net research and development expenses	<u>\$ 4,333</u>	<u>\$ 2,956</u>

10. Net income per share:

The following table presents a reconciliation of the numerators and denominators used in the calculations of the basic and diluted net income per share:

	Three months ended March 31,	
	2006	2005
Net income:		
Basic and diluted net income	<u>\$ 307</u>	<u>\$ 795</u>
Weighted average number of common shares outstanding:		
Common shares.....	17,738	17,487
Effect of stock options issued	248	438
Effect of warrants outstanding	25	26
Diluted	<u>18,011</u>	<u>17,951</u>
Net income per share:		
Basic.....	<u>\$ 0.02</u>	<u>\$ 0.05</u>
Diluted.....	<u>\$ 0.02</u>	<u>\$ 0.04</u>

For the three months ended March 31, 2006, options totalling 695,149 (2005 - 189,700) that were anti-dilutive have been excluded from the calculation.

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)
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11. Related party transactions:

The Company has entered into certain transactions in the normal course of business with a law firm, a partner of which is a director of the Company. During the three months ended March 31, 2006, the total expense incurred by the Company from such law firm for legal services and other services aggregated to \$50,184 (March 31, 2005 - \$40,000).

12. Segmented information:

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

	Three months ended	
	March 31,	
	2006	2005
Revenue by geographic location:		
United States	\$ 21,708	\$ 18,088
Europe, Middle East and Africa.....	1,395	1,400
Canada	1,122	503
Asia-Pacific	716	984
	<u>\$ 24,941</u>	<u>\$ 20,975</u>

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

	March 31,	December 31,
	2006	2005
Property and equipment by geographic location:		
Canada	\$ 4,432	\$ 4,390
United States	331	496
Europe, Middle East and Africa.....	105	113
	<u>\$ 4,868</u>	<u>\$ 4,999</u>

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

During the three months ended March 31, 2006 and 2005, no customers of the Company accounted for 10% or greater of net revenue.

13. Reclassification:

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