

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

WORKBRAIN CORPORATION

Three and six months ended June 30, 2006
(Unaudited)

CANADIAN GAAP

WORKBRAIN CORPORATION

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

	<u>June 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 38,474	\$ 16,566
Short-term investments	9,261	32,497
Accounts receivable, net of allowance for doubtful accounts of \$1,432 (December 31, 2005 - \$505)	19,242	19,129
Accrued revenue	4,147	3,245
Other	<u>3,760</u>	<u>3,609</u>
Total current assets	74,884	75,046
Property and equipment (note 2)	4,733	4,999
Other	337	492
Intangibles (note 3)	-	45
Goodwill (note 3)	<u>2,545</u>	<u>2,545</u>
Total assets	<u>\$ 82,499</u>	<u>\$ 83,127</u>
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 2,797	\$ 1,697
Accrued payroll (note 13)	6,527	5,455
Accrued liabilities	1,850	2,427
Deferred revenue	11,757	12,166
Current portion of capital lease and other obligations (note 4)	2,605	2,381
Current portion of leasehold inducements	<u>88</u>	<u>56</u>
Total current liabilities	<u>25,624</u>	<u>24,182</u>
Long-term liabilities:		
Capital lease and other obligations, net of current portion (note 4)	2,360	3,277
Leasehold inducements, net of current portion	<u>234</u>	<u>56</u>
Total long-term liabilities	<u>2,594</u>	<u>3,333</u>
Total liabilities	<u>28,218</u>	<u>27,515</u>
Shareholders' equity:		
Common shares (note 5):		
Authorized - unlimited		
Issued and outstanding - 17,781,945 (December 31, 2005 - 17,730,825)	67,893	67,414
Contributed surplus	2,279	2,069
Cumulative translation adjustment	(127)	(127)
Deficit	<u>(15,764)</u>	<u>(13,744)</u>
Total shareholders' equity	<u>54,281</u>	<u>55,612</u>
Total liabilities and shareholders' equity	<u>\$ 82,499</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.

CANADIAN GAAP

WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenue:				
Licence	\$ 4,102	\$ 5,762	\$ 11,175	\$ 10,885
Service, maintenance and other	<u>18,323</u>	<u>16,302</u>	<u>36,192</u>	<u>32,154</u>
Total revenue	<u>22,425</u>	<u>22,064</u>	<u>47,367</u>	<u>43,039</u>
Cost of revenue:				
Licence	253	216	651	311
Service, maintenance and other	<u>12,937</u>	<u>11,939</u>	<u>25,741</u>	<u>23,221</u>
Total cost of revenue	<u>13,190</u>	<u>12,155</u>	<u>26,392</u>	<u>23,532</u>
Gross profit	<u>9,235</u>	<u>9,909</u>	<u>20,975</u>	<u>19,507</u>
Gross margin	41.2%	44.9%	44.3%	45.3%
Operating expenses:				
Sales and marketing	4,621	4,555	9,869	8,539
Research and development (note 9)	3,961	3,316	8,294	6,272
General and administrative	3,158	1,818	5,158	3,568
Amortization of acquisition-related intangibles	11	48	45	122
Amortization of stock-based compensation*	<u>253</u>	<u>320</u>	<u>455</u>	<u>600</u>
Total operating expenses	<u>12,004</u>	<u>10,057</u>	<u>23,821</u>	<u>19,101</u>
Income (loss) from operations	(2,769)	(148)	(2,846)	406
Interest income, net	<u>442</u>	<u>310</u>	<u>826</u>	<u>626</u>
Income (loss) before provision for income taxes	(2,327)	162	(2,020)	1,032
Provision for income taxes	<u>—</u>	<u>—</u>	<u>—</u>	<u>75</u>
Net income (loss)	<u>\$ (2,327)</u>	<u>\$ 162</u>	<u>\$ (2,020)</u>	<u>\$ 957</u>
Net income (loss) per share (note 10):				
Basic	<u>\$ (0.13)</u>	<u>\$ 0.01</u>	<u>\$ (0.11)</u>	<u>\$ 0.05</u>
Basic weighted average number of common shares outstanding	<u>17,764</u>	<u>17,622</u>	<u>17,751</u>	<u>17,554</u>
Diluted	<u>\$ (0.13)</u>	<u>\$ 0.01</u>	<u>\$ (0.11)</u>	<u>\$ 0.05</u>
Diluted weighted average number of common shares outstanding	<u>17,764</u>	<u>18,042</u>	<u>17,751</u>	<u>17,989</u>

*Note:

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Amortization of stock-based compensation:				
Cost of revenue - service, maintenance and other	\$ 76	\$ 99	\$ 109	\$ 206
Sales and marketing	106	138	201	232
Research and development	11	20	17	37
General and administrative	<u>60</u>	<u>63</u>	<u>128</u>	<u>125</u>
	<u>\$ 253</u>	<u>\$ 320</u>	<u>\$ 455</u>	<u>\$ 600</u>

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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	-	-	-	-	3,036	3,036
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	51,120	234	-	-	-	234
Amortization of stock-based compensation.....	-	-	455	-	-	455
Transfer of stock-based compensation to common shares related to stock options exercised.....	-	245	(245)	-	-	-
Loss for the period	-	-	-	-	(2,020)	(2,020)
Balances at June 30, 2006.....	<u>17,781,945</u>	<u>\$ 67,893</u>	<u>\$ 2,279</u>	<u>\$ (127)</u>	<u>\$ (15,764)</u>	<u>\$ 54,281</u>

See accompanying Notes to Interim Consolidated Financial Statements.

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WORKBRAIN CORPORATION

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income (loss)	\$ (2,327)	\$ 162	\$ (2,020)	\$ 957
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation	925	651	1,734	1,275
Amortization of acquisition-related intangibles	11	48	45	122
Amortization of stock-based compensation	253	320	455	600
Leasehold inducements	123	(14)	210	(29)
Unrealized foreign exchange loss (gain) on cash	(1,402)	431	(1,391)	439
Change in operating assets and liabilities:				
Accounts receivable	410	(4,452)	(113)	(5,714)
Accrued revenue	1,043	(1,351)	(902)	(1,507)
Other assets	463	(238)	4	(729)
Accounts payable	(1,072)	(171)	1,100	1,505
Accrued payroll	2,376	1,839	1,072	41
Accrued liabilities	(481)	208	(577)	778
Deferred revenue	697	1,212	(409)	1,257
Net cash provided by (used for) operating activities ..	<u>1,019</u>	<u>(1,355)</u>	<u>(792)</u>	<u>(1,005)</u>
Cash flows from investing activities:				
Purchase of short-term investments	(9,995)	(4,100)	(17,356)	(4,100)
Maturity of short-term investments	8,095	11,088	40,592	17,031
Purchase of property and equipment	(790)	(714)	(1,331)	(1,509)
Net cash provided by (used for) investing activities ..	<u>(2,690)</u>	<u>6,274</u>	<u>21,905</u>	<u>11,422</u>
Cash flows from financing activities:				
Proceeds on issuance of common shares				
upon exercise of stock options	114	268	234	699
Proceeds on issuance of common shares upon exercise of warrants	-	-	-	12
Proceeds on sale and leaseback of property and equipment	-	494	357	786
Repayment of obligations under capital lease ...	(676)	(245)	(1,187)	(437)
Net cash provided by (used for) financing activities ..	<u>(562)</u>	<u>517</u>	<u>(596)</u>	<u>1,060</u>
Foreign exchange gain (loss) on cash held in foreign currency	<u>1,402</u>	<u>(431)</u>	<u>1,391</u>	<u>(439)</u>
Change in cash and cash equivalents	(831)	5,005	21,908	11,038
Cash and cash equivalents, beginning of period	<u>39,305</u>	<u>36,198</u>	<u>16,566</u>	<u>30,165</u>
Cash and cash equivalents, end of period	<u>\$ 38,474</u>	<u>\$ 41,203</u>	<u>\$ 38,474</u>	<u>\$ 41,203</u>
Supplemental cash flow information:				
Cash paid for:				
Interest	<u>\$ 72</u>	<u>\$ 27</u>	<u>\$ 132</u>	<u>\$ 51</u>
Non-cash investing and financing activities:				
Property and equipment and other assets financed by capital lease and other obligations	<u>\$ -</u>	<u>\$ 921</u>	<u>\$ 137</u>	<u>\$ 921</u>

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WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

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

Three and six months ended June 30, 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 and Europe.

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

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are presented in U.S. dollars. The notes presented in these interim consolidated financial statements include only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all matters disclosed in the Company's annual audited consolidated financial statements. They should be read in conjunction with the audited consolidated financial statements, including the notes thereto, for the year ended December 31, 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 and six months ended on June 30, 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 the net income (loss) for the three and six months ended June 30, 2006 and 2005 were as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Cost of revenue - service, maintenance and other	\$ 635	\$ (179)	\$ 621	\$ (87)
Sales and marketing	153	(43)	149	(62)
Research and development	337	(85)	330	(36)
General and administrative	118	10	193	53
	<u>\$ 1,243</u>	<u>\$ (297)</u>	<u>\$ 1,293</u>	<u>\$ (132)</u>

CANADIAN GAAP

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

Three and six months ended June 30, 2006

(Unaudited)

2. Property and equipment:

	<u>June 30, 2006</u>		
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Computer equipment.....	\$ 3,385	\$ 1,571	\$ 1,814
Office furniture and equipment	2,996	1,004	1,992
Computer software.....	1,377	686	691
Leasehold improvements.....	<u>610</u>	<u>374</u>	<u>236</u>
Total property and equipment.....	<u>\$ 8,368</u>	<u>\$ 3,635</u>	<u>\$ 4,733</u>
	<u>December 31, 2005</u>		
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Computer equipment.....	\$ 3,799	\$ 1,698	\$ 2,101
Office furniture and equipment	2,924	835	2,089
Computer software.....	979	389	590
Leasehold improvements.....	<u>513</u>	<u>294</u>	<u>219</u>
Total property and equipment.....	<u>\$ 8,215</u>	<u>\$ 3,216</u>	<u>\$ 4,999</u>

At June 30, 2006, the cost and accumulated depreciation of assets under capital lease included above were \$6,094,000 and \$3,107,000, respectively (December 31, 2005 - \$5,740,000 and \$2,036,000).

3. Intangibles and goodwill:

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
Customer relationships.....	\$ 325	\$ 325
Developed technology.....	408	408
Purchased in-process research and development.....	<u>205</u>	<u>205</u>
	938	938
Less: Accumulated amortization	<u>(938)</u>	<u>(893)</u>
Total intangibles.....	-	45
Goodwill	<u>2,545</u>	<u>2,545</u>
Total intangibles and goodwill.....	<u>\$ 2,545</u>	<u>\$ 2,590</u>

4. Capital lease and other obligations:

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

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
2006	\$ 1,698	\$ 2,637
2007	1,970	2,037
2008	1,339	1,152
2009	181	151
2010	<u>159</u>	<u>151</u>
	5,347	6,128
Less: Amounts representing interest (at an effective rate of approximately 6%)	<u>(382)</u>	<u>(470)</u>
Balance of capital lease and other obligations.....	4,965	5,658
Less: Current portion	<u>(2,605)</u>	<u>(2,381)</u>
Capital lease and other obligations, net of current portion.....	<u>\$ 2,360</u>	<u>\$ 3,277</u>

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(Unaudited)

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 June 30 2006, a total of \$3,699,000 (Cdn. \$4,125,000) 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:**

June 30, 2006:

The Company issued 51,120 common shares for cash consideration of \$234,000 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.

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 1,760,413 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 10 years from the date of grant, subject to earlier termination upon the optionee ceasing to be a director, officer, employee or consultant of the Company or one of its subsidiaries, as applicable. Options issued under the Plan are non-transferable. During 2003, the Company extended the term of all 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 26% to 44%, risk-free interest rates of 3% to 4%, dividend yield of 0% and expected lives of options of three to five-and-a-half years.

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d) Continuity of options issued under the Plan:

A summary of the status of the Plan as of June 30, 2006 and December 31, 2005, and the changes during the periods then ended is presented below:

	<u>June 30, 2006</u>		<u>December 31, 2005</u>	
	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	1,147,528	\$ 9.89	1,296,753	\$ 7.13
Granted	214,500	12.20	304,500	13.05
Exercised	(51,120)	4.58	(310,585)	3.38
Forfeited	<u>(72,138)</u>	13.43	<u>(143,140)</u>	11.32
Outstanding, end of period	<u>1,238,770</u>	\$ 10.64	<u>1,147,528</u>	\$ 9.89
Options exercisable, end of period	<u>551,745</u>	\$ 8.72	<u>503,061</u>	\$ 7.68
Weighted average per share fair value of options granted during the period		\$ 3.27		\$ 3.27

All options granted during the six months ended June 30, 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.

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

<u>Range of exercise prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
	<u>Number Outstanding at June 30, 2006</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable at June 30, 2006</u>	<u>Weighted Average Exercise Price</u>	
\$ 0.94	2,208	0.5	\$ 0.94	2,208	\$ 0.94	
3.13 - 4.03	232,100	2.1	3.74	221,100	3.73	
5.18 - 7.25	162,383	4.1	6.35	88,480	6.34	
10.09 - 14.98	685,904	4.1	12.88	166,907	13.60	
15.25 - 16.37	<u>156,175</u>	4.3	15.66	<u>73,050</u>	15.77	
\$ 0.94 - 16.37	<u>1,238,770</u>	3.8	\$ 10.64	<u>551,745</u>	\$ 8.72	

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f) Warrants issued:

As at June 30, 2006, there are 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. All of these warrants were unexercised at June 30, 2006.

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 contribution (net of all withdrawals) during the prior six-month period, with which funds the administrator purchases additional shares on the open market on behalf of the participants. The Company accrues its contribution as compensation expense during the period earned by participants. The contributions accrued for the three and six months ended June 30, 2006 amounted to \$56,000 and \$75,000, respectively (June 30, 2005 - \$25,000 and \$45,000, respectively).

6. Commitments:

Future minimum lease payments under non-cancellable operating leases, as of June 30, 2006, are as follows:

2006	\$ 730
2007	1,275
2008	978
2009	911
2010	<u>840</u>
Total minimum lease payments.....	<u>\$ 4,734</u>

Rent expense for the three and six months ended June 30, 2006 was \$669,000 and \$1,306,000, respectively (June 30, 2005 - \$331,000 and \$702,000). The Company is also responsible for certain common area costs at its various leased premises.

7. Guarantees:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. Historically, the Company has made no payments relating to these indemnifications. Accordingly, no liability has been recorded for these matters.

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.

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(Unaudited)

9. Research and development expenses:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Gross research and development expenses.....	\$ 4,003	\$ 3,498	\$ 8,378	\$ 6,454
Less: Investment tax credits realized.....	(42)	(182)	(84)	(182)
Net research and development expenses	<u>\$ 3,961</u>	<u>\$ 3,316</u>	<u>\$ 8,294</u>	<u>\$ 6,272</u>

10. Net income (loss) per share:

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net income (loss):				
Basic and diluted net income (loss).....	<u>\$ (2,327)</u>	<u>\$ 162</u>	<u>\$ (2,020)</u>	<u>\$ 957</u>
Weighted average number of common shares outstanding:				
Common shares.....	17,764	17,622	17,751	17,554
Effect of stock options issued	–	394	–	409
Effect of warrants outstanding	–	26	–	26
Diluted	<u>17,764</u>	<u>18,042</u>	<u>17,751</u>	<u>17,989</u>
Net income (loss) per share:				
Basic.....	<u>\$ (0.13)</u>	<u>\$ 0.01</u>	<u>\$ (0.11)</u>	<u>\$ 0.05</u>
Diluted.....	<u>\$ (0.13)</u>	<u>\$ 0.01</u>	<u>\$ (0.11)</u>	<u>\$ 0.05</u>

For the three and six months ended June 30, 2006, stock options and warrants outstanding were not included in the calculation of diluted loss per share because the Company had a loss for those periods and to do so would have been anti-dilutive.

For the three and six months ended June 30, 2005, options totalling 348,000 and 328,000, respectively, that were anti-dilutive, have been excluded from the calculation.

11. Related party transactions:

The Company has entered into certain transactions in the normal course of business with a law firm, a partner of which is a director of the Company. During the three months and six months ended June 30, 2006, the total expense incurred by the Company from such law firm for legal services and other services aggregated to \$29,000 and \$69,000, respectively (2005 - \$19,000 and \$59,000, respectively).

WORKBRAIN CORPORATION

Notes to Interim Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)
 Three and six months ended June 30, 2006
 (Unaudited)

12. 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:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenue by geographic location:				
United States	\$ 19,442	\$ 17,422	\$ 41,230	\$ 35,510
United Kingdom	715	3,093	2,030	4,493
Canada	857	759	1,979	1,262
Asia Pacific	1,411	790	2,128	1,774
	<u>\$ 22,425</u>	<u>\$ 22,064</u>	<u>\$ 47,367</u>	<u>\$ 43,039</u>

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

	June 30,	December 31,
	2006	2005
Property and equipment by geographic location:		
Canada	\$ 4,278	\$ 4,390
United States	362	496
United Kingdom	93	113
	<u>\$ 4,733</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 six months ended June 30, 2006, no customers of the Company accounted for 10% or more of revenue (June 30, 2005 - no customers accounted for 10% of revenue).

13. Severance charges:

In the second quarter of 2006, management undertook a review of personnel resources in light of current needs and projected demand for services and decided to terminate a total of 24 employees - 17 in professional services, five in sales and marketing and two in general and administrative functions. This action focused on improving the cost-effectiveness of services and sales by better matching personnel skills and future requirements. On June 30, 2006, 17 of these employees, who were located in North America, received termination notices and seven employees, who were located in the United Kingdom, were informed of the pending termination and the severance benefits they would be eligible to receive on termination, in accordance with applicable labour laws. A total liability of \$504,000 and a corresponding expense has been recorded for employee severance and benefit costs. Of this total \$504,000 expense, \$428,000 has been reflected as a cost of services, \$65,000 has been reflected in sales and marketing expenses and \$11,000 has been reflected in general and administrative expenses.

14. Reclassification:

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