

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities. The securities offered by this prospectus have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and, subject to certain exceptions, may not be offered or sold within the United States. See “Plan of Distribution”.

Initial Public Offering

Final Prospectus

December 3, 2003



## WORKBRAIN CORPORATION

C\$40,040,000

2,860,000 Common Shares

This offering is an initial public offering of 2,860,000 common shares of Workbrain Corporation, all of which are being offered by us. If the over-allotment option described below is exercised, an additional 429,000 common shares will be offered by us. In conjunction with the completion of the offering, Workbrain Corporation will complete a capital reorganization under which, among other things, our Class A preferred shares and Class B preferred shares will be converted into common shares. This prospectus also qualifies the distribution of all of the common shares issuable by us upon conversion of those preferred shares. Substantially all of those common shares are subject to a contractual lock-up in favour of the underwriters. See “Plan of Distribution — Lock-up Arrangements”.

The offering price of our common shares was determined by negotiation between us and the underwriters, being RBC Dominion Securities Inc., CIBC World Markets Inc., National Bank Financial Inc., Griffiths McBurney & Partners and Sprott Securities Inc.

**Price: C\$14.00 per common share**

	<u>Price to the Public</u>	<u>Underwriters’ Fee</u>	<u>Net Proceeds to Workbrain (1)(2)(3)</u>
Per common share .....	C\$14.00	C\$0.84	C\$13.16
Total .....	C\$40,040,000	C\$2,402,400	C\$37,637,600

- (1) Before deducting expenses of this offering estimated to be C\$1,600,000 which we will pay from the proceeds of the offering.
- (2) We have granted the underwriters an over-allotment option, exercisable for a period of 30 days from the date of the closing of this offering, to purchase up to a total of 429,000 additional common shares on the same terms as set out above solely to cover over-allotments, if any, and for market stabilization purposes. If the over-allotment option is exercised in full, the Total Price to the Public, Underwriters’ Fee and Net Proceeds to Workbrain will be C\$46,046,000, C\$2,762,760 and C\$43,283,240, respectively. This prospectus qualifies the distribution of the over-allotment option and the distribution of common shares issuable by us upon exercise of the over-allotment option. See “Plan of Distribution”.
- (3) Does not include C\$140,000 that we will receive in connection with the distribution by us of 10,000 common shares to certain of our U.S. employees.

**There is currently no market through which these securities may be sold and purchasers may not be able to resell securities purchased under the prospectus.** The Toronto Stock Exchange has conditionally approved the listing of the common shares under the symbol WB, subject to Workbrain Corporation fulfilling all of the requirements of the Toronto Stock Exchange on or before Wednesday, February 25, 2004, including distribution of the common shares to a minimum number of public shareholders. In connection with this offering, the underwriters may over-allot or effect transactions which stabilize or maintain the market price of the common shares at levels other than those which otherwise might prevail on the open market. See “Plan of Distribution”.

Affiliates and other parties related to CIBC World Markets Inc. and National Bank Financial Inc. are, directly or indirectly, holders of our common shares or limited partners in funds which hold our common shares. **Accordingly, in connection with this distribution, Workbrain Corporation may be considered to be a “connected issuer” of CIBC World Markets Inc. and National Bank Financial Inc. under applicable securities laws.** See “Principal Shareholders” and “Relationship between Workbrain and the Underwriters”.

Investing in our common shares involves risks that are described in the “Risk Factors” section beginning on page 45 of this prospectus.

The underwriters, as principals, conditionally offer the common shares, subject to prior sale, if, as and when issued by Workbrain Corporation and accepted by the underwriters in accordance with the conditions contained in the underwriting agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of Workbrain Corporation by Torys LLP and Goodman and Carr LLP and on behalf of the underwriters by Osler, Hoskin & Harcourt LLP. **The underwriters may offer the common shares at a lower price than stated above. See “Plan of Distribution”.**

Subscriptions for the common shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of this offering will take place on December 11, 2003 or on another date as we and the underwriters may agree, but not later than January 13, 2004, and that certificates representing the common shares will be available for delivery on or about closing.

# workbrain

ENTERPRISE WORKFORCE MANAGEMENT

## GLOBAL 2000 CLIENT BASE

American Airlines®

BRITISH AIRWAYS

Burlington  
coat Factory

DELPHI

GENERAL MILLS

KOHLER®

OVERNITE

OWENS-ILLINOIS

REI  
www.rei.com

Smurfit-Stone

TJX®  
THE TJX COMPANIES, INC.

TVA

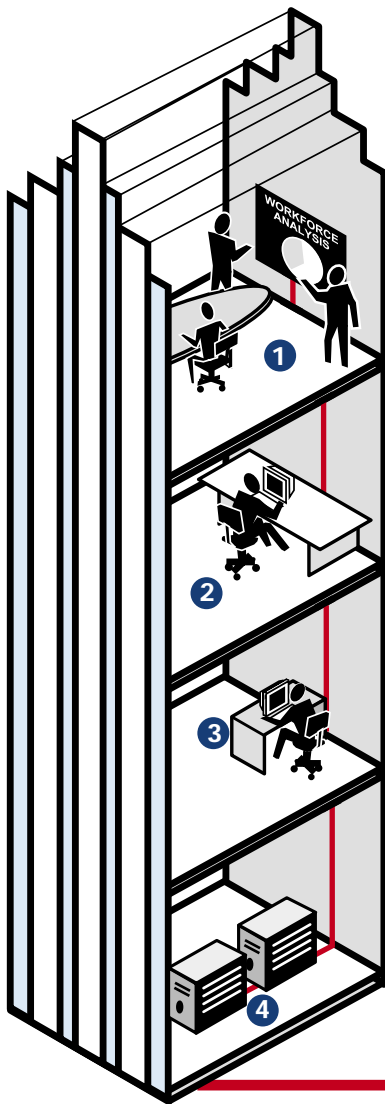
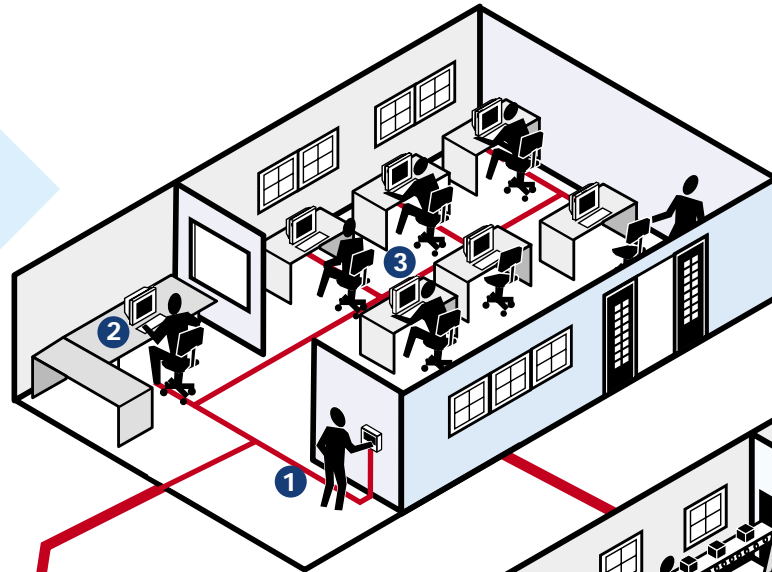
United  
Rentals

WACHOVIA

WINN-DIXIE

## IN THE CALL CENTRE

1. Employee views published schedules and trades shifts.
2. Pay incentives are calculated based on the mix of product sales sold by each employee.
3. Employees' time is recorded against each call.



## AT HEADQUARTERS

1. Corporate executives use the captured workforce data to analyse labour efficiency and workforce trends.
2. A human resource manager authorizes a pay rate change and enters a new work rule as a result of a collective agreement. All affected employees receive immediate notification.
3. An engineer uses Workbrain to record his time against a project.
4. Workbrain's software solution works seamlessly with the corporation's ERP and legacy systems.



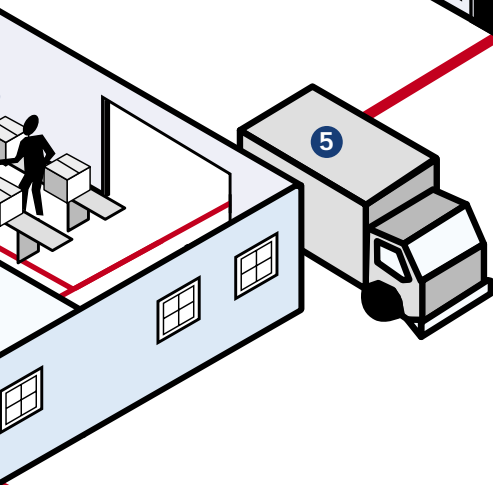
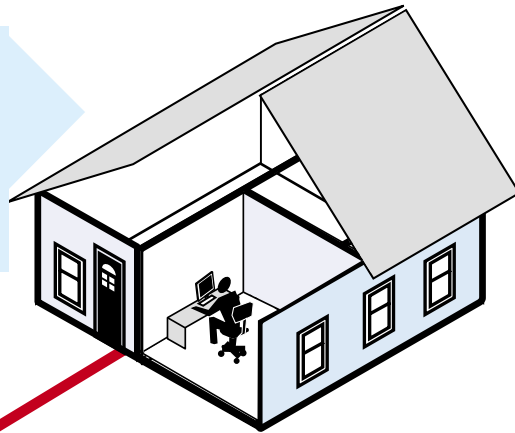
## IN THE PLANT

1. A supervisor approves exception time sheets and runs weekly overtime report.
2. Shifts of hourly employees are optimized according to skills, overtime usage and other regulatory or work rules.
3. An employee on a break checks her vacation leave request.
4. In the Distribution Centre an employee records time against a job.
5. A driver logs into Workbrain to get the address of his next delivery.

# WAYS TO DEPLOY AND MANAGE FOR MAXIMUM PROFITABILITY

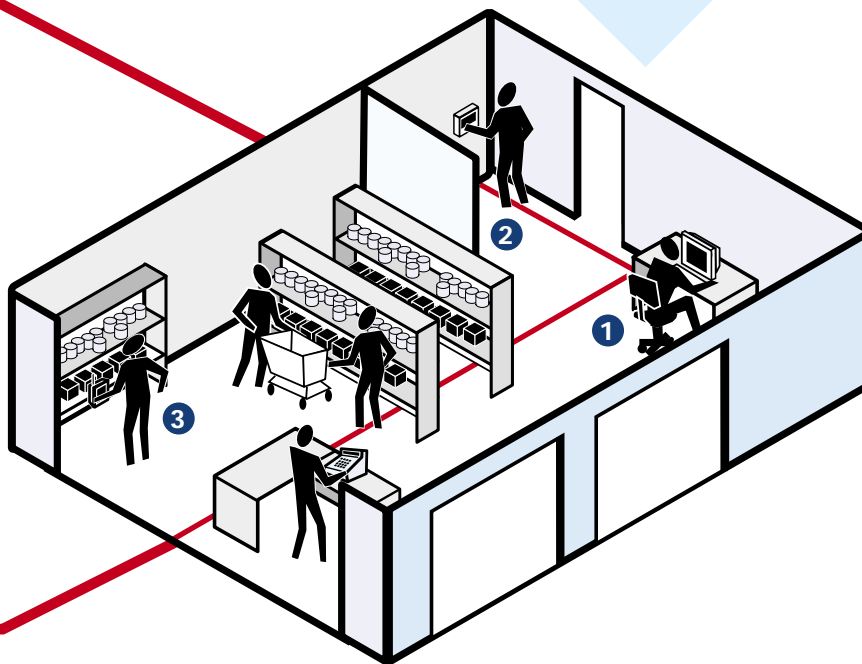
## AT HOME

Using a standard web browser and an Internet connection an employee logs into the system. Once online she checks her schedule, trades shifts and requests vacation leave.



## IN THE STORE

1. Based on a sales forecast, the store manager publishes an optimized schedule that is sent to all employees.
2. An employee's attempt to clock-in early is refused at the reader.
3. An alert is sent to a supervisor notifying her of employees approaching the overtime threshold.



## PRODUCT OF THE YEAR

### ENTERPRISE TIME & ATTENDANCE

Automates the management of time and attendance processes including employee time tracking, attendance management, pay rule application and calculations and leave management.

### ENTERPRISE SCHEDULING

Optimizes labour utilization by automating processes such as workforce forecasting, schedule optimization, staff scheduling, schedule bidding and shift trading.

### SELF-SERVICE

Automates an organization's frequent human resources and people-related processes including time-off requests, vacation bidding, shift trades and internal job postings.

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
GENERAL MATTERS .....	3	DESCRIPTION OF SHARE CAPITAL OF	
EXCHANGE RATE INFORMATION .....	3	WORKBRAIN CORPORATION .....	33
FORWARD-LOOKING STATEMENTS .....	3	CONSOLIDATED CAPITALIZATION .....	34
ELIGIBILITY FOR INVESTMENT .....	4	OPTIONS TO PURCHASE SECURITIES .....	34
PROSPECTUS SUMMARY .....	5	PRIOR AND PROPOSED SALES OF	
CORPORATE STRUCTURE .....	10	COMMON SHARES .....	35
BUSINESS .....	10	ACQUISITION OF WORKFORCE LOGISTICS	
Company Overview .....	10	AND ESCROWED SECURITIES .....	36
Industry Overview .....	12	PRINCIPAL SHAREHOLDERS .....	37
The Workbrain Solution .....	13	DIRECTORS AND OFFICERS .....	38
Growth Strategy .....	14	EXECUTIVE COMPENSATION .....	41
Products .....	15	INDEBTEDNESS OF DIRECTORS AND	
Services .....	16	EXECUTIVE OFFICERS .....	43
Target Markets and Customers .....	16	REORGANIZATION .....	43
Case Studies .....	16	PLAN OF DISTRIBUTION .....	43
Sales and Distribution Strategy .....	17	RISK FACTORS .....	45
Research and Development .....	18	LEGAL PROCEEDINGS .....	52
Technology .....	19	RELATIONSHIP BETWEEN WORKBRAIN	
Competition .....	20	AND THE UNDERWRITERS .....	52
People .....	20	AUDITORS, TRANSFER AGENT AND	
Intellectual Property .....	20	REGISTRAR .....	52
Operations and Facilities .....	21	MATERIAL CONTRACTS .....	52
USE OF PROCEEDS .....	21	EXPERTS .....	52
SELECTED CONSOLIDATED FINANCIAL		PURCHASERS' STATUTORY RIGHTS OF	
INFORMATION .....	22	WITHDRAWAL AND RESCISSION .....	53
MANAGEMENT'S DISCUSSION AND		INDEX TO FINANCIAL STATEMENTS .....	F-1
ANALYSIS .....	24	CERTIFICATE OF THE ISSUER .....	C-1
SELECTED CONSOLIDATED QUARTERLY		CERTIFICATE OF THE UNDERWRITERS ...	C-2
FINANCIAL INFORMATION .....	32	AUDITORS' CONSENT .....	C-3
DIVIDENDS .....	33	AUDITORS' CONSENT .....	C-4

## GENERAL MATTERS

Unless otherwise noted or the context otherwise indicates, “Workbrain Corporation” refers to Workbrain Corporation alone and “Workbrain”, the “Company”, “we”, “us”, “our” and “our company” refers to Workbrain Corporation and its direct and indirect subsidiaries.

Unless otherwise indicated, all information in this prospectus assumes completion of the reorganization described in “Reorganization”.

**For reporting purposes, we prepare our financial statements in U.S. dollars and in conformity with accounting principles generally accepted in Canada (Canadian GAAP). Unless otherwise indicated, all dollar amounts in this prospectus are expressed in U.S. dollars.** References to “\$” and “US\$” are to U.S. dollars and references to “C\$” are to Canadian dollars. Solely for informational purposes, this prospectus contains a translation of certain U.S. dollar amounts into Canadian dollars at the exchange rates indicated in this prospectus.

“Workbrain®” is one of our registered trademarks and the Workbrain logo is one of our trademarks. All other trademarks or service marks appearing in this prospectus are the trademarks or service marks of the company that owns them.

References in this prospectus to research reports or articles should not be construed as depicting the complete findings of the entire referenced report or article. The information in each report or article is not incorporated by reference into this prospectus.

## EXCHANGE RATE INFORMATION

The following table sets out (1) the rate of exchange for one U.S. dollar in Canadian dollars in effect at the end of each of the following periods, (2) the high and low rate of exchange during those periods and (3) the average rate of exchange for those periods, each based on the noon buying rate certified by the Federal Reserve Bank of New York for customs purposes in New York City for cable transfers in Canadian dollars.

	<u>High</u>	<u>Low</u>	<u>Average <sup>(1)</sup></u>	<u>End of Period</u>
<b>Nine-Month Periods Ended September 30,</b>				
2003 .....	C\$1.5750	C\$1.3348	C\$1.4211	C\$1.3507
2002 .....	C\$1.6128	C\$1.5108	C\$1.5707	C\$1.5863
<b>Years Ended December 31,</b>				
2002 .....	C\$1.6128	C\$1.5108	C\$1.5702	C\$1.5800
2001 .....	C\$1.6023	C\$1.4933	C\$1.5519	C\$1.5925
2000 .....	C\$1.5600	C\$1.4350	C\$1.4871	C\$1.4995

(1) The average of the daily noon buying rates on the last business day of each month during the period.

On December 2, 2003 the noon buying rate for one U.S. dollar in Canadian dollars certified by the Federal Reserve Bank of New York was \$1.00 = C\$1.2988.

## FORWARD-LOOKING STATEMENTS

Certain statements included in this prospectus 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. The forward-looking statements are not historical facts but reflect our current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed under “Risk Factors” and in other sections of this prospectus.

## ELIGIBILITY FOR INVESTMENT

Subject to compliance with the prudent investment standards and general investment provisions and restrictions of the statutes referred to below (and, where applicable, the regulations made under those statutes) and, in certain cases, subject to the satisfaction of additional requirements relating to investment policies, standards, procedures and goals, the purchase of the common shares offered under this prospectus will not, at the date of issue, be precluded under the following statutes:

*Insurance Companies Act* (Canada);  
*Trust and Loan Companies Act* (Canada);  
*Pension Benefits Standards Act, 1985* (Canada);  
*Financial Institutions Act* (British Columbia);  
*Pension Benefits Standards Act* (British Columbia);  
*Insurance Act* (Alberta);  
*Employment Pension Plans Act* (Alberta);  
*Loan and Trust Corporations Act* (Alberta);  
*Trust and Loan Companies Act* (Nova Scotia);  
*Pension Benefits Act* (Nova Scotia);  
*The Insurance Act* (Manitoba);  
*The Trustee Act* (Manitoba);  
*The Pension Benefits Act* (Manitoba);

*Pension Benefits Act* (Ontario);  
*Loan and Trust Corporations Act* (Ontario);  
*An Act respecting trust companies and savings companies* (Québec), for a trust company or savings company, as defined therein, incorporated under the laws of the Province of Québec which invests its own funds;  
*An Act respecting insurance* (Québec), for an insurer, as defined therein, incorporated under the laws of the Province of Québec, other than a guarantee fund; and  
*The Pension Benefits Act, 1992* (Saskatchewan).

In the opinion of Torys LLP, counsel to Workbrain Corporation, and of Osler, Hoskin & Harcourt LLP, counsel to the underwriters, the common shares, if, as and when listed on a prescribed stock exchange, will be qualified investments for a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan or a deferred profit sharing plan under the *Income Tax Act* (Canada) and the regulations made under that act. Also in the opinion of such counsel, based upon information provided by Workbrain Corporation, at the date of their issue, the common shares will not constitute “foreign property” for the purposes of the *Income Tax Act* (Canada) for persons subject to tax under Part XI of the *Income Tax Act* (Canada).

The following is a summary of detailed information and financial data and statements contained elsewhere in this prospectus and should be read together with that information and data and those statements.

## PROSPECTUS SUMMARY

### Workbrain

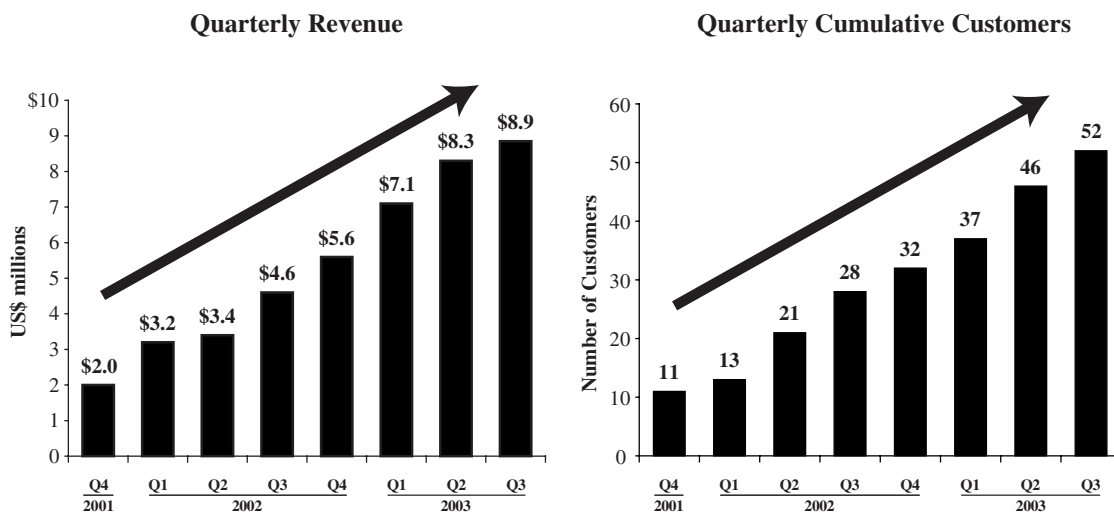
Workbrain develops, markets, implements, and supports software that helps large organizations optimally deploy and manage their workforces. Our solutions automate complex workforce management processes such as labour forecasting, employee schedule optimization, time and attendance, workforce analytics and employee self-service. We are recognized by independent industry analysts as a leading provider of enterprise workforce management software.

Customers that have deployed our solutions experience substantial cost savings and improved operational efficiencies. The benefits of our solutions include reductions in gross payroll costs, payroll management costs, information technology (IT) costs and paper-based form usage as well as improvements in staff utilization and regulatory compliance. In addition, our analytic tools help our customers identify opportunities for additional cost-saving changes to workforce management practices, labour contracts and pay rules.

We target our software to industries characterized by large workforces, complex work rules, multiple sites and inefficient, paper-based workforce management processes. These industries include retailing, manufacturing, financial services, transportation, utilities and the public sector. Our customers include some of the largest employers in these industries. The following is a partial list of our significant customers:

American Airlines	Earthlink	Tennessee Valley Authority
Avon	General Mills	The TJX Companies
BellSouth Communications	Kohler	Toronto Police Services
Big Y Foods	Overnite Transportation	Tyson Foods
British Airways	Owens-Illinois	United Rentals
Burlington Coat Factory	REI	US Airways
C&S Wholesale Grocers	Smurfit Stone	Wachovia
Delphi	St. Joseph's Healthcare	Winn-Dixie

As shown below, we have consistently increased our revenue and customer base in each of our last eight fiscal quarters, despite a challenging economic environment:



We believe there is a large, growing and under-penetrated market for enterprise workforce management software. Our current market share represents a small fraction of this large addressable market opportunity.

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 and Europe. Our sales channels are supported through marketing and implementation relationships with leading systems integrators such as Accenture, IBM, and BearingPoint, large business process outsourcers (BPOs) such as Exult and Fidelity Employer Services Company (FESCO) and resellers such as Fujitsu HyperSoftware Technologies (Fujitsu HST) of Japan.

The robust functionality of our software is, in our view, a key competitive advantage that has allowed us to displace incumbent vendors at many of our customers. In a September 2003 Forrester Research Wave™ analysis of the workforce management market, we were cited as having leading product functionality and product strategy. Our solution's strong functionality has also been recognized by industry analysts, including AMR Research, Gartner, Inc. and Giga Information Group. In 2002, our solution was recognized as one of the "Products of the Year" by *HR Executive* magazine and as a "Best of the Web" product by *Forbes* magazine.

Our web-based technology has been designed from inception to meet the rigorous IT and scalability standards of the world's largest and most sophisticated organizations. We have deployed our Java 2 Enterprise Edition (J2EE)-based application across multiple operating systems, application servers and databases. We are able to rapidly deploy our solution and integrate with existing technology using our repeatable implementation methodology and integration adapters. We believe that creating highly useable, industry-specific scheduling and rule automation tools presents significant technical challenges. Our ability to meet these challenges is another key competitive advantage.

Our strategy is to rapidly dominate the market for enterprise workforce management software by developing and selling industry-specific solutions built on a common technology platform. To execute this strategy, we intend to do the following:

- expand our world-wide distribution capabilities;
- broaden our network of strategic relationships;
- enhance our industry-specific software applications;
- deepen our relationships with existing customers; and
- continue to pursue a disciplined acquisition approach.

## The Offering

<b>Securities to be Offered:</b>	2,860,000 common shares  If the over-allotment option is exercised in full, we will offer an additional 429,000 common shares. See “Plan of Distribution”. We are also distributing 10,000 common shares to certain of our U.S. employees and we will not pay an underwriting fee in respect of the distribution of those common shares.
<b>Offering Price:</b>	C\$14.00 per common share
<b>Amount:</b>	C\$40,040,000
<b>Shares Outstanding as of November 14, 2003:</b>	Prior to the offering: 13,333,104 common shares  Assuming completion of the offering: 16,203,104 common shares (16,632,104, assuming exercise of the over-allotment option in full)  The number of shares outstanding above does not include a total of 2,449,137 common shares subject to outstanding options under our share option plan or available for issuance under that plan. See “Options to Purchase Securities — Option Plan”. The number of shares outstanding above also does not include a total of 363,101 common shares subject to outstanding warrants or available for issuance under warrants that may be issued in certain circumstances.
<b>Use of Proceeds:</b>	We intend to use the net proceeds from this offering for sales and marketing, research and development, working capital and other general corporate purposes, including selective acquisitions. See “Use of Proceeds”.
<b>Risk Factors:</b>	An investment in our common shares is speculative and involves a high degree of risk. You should carefully consider the information set out under “Risk Factors” beginning on page 45 and the other information in this prospectus before purchasing our common shares.

### Summary Consolidated Financial Information

The summary consolidated financial information set out below as at, and for the years ended, December 31, 2002, 2001 and 2000 and as at September 30, 2003, and for the nine month periods ended September 30, 2003 and 2002 has been derived from our consolidated financial statements appearing elsewhere in this prospectus. You should read the following information in conjunction with those statements and the related notes and with “Management’s Discussion and Analysis”, also appearing elsewhere in this prospectus.

	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
	(Amounts In U.S. Dollars, In Thousands, Except Per Share Data) (Unaudited)				
<b>Consolidated Statement of Operations Data:</b>					
Revenue:					
Licence .....	\$ 7,840	\$ 2,839	\$ 4,320	\$ 1,181	\$ 164
Service, maintenance & other .....	16,481	8,434	12,529	2,557	253
Net revenue .....	<u>24,321</u>	<u>11,273</u>	<u>16,849</u>	<u>3,738</u>	<u>417</u>
Cost of revenue:					
Licence .....	279	9	83	—	—
Service, maintenance & other .....	12,148	5,565	8,623	1,170	248
Cost of revenue accruals (recoveries), net .....	(553)	(436)	(359)	972	96
Total cost of revenue .....	<u>11,874</u>	<u>5,138</u>	<u>8,347</u>	<u>2,142</u>	<u>344</u>
Gross profit .....	<u>12,447</u>	<u>6,135</u>	<u>8,502</u>	<u>1,596</u>	<u>73</u>
Gross margin (%) .....	51.2%	54.4%	50.5%	42.7%	17.5%
Operating expenses:					
Sales and marketing .....	6,216	3,958	5,905	4,989	989
Research and development .....	3,442	2,247	3,456	3,366	1,628
General and administrative .....	1,321	1,433	2,215	1,783	1,182
Amortization of acquisition-related intangibles ..	211	—	—	—	—
Amortization of stock-based compensation .....	3	259	268	711	445
Total operating expenses .....	<u>11,193</u>	<u>7,897</u>	<u>11,844</u>	<u>10,849</u>	<u>4,244</u>
Income (loss) from operations .....	1,254	(1,762)	(3,342)	(9,253)	(4,171)
Interest income, net .....	170	204	260	476	124
Accretion on preferred shares .....	—	—	—	(529)	(458)
Net income (loss) .....	<u>\$ 1,424</u>	<u>\$(1,558)</u>	<u>\$(3,082)</u>	<u>\$(9,306)</u>	<u>\$(4,505)</u>
Pro forma net income (loss) per share <sup>(1)</sup> :					
Basic pro forma net income (loss) per share ....	<u>\$ 0.11</u>	<u>\$ (0.12)</u>	<u>\$ (0.24)</u>	<u>\$ (0.76)</u>	<u>\$ (0.55)</u>
Basic pro forma weighted average number of shares outstanding .....	<u>12,983</u>	<u>12,589</u>	<u>12,589</u>	<u>11,618</u>	<u>7,384</u>
Diluted pro forma net income (loss) per share ...	<u>\$ 0.11</u>	<u>\$ (0.12)</u>	<u>\$ (0.24)</u>	<u>\$ (0.76)</u>	<u>\$ (0.55)</u>
Diluted pro forma weighted average number of shares outstanding .....	<u>13,400</u>	<u>12,589</u>	<u>12,589</u>	<u>11,618</u>	<u>7,384</u>

(1) Pro forma figures in this section retroactively reflect the conversion of then outstanding preferred shares into common shares on a one-for-one basis.

	September 30, 2003		December 31,	
	Actual	As adjusted <sup>(1)</sup>	2002	2001
	(Amounts In U.S. Dollars, In Thousands) (Unaudited)			
<b>Consolidated Balance Sheet Data:</b>				
Cash and cash equivalents and short-term investments . . . . .	\$13,613	\$44,577	\$15,301	\$13,490
Working capital . . . . .	9,151	40,115	8,968	12,215
Total assets . . . . .	28,609	59,573	24,023	16,753
Deferred revenue . . . . .	9,934	9,934	10,390	2,649
Long-term liabilities . . . . .	145	145	99	139
Total shareholders' equity . . . . .	14,436	45,400	10,184	12,884

(1) As adjusted information reflects completion of this offering and exercise of the over-allotment option in full and a September 30, 2003 exchange rate of US\$1.00 = C\$1.3507.

**Canadian Dollar Supplementary Data<sup>(2)</sup>:**

	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
	(Amounts In Canadian Dollars, In Thousands, Except Per Share Data) (Unaudited)				
<b>Consolidated Statement of Operations Data:</b>					
Net revenue . . . . .	C\$31,700	C\$14,693	C\$21,961	C\$ 4,872	C\$ 544
Income (loss) from operations . . . . .	1,634	(2,297)	(4,356)	(12,060)	(5,436)
Net income (loss) . . . . .	1,856	(2,031)	(4,017)	(12,129)	(5,872)
Pro forma net income (loss) per share:					
Basic pro forma net income (loss) per share . . .	<u>C\$ 0.14</u>	<u>C\$ (0.16)</u>	<u>C\$ (0.32)</u>	<u>C\$ (0.98)</u>	<u>C\$ (0.71)</u>
Basic pro forma weighted average number of shares outstanding . . . . .	<u>12,983</u>	<u>12,589</u>	<u>12,589</u>	<u>11,618</u>	<u>7,384</u>
Diluted pro forma net income (loss) per share	<u>C\$ 0.14</u>	<u>C\$ (0.16)</u>	<u>C\$ (0.32)</u>	<u>C\$ (0.98)</u>	<u>C\$ (0.71)</u>
Diluted pro forma weighted average number of shares outstanding . . . . .	<u>13,400</u>	<u>12,589</u>	<u>12,589</u>	<u>11,618</u>	<u>7,384</u>

(2) U.S. dollar financial data has been converted into C\$ at the November 14, 2003 exchange rate of C\$1.3034 = US\$1.00. Users are cautioned as to the limited usefulness of this supplementary information.

## CORPORATE STRUCTURE

Workbrain Corporation was incorporated under the *Business Corporations Act* (Ontario) by articles of incorporation dated November 10, 1999 under the name Exato Corporation. Our name was subsequently changed to Workbrain Corporation pursuant to articles of amendment dated June 13, 2000.

On incorporation, the authorized share capital of Workbrain Corporation consisted of Class A, Class B, Class C and common shares. Since then the articles have been amended to change the authorized share capital and the terms of the various classes of shares. Pursuant to restated articles dated April 17, 2001, Workbrain Corporation's authorized share capital now consists of an unlimited number of common shares and an unlimited number of Class A preferred shares and Class B preferred shares, both issuable in series.

Upon completion of the offering, the authorized share capital of Workbrain Corporation will be amended to consist of an unlimited number of common shares. See "Description of Share Capital of Workbrain Corporation".

Workbrain Corporation's head and registered office address is 250 Ferrand Drive, Suite 1200, Toronto, Ontario, M3C 3G8 and our telephone number is (416) 421-6700. Our U.S. head office is 3440 Preston Ridge Road, Suite 100, Alpharetta, Georgia, 30005 and our telephone number is (678) 713-6014. We also maintain offices in New York and London, England as well as sales locations across North America. Our web site address is [www.workbrain.com](http://www.workbrain.com). The information on that web site is not incorporated by reference into this prospectus.

Workbrain Corporation's principal subsidiaries and their respective jurisdictions of incorporation are Workbrain, Inc. (Ontario) and Workbrain, Inc. (Delaware), each of which is wholly-owned by Workbrain Corporation.

## BUSINESS

### Company Overview

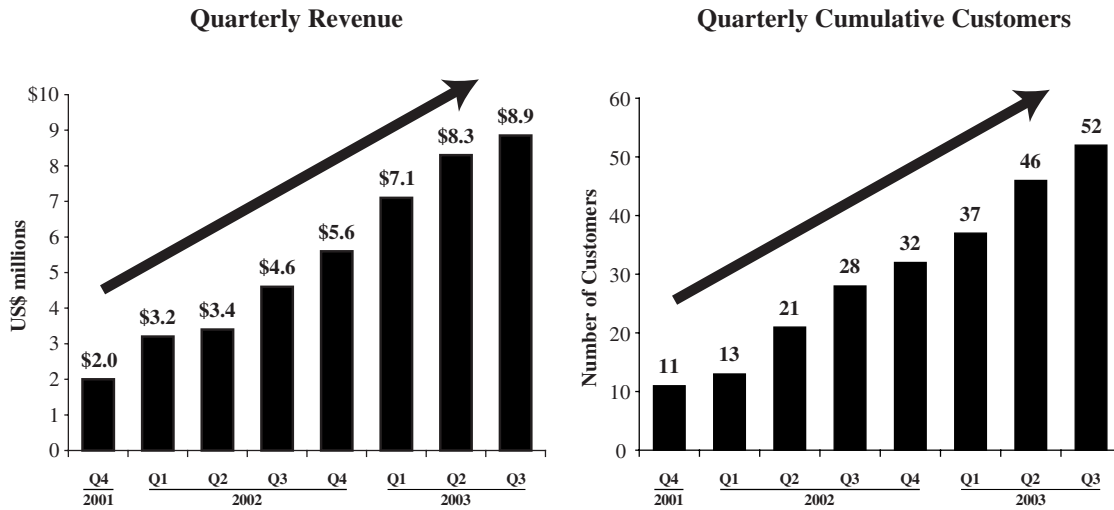
Workbrain develops, markets, implements, and supports software that helps large organizations optimally deploy and manage their workforces. Our solutions automate complex workforce management processes such as labour forecasting, employee schedule optimization, time and attendance, workforce analytics and employee self-service. We are recognized by independent industry analysts as a leading provider of enterprise workforce management software.

Customers that have deployed our solutions experience substantial cost savings and improved operational efficiencies. The benefits of our solutions include reductions in gross payroll costs, payroll management costs, information technology (IT) costs and paper-based form usage as well as improvements in staff utilization and regulatory compliance. In addition, our analytic tools help our customers identify opportunities for additional cost-saving changes to workforce management practices, labour contracts and pay rules.

We target our software to industries characterized by large workforces, complex work rules, multiple sites and inefficient, paper-based workforce management processes. These industries include retailing, manufacturing, financial services, transportation, utilities and the public sector. Our customers include some of the largest employers in these industries. The following is a partial list of our significant customers:

American Airlines	Earthlink	Tennessee Valley Authority
Avon	General Mills	The TJX Companies
BellSouth Communications	Kohler	Toronto Police Services
Big Y Foods	Overnite Transportation	Tyson Foods
British Airways	Owens-Illinois	United Rentals
Burlington Coat Factory	REI	US Airways
C&S Wholesale Grocers	Smurfit Stone	Wachovia
Delphi	St. Joseph's Healthcare	Winn-Dixie

As shown below, we have consistently increased our revenue and customer base in each of our last eight fiscal quarters, despite a challenging economic environment:



We believe there is a large, growing and under-penetrated market for enterprise workforce management software. Our current market share represents a small fraction of this large addressable market opportunity.

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 and Europe. Our sales channels are supported through marketing and implementation relationships with leading systems integrators such as Accenture, IBM, and BearingPoint, and large business process outsourcers (BPOs) such as Exult and Fidelity Employer Services Company (FESCO). We have recently entered the Japanese market through a reseller relationship with Fujitsu HyperSoftware Technologies (Fujitsu HST) and expect to enter into additional reseller relationships where appropriate to accelerate market penetration.

The robust functionality of our software is, in our view, a key competitive advantage that has allowed us to displace incumbent vendors at many of our customers. In a September 2003 Forrester Research Wave™ analysis of the workforce management market, we were cited as having leading product functionality and product strategy. Our solution's strong functionality has also been recognized by industry analysts, including AMR Research, Gartner, Inc. and Giga Information Group. In 2002, our solution was recognized as one of the "Products of the Year" by *HR Executive* magazine and as a "Best of the Web" product by *Forbes* magazine.

Our web-based technology has been designed from inception to meet the rigorous IT and scalability standards of the world's largest and most sophisticated organizations. We have deployed our Java 2 Enterprise Edition (J2EE)-based application across multiple operating systems, application servers and databases. We are able to rapidly deploy our solution and integrate with existing technology using our repeatable implementation methodology and integration adapters. We believe that creating highly usable, industry-specific scheduling and rule automation tools presents significant technical challenges. Our ability to meet these challenges is another key competitive advantage.

From the outset, we have sought to build a global leader in workforce management software. Our management team has over 120 years of collective experience in this industry. We excel in identifying, attracting and retaining talented employees. As of November 14, 2003, we had 319 full-time employees. We view our highly motivated, customer-focused employees and our team-centred culture as yet another key competitive advantage.

Our strategy is to rapidly dominate the market for enterprise workforce management software by expanding our world-wide distribution capabilities, broadening our network of strategic relationships, enhancing our industry-specific software applications, deepening our relationships with existing customers and continuing to pursue a disciplined acquisition approach.

## Industry Overview

Large enterprises have experienced significant efficiency gains from investing in enterprise software that automates business processes. These solutions have automated the management of financial information and customer and supplier relationships. Many companies have also purchased back-office systems that manage static human resources information relating to compensation, benefits and personal information. In contrast, enterprises have invested relatively little to date in enterprise software that automates the dynamic deployment and management of their workforces.

We believe there is a large and growing market opportunity for enterprise-class workforce management software. This opportunity is driven by increased demand from senior operational and finance executives for software solutions that reduce costs. This opportunity is also driven by the workforce management challenges of large enterprises and the limitations of existing solutions, as described below.

Giga Information Group estimates that the time and attendance component of the workforce management market will grow to nearly \$400 million in software licences by 2006. We believe that the combined market opportunity addressing all areas of workforce management, including processes such as employee scheduling and contractor management, greatly exceeds the opportunity for time and attendance solutions alone. IDC estimates that the combined workforce management market will grow at more than double the rate of the overall enterprise application market and exceed \$6.8 billion annually in products and services in 2006.

We currently compete primarily in the employee scheduling, enterprise time and attendance and employee self-service segments of the overall workforce management market. We believe that the overall market is under-penetrated and that our current market share represents a small fraction of the potential opportunity. Our strategy is to rapidly dominate the overall market for enterprise workforce management software.

## *Workforce Management Challenges*

In many industries, labour costs represent the single largest component of operating expenses. In a typical Global 2000 organization, the workforce is managed through a variety of manual paper-based processes and a combination of isolated client/server and legacy mainframe systems. As a result, large organizations spend considerable time, effort and capital on the processes used to deploy and manage their workforces.

Examples of the workforce management challenges faced by large enterprises include:

- **Inefficient labour forecasting and scheduling:** Current processes for forecasting labour requirements and creating staff schedules are inefficient. Local managers use time-consuming spreadsheets and paper templates to create staff schedules based on rough estimates of forecasted labour demand. Complex leave and vacation policies, together with unauthorized employee schedule modifications, further complicate forecasting and scheduling. As a result, organizations are frequently over-staffed or under-staffed for production and service requirements, often schedule employees with inappropriate skills and are exposed to unplanned absences.
- **Pay calculation errors:** Existing processes for collecting pay information and calculating gross pay require substantial human intervention. These processes are prone to error, result in inconsistent application of pay rules, produce systematic employee overpayment and expose organizations to the potential for abuse, fraud and grievances. Complex seniority, overtime, and incentive rules exacerbate these challenges.
- **Regulatory compliance:** Intricate regulatory and union rules relating to overtime wages, vacation and leave entitlements, and minimum and maximum work hours subject large employers to the risk of substantial fines for non-compliance.
- **Excess clerical staff:** Employers often have many clerical employees dedicated to tasks associated with gathering and collating pay information and calculating gross pay. In a large organization, the fully-loaded cost of these clerical employees can be significant.
- **Limited enterprise-wide workforce information:** Paper-based processes and isolated client/server and legacy systems make it difficult for senior management to consolidate workforce management data and analyze those data for potential cost savings and efficiency.

As a result of these challenges, workforce management processes in large enterprises represent a significant area of potential savings. According to recent research by Gartner, Inc., savings from an enterprise solution that automates time and attendance as well as scheduling can reduce labour costs in enterprises with a large percentage of hourly workers by 5% or more. To illustrate the potential savings for an enterprise with 10,000 hourly employees and a gross payroll cost of \$25,000 per employee, this would translate into savings of at least \$12.5 million per year.

### ***Limitations of Existing Workforce Management Solutions***

Some organizations have attempted to automate workforce management processes using internally-developed applications. These solutions can require substantial internal resources to develop, deploy and maintain. In addition, these solutions generally do not address the complexity and significant technical barriers inherent in the enterprise-wide deployment of a workforce management solution. Other organizations have purchased a variety of workforce management applications from multiple vendors. While many of these solutions provide functionality to address specific components of a unified workforce management solution, we believe they have the following limitations:

- **Limited integration:** Workforce management processes such as forecasting, scheduling, time collection, wage calculation, leave and attendance management, and skills tracking are closely related. They require access to common and detailed data about employee skills, availability, time worked, and compensation policies. Few vendors have incorporated the sophisticated functionality required to automate all of these processes in a single web-based product.
- **Fragmented enterprise information:** Many existing workforce management systems are expensive to maintain because they incorporate a mixture of isolated client/server applications, spreadsheets and legacy mainframe applications. This patchwork of disparate applications impedes the consolidation of workforce management information into a single enterprise-wide view.
- **Inability to support hourly workforces and complex rules:** Enterprise Resource Planning (ERP) vendors offer workforce management software that was primarily developed for salaried employees and has limited functionality. Few options exist for large, complex enterprises with both salaried and hourly workforces, which often operate in multi-site, multi-union environments. In addition, many products are limited in their ability to manage the diversity of scheduling, wage and entitlement calculation methods across locations, business units and departments.
- **Complex user interfaces:** Many workforce management applications focus on delivering data from production processes to management rather than managing and servicing employees. As a result, they typically have complicated interfaces that require significant training.

### **The Workbrain Solution**

We develop, market, implement, and support software that helps large organizations optimally deploy and manage their workforces. Our solutions automate complex workforce management processes such as labour forecasting, employee schedule optimization, time and attendance, workforce analytics and employee self-service. By unifying all of these processes on our platform, customers are able to integrate and automate complex and frequent workforce management processes in real-time across the enterprise and gain insight into key workforce metrics.

We believe that we provide the leading workforce management solution for large enterprises, for the following reasons:

**Focus on industry-specific offerings:** We have tailored our solutions to meet the workforce management needs of specific industries. For example, our retail solution was specifically designed to meet the complex labour challenges faced by large retailers, including allocating appropriate staff against forecast customer demand while ensuring that budgets are not exceeded, labour rules are not violated, employee preferences are respected and contractual obligations are met.

**Flexibility to manage complex rules:** Large workforces are subject to very complex rules that govern workforce schedules and the calculation of pay and benefits. In addition, these rules vary across jurisdictions, industries, companies, departments, sites and unions. Automation of these rules is beyond the technical capabilities of many workforce management solutions and may require significant customizations that are costly and difficult to maintain and upgrade. Our integrated solution is able to scale to effectively manage the complexity of time and attendance, employee scheduling and other workforce processes in large organizations.

**Ease-of-use:** Our products require minimal training and are designed for use by non-technical employees. Our easy-to-use employee interface is patterned after the ubiquitous ATM banking interface to ensure that employees can quickly use and adopt our solutions.

**Robust technology platform:** Our technology was designed to meet the rigorous IT standards of the world's largest and most sophisticated organizations. Key features of our technology and applications include:

- **Scalability:** Our web-based architecture scales to meet the deployment and concurrent usage needs of large organizations and can quickly process large transaction volumes.
- **Flexibility:** The component-based nature of our software allows customers to purchase functionality that fits their particular needs and allows them to easily extend the solution as required. We provide our customers with tools that they can use to easily configure, extend, and modify our solution without requiring additional services from us.
- **Integration with existing software infrastructure:** Our solutions have been entirely built using the industry-standard J2EE architecture to ensure rapid deployment and low total cost of ownership. Our software operates with a broad variety of operating systems, web and application servers, databases and Internet browsers. Our products are designed to integrate with enterprise resource planning, human resource management, payroll, portal and e-mail packages.
- **Data-collection device compatibility:** Our products are interoperable with a broad variety of data collection devices. Our standard interfaces allow customers to maintain their existing data collection hardware investments, which reduces the cost of switching from legacy software applications to our solution.

The robust functionality of our software is, in our view, a key competitive advantage that has allowed us to displace incumbent vendors at many of our customers. In a September 2003 Forrester Research Wave™ analysis of the workforce management market, we were cited as having leading product functionality and product strategy. Our solution's strong functionality has also been recognized by industry analysts, including AMR Research, Gartner, Inc. and Giga Information Group. In 2002, our solution was recognized as one of the "Products of the Year" by *HR Executive* magazine and as a "Best of the Web" product by *Forbes* magazine.

## **Growth Strategy**

Our strategy is to rapidly dominate the market for enterprise workforce management software by expanding our world-wide distribution capabilities, broadening our network of strategic relationships, enhancing our industry-specific software applications, deepening our relationships with existing customers and continuing to pursue a disciplined acquisition approach.

### ***Expand our world-wide distribution capabilities***

We currently have direct sales locations across North America and in the United Kingdom. We also have a reseller relationship with Fujitsu HST under which it markets and distributes our software in Japan. We intend to expand our world-wide distribution capability to significantly increase market share and penetration. This will include increasing our direct sales force in North America, Europe, and other areas with significant market potential. We intend to expand our relationships with international resellers where appropriate to accelerate market penetration and to selectively augment our regional marketing operations.

### ***Broaden our network of strategic relationships***

Our network of alliances provides access to new customers and industries. We will continue to broaden this network of systems integrators, BPOs and technology alliances. We also intend to develop distribution and support channels to market our solutions to mid-sized organizations. We expect our alliance partners to assume an increased role in service delivery and distribution over time, allowing us to maintain our focus on core software development.

### ***Enhance our industry-specific software applications***

Our product strategy is to develop industry-specific solutions built on a common technology platform. We plan to develop additional functionality that extends our existing industry-specific solutions. We will continue to identify other industries where our solutions can reduce operating costs and we intend to develop market-tailored applications for these industries.

***Deepen our relationships with existing customers***

We view our customer base as a significant asset. Since our platform facilitates the addition of new capabilities to clients’ established infrastructure, our current customer base represents a significant market for follow-on sales. In addition, our customers increasingly desire enhanced tools that provide real-time information and help identify areas for operational improvements. We believe that we are well positioned to address this need because our solutions provide detailed information about workforce performance, costs, activities and effectiveness.

***Continue to pursue a disciplined acquisition approach***

In April 2003 we acquired and integrated the net operating assets of Workforce Logistics Inc., a provider of schedule optimization software. See “Acquisition of Workforce Logistics and Escrowed Securities”. Revenue directly attributable to the acquisition was less than 4% of our net revenue for the nine months ended September 30, 2003. The acquisition enhanced our existing workforce management solution with additional schedule optimization functionality. As a result of the acquisition, we were able to market a fully integrated schedule optimization product more quickly than if we had built the technology in-house.

We intend to continue to pursue selective strategic acquisitions that will enhance the functionality of our product offerings, augment our distribution channels, expand our market opportunity and broaden our customer base. It is our intention to seek out selective acquisitions that will accelerate the development of additional industry-specific solutions.

**Products**

Our products enable large enterprises to manage complex workforce processes, including labour forecasting, employee schedule optimization, time and attendance, workforce analytics and employee self-service. Our Java-based platform is designed for ease-of-use and flexibility in distributed enterprises and can scale to support tens of thousands of users within a single enterprise.

We offer a number of pre-packaged applications that are all built on a common platform. Our products are licensed to customers as integrated suites consisting of several applications or as separate applications or modules, depending on customer requirements. Our current product offering includes the following applications:



- **Workbrain Enterprise Time & Attendance** is a solution for automating the management of time and attendance processes, including employee time tracking, attendance management, pay rule application and calculations, labour distribution and costing and leave management.
- **Workbrain Enterprise Scheduling** is a solution for creating, managing and publishing employee schedules to optimize workforce utilization. Workbrain Enterprise Scheduling automates processes such as workforce forecasting, schedule optimization, staff scheduling, schedule bidding and shift trading. Our demand-based and staff scheduling applications have proven applicability across a broad range of industries.
- **Workbrain Self-service** is a solution for automating an organization’s frequent human resources and people-related processes. The self-service solution delivers end-to-end manager and employee self-service for operational HR processes, such as job change requests, grievance reporting, equipment requisitions and accident incident reporting.
- **Workbrain Toolkit** provides an organization with tools for configuring, extending and modifying the Workbrain solution to meet its changing business needs without the need for additional implementation services or core application customization. The Workbrain Toolkit includes a form and workflow builder that allows users to create and modify business forms, workflows and reports.

We bundle these applications into offerings that provide functionality tailored to industry-specific workforce management challenges. Examples include Workbrain for Retail, which provides an end-to-end labour management solution for large retailers, including optimized demand-based scheduling, and Workbrain for Manufacturing, which is designed to meet the needs of large, distributed manufacturing organizations working within a complex regulatory environment. In the future, we anticipate adding additional industry-specific functionality.

We also resell database and application server products that our customers use to operate our software. In addition to software products, we resell a wide range of data capture and interface devices. In total, these ancillary offerings represented less than 3% of our revenue for the nine months ended September 30, 2003.

## **Services**

Services are a critical part of our workforce management solution and are aimed at providing the highest level of customer satisfaction. We offer a full range of services to our customers including implementation services, maintenance and technical support, educational, consulting and hosting services.

Our implementation services are provided through an automated project management tool and standardized practice that we collectively market as “Speed to Value” (S<sup>2</sup>V). Use of this proprietary tool enables our customers and partners to deploy individual applications of our solution in as few as 90 days with minimal use of our services. Our implementation services contribute to a successful deployment of our software by assisting our customers with project planning, business rule optimization, solution regression testing and architecture design.

Our maintenance services consist of software updates and customer support. Our support organization provides world-wide problem resolution services 24 hours a day, 365 days a year, by telephone, e-mail and through our Web-based support tools.

We offer our customers a full range of educational services including computer, web-based, classroom and on-site customer training. We market these services collectively as Workbrain University and provide these services on both a scheduled and as-requested basis.

We also provide consulting and hosting services to our customers. Consulting services help our customers and prospects understand the business value of our solutions and assist customers to identify and measure the returns on investment from our products. Our hosting services are offered in conjunction with industry-leading third party hosting providers to provide a complete application hosting service offering for our customers.

## **Target Markets and Customers**

We have targeted industries characterized by large workforces, complex employee pay and scheduling requirements, multiple sites, and inefficient, paper-based workforce management processes. These industries include retailing, manufacturing, financial services, transportation, utilities and the public sector. We believe that customers within these industries possess certain characteristics which make them well suited for our workforce management solutions.

Our current customers include some of the largest employers in their respective industries. The following is a partial list of our significant customers:

American Airlines	Earthlink	Tennessee Valley Authority
Avon	General Mills	The TJX Companies
BellSouth Communications	Kohler	Toronto Police Services
Big Y Foods	Overnite Transportation	Tyson Foods
British Airways	Owens-Illinois	United Rentals
Burlington Coat Factory	REI	US Airways
C&S Wholesale Grocers	Smurfit Stone	Wachovia
Delphi	St. Joseph’s Healthcare	Winn-Dixie

For the nine months ended September 30, 2003, no single customer represented greater than 10% of our revenue.

## **Case Studies**

### ***Large Retailer***

In 2001, a large retailer was looking to address the workforce management challenges stemming from its recent acquisition-driven growth. This growth resulted in more than 10,000 employees at several hundred locations across

North America. The customer's primary objectives were to standardize payroll practices across the enterprise, reduce payroll errors and abuse, and enable labour cost reporting. This would allow the customer to manage overtime spending across the organization. The customer also needed a flexible, web-based solution that would operate in a low-bandwidth environment. Finally, the customer required a fast implementation and a rapid return on investment. Workbrain delivered enterprise wide software for employee scheduling, time tracking and reporting that was fully deployed in less than eight months. The benefits of the solution included consistent application of pay rules, increased payroll accuracy, elimination of paper-based processes and a significant reduction in administrative workload. In addition, the detailed labour cost information provided by the Workbrain solution allowed managers to analyse and reduce overtime costs. As a result, the customer has reported that it has reduced gross payroll costs by nearly 3%, a savings of millions of dollars annually.

### ***Large Manufacturer***

In early 2002, a large manufacturer with over 30,000 employees across more than 250 facilities sought to standardize its workforce scheduling and labour management practices across the organization. Its existing workforce management systems consisted primarily of plant-specific applications with minimal integration. The customer needed an enterprise solution that would integrate well with existing software infrastructure, including SAP Financials, PeopleSoft Payroll and several stand-alone shop floor systems. In addition, the customer needed a solution that could handle the complexities of multiple jurisdictions, hundreds of locations, as well as hundreds of collective bargaining agreements. Workbrain partnered with a leading systems integrator to implement an enterprise wide solution for employee scheduling, time tracking and self-service. The project goals included increased payroll accuracy, reporting tools for labour cost analysis and benchmarking, and the ability to schedule employees in real-time. The customer expects savings of 1-2% of gross payroll from implementing the Workbrain solution.

### ***Municipal Government Organization***

In 2001, a large municipal government needed an integrated workforce management system for its 10,000-member police service, which included officers, administrative staff and volunteers. Previous methods of scheduling officers and volunteers, tracking equipment resources, calculating wages owed, and completing paper-based forms were expensive and non-standard. The disparate legacy systems used for these tasks made it very difficult for senior managers and elected officials to gather timely data on the cost, schedule, and availability of officers and resources. Workbrain provided a suite of integrated applications for scheduling, self-service, time tracking and reporting that could handle the complexity of a large metropolitan police service and integrate with its existing PeopleSoft HR system. The police service reports that Workbrain will provide more access to workplace information, eliminate many paper-based forms, reduce the administrative burden on officers and managers and reduce overtime pay.

### **Sales and Distribution Strategy**

We market and sell our products through both direct and indirect channels to maximize market coverage on a cost-effective basis. We also maintain a comprehensive network of alliance relationships that helps expand our market reach and accelerate our sales growth. As of November 14, 2003, we employed 54 people in our world-wide sales and marketing organization operating from 13 locations. We intend to significantly enhance our capability in these areas in the near future.

### ***Direct Sales and Marketing***

We use a direct sales force in our major markets as our primary distribution channel. We believe our direct sales force increases our visibility and market penetration, ensures long-term customer contact and facilitates sales of additional products. Our sales force targets senior financial and operational executives.

We support our sales channels with comprehensive lead generation and marketing programs including direct mail, public relations, advertising, targeted interactive marketing, web-based programs, promotional seminars, speaking engagements and participation in trade show and user group meetings. We use internal telesales representatives to support these activities and assist our direct sales force in prospecting new customer opportunities.

## *Alliances*

We have formed relationships with industry leading firms to assist with our sales and marketing efforts. We support these alliances with dedicated business development staff. These alliances include:

- **Systems Integrators:** We have relationships with leading systems and business integrators such as Accenture, IBM and BearingPoint. These firms promote our solution to their clients either on a stand-alone basis or as part of a larger workforce management initiative. Systems integrators derive benefit from working with us by generating implementation services and related consulting fees. We derive benefits from working with these systems integrators in the form of incremental sales opportunities, additional promotion through co-marketing activities and increased scalability of our delivery model.
- **Technology Vendors:** We have formed alliances and have certified integration with industry-leading technology vendors whose solutions are complementary to ours and whose sales success within a particular client is linked to our own. These include vendors of related software applications, such as human resource management, payroll, point-of-sale, and knowledge management, and vendors of infrastructure technologies, such as application server software, database software and data capture hardware. Key relationships include IBM, Oracle, BEA and Microsoft. In addition, we have developed Certified Integration interfaces with SAP. These alliances enable us to offer a broader client solution and operate seamlessly within a client's existing technology environment. In some cases, these vendors also refer sales leads to us and co-operate in joint marketing initiatives.

## *Business Process Outsourcers (BPOs)*

In recent years large organizations have increasingly outsourced the administrative and service aspects of their HR functions. Gartner, Inc. forecasts that by 2005, 85% of U.S. enterprises will have outsourced at least one component of their HR function and that HR BPO spending will exceed \$55 billion annually world-wide.

In response to this trend, we have formed relationships with leading BPOs, including Exult, Accenture and FESCO. These firms offer our solution to their clients through an outsourced service model that provides both software and services to manage workforce processes.

## *Resellers*

We believe that our reseller channel complements our direct sales efforts and accelerates market penetration and customer acquisition. We have entered the Japanese market through a reseller relationship with Fujitsu HST. Additionally, we provide a contingent workforce management solution to the utilities industry through a reseller relationship with Pantellos. We intend to enter into additional reseller relationships where appropriate to accelerate market penetration.

## **Research and Development**

We view our skilled research and development (R&D) organization and the technology it creates as a principal competitive advantage in the industry. Our R&D department consisted of 90 employees as of November 14, 2003 operating in product management, development, quality assurance and documentation areas.

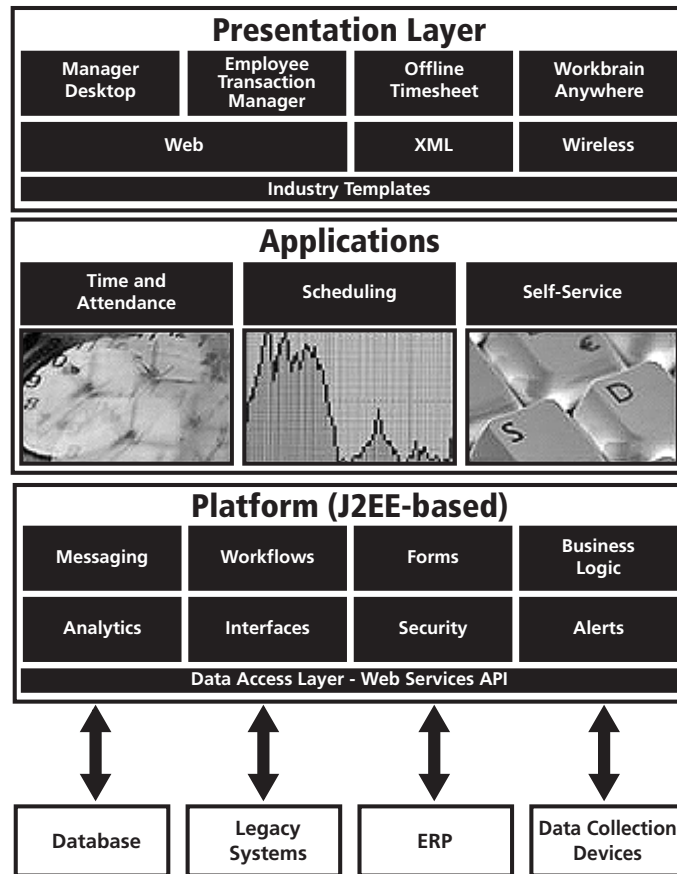
Our R&D organization designs, develops and tests new products, features and functionality and enhances the performance of existing products. R&D priorities are established by the Senior Vice President Operations with input from our Customer Advisory Group (CAG) as well as our sales, marketing, and services departments. Our CAG comprises users and senior executives from our customers who provide detailed feedback and suggestions regarding product features, usability and development road map. Product managers are in turn responsible for managing the entire life cycle of a product, module or feature and follow standardized processes to ensure software performance and timely delivery in accordance with the product road map.

Our R&D group intends to expand the functionality of our current solutions, develop new product releases, create new industry-specific applications and enhance our underlying technology platform. We also intend to continue to enhance usability and ease of implementation. We expect to conduct substantially all of our R&D in-house.

## Technology

Our technology is designed to meet the rigorous information technology standards of the world's largest and most sophisticated organizations. Our solutions are based on the J2EE architecture that has become the industry standard for enterprise-class web-based software applications. This architecture allows us to inter-operate with multiple operating systems, relational databases and application servers.

In addition, our platform is designed for the rapid development of additional functionality and industry-specific features to support the execution of our corporate strategy. In particular, our platform includes underlying functionality for complex rule calculation, messaging, workflow, alerts, reporting, localization, security, integration, maintenance, error reporting and system diagnostics. By using industry-standard components, we can quickly integrate newly developed or acquired technologies into our existing platform, allowing us to rapidly expand our product footprint.



Our product architecture provides the following business benefits:

- **Ease of integration:** Our solution runs on multiple operating systems, application servers, web servers and databases and integrates with our customers' existing technology investments. Our use of Web Services technology supports ease of integration with our customers' legacy applications.
- **Scalability:** Our solution supports tens of thousands of users on a single database. This allows our customers to deploy the application to all of their employees using a simple, easy-to-maintain solution.
- **Smooth upgrade path:** The J2EE architecture of our solution separates customer-specific configurations and rules from core application components. This clear boundary between the core and customer layers allows our customers to upgrade to future releases without having to re-implement their customer-specific functionality.

## **Competition**

We face competition primarily from two types of software vendors: Enterprise Resource Planning (ERP) suite vendors and specialized workforce management software vendors.

ERP vendors such as SAP and PeopleSoft offer limited workforce management capabilities within their software offerings. These vendors are often the incumbent human resource management system or payroll system vendor within our target clients, and will therefore be considered in many workforce management initiatives. We compete against these vendors by offering more complete functionality, including complex and industry-specific pay and scheduling capabilities.

Specialized workforce management vendors include time and attendance software vendors, notably Kronos, as well as scheduling software vendors, such as TempoSoft and Timera. We offer a fully integrated workforce management solution that includes both advanced scheduling and time and attendance functionality. We compete against time and attendance vendors by offering solutions and services that more effectively address the needs of large, multi-site enterprise customers. We compete against scheduling vendors by offering a unique programming approach that produces mathematically optimized schedules. Our scheduling solution also provides demand-based and staff scheduling applications applicable across a broad range of industries. Additionally, our product design emphasizes ease of use, which is a critical driver of user adoption.

To a lesser extent, we face competition from custom solutions developed by the IT departments of large organizations. However, due to the complexity and technical barriers of developing a robust, accurate and highly-usable workforce management solution, most large organizations evaluate commercially-developed applications.

## **People**

From the outset, we have sought to build a global leader in workforce management software. Our top 13 managers have over 120 years of collective experience in this industry. We excel in identifying, attracting and retaining talented employees. We view our highly motivated, customer-focused employees and our team-centred culture as key competitive advantages. We invest in our culture to support the recruitment, motivation, and retention of outstanding employees. Our focus is on the identification and development of high-performance and adaptable employees who will support our growth strategy.

As of November 14, 2003, we had 319 full-time employees. We have no unionized employees. All of our permanent full-time employees have been granted options under our stock option plan, and all of our employees participate in our performance-based bonus programs.

## **Intellectual Property**

In accordance with industry practice, we rely on a combination of contractual provisions and patent, copyright, trademark and trade secret laws to protect our proprietary rights in our products.

We generally license the use of our products to our customers rather than transferring title to them. These licences contain terms and conditions prohibiting the unauthorized reproduction, disclosure, reverse engineering, or transfer of our products. In addition, we attempt to protect our trade secrets and other proprietary information through agreements with customers, suppliers, employees and consultants.

The source code versions of our products are protected as trade secrets and as unpublished copyright works. However, effective copyright protection may not be available in some countries in which we license or market our products. We recognize that patent law may offer some protection for our current and future products, and we have embarked on a program to identify and seek patent protection for appropriate elements of our products.

We have also obtained or applied for trademark registration for several of our trade names, including the name “Workbrain”, in the U.S., Canada and the European Union. While the duration of trademark, patent and copyright protections varies from country to country, we believe that the duration of this protection will be adequate to protect our products during the periods of their economic value.

All material components of our products have been developed by our employees or contractors who have assigned all rights to us or were acquired from Workforce Logistics Inc., except for commercially-available components.

## Operations and Facilities

Our head and registered office is located in Toronto, Canada. At this location, we also maintain research and development, services, support and global marketing activities. At our U.S. head office outside Atlanta, Georgia, we manage our global sales efforts and deliver implementation and training services. We also maintain research and development, service and support operations in New York City.

We do not own any real estate. The following table sets out certain information regarding our material leased office premises:

<u>Location</u>	<u>Square Footage</u>	<u>Lease Expiry</u>
250 Ferrand Drive, Suite 1200 Toronto, Ontario . . . . .	48,592	May 31, 2006
3440 Preston Ridge, Suite 100 Alpharetta, Georgia . . . . .	9,806	July 30, 2005
60 Madison Avenue, 7th Floor New York, New York . . . . .	4,362	December 31, 2004

## USE OF PROCEEDS

We expect to receive C\$36,177,600 in net proceeds from this offering (US\$27,854,635 using the December 2, 2003 exchange rate of C\$1.2988 = US\$1.00), after deducting fees payable by us to the underwriters and our estimated expenses of the offering. If the over-allotment option granted by us is exercised in full, we expect to receive an aggregate of C\$41,823,240 (US\$32,201,447) in net proceeds, after deducting fees payable by us to the underwriters and our estimated expenses of the offering.

From the net proceeds of the offering, we expect to use between 13% and 16% for sales and marketing and between 10% and 12% for research and development purposes. Sales and marketing will involve an expansion of both our sales force and the scope of activities carried out by our marketing group. Research and development expenditures will involve an acceleration of our current programs or the introduction of new programs. We expect to use the remaining net proceeds (approximately 72% to 77%), in conjunction with funds from our operations, for working capital, general corporate purposes, and for selective acquisitions of, or investments in, new products, technologies and businesses that expand, complement or are otherwise related to our current business. Any such acquisitions or investments will be made in accordance with our growth strategy (see “Business — Growth Strategy”). We have no present agreements or commitments with respect to any prospective acquisition or investment.

We intend to use the funds available to us as stated above. There may be circumstances, however, where for what we believe to be sound business reasons, a reallocation of funds is necessary. Until we use the net proceeds, we expect to invest them in short-term interest-bearing investment-grade securities.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for the periods indicated. The selected consolidated financial information set out below as at, and for the years ended, December 31, 2002, 2001 and 2000 and as at September 30, 2003, and for the nine month periods ended September 30, 2003 and 2002 has been derived from our consolidated financial statements appearing elsewhere in this prospectus. You should read the following information in conjunction with those statements and the related notes and with “Management’s Discussion and Analysis”, also appearing elsewhere in this prospectus.

	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
	(Amounts In U.S. Dollars, In Thousands, Except Per Share Data) (Unaudited)				
<b>Consolidated Statement of Operations Data:</b>					
Revenue:					
Licence .....	\$ 7,840	\$ 2,839	\$ 4,320	\$ 1,181	\$ 164
Service, maintenance & other .....	16,481	8,434	12,529	2,557	253
Net revenue .....	24,321	11,273	16,849	3,738	417
Cost of revenue:					
Licence .....	279	9	83	—	—
Service, maintenance & other .....	12,148	5,565	8,623	1,170	248
Cost of revenue accruals (recoveries), net .....	(553)	(436)	(359)	972	96
Total cost of revenue .....	11,874	5,138	8,347	2,142	344
Gross profit .....	12,447	6,135	8,502	1,596	73
Gross margin (%) .....	51.2%	54.4%	50.5%	42.7%	17.5%
Operating expenses:					
Sales and marketing .....	6,216	3,958	5,905	4,989	989
Research and development .....	3,442	2,247	3,456	3,366	1,628
General and administrative .....	1,321	1,433	2,215	1,783	1,182
Amortization of acquisition-related intangibles .....	211	—	—	—	—
Amortization of stock-based compensation .....	3	259	268	711	445
Total operating expenses .....	11,193	7,897	11,844	10,849	4,244
Income (loss) from operations .....	1,254	(1,762)	(3,342)	(9,253)	(4,171)
Interest income, net .....	170	204	260	476	124
Accretion on preferred shares .....	—	—	—	(529)	(458)
Net income (loss) .....	\$ 1,424	\$ (1,558)	\$ (3,082)	\$ (9,306)	\$ (4,505)

<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>		
<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>

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

**Supplementary financial data:**

**Operating income (loss) per share:**

Income (loss) from operations . . . . .	\$ 1,254	\$ (1,762)	\$ (3,342)	\$ (9,253)	\$ (4,171)
Basic operating income (loss) per share . . . . .	\$ 0.19	\$ (0.28)	\$ (0.53)	\$ (1.45)	\$ (0.65)
Basic weighted average number of shares outstanding . .	6,753	6,359	6,359	6,398	6,464
Diluted operating income (loss) per share . . . . .	\$ 0.09	\$ (0.28)	\$ (0.53)	\$ (1.45)	\$ (0.65)
Diluted weighted average number of shares outstanding	13,400	6,359	6,359	6,398	6,464

**Net income (loss) per share:**

Net income (loss) . . . . .	\$ 1,424	\$ (1,558)	\$ (3,082)	\$ (9,306)	\$ (4,505)
Basic net income (loss) per share . . . . .	\$ 0.21	\$ (0.25)	\$ (0.48)	\$ (1.45)	\$ (0.70)
Basic weighted average number of shares outstanding . .	6,753	6,359	6,359	6,398	6,464
Diluted net income (loss) per share . . . . .	\$ 0.11	\$ (0.25)	\$ (0.48)	\$ (1.45)	\$ (0.70)
Diluted weighted average number of shares outstanding	13,400	6,359	6,359	6,398	6,464

**Pro forma net income (loss) per share:<sup>(1)</sup>**

Pro forma net income (loss) . . . . .	\$ 1,424	\$ (1,558)	\$ (3,082)	\$ (8,777)	\$ (4,047)
Basic pro forma net income (loss) per share . . . . .	\$ 0.11	\$ (0.12)	\$ (0.24)	\$ (0.76)	\$ (0.55)
Basic pro forma weighted average number of shares outstanding . . . . .	12,983	12,589	12,589	11,618	7,384
Diluted pro forma net income (loss) per share . . . . .	\$ 0.11	\$ (0.12)	\$ (0.24)	\$ (0.76)	\$ (0.55)
Diluted pro forma weighted average number of shares outstanding . . . . .	13,400	12,589	12,589	11,618	7,384
Cash dividend declared per share . . . . .	\$ —	\$ —	\$ —	\$ —	\$ —

(1) Pro forma figures in this section retroactively reflect the conversion of then outstanding preferred shares into common shares on a one-for-one basis.

<b>September 30, 2003</b>		<b>December 31,</b>	
<b>Actual</b>	<b>As adjusted<sup>(2)</sup></b>	<b>2002</b>	<b>2001</b>

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

**Consolidated Balance Sheet Data:**

Cash, cash equivalents and short-term investments . . . . .	\$13,613	\$44,577	\$15,301	\$13,490
Working capital . . . . .	9,151	40,115	8,968	12,215
Total assets . . . . .	28,609	59,573	24,023	16,753
Deferred revenue . . . . .	9,934	9,934	10,390	2,649
Long-term liabilities . . . . .	145	145	99	139
Total shareholders' equity . . . . .	14,436	45,400	10,184	12,884

(2) As adjusted information reflects completion of this offering and exercise of the over-allotment option in full and a September 30, 2003 exchange rate of US\$1.00 = C\$1.3507.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*You should read the following discussion in conjunction with the selected consolidated financial data and our consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus.*

### **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 and Europe. Our sales channels are supported through marketing and implementation relationships with leading systems integrators such as Accenture, IBM, and BearingPoint, BPOs such as Exult and FESCO and resellers such as Fujitsu HST.

### **Revenue and Expenses**

We generate revenue from licensing our software products and providing related services, including implementation, consulting, training, hosting and post-contract customer support (PCS). Licences for our products are typically perpetual licences for a specified number of users. In addition, customers often purchase implementation services from us to help them configure our software to meet their specific needs, which is typically billed on a time and materials basis. Customers generally enter into renewable annual maintenance contracts that provide for software updates and product support services. Our revenue has grown each quarter for the past nine fiscal quarters. We have grown our revenue through sales to new customers as well as through sales of additional products and services to our existing customers.

Cost of licence revenue consists primarily of the cost of third party software we have licensed. Cost of service, maintenance & other revenue consists primarily of personnel and related costs incurred in providing implementation, consulting, training, hosting and PCS services. Cost of revenue accruals (recoveries), net consists of accruals and recoveries of zero-profit provisions.

Sales and marketing expenses consist primarily of personnel and related costs associated with our sales and marketing functions as well as commissions, seminars, trade shows, advertising and other promotional expenses. Research and development expenses consist primarily of personnel and related costs associated with the development of our software product. General and administrative expenses consist primarily of personnel and related costs associated with our administrative and finance functions, as well as professional fees and other general corporate expenses.

Amortization of stock-based compensation relates primarily to charges on stock options granted to consultants.

### **Interest Income**

Our interest income consists primarily of interest income related to our invested cash and short-term investments. We invest our excess cash in short-term investment-grade interest-bearing securities. Interest income fluctuates based upon the amount of funds available for investment and prevailing interest rates.

### **Significant Accounting Policies**

*Revenue Recognition.* Our revenue is derived primarily from licence fees and service fees. We license software under non-cancelable licence agreements and provide services, including implementation, consulting, training, hosting, and PCS to our customers. In certain cases, we also provide customers with hardware related to our software offerings. We recognize revenue in accordance with Canadian GAAP, which, in our 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).

To date, most of our 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 towards completion. We use either the completion of contractual milestones or the ratio of incurred costs to estimated total costs, as appropriate, as the measure of our progress on each contract. If a loss on a contract is considered probable, all of that loss will be recognized at the date determinable.

Under certain of our arrangements, entered into in 2000 and 2001, where estimating the final outcome of a contract was impractical, except to assure that no loss would be incurred, we 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 towards completion. We then recorded an equal amount of costs against the revenue. Cost of revenue was adjusted to recognize the profit element from the arrangement once we were able to estimate total revenue and total costs, which, in our circumstances, was at the time of substantial contract completion. We do not anticipate using the zero-profit method in the future.

Customization, consulting, and training fees, when not essential to the functionality of the software, are recognized as delivered to the customer, based on the prices charged when these services are sold separately to customers.

Hosting fees are included in contract accounting revenue as we have not sold this element separately or provided contractually-stated renewal prices to customers, and accordingly, we have not determined the fair value of the fees.

PCS fees are recognized ratably over the term of the support contract, which is generally one year in length, based on the contractually-stated renewal prices provided to our customers.

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

Accounts receivable reflected on the consolidated balance sheets represent amounts from fees that are due from customers for which revenue has previously been recognized. Fees that have been prepaid but do not yet qualify for recognition as revenue under our revenue recognition policy are reflected as deferred revenue on the consolidated balance sheets.

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

Based on our 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 period in which they were incurred, net of related investment tax credits.

We are 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 are refundable to us, while others are non-refundable but can be applied against our future income tax liabilities and are subject to a 10-year carryforward period. Investment tax credits have been recognized once we have reasonable assurance that the amounts will be realized. If we cease to qualify as a CCPC, all investment tax credits will then be non-refundable. In connection with this offering, we will cease to qualify as a CCPC.

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.

## Results of Operations

The following table sets out, as a percentage of net revenue, consolidated statement of operations data for the periods indicated:

	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
	(Percentage of Net Revenue)				
	(Unaudited)				
Revenue:					
Licence .....	32.2%	25.2%	25.6%	31.6%	39.3%
Service, maintenance & other .....	67.8	74.8	74.4	68.4	60.7
Net revenue .....	100.0	100.0	100.0	100.0	100.0
Cost of revenue:					
Licence .....	1.1	—	0.5	—	—
Service, maintenance & other .....	50.0	49.4	51.1	31.3	59.5
Cost of revenue accruals (recoveries), net .....	(2.3)	(3.8)	(2.1)	26.0	23.0
Total cost of revenue .....	48.8	45.6	49.5	57.3	82.5
Gross margin .....	51.2	54.4	50.5	42.7	17.5
Operating expenses:					
Sales and marketing .....	25.6	35.1	35.0	133.5	237.2
Research and development .....	14.2	19.9	20.5	90.0	390.4
General and administrative .....	5.4	12.7	13.1	47.7	283.5
Amortization of acquisition-related intangibles .....	0.8	—	—	—	—
Amortization of stock-based compensation .....	—	2.3	1.6	19.0	106.7
Total operating expenses .....	46.0	70.0	70.2	290.2	1,017.8
Income (loss) from operations .....	5.2	(15.6)	(19.7)	(247.5)	(1,000.3)
Interest income, net .....	0.7	1.8	1.5	12.7	29.7
Accretion on preferred shares .....	—	—	—	(14.2)	(109.8)
Net income (loss) .....	5.9%	(13.8)%	(18.3)%	(249.0)%	(1,080.4)%

## Comparison of Nine Months Ended September 30, 2003 and 2002

### Revenue:

*Licence revenue* increased 176.2% to \$7.8 million in the nine months ended September 30, 2003 compared with \$2.8 million in the nine months ended September 30, 2002. The growth was substantially attributable to an increase in the number of customers to 52 at September 30, 2003 compared to 28 at September 30, 2002 and as a result of 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 and as a percentage of net revenue as we expect to continue to add new customers and continue our significant investments in sales infrastructure in future periods.

*Service, maintenance & other revenue* increased 95.4% to \$16.5 million in the nine months ended September 30, 2003 compared with \$8.4 million in the nine months ended September 30, 2002. The increase was primarily attributable to additional product implementation projects related to new customers as well as a growing installed base.

### Cost of revenue:

*Cost of licence revenue* increased to \$279,000 in the nine months ended September 30, 2003 compared with \$9,000 in the nine months ended September 30, 2002, and represented 3.6% and 0.3% of licence revenue for each period, respectively. The increase in the dollar amount and as a percentage of licence revenue of the cost of licence revenue reflected the sale of a greater number of third-party software licenses in the nine months ended September 30, 2003 as compared to the prior year's comparative period.

*Cost of service, maintenance & other revenue* increased 118.3% to \$12.1 million in the nine months ended September 30, 2003 compared with \$5.6 million in the nine months ended September 30, 2002, and represented 73.7% and 66.0% of service, maintenance & other revenue for each period, respectively. The increase in the cost of service, maintenance & other revenue in dollar amount and as a percentage of service, maintenance & other revenue in the nine months ended September 30, 2003, 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 123 in the nine months ended September 30, 2003 compared to 45 in the nine months ended September 30, 2002. We expect the cost of service, maintenance and other revenue to increase in future periods as we expect to add personnel to service our growing customer base.

*Cost of revenue accruals (recoveries), net* was \$(553,000) in the nine months ended September 30, 2003 compared with \$(436,000) in the nine months ended September 30, 2002, and represented (2.3)% and (3.9)% of net revenue for each period, respectively. The cost of revenue accruals (recoveries), net, in the nine months ended September 30, 2003 results from the reversal of zero-profit provisions made in 2002 related to a project that was completed during 2003. The cost of revenue accruals (recoveries), net, in the nine months ended September 30, 2002 results from the reversal of zero-profit provisions made in 2000 and 2001 related to projects that were completed during 2002. We expect the amounts of any future accrual or recovery of zero-profit provisions to be minimal as substantially all projects utilizing that methodology were completed by September 30, 2003.

*Operating expenses:*

*Sales and marketing expenses* increased 57.0% to \$6.2 million in the nine months ended September 30, 2003 compared with \$4.0 million in the nine months ended September 30, 2002, and represented 25.6% and 35.1% of net revenue for each period, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales force, which grew to an average of 49 personnel in the nine months ended September 30, 2003 compared to an average of 33 in the nine months ended September 30, 2002 and 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 marketing activities.

*Research and development expenses* increased 53.2% to \$3.4 million in the nine months ended September 30, 2003 compared with \$2.2 million in the nine months ended September 30, 2002, and represented 14.2% and 19.9% of net revenue for each period, respectively. The increase in dollar amount in the nine months ended September 30, 2003 over the comparative period in 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 55 in the nine months ended September 30, 2003 compared to 40 in the nine months ended September 30, 2002. The increase in research and development expenses was offset by Canadian investment tax credits of \$235,000 realized in the nine months ended September 30, 2003 compared to \$0 realized in the nine months ended September 30, 2002. Up to September 30, 2003, 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 functionality.

*General and administrative expenses* decreased 7.8% to \$1.3 million in the nine months ended September 30, 2003 compared with \$1.4 million in the nine months ended September 30, 2002, and represented 5.4% and 12.7% of net revenue for each period, respectively. The decrease in dollar amount was primarily the result of a foreign exchange gain of \$1.1 million in the period ended September 30, 2003 which more than offset an increase in the number of administrative and financial personnel and increases in professional fees and other general corporate expenses necessary to manage and support our growth. The average number of administrative and financial personnel grew to 24 in the nine months ended September 30, 2003 compared to 18 in the nine months ended September 30, 2002. The decrease as a percentage of net revenue is partly due to efficiencies in general and administrative expenses as our revenue grows rapidly. We anticipate that general and administrative expenses will increase in dollar amount in future periods due in part to the increased costs associated with being a public company.

*Amortization of stock-based compensation* decreased 98.8% to \$3,000 for the nine months ended September 30, 2003 compared with \$259,000 in the nine months ended September 30, 2002 and represented less than 0.1% and 2.3%

of net revenue, respectively. The decrease in dollar amount and as a percentage of net revenue is due to the fact that most options granted to consultants were fully vested and amortized by the beginning of 2003.

*Interest income, net* decreased to \$170,000 in the nine months ended September 30, 2003 compared with \$204,000 in the nine months ended September 30, 2002, primarily due to a decrease in prevailing interest rates in the nine months ended September 30, 2003 compared to the equivalent period in the prior year. The decrease in cash balances in the nine months ended September 30, 2003 is primarily attributable to cash used for the acquisition of the net operating assets of Workforce Logistics Inc.

*Income taxes.* The differences between the effective rates and the statutory combined Canadian federal and provincial rates are explained in Note 13 of the Notes to Consolidated Financial Statements.

*Acquisition:*

Effective April 1, 2003, we acquired the net operating assets of Workforce Logistics Inc., a provider of schedule optimization software. The acquisition enhanced our existing workforce management solution with additional schedule optimization. Following this acquisition, we also began to recognize revenue from Workforce Logistics Inc.'s customers. Revenue attributable to the acquisition was less than \$1.0 million for the nine months ended September 30, 2003. Amortization of acquisition-related intangibles relates to intangible assets acquired from Workforce Logistics Inc. and was \$211,000 for the nine months ended September 30, 2003.

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 opportunity and broaden our customer base. We have no present agreements or commitments with respect to any prospective acquisition or investment.

### **Comparison of Years Ended December 31, 2002 and 2001**

*Revenue:*

*Licence revenue* increased 265.8% to \$4.3 million in the year ended December 31, 2002 compared with \$1.2 million in the year ended December 31, 2001. The growth was substantially attributable to an increase in the number of customers to 32 at December 31, 2002 compared to 11 at December 31, 2001 and as a result of significant investments in sales infrastructure, primarily an increase in the number of direct sales personnel as well as a substantial expansion of marketing programs.

*Service, maintenance & other revenue* increased 390.0% to \$12.5 million in the year ended December 31, 2002 compared with \$2.6 million in the year ended December 31, 2001. The increase was primarily attributable to additional product implementation projects related to new customers as well as a growing installed base.

*Cost of revenue:*

*Cost of licence revenue* increased to \$83,000 in the year ended December 31, 2002 compared with \$0 in the year ended December 31, 2001, and represented 1.9% and 0.0% of licence revenue for each period, respectively. The increase in the dollar amount and as a percentage of licence revenue of the cost of licence revenue reflected our first sales of third-party software licences in the year ended December 31, 2002.

*Cost of service, maintenance & other revenue* increased 637.0% to \$8.6 million in the year ended December 31, 2002 compared with \$1.2 million in the year ended December 31, 2001, and represented 68.8% and 45.8% of service, maintenance & other revenue for each period, respectively. The increase in the cost of service, maintenance & other revenue in dollar amount and as a percentage of service, maintenance & other revenue in the year ended December 31, 2002, related primarily to the increase in the number of customer support, implementation and training personnel and related costs necessary to support a larger customer base and new product implementations. The average number of customer support, implementation and training personnel grew to 54 in the year ended December 31, 2002 compared to 25 in the year ended December 31, 2001.

*Cost of revenue accruals (recoveries), net* was \$(359,000) in the year ended December 31, 2002 compared with \$972,000 in the year ended December 31, 2001, and represented (2.1)% and 26.0% of net revenue for each period, respectively. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2002 results from the reversal of zero-profit provisions made in 2000 and 2001 related to projects that were completed during 2002. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2001 results from the accruals of zero-profit provisions related to progress during 2001 on on-going projects where the zero-profit method was applied.

*Operating expenses:*

*Sales and marketing expenses* increased 18.4% to \$5.9 million in the year ended December 31, 2002 compared with \$5.0 million in the year ended December 31, 2001, and represented 35.0% and 133.5% of net revenue for each period, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales force, which grew to an average of 35 personnel in the year ended December 31, 2002 compared to an average of 30 in the year ended December 31, 2001, and their related travel expenses in North America and increased marketing activities, including trade shows and promotional expenses. The decrease as a percentage of net revenue was due to increased productivity as our sales and marketing workforce continued to grow.

*Research and development expenses* increased 2.7% to \$3.5 million in the year ended December 31, 2002 compared with \$3.4 million in the year ended December 31, 2001, and represented 20.5% and 90.0% of net revenue for each period, respectively. The increase in dollar amount in the year ended December 31, 2002 over the comparative period in the prior year was primarily attributable to increased staffing and associated support required to expand and enhance our product offering. The average number of research and development personnel grew to 45 in the year ended December 31, 2002 compared to 23 in the year ended December 31, 2001. The increase in research and development expenses was offset by Canadian investment tax credits of \$144,000 realized in the year ended December 31, 2002 compared to \$0 realized in the year ended December 31, 2001.

*General and administrative expenses* increased 24.2% to \$2.2 million in the year ended December 31, 2002 compared with \$1.8 million in the year ended December 31, 2001, and represented 13.1% and 47.7% of net revenue for each period, respectively. The increase in dollar amount was primarily the result of an increase in the number of administrative and financial personnel and increases in professional fees and other general corporate expenses necessary to manage and support our growth. The average number of administrative and financial personnel grew to 20 in the year ended December 31, 2002 compared to 15 in the year ended December 31, 2001.

*Amortization of stock-based compensation* decreased 62.3% to \$268,000 for the year ended December 31, 2002 compared with \$711,000 in the year ended December 31, 2001 and represented 1.6% and 19.0% of net revenue, respectively. The decrease in dollar amount and as a percentage of net revenue related to fully vested grants expensed in the year ended December 31, 2001.

*Interest income, net* decreased 45.4% to \$260,000 in the year ended December 31, 2002 compared with \$476,000 in the year ended December 31, 2001, due to the combination of a decrease in average cash balances on hand and a decrease in prevailing interest rates in 2002 compared to 2001. The decrease in cash balances was primarily attributable to cash used in our operations.

*Income taxes.* The differences between the effective rates and the statutory combined Canadian federal and provincial rates are explained in Note 13 of the Notes to Consolidated Financial Statements.

### **Comparison of Years Ended December 31, 2001 and 2000**

*Revenue:*

*Licence revenue* increased 620.1% to \$1.2 million in the year ended December 31, 2001 compared with \$164,000 in the year ended December 31, 2000. The growth was substantially attributable to an increase in the number of customers to 11 at December 31, 2001 compared to 3 at December 31, 2000 and as a result of significant investments in sales infrastructure, primarily an increase in the number of direct sales personnel as well as a substantial expansion of marketing programs.

*Service, maintenance & other revenue* increased 910.7% to \$2.6 million in the year ended December 31, 2001 compared with \$253,000 in the year ended December 31, 2000. The increase was primarily attributable to additional product implementation projects related to new customers as well as a growing installed base.

*Cost of revenue:*

*Cost of service, maintenance & other revenue* increased 371.8% to \$1.2 million in the year ended December 31, 2001 compared with \$248,000 in the year ended December 31, 2000, and represented 45.8% and 98.0% of service, maintenance & other revenue for each period, respectively. The increase in the cost of service, maintenance & other revenue in dollar amount in the year ended December 31, 2001 related primarily to the increase in the number of customer support, implementation and training personnel and related costs necessary to support a larger customer base and new product implementations. The average number of customer support, implementation and training personnel

grew to 25 in the year ended December 31, 2001 compared to an average of 10 in the year ended December 31, 2000. The decrease in the cost of service, maintenance & other revenue as a percentage of service, maintenance & other revenue was due to the improved margins on new projects started during the year ended December 31, 2001.

*Cost of revenue accruals (recoveries), net* was \$972,000 in the year ended December 31, 2001 compared with \$96,000 in the year ended December 31, 2000, and represented 26.0% and 23.0% of net revenue for each period, respectively. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2001 results from the accrual of zero-profit provisions related to progress during 2001 on on-going projects where the zero-profit method was applied. The cost of revenue accruals (recoveries), net, in the year ended December 31, 2000 results from the accruals of zero-profit provisions related to progress during 2000 on on-going projects where the zero-profit method was applied. The increase in dollar amount and as a percentage of net revenue was related to new customer projects added in 2001 where the zero-profit method was applied.

#### *Operating expenses:*

*Sales and marketing expenses* increased 404.4% to \$5.0 million in the year ended December 31, 2001 compared with \$989,000 in the year ended December 31, 2000, and represented 133.5% and 237.2% of net revenue for each period, respectively. The increase in dollar amount was primarily attributable to the expansion of our sales force, which grew to an average of 30 personnel in the year ended December 31, 2001 compared to an average of 17 in the year ended December 31, 2000 and their related travel expenses in North America and increased marketing activities, including trade shows and promotional expenses. The decrease as a percentage of net revenue was due to increased productivity as our sales and marketing workforce grew.

*Research and development expenses* increased 106.8% to \$3.4 million in the year ended December 31, 2001 compared with \$1.6 million in the year ended December 31, 2000, and represented 90.0% and 390.4% of net revenue for each period, respectively. The increase in dollar amount in the year ended December 31, 2001 over the comparative period in the prior year was primarily attributable to increased staffing and associated support required to expand and enhance our product offering. The average number of research and development personnel grew to 23 in the year ended December 31, 2001 compared to 12 in the year ended December 31, 2000.

*General and administrative expenses* increased 50.8% to \$1.8 million in the year ended December 31, 2001 compared with \$1.2 million in the year ended December 31, 2000, and represented 47.7% and 283.5% of net revenue for each period, respectively. The increase in dollar amount was primarily the result of an increase in the number of administrative and financial personnel and increases in professional fees and other general corporate expenses necessary to manage and support our growth. The average number of administrative and financial personnel grew to 15 in the year ended December 31, 2001 compared to an average of 5 in the year ended December 31, 2000.

*Amortization of stock-based compensation* increased 59.8% to \$711,000 for the year ended December 31, 2001 compared with \$445,000 in the year ended December 31, 2000 and represented 19.0% and 106.7% of net revenue, respectively. The increase in dollar amount related primarily to fully vested grants expensed in the year ended December 31, 2001.

*Interest income, net* increased to \$476,000 in the year ended December 31, 2001 compared with \$124,000 in the year ended December 31, 2000, due to an increase in average cash balances on hand in the year ended December 31, 2001 compared to the equivalent period in the prior year. The increase in cash balances was primarily attributable to significant cash provided by the issuance of Class B preferred shares in December 2000 and April 2001.

*Income taxes.* The differences between the effective rates and the statutory combined Canadian federal and provincial rates are explained in Note 13 of the Notes to Consolidated Financial Statements.

### **Liquidity and Capital Resources**

We have historically financed our operations through the sale of shares and through the cash generated by our operations. In April 2000, we raised \$4.1 million, net of offering costs, through the sale of 1.3 million Class A preferred shares. In December 2000, we raised \$7.8 million, net of offering costs, through the sale of 1.5 million Class B preferred shares. In April 2001, we raised \$11.8 million, net of offering costs, through the sale of 3.0 million Class B preferred shares and an additional 0.5 million Class B preferred shares were issued to the purchasers of the December 2000 Class B round of financing to reduce their effective per share price to be equivalent to that of the April 2001 Class B round. At September 30, 2003 we had cash, cash equivalents and short-term investments of \$13.6 million and working capital of \$9.2 million.

In the nine months ended September 30, 2003 and 2002, cash provided by (used in) operating activities was \$938,000 and (\$1.7 million), respectively. Cash provided by operations in the nine months ended September 30, 2003 resulted principally from our net income for the period. Cash used in operations for the nine months ended September 30, 2002 resulted principally from the net loss in the period and an increase in working capital requirements, primarily related to increases in accounts receivables and other assets. Cash provided by (used in) operating activities for the years ended December 31, 2002, 2001 and 2000 was \$2.9 million, (\$6.9 million) and (\$3.0 million), respectively. Cash provided by operations in the year ended December 31, 2002 was the result of a decrease in working capital requirements, primarily due to a significant increase in deferred revenue. Cash used in operations in the year ended December 31, 2001 was the result of the net loss for the year, which was partially offset by a net decrease in working capital requirements, primarily due to an increase in deferred revenue. Cash used in operations in the year ended December 31, 2000 was the result of the net loss for the year, which was partially offset by a net decrease in working capital requirements, primarily due to an increase in deferred revenue.

Our investing activities consist of the purchase and sale of short-term investments, the purchase of property and equipment and a business combination transaction. In the nine months ended September 30, 2003, we used cash of \$1.4 million in the acquisition of the net operating assets of Workforce Logistics Inc. In the nine months ended September 30, 2003 and 2002 and the years ended December 31, 2002, 2001 and 2000, we purchased property and equipment, principally computers and related software for our growing employee base, of \$1.6 million, \$884,000, \$1.1 million, \$433,000 and \$641,000, 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, 2001, we purchased \$8.9 million in short-term investments, which were then sold primarily in early 2002. In the year ended December 31, 2002 we purchased \$8.9 million in short-term investments, which were also sold in early 2003. In the nine months ended September 30, 2003, we purchased \$8.4 million in short-term investments.

Our financing activities consist primarily of the issuance of share capital. In the nine months ended September 30, 2003 and 2002 and the years ended December 31, 2002, 2001 and 2000, \$366,000, \$0, \$7,000, \$11.9 million and \$12.7 million of cash was provided by our financing activities, respectively. In 2000, we raised a total of \$11.8 million from the issuance of Class A and Class B preferred shares. In 2001, we raised \$11.8 million from the issuance of a follow-on round of Class B preferred shares.

We had cash, cash equivalents and short-term investments totalling \$13.6 million, \$15.3 million and \$13.5 million at September 30, 2003, and December 31, 2002 and 2001, respectively. We believe that our current cash and short-term investments, the net proceeds from this offering, and anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

### ***Risks and Uncertainties***

See “Risk Factors” for a discussion of the risks affecting our business.

## SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for each of the eleven quarters ended September 30, 2003. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this prospectus, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with our audited consolidated financial statements and the notes to those statements. The operating results for any quarter should not be relied upon as any indication of results for any future period.

	Quarter Ended										
	2003			2002				2001			
	Sep 30, 2003	Jun 30, 2003	Mar 31, 2003	Dec 31, 2002	Sep 30, 2002	Jun 30, 2002	Mar 31, 2002	Dec 31, 2001	Sep 30, 2001	Jun 30, 2001	Mar 31, 2001
(Amounts In U.S. Dollars, In Thousands, Except Per Share Data, Unaudited)											
Consolidated Statement of Operations Data:											
Revenue:											
Licence	\$ 2,555	\$ 2,883	\$ 2,402	\$ 1,481	\$ 918	\$ 781	\$1,140	\$ 586	\$ 177	\$ 128	\$ 290
Service, maintenance & other	6,400	5,402	4,679	4,095	3,694	2,647	2,093	1,425	538	197	397
Net revenue	8,955	8,285	7,081	5,576	4,612	3,428	3,233	2,011	715	325	687
Cost of revenue:											
Licence	19	112	148	74	—	10	—	—	—	—	—
Service, maintenance & other	4,504	4,396	3,249	3,058	2,974	1,488	1,102	529	244	225	172
Cost of revenue accruals (recoveries), net	(912)	112	246	77	(324)	(401)	289	269	177	20	507
Total cost of revenue	3,611	4,620	3,643	3,209	2,650	1,097	1,391	797	421	245	679
Gross profit	5,344	3,665	3,438	2,367	1,962	2,331	1,842	1,214	294	80	8
Gross margin	59.7%	44.2%	48.6%	42.4%	42.5%	68.0%	57.0%	60.4%	41.1%	24.6%	1.2%
Operating expenses:											
Sales and marketing	2,088	2,322	1,806	1,947	1,384	1,289	1,285	1,314	1,506	1,222	947
Research and development	1,369	1,323	750	1,209	930	754	563	689	939	860	878
General and administrative	319	445	557	782	499	555	379	476	449	451	407
Amortization of acquisition-related intangibles	127	84	—	—	—	—	—	—	—	—	—
Amortization of stock-based compensation	—	2	1	9	41	107	111	247	(7)	457	14
Total operating expenses	3,903	4,176	3,114	3,947	2,854	2,705	2,338	2,726	2,887	2,990	2,246
Income (loss) from operations	1,441	(511)	324	(1,580)	(892)	(374)	(496)	(1,512)	(2,593)	(2,910)	(2,238)
Interest income, net	50	56	64	56	84	58	62	104	133	128	111
Accretion on preferred shares	—	—	—	—	—	—	—	—	—	(100)	(429)
Net income (loss)	\$ 1,491	\$ (455)	\$ 388	\$ (1,524)	\$ (808)	\$ (316)	\$ (434)	\$ (1,408)	\$ (2,460)	\$ (2,882)	\$ (2,556)
Income (loss) from operations per share:											
Basic	\$ 0.20	\$ (0.08)	\$ 0.05	\$ (0.25)	\$ (0.14)	\$ (0.06)	\$ (0.08)	\$ (0.24)	\$ (0.41)	\$ (0.45)	\$ (0.35)
Basic weighted average number of shares outstanding	7,069	6,725	6,457	6,361	6,361	6,361	6,356	6,356	6,386	6,411	6,441
Diluted	\$ 0.10	\$ (0.08)	\$ 0.02	\$ (0.25)	\$ (0.14)	\$ (0.06)	\$ (0.08)	\$ (0.24)	\$ (0.41)	\$ (0.45)	\$ (0.35)
Diluted weighted average number of shares outstanding	13,864	6,725	13,122	6,361	6,361	6,361	6,356	6,356	6,386	6,411	6,441
Net income (loss) per share:											
Basic	\$ 0.21	\$ (0.07)	\$ 0.06	\$ (0.24)	\$ (0.13)	\$ (0.05)	\$ (0.07)	\$ (0.22)	\$ (0.39)	\$ (0.45)	\$ (0.40)
Basic weighted average number of shares outstanding	7,069	6,725	6,457	6,361	6,361	6,361	6,356	6,356	6,386	6,411	6,441
Diluted	\$ 0.11	\$ (0.07)	\$ 0.03	\$ (0.24)	\$ (0.13)	\$ (0.05)	\$ (0.07)	\$ (0.22)	\$ (0.39)	\$ (0.45)	\$ (0.40)
Diluted weighted average number of shares outstanding	13,864	6,725	13,122	6,361	6,361	6,361	6,356	6,356	6,386	6,411	6,441

	Quarter Ended										
	2003			2002			2001				
	Sep 30, 2003	Jun 30, 2003	Mar 31, 2003	Dec 31, 2002	Sep 30, 2002	Jun 30, 2002	Mar 31, 2002	Dec 31, 2001	Sep 30, 2001	Jun 30, 2001	Mar 31, 2001
	(Amounts In U.S. Dollars, In Thousands, Except Per Share Data, Unaudited)										
Pro-forma income (loss) per share <sup>(1)</sup> :											
Basic .....	\$ 0.11	\$ (0.04)	\$ 0.03	\$ (0.12)	\$(0.06)	\$ (0.03)	\$(0.03)	\$ (0.11)	\$ (0.19)	\$ (0.24)	\$ (0.28)
Basic weighted average number of shares outstanding .....	13,299	12,955	12,687	12,591	12,591	12,590	12,586	12,586	12,616	11,998	9,227
Diluted .....	\$ 0.11	\$ (0.04)	\$ 0.03	\$ (0.12)	\$(0.06)	\$ (0.03)	\$(0.03)	\$ (0.11)	\$ (0.19)	\$ (0.24)	\$ (0.28)
Diluted weighted average number of shares outstanding .....	13,864	12,955	13,122	12,591	12,591	12,590	12,586	12,586	12,616	11,998	9,227

(1) Pro forma figures in this section retroactively reflect the conversion of then outstanding preferred shares into common shares on a one-for-one basis.

### ***Volatility of Operating Results***

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future depending on factors such as demand for our products, the size and timing of 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, changes in our sales incentive strategy, sales personnel changes, the mix of direct and indirect sales and general economic factors, among others.

A significant portion of our expenses are based on our expectations of future revenue and, therefore, are relatively fixed in the short-term. Accordingly, if revenue levels are below our expectations, our operating results are likely to be adversely affected. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance.

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

### **DIVIDENDS**

Workbrain Corporation has never declared or paid any dividends on its shares. We currently intend to retain any future earnings to fund the development and growth of our business, and we do not anticipate paying any cash dividends in the foreseeable future.

### **DESCRIPTION OF SHARE CAPITAL OF WORKBRAIN CORPORATION**

In conjunction with the completion of the offering, our authorized share capital will consist of an unlimited number of common shares. Each common share is entitled to one vote at meetings of our shareholders, except for meetings at which only holders of another specified class or series of our shares are entitled to vote separately as a class or series. Each common share is also entitled to receive dividends if, as and when declared by our Board of Directors. Holders of common shares are entitled to participate in any distribution of our net assets upon liquidation, dissolution or winding-up on an equal basis per share. There are no pre-emptive, redemption, purchase or conversion rights attaching to the common shares.

## CONSOLIDATED CAPITALIZATION

Our consolidated share capital has changed as follows since December 31, 2002:

- in June 2003, we issued 446,183 common shares at a price of \$5.18 per share and 94,612 common share purchase warrants at a price of \$0.50 per warrant; and
- we issued 290,863 common shares upon the exercise of options at exercise prices ranging from \$0.25 to \$4.03 per common share.

## OPTIONS TO PURCHASE SECURITIES

The following chart sets out, as at November 14, 2003, information regarding outstanding options granted under our share option plan. Each of the options noted below expires 7 years after its date of grant, except for options granted to consultants which expire 4 years after the date of grant.

<u>Category</u>	<u>Date(s) of Grant</u>	<u>Common Shares under Options Granted</u>	<u>Exercise Price (1)</u>	<u>Canadian dollar equivalent Exercise Price (2)</u>
All executive officers and past executive officers of Workbrain Corporation (4 individuals in total)	2000	71,992	\$3.13 — \$5.55	C\$4.07 — C\$7.23
	2001	12,000	\$3.13	C\$4.07
	2002	44,000	\$4.03	C\$5.25
	2003	219,208	\$4.03 — \$7.25	C\$5.25 — C\$9.45
All directors and past directors of Workbrain Corporation who are not also executive officers (6 individuals in total)	2000	112,000	\$3.13 — \$3.25	C\$4.07 — C\$4.24
	2001	—	—	—
	2002	—	—	—
	2003	—	—	—
All other employees or past employees of all subsidiaries of Workbrain Corporation	2000	163,758	\$0.63 — \$0.94	C\$0.81 — C\$1.22
	2000	257,940	\$3.13 — \$6.50	C\$4.07 — C\$8.47
	2001	102,250	\$4.03 — \$6.13	C\$5.25 — C\$7.98
	2002	309,121	\$4.03	C\$5.25
	2003	170,920	\$4.03 — \$7.25	C\$5.25 — C\$9.45
All consultants of Workbrain Corporation and subsidiaries of Workbrain Corporation	2000	22,000	\$3.31 — \$6.25	C\$4.32 — C\$8.15
	2001	—	—	—
	2002	4,000	\$4.03	C\$5.25
	2003	—	—	—

(1) The weighted average exercise price of the options described above is \$4.05.

(2) Using the C\$ to US\$ exchange rate as at November 14, 2003 of 1.3034

### Option Plan

We established our stock option plan (the Plan) to attract, retain and motivate our employees, consultants, directors and officers and to advance our interests by providing these persons with the opportunity, through stock options, to acquire an ownership interest in Workbrain Corporation. The Plan may be administered by either our Board of Directors or by a committee established by the Board of Directors. In administering the Plan, the Board of Directors or the committee, as the case may be, may determine the terms relating to each option, including the number of shares subject to each option, the exercise price and expiration date of each option, and the extent to which each option is exercisable during the term of the option. In conjunction with the completion of this offering, subject to any necessary regulatory approval, the Plan is being amended and restated to increase the maximum number of common shares available for issuance upon exercise of options granted under the Plan from 2,240,000 to 2,740,000 and to make other changes required by applicable securities laws and stock exchange rules. The price at which the options will be granted will be equal to the closing price of the common shares on the exchange where they are listed on the trading day prior to the date of grant. Under the Plan, options must be exercised no later than 10 years from the date granted. Certain restrictions on grants will apply, including that the maximum number of shares that may be granted to any one

individual will not exceed 5% of the outstanding common shares. As at November 14, 2003, a total of 290,863 common shares have been issued pursuant to options granted under the Plan and 1,489,189 common shares remain subject to options outstanding under the Plan.

### **Warrants Issued to Accenture**

Pursuant to a warrant agreement between Workbrain Corporation and Accenture LLP dated April 20, 2001 (the Accenture Warrant Agreement), Accenture was issued common share purchase warrants exercisable for 160,000 common shares. Each Accenture common share purchase warrant entitles Accenture to purchase common shares for a period of five years from the date of its issuance, at an exercise price of \$4.03 per share. The Accenture Warrant Agreement also grants Accenture the right to be issued incentive common share purchase warrants (Accenture Incentive Warrants) based on the amount of revenue generated from accounts referred to us by Accenture. Each Accenture Incentive Warrant entitles Accenture to purchase common shares for a period of five years from the date of its issuance at an exercise price of \$4.03 per share.

In total, we have issued Accenture Incentive Warrants exercisable for 80,827 common shares in accordance with the terms of the Accenture Warrant Agreement. As well, we may be required to issue additional Accenture Incentive Warrants exercisable for up to 27,662 common shares as a result of revenue which we may receive under two licencing agreements entered into before April 20, 2003.

Accenture subsequently sold common share purchase warrants (including Accenture Incentive Warrants) exercisable for 209,667 common shares to CIBC Capital Partners Technology Ventures LLC. On September 18, 2003, CIBC Capital Partners Technology Ventures LLC sold all of its common share purchase warrants (including Accenture Incentive Warrants) to EdgeStone Capital Venture Fund Nominee, Inc., as nominee for EdgeStone Capital Venture Fund, L.P. and its parallel investors and co-investors.

### **Warrants Issued Subsequent to the Acquisition of Workforce Logistics Inc.**

Subsequent to the acquisition of the net operating assets of Workforce Logistics Inc., we issued 94,612 common share purchase warrants to certain of its shareholders at a subscription price of \$0.50 per warrant on June 9, 2003. The warrants have an exercise price of \$5.18 per common share. The vesting of the warrants depends on revenue associated with the technology assets acquired from Workforce Logistics Inc. The warrants expire three years from the issue date subject to earlier termination in certain circumstances.

## **PRIOR AND PROPOSED SALES OF COMMON SHARES**

Since October 31, 2002, 446,183 common shares have been issued by us at a price of \$5.18 per share and 290,863 common shares have been issued by us at prices ranging from \$0.25 to \$4.03 per share in connection with stock option exercises; and 5,518 common shares have been issued in connection with directors' compensation.

### **Registration Rights Agreement**

We entered into a registration rights agreement dated April 17, 2001 with certain of the holders of our Class B preferred shares, Class A preferred shares and common shares. Under that agreement, those holders may, in certain circumstances, require us to register their common shares, including common shares that are issued on conversion of the Class B preferred shares and the Class A preferred shares, under the United States Securities Act of 1933, as amended (the "U.S. Securities Act").

At any time after six months following our first U.S. public offering, the holders of the Class B preferred shares can require us to use our reasonable best efforts to register their common shares under the U.S. Securities Act. Any holder of Class A preferred shares or common shares who is a party to the agreement may also require us to include their common shares in that registration. Our obligation to register the shares is subject to several qualifications. For example, we are only obligated to file two "long-form" registration statements, and the net proceeds of the offering of the common shares to be registered on such a form must exceed \$10 million. There is no limit on the number of "short-form" registration statements that we can be required to file, but the net proceeds of the offering of the common shares to be registered under any such registration statement must be at least \$1 million.

In addition, if we decide to register any of our securities under the U.S. Securities Act, then any holder of shares who is a party to the agreement can require us to use our reasonable best efforts to include their common shares in that

registration. This right will apply in the case of our first U.S. public offering after this offering, but does not apply in certain other cases. Also, the underwriters of the offering can limit the participation of those holders in the offering.

We are generally responsible for paying the registration expenses of any registration required under the agreement, but not for selling expenses such as underwriting discounts and commissions. The rights under the agreement will continue following completion of the reorganization and the initial public offering contemplated by this prospectus.

### **Reorganization**

On completion of the reorganization and share consolidation, a total of 6,229,695 common shares will be issued to the holders of our Class A preferred shares and Class B preferred shares on conversion of those shares. See “Reorganization”.

## **ACQUISITION OF WORKFORCE LOGISTICS AND ESCROWED SECURITIES**

Effective April 1, 2003, we acquired the net operating assets of Workforce Logistics Inc., a Delaware corporation in the business of developing, marketing and selling web-based solutions for enterprise-wide workforce management, including implementation, integration, education, support and maintenance. The assets consisted primarily of property and equipment, customer relationships, developed technology, purchased in-process research and development and goodwill. In connection with the acquisition, we also assumed certain liabilities of Workforce Logistics Inc., including accounts payable, accrued expenses and withholdings, as well as certain liabilities and obligations of Workforce Logistics Inc. under the customer contracts we assumed. The purchase price of \$3.3 million (before consideration of the acquisition costs) was satisfied by the issuance to Workforce Logistics Inc. of two promissory notes in the principal amounts of \$2.9 million and \$400,000. The acquisition-related costs amounted to \$500,000. The acquisition was completed under the terms of a purchase agreement effective April 1, 2003.

The \$400,000 promissory note was deposited in escrow until April 1, 2004 as security for certain indemnification obligations provided by Workforce Logistics Inc. The deposit was made under the terms of an escrow agreement dated April 22, 2003 between Workforce Logistics Inc., a subsidiary of Workbrain Corporation, and Goodman and Carr LLP, acting as escrow agent.

On May 8, 2003, Workforce Logistics Inc. assigned the \$400,000 promissory note to its shareholders in proportion to their respective holdings in order that those shareholders could elect to subscribe for our common shares, provided that those common shares remained subject to the terms of the escrow agreement. As a result, 73,130 common shares (or 0.5% of our outstanding common shares as of November 14, 2003 assuming conversion of our preferred shares) and promissory notes in the total principal amount of approximately \$27,000 remain in escrow under that agreement.

Neither Workforce Logistics Inc. nor any of its shareholders were insiders, associates or affiliates of Workbrain at the time of the closing of the transaction.

The acquisition of the assets of Workforce Logistics Inc. is considered a significant acquisition for the purpose of applicable securities law. See the financial statements for Workforce Logistics Inc., and the pro forma financial statements of Workbrain reflecting the acquisition, appearing elsewhere in this prospectus. Revenue directly attributable to the acquisition was less than 4% of our net revenue for the nine months ended September 30, 2003.

## PRINCIPAL SHAREHOLDERS

The following table shows the name and information about the securities of Workbrain Corporation owned by each person or company who, as at November 14, 2003, owned of record, or who, to our knowledge, owned beneficially, directly or indirectly, more than 10% of any class or series of voting securities of Workbrain:

<u>Name</u>	<u>Number of Common Shares Owned</u>	<u>Number of Common Shares Being Distributed for the Account of the Shareholder</u>	<u>Number of Common Shares to be Owned After the Distribution</u>	<u>Type of Ownership</u>	<u>Percentage of Each Class Owned Before (and to be Owned After) the Distribution</u>
Ossip Family Trust <sup>(1)</sup> . . . . .	4,819,200	0	4,819,200	Of record and beneficially	36.1% (29.7%) <sup>(2)</sup>
EdgeStone Capital Venture Fund Nominee, Inc. <sup>(3)</sup> . . . . .	1,990,101	0	1,990,101	Of record	14.9% (12.3%) <sup>(4)</sup>
ABS Ventures WB SRL . . . . .	1,987,578	0	1,987,578	Of record and beneficially	14.9% (12.3%) <sup>(5)</sup>

- (1) The Ossip Family Trust holds 400,000 common shares directly and 4,419,200 common shares indirectly through its 100% ownership and control of 6 Mead Inc., which owns 4,419,200 common shares. The Ossip Family Trust is maintained for the benefit of certain beneficiaries, including David Ossip, who is an officer and director of Workbrain Corporation, Alon Ossip, who is the secretary of Workbrain Corporation, and other persons related to them.
- (2) 31.8% (26.7%), on a fully-diluted basis.
- (3) EdgeStone Capital Venture Fund Nominee, Inc. as nominee for and on behalf of EdgeStone Capital Venture Fund, L.P. and its parallel investors and co-investors, holds 1,741,653 common shares and a warrant entitling it to purchase up to 209,667 additional common shares. Bryker Technology Partners, L.P. (Bryker) holds 248,448 common shares of Workbrain. EdgeStone Capital Equity Fund, L.P. holds approximately 25% of the outstanding limited partnership units of Bryker and Bryan Kerdman, a director of Workbrain Corporation, holds approximately 20% of the outstanding limited partnership units of Bryker. Mr. Kerdman is a director and officer of the general partner of Bryker and of the general partner of EdgeStone Capital Equity Fund, L.P.
- (4) 13.1% (11.0%), on a fully-diluted basis or 14.5% (12.2%), on a fully-diluted basis including exercise by EdgeStone of outstanding warrants.
- (5) 13.1% (11.0%), on a fully-diluted basis.

EdgeStone Capital Venture Fund Nominee, Inc. and ABS Ventures WB SRL (collectively, the ‘Principal Investors’) have entered into an agreement with the Ossip Family Trust under which the Ossip Family Trust will vote in favour of one nominee of each of the Principal Investors as a director Workbrain Corporation, provided such Principal Investor owns or controls 648,124 common shares. Workbrain Corporation has also entered into an agreement with each of the Principal Investors relating to director nominees. Each agreement will be in effect for a period of two years after completion of this offering so long as such Principal Investor holds at least 648,124 common shares. Under these agreements, if we are proposing to hold a shareholder meeting to elect directors, we will include in the shareholder materials a nominee requested by that Principal Investor and vote management proxies in favour of that nominee. We will not be required to support a nominee if our Board of Directors determines that doing so would not be in the best interests of Workbrain Corporation.

## DIRECTORS AND OFFICERS

The following table sets out, for each of our directors and executive officers, the person's name, municipality of residence, positions with us, principal occupation and, if a director, the month and year in which the person became a director. The term of office for each of the directors will expire at the time of our next annual shareholders meeting. Our directors and executive officers own, or exert direction or control over, a total of 9,463,718 of our common shares, representing 71% of our total outstanding common shares, as of November 14, 2003 assuming conversion of our preferred shares.

<u>Name and Municipality of Residence</u>	<u>Offices with Workbrain</u>	<u>Principal Occupation</u>	<u>Director Since</u>
DAVID OSSIP . . . . . Toronto, Ontario	Director, President and Chief Executive Officer	President and Chief Executive Officer Workbrain Corporation	December 1999
DAVID STEIN . . . . . Toronto, Ontario	Executive Vice President	Executive Vice President Workbrain Corporation	
STEPHEN A. DEBACCO . . . . . Alpharetta, Georgia	Senior Vice President Worldwide Sales & Marketing	Senior Vice President Worldwide Sales & Marketing Workbrain, Inc. (Delaware)	
ROBERT MARSH . . . . . Ennismore, Ontario	Senior Vice President Operations	Senior Vice President Operations Workbrain, Inc. (Ontario)	
MATTHEW CHAPMAN . . . . . Toronto, Ontario	Chief Financial Officer	Chief Financial Officer Workbrain Corporation	
ROGER MARTIN . . . . . Toronto, Ontario	Chair of the Board	Dean Rotman School of Management	November 2003
DAVID GOLDMAN <sup>(1)(2)(3)</sup> . . . . . Toronto, Ontario	Director	Chief Executive Officer Intasys Corporation, a technology company	July 2000
BRYAN KERDMAN <sup>(1)(2)(3)</sup> . . . . . Toronto, Ontario	Director	Senior Partner EdgeStone Capital Partners, a private equity fund	December 2000
SCOTT YAPHE <sup>(1)(2)(3)</sup> . . . . . New York, New York	Director	Principal ABS Ventures, a private equity fund	June 2003

- (1) Mr. Kerdman is the chair of the audit committee. Mr. Yaphe and Mr. Goldman are members of the audit committee.  
(2) Mr. Goldman is the chair of the compensation committee. Mr. Yaphe and Mr. Kerdman are members of the compensation committee.  
(3) Mr. Goldman is the chair of the corporate governance committee. Mr. Kerdman and Mr. Yaphe are members of the corporate governance committee.

Except as noted below, each of our directors and executive officers has been engaged for more than five years in his present principal occupation or in other capacities with the company or organization (or predecessor) in which he currently holds his principal occupation.

*David Ossip.* Mr. Ossip co-founded Workbrain and has served as our Chief Executive Officer since 1999. Prior to founding Workbrain, Mr. Ossip was the Chief Executive Officer of Business Machine Interfaces, Inc. (BMI) which he founded in 1992. BMI was a supplier of client-server labour management systems for Global 2000 companies. In 1989, Mr. Ossip developed the Corporate Banking Customer Profitability Model (CPM), for which he sold the global rights to a Canadian chartered bank. Mr. Ossip holds an M.B.A. from Harvard Business School and a B.A. from the University of Toronto.

*David Stein.* Mr. Stein co-founded Workbrain in 1999. From 1999 to 2001, Mr. Stein was our Vice President Sales & Marketing. In 2002, Mr. Stein was appointed Senior Vice President with responsibility for Sales, Marketing

and Business Development and was then appointed Executive Vice President in 2003. Mr. Stein is a frequent speaker and writer on workforce management and related topics. From 1996 to 1999, Mr. Stein worked for BMI, where he held the position of Manager of Enterprise Sales. Mr. Stein holds a B.Sc. in Computer Science from McGill University.

*Stephen A. DeBacco.* Mr. DeBacco joined Workbrain in 2000 as Vice President Sales. In 2003, Mr. DeBacco was appointed Senior Vice President Worldwide Sales & Marketing. From 1997 to 1999, Mr. DeBacco was the Director of Southeast Sales Operations at Ariba Incorporated. Prior to that, he was part of the initial management team at FASTech Integration (1990 to 1997), and General Motors/Fanuc Robotics Corporation (1985 to 1990). Mr. DeBacco holds an M.B.A. from Washington University and B.S. degrees in Electrical Engineering and Bio-medical Engineering from Northwestern University.

*Robert Marsh.* Mr. Marsh joined Workbrain in 2002 as Vice President Customer Solutions. In 2003, Mr. Marsh was appointed Senior Vice President Operations, responsible for all aspects of product development, customer implementations, support and training. Prior to joining Workbrain, Mr. Marsh was Global Director of Business Solutions for Celestica Inc. from 2001 to 2002, where he was responsible for developing, implementing and supporting ERP solutions throughout the organization. From 1997 to 2001, Mr. Marsh worked for Atos Origin in various senior management positions, where his responsibilities included business development, professional services and practice management.

*Matthew Chapman.* Mr. Chapman joined Workbrain in 2000 as Director of Finance. In 2002, Mr. Chapman served as Vice President Finance. In 2003, Mr. Chapman was appointed Chief Financial Officer, responsible for all aspects of finance and administration at Workbrain. In 1999, Mr. Chapman worked in the investment banking division of a major North American investment dealer. Mr. Chapman holds an M.B.A. from the University of Toronto and a B.Sc. and M.Sc. from McGill University.

*Roger Martin.* Mr. Martin is Dean and Professor of Strategy at the Joseph L. Rotman School of Management at the University of Toronto. Mr. Martin was formerly a director of Monitor Company, a Cambridge, Massachusetts based consulting firm, and is Chair of the Ontario Task Force on Competitiveness, Productivity, and Economic Progress. Mr. Martin also serves as a director on the board of The Thomson Corporation, serves on the advisory boards of Butterfield & Robinson and Social Capital Partners, is a founder of E-magine and serves as a trustee of The Hospital for Sick Children. Mr. Martin holds an AB degree (cum laude) from Harvard College and a Master of Business Administration degree from the Harvard University Graduate School of Business Administration.

*David Goldman.* Following 35 years of senior executive leadership in the mining industry, Mr. Goldman is currently acting as a management consultant to industry. He is currently Chairman and Chief Executive Officer of Intasys Corporation, a NASDAQ-listed small cap technology company. Mr. Goldman is also a director of SNCLavalin Inc. and Jaguar Nickel Inc., each of which is listed on the Toronto Stock Exchange (TSX), as well as a Chair of Accurcast Inc. Prior to founding his current company, he held several senior management positions during his 35 years at Noranda Inc., most recently as Executive Vice President and Chief Operating Officer. He has been a director of the following TSX listed corporations: Falconbridge Limited, Noranda Forest Inc., Trittech Ltd. and Phoenix Life Sciences Inc. Mr. Goldman received his M.B.A. from Concordia University and his degree in Metallurgical Engineering from McGill University. He recently completed his term as chair of the Faculty of Engineering Advisory Board of McGill University and is a past chair of the John Molson School of Business (Concordia University) M.B.A. Case Competition Advisory Board.

*Bryan Kerdman.* Mr. Kerdman is a Partner of EdgeStone Capital Partners, a private equity fund managing more than C\$1 billion in private equity. Mr. Kerdman has twenty-five years experience creating, building, and running high technology companies that specialize in mission-critical, high-volume transaction applications as well as enterprise software solutions. Prior to joining EdgeStone Capital Partners in 2000, Mr. Kerdman was Chief Executive Officer of e-route, Canada's premier e-billing provider. He began his career by founding Bryker Data Systems Ltd. at the age of nineteen and continued to hold top executive roles in several technology ventures since selling Bryker Data Systems in 1994 to what is now part of BCE Emergis Inc. He has been an active private equity investor since 1987.

*Scott Yaphe.* Mr. Yaphe is a Principal of ABS Ventures, a private equity fund focused on software and telecommunications investment opportunities. Prior to joining ABS in 2000, he served as Director of Corporate Development at Saraide, Inc., a leading wireless software provider that was acquired by InfoSpace, Inc., which he joined in 1999. From 1995 to 1997, he was a management consultant at A.T. Kearney, Inc., focusing on the communications and technology sectors. Mr. Yaphe received his M.B.A. from Harvard Business School and his

Bachelor of Commerce from McGill University. He currently serves on the board of directors of numerous technology companies, including IQ Financial Systems and SynchronOSS Technologies Inc.

We understand that Mr. Kerdman currently expects to resign from the Board of Directors in conjunction with the completion of this offering. If that occurs, we expect to replace Mr. Kerdman with Peter Dey. At that time, there would also be changes to our board committees to reflect that Mr. Kerdman is no longer a director. Mr. Dey has been a partner of Osler, Hoskin & Harcourt LLP since September, 2001. Until May 2001 he was Chairman of Morgan Stanley Canada Limited. He joined that firm as a managing director in 1994. Prior to joining Morgan Stanley, he was a partner of Osler, Hoskin & Harcourt. Mr. Dey does not currently hold any shares of Workbrain Corporation or any options to purchase shares of Workbrain Corporation.

We also intend to add additional independent directors to our Board of Directors in the near future.

### **Committees of the Board of Directors**

The Board of Directors of Workbrain Corporation has an audit committee, a compensation committee and a governance committee.

#### ***Audit Committee***

The audit committee assists the Board of Directors in fulfilling its responsibilities for oversight and supervision of financial and accounting matters. The committee supervises the adequacy of our internal accounting controls and financial reporting practices and procedures and the quality and integrity of our audited and unaudited financial statements, including through discussions with our external auditors. The committee reviews our business plan and operating and capital budgets. The committee is responsible for ensuring efficient and effective assessment of management of risk throughout our company.

#### ***Compensation Committee***

The compensation committee ensures that we have high calibre executive management in place and a total compensation plan that is competitive, motivating and rewarding for participants. The compensation committee reviews and makes recommendations to our Board of Directors regarding the appointment of our executive officers, and the establishment of, and any material changes to, executive compensation programs, including that of the Chief Executive Officer. The committee approves and reports to the Board of Directors on management succession plans (other than succession plans relating to the Chief Executive Officer, which are the responsibility of the governance committee). It is also responsible for overseeing our employee compensation and benefits plans.

#### ***Governance Committee***

The governance committee is responsible for developing our approach to corporate governance issues and advising the Board of Directors in filling vacancies on the board. In addition, it periodically reviews the size, composition and compensation of the Board of Directors, the effectiveness of the Board and its individual members, and appropriate committee structures, mandates, composition, membership and effectiveness. This committee is responsible for succession planning in respect of the Chief Executive Officer. This committee also reviews the Chief Executive Officer's goals and objectives at the start of each year and provides an appraisal of the Chief Executive Officer's performance for the most recently completed year.

### **Disclosure Policy**

Our Board of Directors is responsible for adopting and periodically reviewing and updating our written corporate disclosure policy. This policy among other things:

- articulates legal obligations with respect to confidential corporate information;
- identifies spokespersons who are the persons authorized to communicate with third parties such as analysts, media and investors;
- provides guidelines on the disclosure of forward-looking information;
- establishes procedures for reviewing disclosure, prohibiting selective disclosure of material information and addressing inadvertent disclosure; and
- establishes "black-out" periods prior to the disclosure of certain financial information and material changes.

## EXECUTIVE COMPENSATION

The following tables present information about compensation of Workbrain Corporation's "Named Executive Officers" (determined in accordance with applicable rules), being the Chief Executive Officer and the four next most highly compensated executive officers for the last completed fiscal year:

### Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>			<u>Long-Term Compensation Awards</u>
		<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Other Annual Compensation (\$)</u>	<u>Securities Under Options/SARs Granted (#)<sup>(1)</sup></u>
David Ossip . . . . . President and Chief Executive Officer	2002	C\$250,000	\$ —	\$ —	0
David Stein . . . . . Executive Vice President	2002	C\$125,000	C\$266,648	\$ —	4,000
Stephen DeBacco . . . . . Senior Vice President Worldwide Sales and Marketing	2002	\$145,000	\$ 88,000	\$79,376 <sup>(2)</sup>	6,000
Robert Marsh <sup>(3)</sup> . . . . . Senior Vice President Operations	2002	C\$200,000	C\$ 60,000	\$ —	30,000
Matthew Chapman . . . . . Chief Financial Officer	2002	C\$115,000	C\$ 34,500	\$ —	4,000

- (1) We do not currently have stock appreciation rights. Securities under option are common shares of Workbrain Corporation.  
(2) These amounts represent commission payments for 2002.  
(3) Mr. Marsh joined us during 2002. Salary and bonus set out above reflect annualized amounts for an entire year. Actual amounts earned were C\$73,077 (salary) and C\$23,022 (bonus).

### Option/SAR Grants During the Most Recently Completed Financial Year

<u>Name</u>	<u>Securities Under Options/SARs Granted (#)</u>	<u>% of Total Options/SARs Granted to Employees in Financial Year</u>	<u>Exercise or Base Price (\$/Security)</u>	<u>Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)</u>	<u>Expiration Date</u>
David Ossip . . . . .	0	0.0%	N/A	N/A	N/A
David Stein . . . . .	4,000	0.93%	\$4.03	\$4.03	Jan 1, 2009
Stephen DeBacco . . . . .	6,000	1.40%	\$4.03	\$4.03	Jan 1, 2009
Robert Marsh . . . . .	30,000	6.98%	\$4.03	\$4.03	Aug 19, 2009
Matthew Chapman . . . . .	4,000	0.93%	\$4.03	\$4.03	Jan 1, 2009

**Aggregated Option/SAR Exercises During the Most Recently Completed Financial Year  
and Financial Year-end Option/SAR Values**

<u>Name</u>	<u>Securities Acquired on Exercise (#)</u>	<u>Aggregate Value Realized (\$)</u>	<u>Unexercised Options/SARs at FY-End (#) Exercisable/ Unexercisable</u>	<u>Value of Unexercised in-the-Money Options/SARs at FY-End (\$)<sup>(1)</sup> Exercisable/ Unexercisable</u>
David Ossip . . . . .	0	\$0	0/0	\$0
David Stein . . . . .	0	\$0	13,242/7,310	\$11,917/\$2,979
Stephen DeBacco. . . . .	0	\$0	11,000/17,000	\$0
Robert Marsh . . . . .	0	\$0	0/30,000	\$0
Matthew Chapman . . . . .	0	\$0	28,740/27,100	\$39,811/\$20,290

(1) The value of an “in-the-money” option represents the difference between the aggregate estimated fair market value of the common shares issuable upon exercise of the option and the aggregate exercise price of the option. There was no public market for our common shares as of December 31, 2002. Therefore, the amounts set out in this column represent the fair market value of our common shares as of December 31, 2002, \$4.03, as determined by our board with reference to our then most recent financing in April 2001.

**Employment Contracts**

Each of our executive officers has one or more employment-related contracts which provide for, among other things, industry standard covenants in our favour, including non-competition and non-solicitation covenants ranging from six to eighteen months and confidentiality covenants. We can terminate the employment of any of our executive officers by providing six months to eighteen months prior notice. Upon a change of control of Workbrain Corporation, options owned by Stephen DeBacco that would otherwise vest before the end of the next calendar year automatically vest. No other options vest automatically on a change of control. Options owned by Stephen DeBacco, David Stein, Robert Marsh and Matthew Chapman have early vesting provisions if they are terminated without cause, or, in the case of Stephen DeBacco, if he resigns, within one year of the change of control.

**Compensation of Directors**

Certain directors of Workbrain Corporation currently receive a retainer of \$20,000 per year payable in common shares, and an attendance fee of \$1,000 for each board meeting and committee meeting that they attend. Directors who are officers of the Company or its subsidiaries, or that are associated with the Principal Investors, do not receive fees for serving as directors. Directors are reimbursed for travel and other out-of-pocket expenses incurred in connection with meetings of the Board of Directors or any committee of the Board of Directors.

In conjunction with seeking new independent directors, we have been reviewing our director compensation structure. We expect that our director fees will increase to an annual retainer of \$50,000 and that directors will not receive attendance fees. We have agreed that the Chair of our Board of Directors will receive annual compensation of C\$100,000. We expect that annual retainers received by a director will be paid pursuant to a plan which will provide that director with options to purchase common shares equal to the amount of that director’s annual retainer divided by the offering price. The options will be exercisable for a period of time during the relevant year. If the market price of our common shares at the relevant exercise time is equal to or higher than the offering price, it is expected that the options will be exercised. If the market price of our common shares at that time is below the offering price, the annual retainer for that director will be reduced by a corresponding amount and that director will be required to use his annual retainer to buy common shares from us at a price equal to fair market value.

**Insurance Coverage for Workbrain and Indemnification**

Our directors and officers are covered under directors and officers insurance policies. The aggregate limit of liability applicable to those insured directors and officers under the policies is \$5 million inclusive of defence costs. Under the policies, we have reimbursement coverage to the extent that we or a subsidiary has indemnified a director or officer in excess of a deductible of \$100,000 for each loss. The policies include coverage for wrongful acts (including misleading statements), insuring against any legal obligation to pay on account of any claims brought. Our by-laws also provide for the indemnification of our directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain limitations. We have

also entered into agreements with each of our directors and officers providing for indemnification and related matters. We intend to seek increased coverage for our directors and officers.

#### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

There is no indebtedness owing to us from any of our officers, directors, employees or former officers, directors and employees, including in respect of indebtedness to others where the indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar arrangement provided by us.

#### **REORGANIZATION**

Prior to closing of this offering, articles of amendment will be filed to consolidate each outstanding five common shares into two common shares, each outstanding five Class A preferred shares into two Class A preferred shares and each outstanding five Class B preferred shares into two Class B preferred shares. In addition, on closing of this offering, all outstanding Class A preferred shares and Class B preferred shares will be automatically converted in accordance with their terms into common shares on a one-for-one basis. References in this prospectus to the number of outstanding shares of Workbrain Corporation, or any disclosure that is dependant on the number of outstanding shares of Workbrain Corporation, assumes the consolidation of Workbrain Corporation's common shares, Class A preferred shares and Class B preferred shares. Except as otherwise noted, the information in this prospectus, including all information about Workbrain Corporation's outstanding share capital dated within thirty days of this prospectus, assumes the conversion of Workbrain Corporation's Class A preferred shares and Class B preferred shares into common shares in connection with the reorganization.

For a description of our share capital after completion of the reorganization, see "Description of Share Capital of Workbrain Corporation".

#### **PLAN OF DISTRIBUTION**

Workbrain Corporation and the underwriters, RBC Dominion Securities Inc., CIBC World Markets Inc., National Bank Financial Inc., Griffiths McBurney & Partners and Sprott Securities Inc. have entered into an underwriting agreement dated December 2, 2003 (the Underwriting Agreement). Under that agreement and subject to its terms and conditions, Workbrain Corporation has agreed to sell and the underwriters have agreed to purchase on the closing date, being December 11, 2003 or any later date as may be agreed upon by the parties but not later than January 13, 2004, 2,860,000 common shares at a price of C\$14.00 per common share, payable in cash against delivery of certificates representing the offered shares. The common shares are being offered to the public in all of the provinces of Canada and on a private placement basis in the U.S. Subject to applicable law, the underwriters may also offer the common shares outside Canada and the U.S. The Underwriting Agreement provides that we will pay to the underwriters C\$0.84 per common share in consideration for their services in connection with this offering.

Prior to this offering, there has been no public market for the common shares. The offering price of the common shares was determined by negotiation between Workbrain Corporation and the underwriters.

The obligations of the underwriters under the Underwriting Agreement are conditional and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated in certain stated circumstances and upon the occurrence of certain stated events. The underwriters are, however, severally obligated to take up and pay for all offered shares that they have obliged themselves to purchase if any of the offered shares are purchased under the Underwriting Agreement.

Subscriptions for common shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

We have granted the underwriters an over-allotment option, exercisable for a period of 30 days from the date of the closing of this offering, to purchase up to a total of 429,000 additional common shares on the same terms as set out above solely to cover over-allotments, if any, made by the underwriters in connection with this offering and for market stabilization purposes. This prospectus qualifies the distribution of the over-allotment option and the distribution of the common shares issuable by us upon exercise of the over-allotment option.

The underwriters propose to offer the common shares initially at the public offering price on the cover page of this prospectus. After the underwriters have made a reasonable effort to sell all of the common shares offered by this prospectus at the price specified in the prospectus, the offering price may be decreased, and further changed from time

to time, to an amount not greater than the initial offering price, and compensation realized by the underwriters will decrease by the amount that the aggregate price paid by purchasers for the common shares is less than the gross proceeds paid by the underwriters to Workbrain Corporation.

The underwriters will receive a fee of C\$0.84 per additional common share purchased pursuant to the over-allotment option. If the over-allotment option is exercised in full, the additional gross proceeds to us will be C\$6,006,000 (US\$4,624,269 using the December 2, 2003 exchange rate of C\$1.2988=US\$1.00).

The common shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or any state securities laws and, subject to certain exemptions, may not be offered or sold in the U.S. or to, or for the benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act) except in transactions exempt from the registration requirements of the U.S. Securities Act. The underwriters have agreed that they will not offer or sell the common shares within the U.S. except to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act) or to accredited investors (as defined in Rule 501(a) under the U.S. Securities Act). In addition, until 40 days after the closing date, an offer or sale of common shares within the U.S. by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such an offer or sale is made otherwise than in accordance with Rule 144A.

We will be distributing 10,000 common shares directly to certain of our U.S. employees that are accredited investors for proceeds of C\$140,000 and for which no fee will be paid to the underwriters.

This prospectus also qualifies the distribution of 6,229,695 common shares which will be issued to shareholders of Workbrain Corporation upon conversion of their Class A preferred shares and/or Class B preferred shares under the reorganization. Substantially all of those common shares will be subject to a contractual lock-up in favour of the underwriters. See "Reorganization". The common shares issuable on the conversion of those Class A preferred shares and Class B preferred shares are not being underwritten by the underwriters and the underwriters will not receive any fees in connection with the distribution of those common shares.

Pursuant to policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the underwriters may not, throughout the period of distribution, bid for or purchase common shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, common shares. These exceptions include bids or purchases permitted under the by-laws and rules of the Toronto Stock Exchange relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Under the first-mentioned exception, in connection with the offering, the underwriters may over-allot or effect transactions which stabilize or maintain the market price of the common shares at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time.

Workbrain Corporation has agreed not to sell or issue, or negotiate or enter into an agreement to sell or issue, any of its common shares (or securities convertible or exchangeable into common shares) for a period of 180 days following the date of closing of this offering, without the prior written consent of the underwriters, not to be unreasonably withheld, other than under our Plan, the Accenture Warrant Agreement or the warrants issued subsequent to the acquisition of Workforce Logistics Inc. or in connection with acquisitions or other strategic initiatives.

### **Lock-up Arrangements**

The underwriters have requested that certain holders of common shares each enter into a lock-up agreement with the underwriters whereby the shareholder agrees to not sell that shareholder's common shares for a period of 180 days following the date of closing of this offering without the prior written consent of the underwriters, not to be unreasonably withheld. The holders of 13,071,714 outstanding common shares (assuming conversion of the preferred shares) have entered into those agreements.

The Ossip Family Trust has also agreed to not sell common shares owned or controlled by it for certain periods following the date of closing of this offering without the prior written consent of the Principal Investors, subject to certain exceptions. Under this agreement, one-third of the shares owned or controlled by the Ossip Family Trust will be released from the restrictions on transfer on the twelve month anniversary of the date of closing of the offering and the remaining shares will be released on the 18 month anniversary. Other founding shareholders have entered into similar arrangements.

## RISK FACTORS

*You should carefully consider the following risk factors in addition to the other information contained in this prospectus before purchasing our common shares. The risks and uncertainties below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business operations and cause the price of our common shares to decline. If any of the following risks actually occur, our business may be harmed and our financial condition and results of operations may suffer significantly. In that event, the trading price of our common shares could decline, and you may lose all or part of your investment.*

### **Risks Related to our Business**

***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. Our ability to manage future growth will depend in large part upon a number of factors, including the ability to rapidly:

- 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 reliable and scalable products and services that respond to evolving customer needs;
- develop customer support capacity as sales increase, so that we can provide customer support without diverting resources from product development efforts; 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 personnel and size of Workbrain increases.

Our inability to achieve any of these objectives could harm our business and operating results.

***We have a history of losses, and we cannot assure you that we will sustain our profitability. If we fail to do so, our share price may decline.***

We incurred net losses of \$4.5 million for 2000, \$9.3 million for 2001 and \$3.1 million for 2002. We recorded net income of \$1.4 million in the nine months ended September 30, 2003. After this offering, we expect to significantly increase our expenses in the near term in order to expand our business. These increased operating expenses may adversely affect our operating results and may result in or contribute to net losses in future periods. We cannot assure you that we will be able to sustain profitability on a quarterly or annual basis. Our business strategies may not be successful. Our results of operations will be harmed if our revenue does not increase at a rate equal to or greater than increases in our expenses or if our revenue is insufficient for us to sustain profitability. If we are not able to sustain profitability, our share price may decline and we may require additional financing, which may not be available.

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

Our revenue is difficult to forecast and is likely to fluctuate significantly from quarter to quarter. In addition, our operating results may not follow any past trends. The factors affecting our revenue and results, many of which are outside of our control, include:

- 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 professional services staff;
- our ability to complete our service obligations related to product sales in a timely manner;
- 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 discretionary nature of our customers' purchase and budget cycles and changes in their budgets for, and timing of, software and related purchases;
- the length and variability of the sales cycles for our products;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- general weakening of the economy resulting in a decrease in the overall demand for computer software and services or otherwise affecting our customers' capital investment levels in workforce management software;
- changes in our pricing policies and the pricing policies of our competitors;
- timing of product development and new product initiatives; and
- changes in the mix of revenue attributable to substantially lower-margin service revenue as opposed to higher-margin product licence revenue.

Because our quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of our sales prospects into revenue could cause us to plan or budget inaccurately, and those variations could adversely affect our financial results. Delays, reductions in the amount or cancellations of customers' purchases would adversely affect our revenue, results of operations and financial condition.

***We face intense competition from several software competitors. If we do not compete effectively with these competitors, our revenue may not grow and could decline.***

We have experienced, and expect to continue to experience, intense competition from a number of software companies. We compete principally with vendors of enterprise resource planning software, such as PeopleSoft and SAP, vendors of time and attendance software, notably Kronos, and vendors of schedule optimization software, such as Timera and TempoSoft. Our competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, results of operations and financial condition.

Many of our competitors and potential competitors have significantly greater financial, technical, marketing, service or resources than we have. Many of these companies also have a larger installed base of users, have longer operating histories or have greater name recognition than we have. Customers of enterprise software solutions are particularly concerned that their suppliers will continue to operate and provide upgrades and maintenance over a long-term period. Our relatively smaller size and short operating history may be considered negatively by prospective customers. Even if our competitors provide products with more limited workforce management system functionality than our products, these products may incorporate other capabilities of interest to some customers and may be appealing to some customers because they would reduce the number of different types of software used to run their business. Further, our competitors may be able to respond more quickly than we can to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products.

***We derive a substantial majority of our revenue from our workforce management software and related products and services.***

We derive a substantial majority of our revenue from our workforce management software and related products and services, and revenue from these products and services are expected to continue to account for a substantial portion of our revenue for the foreseeable future. Because we generally sell licences to our products on a perpetual basis and deliver new versions and enhancements to customers who purchase maintenance contracts, our future licence revenue is substantially dependent on sales to new customers. As a result of these factors, we are particularly vulnerable to fluctuations in demand for our workforce management software. Accordingly, if demand for our workforce management software and related products and services declines significantly, our business and operating results would be adversely affected.

***Our success depends on our ability to develop new products and enhance our existing products.***

To keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance, we must enhance and improve existing products and we must also continue to introduce new products and services. If we are unable to successfully develop new products or enhance and improve our existing

products or if we fail to position and/or price our products to meet market demand, our business and operating results will be adversely affected. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect our operating results. Further, any new products we develop could require long development and testing periods and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue.

***If we are required to change our pricing models to compete successfully, our margins and operating results may be adversely affected.***

The intensely competitive market in which we conduct our business may 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 number of sales or with lower spending, then the reduced software licence revenue resulting from lower prices would adversely affect our margins and operating results.

***Our business may be harmed if we do not successfully develop and maintain strategic relationships to implement and sell our products.***

We have relationships with third-party systems integrators, software and hardware vendors and BPOs. These third parties may provide us with customer referrals, co-operate with us in marketing our products and provide our customers with systems implementation services or overall program management. However, we do not have formal agreements governing our ongoing relationship with certain of these third-party providers and the agreements we do have generally do not include obligations with respect to generating sales opportunities or co-operating on future business. Should any of these third parties go out of business or choose not to work with us, we may be forced to increase the development of those capabilities internally, incurring significant expense and adversely affecting our operating margins. Any of our third-party providers may offer products of other companies, including products that compete with our products. We could lose sales opportunities if we fail to work effectively with these parties or they choose not to work with us.

***Our ability to recruit and retain management and other qualified personnel is crucial to our ability to develop, market and support our products and services.***

We depend on the services of our key technical and management personnel. The loss of the services of any of these persons could have a material adverse effect on our business, results of operations and financial condition. Our success is also highly dependent on our continuing ability to identify, hire, train, motivate and retain highly qualified management, technical, sales and marketing personnel. Competition for such personnel can be intense, and we cannot assure you that we will be able to attract or retain highly qualified technical and managerial personnel in the future. Our inability to attract and retain the necessary management, technical, sales and marketing personnel may adversely affect our future growth and profitability. It may be necessary for us to increase the level of compensation paid to existing or new employees to a degree that our operating expenses could be materially increased.

***We may be unable to identify and complete acquisitions. Acquisitions could divert management's attention and financial resources, may negatively affect our operating results and could cause significant dilution to shareholders.***

In the future, we may engage in selective acquisitions of products or businesses that we believe are complementary to ours. There is a risk that we will not be able to identify suitable acquisition candidates available for sale at reasonable prices, complete any acquisition, or successfully integrate any acquired product or business into our operations. We are likely to face competition for acquisition candidates from other parties including those that have substantially greater available resources. Acquisitions may involve a number of other risks, including:

- diversion of management's attention;
- disruption to our ongoing business;
- failure to retain key acquired personnel;

- difficulties in integrating acquired operations, technologies, products or personnel;
- unanticipated expenses, events or circumstances;
- assumption of disclosed and undisclosed liabilities; and
- inappropriate valuation of the acquired in-process research and development, or the entire acquired business.

If we do not successfully address these risks or any other problems encountered in connection with an acquisition, the acquisition could have a material adverse effect on our business, results of operations and financial condition. Problems with an acquired business could have a material adverse effect on our performance or our business as a whole. In addition, if we proceed with an acquisition, our available cash may be used to complete the transaction, diminishing our liquidity and capital resources, or shares may be issued which could cause significant dilution to existing shareholders.

***Mergers or other strategic transactions by our competitors could weaken our competitive position or reduce our revenue.***

If one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. Our competitors may also establish or strengthen co-operative relationships with systems integrators, third-party consulting firms or other parties with whom we have relationships, thereby limiting our ability to promote our products and limiting the number of consultants available to implement our software. Disruptions in our business caused by these events could reduce our revenue.

***Errors in our products could result in significant costs to us and could impair our ability to sell our products.***

Our products are complex and, accordingly, they may contain errors, or “bugs”, that could be detected at any point in their product life cycle. Errors in our products could materially and adversely affect our reputation, result in significant costs to us, delay planned release dates and impair our ability to sell our products in the future. The costs incurred in correcting any product errors may be substantial and could adversely affect our operating margins. While we plan to continually test our products for errors and work with customers through our maintenance support services to identify and correct bugs, errors in our products may be found in the future.

***If a successful product liability claim were made against us, our business could be seriously harmed.***

Our licence agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims. Despite this, it is possible that these limitation of liability provisions may not be effective as a result of existing or future laws or unfavourable judicial decisions. We have not experienced any product liability claims to date. However, the sale and support of our products may entail the risk of those claims, which are likely to be substantial in light of the use of our products in critical applications. A successful product liability claim could result in significant monetary liability and could seriously disrupt our business.

***If our intellectual property is not adequately protected, we may lose our competitive advantage.***

Our success depends in part on our ability to protect our rights in our intellectual property. We rely on various intellectual property protections, including contractual provisions, patents, copyright, trademark and trade secret laws, to preserve our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our authorization. Policing unauthorized use of intellectual property is difficult, and some foreign laws do not protect proprietary rights to the same extent as the laws of Canada or the U.S.

To protect our intellectual property, we may become involved in litigation, which could result in substantial expenses, divert the attention of our management, cause significant delays, materially disrupt the conduct of our business or adversely affect our revenue, financial condition and results of operation.

***Intellectual property claims brought against us could be time consuming, costly to defend, and disruptive to our business.***

A number of our competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by us in our products. Some of these patents may grant very broad protection to the owners of the patents. We cannot determine with certainty whether any existing third party patents or the issuance of any third party patents would require us to alter our technology, obtain licenses or cease certain activities. We may become subject to claims by third parties that

our technology infringes their property rights due to the growth of software products in our target markets, the overlap in functionality of these products and the prevalence of software products. We may become subject to these claims either directly or through indemnities against these claims that we routinely provide to our customers. Litigation may be necessary to determine the scope, enforceability and validity of such third party proprietary rights or to establish our proprietary rights. Some of our competitors have substantially greater resources than we do, and those competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than we could. Regardless of their merit, any such claims could:

- be time consuming;
- be expensive to defend;
- divert management's attention and focus away from the business;
- cause product shipment delays or stoppages;
- subject us to significant liabilities; and
- require us to enter into costly royalty or licensing agreements or to modify or stop using the infringing technology.

***Economic uncertainty and downturns in the software market may lead to decreases in our revenue and margins.***

The market for our products depends on economic conditions affecting the broader software market. Downturns in the economy may cause businesses to delay or cancel software projects, reduce their overall information technology budgets or reduce or cancel orders for our products. This is particularly true of the U.S. economy, where the vast majority of our revenue to date has been generated. In this environment, customers may experience financial difficulty, fail to purchase or defer the budget for the purchase of our products or cease operations. This, in turn, may lead to longer sales cycles, delays or failures in payment and collection, and price pressures, causing us to realize lower revenue and margins.

***We may lose sales, or sales may be delayed, due to the long sales and implementation cycles for our products.***

Our customers typically invest substantial time, money and other resources researching their needs and available competitive alternatives before deciding to license our software products. Typically, the larger the potential sale, the more time, money and other resources will be invested. As a result, it may take many months after our first contact with a customer before a sale can actually be completed. We may invest significant sales and other resources in a potential customer that may not generate revenue for a substantial period of time, if at all. The time required for implementation of our products varies among our customers and may last several months, depending on our customers' needs and the products deployed.

During these long sales and implementation cycles, events may occur that affect the size or timing of the order or even cause it to be cancelled. For example,

- purchasing decisions may be postponed, or large purchases reduced, during periods of economic uncertainty;
- we or our competitors may announce or introduce new products; or
- the customer's own budget and purchasing priorities may change.

If these events were to occur, sales of our products or services may be cancelled or delayed, which would reduce our revenue.

***Our maintenance and service revenue produce substantially lower gross margins than our licence revenue, and an increase in service revenue relative to licence revenue would harm our overall gross margins.***

Our maintenance and service revenue, which include fees for consulting, implementation, maintenance and training, were 68% of our net revenue for the nine months ended September 30, 2003 and 75% of our net revenue for 2002. Our maintenance and service revenue have substantially lower gross margins than our licence revenue. An increase in the percentage of net revenue represented by maintenance and service revenue would adversely affect our overall gross margins.

The volume and profitability of services can depend in large part upon:

- competitive pricing pressure on the rates that we can charge for our professional services;
- billable utilization of our services personnel;
- the complexity of customers' IT environments; and
- the resources directed by customers to their implementation projects.

Any erosion of our margins for our maintenance and service revenue, or any adverse changes in the mix of our licence versus maintenance and service revenue, would adversely affect our operating results.

***The loss of our rights to use software currently licensed to us by third parties could increase our operating expenses by forcing us to seek alternative technology and adversely affect our ability to compete.***

We license certain technologies used in our products from third parties, generally on a non-exclusive basis, including a mathematical modelling and optimization tool. The termination of any of these licences, or the failure of the licensors to adequately maintain or update their products, could delay our ability to ship our products while we seek to implement alternative technology offered by other sources and require significant unplanned investments on our part. In addition, alternative technology may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third-party technology licences relating to one or more of our products or relating to current or future technologies to enhance our product offerings. There is a risk that we will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

***We use open source software in connection with our products which exposes us to uncertainty and potential liability.***

Certain modules of our products make use of or incorporate open source software components. These components are developed by third parties over whom we have no control. We have no assurances that those components do not infringe upon the intellectual property rights of others. We could be exposed to infringement claims and liability in connection with the use of those open source software components. The developers of open source software are under no obligation to maintain or update those software components, and we may be forced to replace those components with internally developed or commercially licensed software. Certain open source software licences provide that any software that makes use of or incorporates components distributed under that licence will itself become subject to the same general distribution rights and other terms of that licence. As a result, there is a risk that third parties, including our competitors, could have the right to use and distribute certain elements of our products.

***Currency fluctuations may adversely affect us.***

A substantial portion of our revenue is earned in U.S. dollars, but a substantial portion of our operating expenses is incurred in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on our business, financial condition and operating results. Our policy is to hedge a portion of our foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, we do not hedge entirely the exposure related to any one foreign currency and we do not hedge our exposure at all with respect to certain foreign currencies. In addition, the use of forward contracts to hedge our foreign currency exposure carries risk and could limit our gains or result in a loss.

***We may be subject to transfer pricing challenges by international taxing authorities which may adversely affect our income tax expense.***

We conduct business operations in various jurisdictions and through legal entities in Canada, the United States and the United Kingdom. Certain of our subsidiaries provide products and services to, and may from time to time undertake certain significant transactions with, other subsidiaries in different jurisdictions. The tax laws of these jurisdictions have detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles, and that contemporaneous documentation must exist to support such pricing.

International taxation authorities, including Canada Customs and Revenue Agency, the United States Internal Revenue Service and the United Kingdom Inland Revenue, could challenge the validity of our arm's length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment. If any of these taxation authorities are successful in challenging our transfer pricing policies, our income tax expense may be adversely affected and we could also be subjected to interest and penalty

charges. Any such increase in our income tax expense and related interest and penalties could have a significant impact on our future earnings and future cash flows.

### **Risks Related to this Offering**

#### ***Our share price will fluctuate.***

The market price of our common shares may be volatile and could be subject to wide fluctuations due to a number of factors, including:

- actual or anticipated fluctuations in our results of operations;
- changes in estimates of our future results of operations by us or securities analysts;
- announcements of technological innovations or new products by us or our competitors;
- general industry changes in the enterprise workforce management software or related markets; or
- other events or factors.

In addition, the financial markets have experienced significant price and value fluctuations that have particularly affected the market prices of equity securities of many technology companies and that sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally and in the software industry specifically, may adversely affect the market price of our common shares.

#### ***We do not currently intend to pay any cash dividends on our common shares in the foreseeable future and therefore our shareholders may not be able to receive a return on their shares unless they sell them.***

We have not declared or paid any cash dividends on our common shares to date. Our current policy is to retain earnings to finance expansion and to develop, license and acquire new software products and to otherwise reinvest in the company. Therefore, we do not anticipate paying cash dividends in the foreseeable future. Our dividend policy will be reviewed from time to time by our Board of Directors in the context of our earnings, financial condition and other relevant factors. Until we pay dividends, which we may never do, our shareholders will not be able to receive a return on their shares unless they sell them.

#### ***Future sales of common shares by our existing shareholders could cause our share price to fall.***

If our shareholders sell substantial amounts of our common shares in the public market, the market price of our common shares could fall. The perception among investors that these sales will occur could also produce this effect. After this offering, we will have 16,203,104 common shares outstanding. All of the 2,870,000 common shares we will issue in this offering will generally be immediately available for resale in the public markets, except for up to 175,000 common shares that we expect will be subject to a 180 day lock-up agreement in favour of the underwriters. In accordance with applicable securities laws and after giving effect to lock-up agreements executed by our executive officers and certain existing shareholders, certain common shares outstanding after this offering may be available for sale in the public market beginning 180 days after the date of this prospectus. Additional common shares held by our employees or issuable upon the exercise of stock options may be available for sale in the public market beginning 120 days after the date of this prospectus.

#### ***A small number of our shareholders will control our company immediately after the offering.***

It is anticipated that our officers, directors, principal shareholders and their affiliates will, on completion of this offering, beneficially own or control, directly or indirectly, approximately 9,479,000 common shares, which in the aggregate will represent approximately 58.5% of our outstanding common shares (or 57.0% if the underwriters' over-allotment option is exercised in full). See "Principal Shareholders". As a result, if some of these persons or entities act together, they will likely have the ability to control all matters submitted to our shareholders for approval, including the election and removal of directors, amendments to our articles of incorporation and bylaws and the approval of any business combination. This may delay or prevent an acquisition or cause the market price of our shares to decline. Some of these persons or entities may have interests different than yours. For example, because many of these shareholders purchased their shares at prices substantially below the price at which shares are being sold in this offering and have held their shares for a relatively longer period, they may be more interested in selling Workbrain to an acquiror than other investors or may want us to pursue strategies that are different from the wishes of other investors.

***Our securities have no prior public market and our share price may decline after the offering.***

Before this offering, there has been no public market for our common shares, and an active public market for our common shares may not develop or be sustained after this offering. If an active public market does not develop, the liquidity of your investment may be limited, and our share price may decline below its initial public offering price. The initial public offering price will be determined by negotiation between us and the representatives of the underwriters and may bear no relationship to the price that will prevail in the public market.

***You will suffer immediate and substantial dilution due to this offering.***

The initial public offering price of our common shares will significantly exceed the net tangible book value per share of our common shares. Accordingly, if you purchase common shares in this offering, you will incur immediate and substantial dilution of your investment. If the outstanding options and warrants to purchase our common shares are exercised, you will incur additional dilution.

## **LEGAL PROCEEDINGS**

There currently are no outstanding material legal proceedings to which we are a party or of which any of our properties is the subject matter, nor do we know of any material threatened or contemplated proceedings against us.

## **RELATIONSHIP BETWEEN WORKBRAIN AND THE UNDERWRITERS**

Affiliates of CIBC World Markets Inc. and National Bank Financial Inc. as well as certain officers and employees of National Bank Financial Inc. or its affiliates are, directly or indirectly, holders of our common shares or limited partners in funds which hold our common shares. In addition, we are party to certain credit and foreign exchange contract agreements with the Canadian chartered bank affiliate of CIBC World Markets Inc., to whom we have granted a security interest in substantially all of our assets. No material indebtedness is currently outstanding under these agreements and we are in compliance with their terms. None of the proceeds of this offering will be received by any such parties except for that portion of the proceeds payable to the underwriters for their fees and expenses. The terms, structuring and pricing of this offering will be determined solely by negotiation between us and the underwriters. We may be considered to be a connected issuer to CIBC World Markets Inc. and National Bank Financial Inc. within the meaning of applicable Canadian securities legislation.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

Our auditors are KPMG LLP, 4100 Yonge Street, Toronto, Ontario M2P 2H3.

The transfer agent and registrar for our common shares is Computershare Investor Services Inc. at its principal office in Toronto.

## **MATERIAL CONTRACTS**

The following are the only material contracts, other than contracts entered into in the ordinary course of business, which we have entered into within the past two years or which are proposed to be entered into:

- the underwriting agreement referred to under ‘‘Plan of Distribution’’;
- the purchase agreement described under ‘‘Acquisition of Workforce Logistics and Escrowed Securities’’; and
- the registration rights agreement referred to under ‘‘Prior and Proposed Sales of Common Shares’’.

Copies of these agreements may be examined at our head and principal office during normal business hours during the course of distribution to the public of the common shares and for 30 days after the distribution is over.

## **EXPERTS**

### **Opinions**

The matters referred to under ‘‘Eligibility for Investment’’ will be passed upon at the date of closing on behalf of Workbrain Corporation by Torys LLP and on behalf of the underwriters by Osler, Hoskin & Harcourt LLP. Certain other legal matters relating to the common shares offered by this prospectus will be passed upon at the date of closing on behalf of Workbrain Corporation by Torys LLP and Goodman and Carr LLP and on behalf of the underwriters by Osler, Hoskin & Harcourt LLP.

**Interest of Experts**

As of November 14, 2003 the partners and associates of Torys LLP beneficially owned, directly or indirectly, less than 1.0% of the outstanding common shares of Workbrain Corporation. As of November 14, 2003 the partners and associates of Osler, Hoskin & Harcourt LLP beneficially owned, directly or indirectly, less than 1.0% of the outstanding common shares of Workbrain Corporation.

**PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

## INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
<b>Consolidated Financial Statements of Workbrain Corporation</b>	
Auditors' Report of KPMG LLP, Independent Auditors .....	F-2
Consolidated Balance Sheets .....	F-3
Consolidated Statements of Operations .....	F-4
Consolidated Statements of Shareholders' Equity .....	F-5
Consolidated Statements of Cash Flows .....	F-6
Notes to Consolidated Financial Statements .....	F-7
 <b>Consolidated Financial Statements of Workforce Logistics Inc.</b>	
Auditors' Report of KPMG LLP, Independent Auditors .....	F-20
Consolidated Balance Sheets .....	F-21
Consolidated Statements of Operations .....	F-22
Consolidated Statements of Stockholders' Equity .....	F-23
Consolidated Statements of Cash Flows .....	F-24
Notes to Consolidated Financial Statements .....	F-25
 <b>Unaudited Pro Forma Consolidated Statements of Operations of Workbrain Corporation</b>	
Compilation Report of KPMG LLP .....	F-32
Unaudited Pro Forma Consolidated Statements of Operations .....	F-33
Notes to Unaudited Pro Forma Consolidated Statements of Operations .....	F-35

## AUDITORS' REPORT

The Board of Directors

WORKBRAIN CORPORATION:

We have audited the consolidated balance sheets of Workbrain Corporation as at December 31, 2002 and 2001 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. 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, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP

CHARTERED ACCOUNTANTS

Toronto, Canada

March 14, 2003, except as to note 15 a) which is as at October 24, 2003  
and notes 15 b) and c) which are as at December 2, 2003.

**WORKBRAIN CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

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

	<u>September 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>	<u>2001</u>
	(Unaudited)		
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents . . . . .	\$ 5,186	\$ 6,370	\$ 5,114
Short-term investments (note 2) . . . . .	8,427	8,931	8,376
Accounts receivable, net of allowance for doubtful accounts of \$289 (2002 — \$266; 2001 — \$24) . . . . .	6,905	5,027	1,562
Other . . . . .	2,661	2,380	893
Total current assets . . . . .	<u>23,179</u>	<u>22,708</u>	<u>15,945</u>
Property and equipment (note 3) . . . . .	1,992	1,315	808
Intangibles (note 4) . . . . .	727	—	—
Goodwill (note 4) . . . . .	2,711	—	—
Total assets . . . . .	<u>\$ 28,609</u>	<u>\$ 24,023</u>	<u>\$ 16,753</u>
Liabilities and shareholders' equity:			
Current liabilities:			
Accounts payable . . . . .	\$ 515	\$ 777	\$ 333
Accrued payroll . . . . .	2,182	1,549	670
Accrued liabilities . . . . .	1,301	983	37
Deferred revenue . . . . .	9,934	10,390	2,649
Current portion of capital lease obligation (note 5) . . . . .	48	—	—
Current portion of leasehold inducements . . . . .	48	41	41
Total current liabilities . . . . .	<u>14,028</u>	<u>13,740</u>	<u>3,730</u>
Long-term liabilities:			
Capital lease obligation, net of current portion (note 5) . . . . .	65	—	—
Leasehold inducements, net of current portion . . . . .	80	99	139
Total long-term liabilities . . . . .	<u>145</u>	<u>99</u>	<u>139</u>
Total liabilities . . . . .	<u>14,173</u>	<u>13,839</u>	<u>3,869</u>
Shareholders' equity:			
Common shares (note 6):			
Authorized — unlimited			
Issued and outstanding — 7,069,091 (2002 — 6,362,845; 2001 — 6,355,876) . . . . .	3,729	1,007	1,000
Class A preferred shares (note 7):			
Authorized — unlimited, issuable in series			
Issued and outstanding — 1,297,686 (2002 — 1,297,686; 2001 — 1,297,686) . . . . .	4,680	4,680	4,680
Class B preferred shares (note 7):			
Authorized — unlimited, issuable in series			
Issued and outstanding — 4,932,007 (2002 — 4,932,009; 2001 — 4,932,009) . . . . .	19,963	19,963	19,963
Contributed surplus . . . . .	1,806	1,756	1,523
Deferred stock-based compensation . . . . .	(72)	(128)	(270)
Cumulative translation adjustment . . . . .	(127)	(127)	(127)
Deficit . . . . .	<u>(15,543)</u>	<u>(16,967)</u>	<u>(13,885)</u>
Total shareholders' equity . . . . .	<u>14,436</u>	<u>10,184</u>	<u>12,884</u>
Total liabilities and shareholders' equity . . . . .	<u>\$ 28,609</u>	<u>\$ 24,023</u>	<u>\$ 16,753</u>

Commitments (note 8)  
Guarantees (note 9)  
Subsequent events (note 15)

On behalf of the Board of Directors:

(Signed) ROGER MARTIN  
Director

(Signed) DAVID GOLDMAN  
Director

See accompanying Notes to Consolidated Financial Statements

**WORKBRAIN CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Revenue:					
Licence (note 10).....	\$ 7,840	\$ 2,839	\$ 4,320	\$ 1,181	\$ 164
Service, maintenance & other .....	16,481	8,434	12,529	2,557	253
Net revenue .....	<u>24,321</u>	<u>11,273</u>	<u>16,849</u>	<u>3,738</u>	<u>417</u>
Cost of revenue:					
Licence .....	279	9	83	—	—
Service, maintenance & other .....	12,148	5,565	8,623	1,170	248
Cost of revenue accruals (recoveries), net .....	(553)	(436)	(359)	972	96
Total cost of revenue .....	<u>11,874</u>	<u>5,138</u>	<u>8,347</u>	<u>2,142</u>	<u>344</u>
Gross profit .....	<u>12,447</u>	<u>6,135</u>	<u>8,502</u>	<u>1,596</u>	<u>73</u>
Operating expenses:					
Sales and marketing .....	6,216	3,958	5,905	4,989	989
Research and development (note 11) .....	3,442	2,247	3,456	3,366	1,628
General and administrative .....	1,321	1,433	2,215	1,783	1,182
Amortization of acquisitions-related intangibles .....	211	—	—	—	—
Amortization of stock-based compensation* .....	3	259	268	711	445
Total operating expenses .....	<u>11,193</u>	<u>7,897</u>	<u>11,844</u>	<u>10,849</u>	<u>4,244</u>
Income (loss) from operations .....	1,254	(1,762)	(3,342)	(9,253)	(4,171)
Interest income, net .....	170	204	260	476	124
Accretion on preferred shares .....	—	—	—	(529)	(458)
Net income (loss) .....	<u>\$ 1,424</u>	<u>\$ (1,558)</u>	<u>\$ (3,082)</u>	<u>\$ (9,306)</u>	<u>\$ (4,505)</u>
Net income (loss) per share (note 12):					
Basic .....	<u>\$ 0.21</u>	<u>\$ (0.25)</u>	<u>\$ (0.48)</u>	<u>\$ (1.45)</u>	<u>\$ (0.70)</u>
Basic weighted average number of common shares outstanding .....	<u>6,753</u>	<u>6,359</u>	<u>6,359</u>	<u>6,398</u>	<u>6,464</u>
Diluted .....	<u>\$ 0.11</u>	<u>\$ (0.25)</u>	<u>\$ (0.48)</u>	<u>\$ (1.45)</u>	<u>\$ (0.70)</u>
Diluted weighted average number of common shares outstanding .....	<u>13,400</u>	<u>6,359</u>	<u>6,359</u>	<u>6,398</u>	<u>6,464</u>
Pro-forma net income (loss) per share (note 12):					
Basic .....	<u>\$ 0.11</u>	<u>\$ (0.12)</u>	<u>\$ (0.24)</u>	<u>\$ (0.76)</u>	<u>\$ (0.55)</u>
Basic weighted average number of common shares outstanding .....	<u>12,983</u>	<u>12,589</u>	<u>12,589</u>	<u>11,618</u>	<u>7,384</u>
Diluted .....	<u>\$ 0.11</u>	<u>\$ (0.12)</u>	<u>\$ (0.24)</u>	<u>\$ (0.76)</u>	<u>\$ (0.55)</u>
Diluted weighted average number of common shares outstanding .....	<u>13,400</u>	<u>12,589</u>	<u>12,589</u>	<u>11,618</u>	<u>7,384</u>

\* Note:

The amortization of deferred stock-based compensation relates to operating expenses as follows:

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Amortization of stock-based compensation:					
Sales and marketing .....	\$ 2	\$ 5	\$ 8	\$ 307	65
Research and development .....	—	12	13	41	101
General and administrative .....	1	242	247	363	279
	<u>\$ 3</u>	<u>\$ 259</u>	<u>\$ 268</u>	<u>\$ 711</u>	<u>\$ 445</u>

See accompanying Notes to Consolidated Financial Statements

**WORKBRAIN CORPORATION**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

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

	Common Shares		Class A Preferred Shares		Class B Preferred Shares		Contributed Surplus	Share Purchase Loans Receivable	Deferred Stock-based Compensation	Cumulative Translation Adjustment	Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount						
Balances at December 31, 1999	6,464,000	\$1,000	—	\$ —	—	\$ —	\$ 508	\$(847)	\$(481)	\$ —	\$ (74)	106
Issuance of Class A preferred shares	—	—	1,297,686	2,963	—	—	—	—	—	—	—	2,963
Issuance of Class B preferred shares	—	—	—	—	1,488,406	5,737	—	(78)	—	—	—	5,659
Payments of share purchase loans receivable	—	—	—	—	—	—	—	847	—	—	—	847
Deferred stock-based compensation	—	—	—	—	—	—	297	—	(297)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	—	—	—	445	—	—	445
Cumulative translation adjustment	—	—	—	—	—	—	—	—	—	(127)	—	(127)
Net loss	—	—	—	—	—	—	—	—	—	—	(4,505)	(4,505)
Balances at December 31, 2000	6,464,000	1,000	1,297,686	2,963	1,488,406	5,737	805	(78)	(333)	(127)	(4,579)	5,388
Issuance of common shares for services rendered	19,876	—	—	—	—	—	80	—	(80)	—	—	—
Cancellation of common shares	(128,000)	—	—	—	—	—	—	—	—	—	—	—
Payments of share purchase loans receivable	—	—	—	—	—	—	30	78	—	—	—	108
Issuance of Class B preferred shares	—	—	—	—	2,981,366	11,750	—	—	—	—	—	11,750
Issuance of additional Class B preferred shares	—	—	—	—	462,237	—	—	—	—	—	—	—
Transfer of debt component of preferred shares to equity	—	—	—	1,717	—	2,476	—	—	—	—	—	4,193
Deferred stock-based compensation	—	—	—	—	—	—	608	—	(608)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	—	—	—	751	—	—	751
Net loss	—	—	—	—	—	—	—	—	—	—	(9,306)	(9,306)
Balances at December 31, 2001	6,355,876	1,000	1,297,686	4,680	4,932,009	19,963	1,523	—	(270)	(127)	(13,885)	12,884
Issuance of common shares for services rendered	4,969	—	—	—	—	—	20	—	(20)	—	—	—
Issuance of common shares on stock option exercise	2,000	7	—	—	—	—	—	—	—	—	—	7
Deferred stock-based compensation	—	—	—	—	—	—	213	—	(213)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	—	—	—	375	—	—	375
Net loss	—	—	—	—	—	—	—	—	—	—	(3,082)	(3,082)
Balances at December 31, 2002	6,362,845	1,007	1,297,686	4,680	4,932,009	19,963	1,756	—	(128)	(127)	(16,967)	10,184
Issuance of common shares on stock option exercise	260,063	413	—	—	—	—	—	—	—	—	—	413
Issuance of common shares and warrants on the acquisition of the net operating assets of Workforce Logistics Inc.	446,183	2,309	—	—	—	—	47	—	—	—	—	2,356
Deferred stock-based compensation	—	—	—	—	—	—	3	—	(3)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	—	—	—	59	—	—	59
Net income	—	—	—	—	—	—	—	—	—	—	1,424	1,424
Balances at September 30, 2003 (Unaudited)	<u>7,069,091</u>	<u>\$3,729</u>	<u>1,297,686</u>	<u>\$4,680</u>	<u>4,932,009</u>	<u>\$19,963</u>	<u>\$1,806</u>	<u>\$ —</u>	<u>\$ (72)</u>	<u>\$(127)</u>	<u>\$(15,543)</u>	<u>\$14,436</u>

See accompanying Notes to Consolidated Financial Statements

## WORKBRAIN CORPORATION

### CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine Months Ended September 30,		Year Ended December 31,		
	2003	2002	2002	2001	2000
	(Unaudited)				
Cash flows from operating activities:					
Net income (loss) .....	\$1,424	\$(1,558)	\$(3,082)	\$(9,306)	\$(4,505)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:					
Depreciation .....	1,153	427	606	386	111
Amortization of acquisition-related intangibles .....	211	—	—	—	—
Amortization of stock-based compensation .....	59	355	375	751	445
Amortization of leasehold inducements .....	(12)	(30)	(40)	(36)	—
Accretion on preferred shares .....	—	—	—	529	458
Loss on disposal of fixed assets .....	—	—	—	32	—
Change in operating assets and liabilities, net of acquired balances:					
Accounts receivable .....	(1,517)	(2,860)	(3,465)	(1,141)	(422)
Other assets .....	(202)	(1,327)	(1,487)	(570)	(298)
Accounts payable .....	(41)	693	444	(135)	456
Accrued payroll .....	628	1,054	879	556	114
Accrued liabilities .....	(211)	929	946	(115)	152
Deferred revenue .....	(554)	596	7,741	2,160	489
Net cash provided by (used for) operating activities .....	938	(1,721)	2,917	(6,889)	(3,000)
Cash flows from investing activities:					
Purchase of short-term investments .....	(8,427)	(8,931)	(8,931)	(8,870)	—
Sale of short-term investments .....	8,931	8,376	8,376	494	—
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 .....	(1,602)	(884)	(1,113)	(433)	(641)
Net cash used for investing activities .....	(2,488)	(1,439)	(1,668)	(8,809)	(641)
Cash flows from financing activities:					
Repayment of obligations under capital lease .....	(47)	—	—	—	—
Proceeds from issuance of common shares upon exercise of stock options .....	413	—	7	—	—
Proceeds from issuance of Class A preferred shares .....	—	—	—	—	4,055
Proceeds from issuance of Class B preferred shares .....	—	—	—	11,750	7,773
Receipt of payment from share purchase loans receivable .....	—	—	—	108	847
Net cash provided by financing activities .....	366	—	7	11,858	12,675
Effect of exchange rate changes on cash .....	—	—	—	—	(127)
Change in cash and cash equivalents .....	(1,184)	(3,160)	1,256	(3,840)	8,907
Cash and cash equivalents, beginning of period .....	6,370	5,114	5,114	8,954	47
Cash and cash equivalents, end of period .....	\$5,186	\$ 1,954	\$ 6,370	\$ 5,114	\$ 8,954
Supplemental cash flow information:					
Cash paid for:					
Interest .....	\$ —	\$ —	\$ —	\$ —	\$ —
Income taxes .....	\$ —	\$ —	\$ —	\$ —	\$ —
Non-cash investing and financing activities:					
Deferred stock-based compensation .....	\$ 3	\$ 233	\$ 233	\$ 688	\$ 297
Leasehold improvements financed by landlord .....	\$ —	\$ —	\$ —	\$ 216	\$ —
Property and equipment financed by capital lease .....	\$ 160	\$ —	\$ —	\$ —	\$ —
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

# WORKBRAIN CORPORATION

## Notes to Consolidated Financial Statements

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at September 30, 2003 and for the nine months ended  
September 30, 2003 and 2002 is unaudited)

### 1. Significant accounting policies:

#### a) Basis of presentation:

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

The unaudited financial information included in these consolidated financial statements is based upon the accounting policies described in this note to the annual consolidated financial statements. The information furnished reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented.

#### b) Principles of consolidation:

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

#### c) Revenue recognition:

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

To date, most 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 towards completion. The Company uses either the completion of contractual milestones or the ratio of incurred costs to estimated total costs, as appropriate, as the measure of its progress on each contract. If a loss on a contract is considered probable, all of that loss will be recognized at the date determinable.

Under certain of the Company's arrangements, entered into in 2000 and 2001, 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 towards 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.

Customization, consulting, and training fees, when not essential to the functionality of the software, are recognized as delivered to the customer, based on the prices charged when these services are sold separately to customers.

Hosting fees are included in the contract accounting revenue as the Company has not sold this element separately or provided contractually-stated renewal prices to customers, and accordingly, has not determined the fair value of the fees.

PCS fees are recognized ratably over the term of the support contract, which are generally one year in length, based on the 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.

Accounts receivable reflected on the consolidated balance sheets represent amounts from fees that are due from customers 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.

#### d) Research and development costs:

Research and development costs, net of investment tax credits, are charged to the consolidated statement of operations in the period 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 period 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 are refundable to the Company while

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

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

(Information presented as at September 30, 2003 and for the nine months ended

September 30, 2003 and 2002 is unaudited)

others are non-refundable but can be applied against future income tax liabilities and are subject to a 10 year carryforward period. Investment tax credits have been recognized once the Company has reasonable assurance that the amounts will be realized. If the Company ceases to qualify as a CCPC, all investment tax credits will then be non-refundable.

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 in conformity with Canadian GAAP. 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 future business and economic conditions. Management has estimated the useful life of its intangibles based upon 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 and cash equivalents consist of highly liquid instruments, such as deposits with major commercial banks, the maturities of which are less than three months 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 and returns, but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

At September 30, 2003, two customers represented 13.2% and 11.4% of the balance of accounts receivable, respectively. At December 31, 2002, four customers represented 13.2%, 12.9%, 12.5% and 10.6% of the balance of accounts receivable, respectively. At December 31, 2001, four customers represented 40.8%, 13.7%, 12.5% and 10.0% 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 and accrued liabilities and capital lease obligations.

***Fair value***

The Company determines the fair value 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. Forward contracts are not recorded in these consolidated financial statements on their inception. Any unrealized or realized gains or losses from such financial instruments are recognized in income (loss) from operations in the period in which they are incurred.

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

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

(Information presented as at September 30, 2003 and for the nine months ended  
September 30, 2003 and 2002 is unaudited)

**h) Foreign currency translation:**

Effective January 1, 2001, the U.S. dollar became the Company's functional currency. This change resulted from the increased significance of U.S. dollar-denominated revenue and expenditures in relation to the Company's Canadian dollar-denominated transactions. In addition, to date, financing raised by the Company has been primarily denominated in U.S. dollars.

Balances of the Company denominated in currencies other than the U.S. dollar have been translated into U.S. dollars. On the balance sheet, monetary items have been translated into U.S. dollars at exchange rates prevailing at the balance sheet date and non-monetary items have been translated into U.S. dollars at historical exchange rates. Amounts included in the Company's consolidated statements of operations have been translated into U.S. dollars at the average exchange rate for the year, except for depreciation and amortization which have been translated into U.S. dollars 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 period in which they occurred.

Prior to January 1, 2001, the Canadian dollar was the Company's functional currency and accordingly at that time, monetary assets and liabilities of the Company which were denominated in currencies other than Canadian dollars were translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities were translated into Canadian dollars at historical exchange rates. Transactions included in the consolidated statements operations were translated into Canadian dollars at the average rates in effect during the period, except for depreciation and amortization, which were translated at historical rates. Exchange gains and losses resulting from the translation of amounts into Canadian dollars were reflected in the consolidated statement of operations in the period in which they occurred. Since the Company's reporting currency was the U.S. dollar prior to January 1, 2001, the Company then translated consolidated assets and liabilities denominated in Canadian dollars into U.S. dollars at the exchange rate prevailing at the balance sheet date, and the consolidated results of operations at the average rate for the period. Cumulative translation adjustments resulting from the translation into the reporting currency (U.S. dollars) were included as a separate component of shareholders' equity.

Foreign exchange gains (losses) included in the net loss for the nine months ended September 30, 2003 and 2002 and the years ended December 31, 2002, 2001 and 2000 were \$1,735,000, \$(20,000), \$(48,000), \$(7,000) and \$70,000, respectively.

**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:

<u>Asset</u>	<u>Basis</u>	<u>Rate</u>
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:

<u>Asset</u>	<u>Basis</u>	<u>Rate</u>
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.

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at September 30, 2003 and for the nine months ended  
September 30, 2003 and 2002 is unaudited)

**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 statement of operations.

**m) Income taxes:**

The Company uses the liability method of tax allocation for 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 period. 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, warrants and Class A and Class B preferred shares issued by the Company (see note 15(b)). 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 12.

**o) Stock-based compensation:**

The Company has one stock-based compensation plan, which is described in note 6. No compensation expense is recognized for this plan when shares or stock options are issued to employees or directors. Any consideration paid by employees or directors on the exercise of stock options or the purchase of shares is credited to shareholders' equity. If shares or stock options are repurchased from employees or directors, the excess of the consideration paid over the carrying amount of the shares or stock option cancelled is charged to contributed surplus.

A fair value-based method of accounting is applied to all stock-based payments to non-employees and to employee awards that are direct awards of shares, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. A fair value method of accounting is also applied to stock-based compensation to a reseller of the Company's software (note 10).

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 for options issued to employees and directors under the Company's stock-based compensation plan, determined based on the fair value method. The fair value of option grants made to employees were estimated using the minimum value method, with the following assumptions: risk free interest rates ranging from 3.0% to 6.0%, dividend yield of 0.0% and expected lives of options of four years. The fair value of option grants made to other than employees and directors were estimated using a Black Scholes model, with the following assumptions: expected volatility ranging from 55% to 99%, risk free interest rates ranging from 3.0% to 6.0%, dividend yield of 0.0% and expected lives of options of four years.

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Net income (loss):					
As reported .....	\$1,424	\$(1,558)	\$(3,082)	\$(9,306)	\$(4,505)
Pro-forma .....	<u>\$ (417)</u>	<u>\$(1,929)</u>	<u>\$(3,538)</u>	<u>\$(9,596)</u>	<u>\$(4,599)</u>
Basic net income (loss) per share:					
As reported .....	\$ 0.21	\$ (0.25)	\$ (0.48)	\$ (1.45)	\$ (0.70)
Pro-forma .....	<u>\$ (0.06)</u>	<u>\$ (0.30)</u>	<u>\$ (0.56)</u>	<u>\$ (1.50)</u>	<u>\$ (0.71)</u>
Diluted net income (loss) per share:					
As reported .....	\$ 0.11	\$ (0.25)	\$ (0.48)	\$ (1.45)	\$ (0.70)
Pro-forma .....	<u>\$ (0.06)</u>	<u>\$ (0.30)</u>	<u>\$ (0.56)</u>	<u>\$ (1.50)</u>	<u>\$ (0.71)</u>

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
 (Information presented as at September 30, 2003 and for the nine months ended  
 September 30, 2003 and 2002 is unaudited)

**p) Guarantees:**

Obligations under guarantees are not recognized in the financial statements but are disclosed in accordance with the CICA Accounting Guideline AcG-14. The guideline does not apply to product warranties.

**2. Short-term investments:**

At September 30, 2003, the Company had \$800,000 of restricted short-term investments related to security posted against foreign exchange forward contracts (December 31, 2002 — \$75,000; December 31, 2001 — \$75,000).

**3. Property and equipment:**

	<b>September 30, 2003</b>	<b>December 31,</b>	
	(Unaudited)	<b>2002</b>	<b>2001</b>
Computer equipment .....	\$1,899	\$1,067	\$ 569
Office furniture and equipment .....	1,139	722	383
Computer software .....	980	399	125
Leasehold improvements .....	231	231	229
	4,249	2,419	1,306
Less: Accumulated depreciation .....	2,257	1,104	498
	<b>\$1,992</b>	<b>\$1,315</b>	<b>\$ 808</b>

The cost and accumulated depreciation of assets under capital lease included in office furniture and equipment above are \$160,000 and \$42,000, respectively at September 30, 2003. At both December 31, 2002 and 2001 the cost and accumulated depreciation of assets under capital lease included above were nil.

**4. Intangibles and goodwill:**

	<b>September 30, 2003</b>	<b>December 31,</b>	
	(Unaudited)	<b>2002</b>	<b>2001</b>
Customer relationships .....	\$ 325	\$ —	\$ —
Developed technology .....	408	—	—
Purchased in-process research and development .....	205	—	—
	938	—	—
Less: Accumulated amortization .....	211	—	—
Total intangibles .....	727	—	—
Goodwill .....	2,711	—	—
Total intangibles and goodwill .....	<b>\$3,438</b>	<b>\$ —</b>	<b>\$ —</b>

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
 (Information presented as at September 30, 2003 and for the nine months ended  
 September 30, 2003 and 2002 is unaudited)

**5. Capital lease obligation:**

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

	<b>September 30,</b>	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(Unaudited)		
2003 .....	\$ 14	\$ —	\$ —
2004 .....	54	—	—
2005 .....	54	—	—
Thereafter .....	—	—	—
	122	—	—
Less: Amounts representing interest (at an effective interest rate of 6%) .....	9	—	—
Balance of capital lease obligation .....	113	—	—
Less: Current portion .....	48	—	—
	\$ 65	\$ —	\$ —

**6. Common shares:**

**a) Authorized:**

Unlimited number of common shares without par value.

**b) Transactions:**

2003:

The Company issued 446,183 common shares valued at \$2,309,000 in partial consideration for the acquisition of Workforce Logistics Inc. (see note 15(a)). In addition, the Company issued 260,063 common shares to a director and employees for total consideration of \$413,000 under stock option exercises.

2002:

The Company issued 4,969 common shares to a director for no cash consideration as a portion of their fees for directorship services rendered. In addition, the Company issued 2,000 common shares to an employee for consideration of \$7,000 under a stock option exercise.

2001:

The Company issued 19,876 common shares to directors for no cash consideration as a portion of their fees for directorship services rendered. In addition, the forgiveness feature was canceled related to 256,000 common shares under a forgivable share purchase loan arrangement made to a founding employee in 1999. A total of 128,000 common shares originally issued under that arrangement were purchased for cancellation by the Company and \$30,000 in cash consideration was received from the employee related to the remaining 128,000 common shares.

**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 2,240,000 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 four year period. Any option granted which, for any reason, is canceled or terminated prior to their exercise, will become available for grant under the Plan. In accordance with the Plan, the exercise price of options is based on the Board's determination of fair value of the Company's common shares.

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 outstanding stock options granted to employees from four to seven years.

**WORKBRAIN CORPORATION**

**Notes to Consolidated Financial Statements — (Continued)**

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
 (Information presented as at September 30, 2003 and for the nine months ended  
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**d) Continuity of options issued under the Plan:**

A summary of the status of the Plan as of September 30, 2003 and December 31, 2002, 2001 and 2000, and the changes during the nine months ended September 30, 2003 and the three years ended December 31, 2002, 2001 and 2000 is presented below:

	<u>Nine Months Ended September 30, 2003</u>		<u>Year Ended December 31, 2002</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
	(Unaudited)			
Outstanding, beginning of period . . . . .	1,492,340	\$3.05	1,102,960	\$2.73
Granted . . . . .	447,728	6.05	432,940	3.95
Exercised . . . . .	(260,063)	1.59	(2,000)	3.25
Forfeited . . . . .	<u>(135,591)</u>	4.38	<u>(41,560)</u>	3.80
Outstanding, end of period . . . . .	<u>1,544,414</u>	4.05	<u>1,492,340</u>	3.05
Options exercisable, end of period . . . . .	<u>828,161</u>	\$3.03	<u>806,558</u>	\$2.48
	<u>Year Ended December 31,</u>			
	<u>2001</u>		<u>2000</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year . . . . .	942,047	\$2.93	—	\$ —
Granted . . . . .	345,340	3.18	986,047	2.93
Exercised . . . . .	—	—	—	—
Forfeited . . . . .	<u>(184,427)</u>	4.43	<u>(44,000)</u>	3.25
Outstanding, end of year . . . . .	<u>1,102,960</u>	2.73	<u>942,047</u>	2.93
Options exercisable, end of year . . . . .	<u>402,996</u>	\$2.45	<u>15,760</u>	\$1.33

**e) Summary of the balances of options issued under the Plan at September 30, 2003 (Unaudited):**

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding at Sep. 30, 2003</u>	<u>Weighted Avg. Remaining Contractual Life</u>	<u>Weighted Avg. Exercise Price</u>	<u>Number Exercisable at Sep. 30, 2003</u>	<u>Weighted Avg. Exercise Price</u>
\$0.63 to 0.94	163,759	3.6 years	\$0.88	163,759	\$0.88
3.13 to 3.60	449,932	3.1	3.25	428,382	3.25
4.03 to 4.38	530,195	5.4	4.03	211,420	4.03
5.18 to 7.25	400,528	6.9	6.25	24,600	5.65
\$0.63 to 7.25	<u>1,544,414</u>	4.9 years	\$4.05	<u>828,161</u>	\$3.03

**f) Summary of the balances of options issued under the Plan at December 31, 2002:**

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding at Dec. 31, 2002</u>	<u>Weighted Avg. Remaining Contractual Life</u>	<u>Weighted Avg. Exercise Price</u>	<u>Number Exercisable at Dec. 31, 2002</u>	<u>Weighted Avg. Exercise Price</u>
\$0.25 to 1.50	329,898	2.0 years	\$0.75	289,146	\$0.73
3.13 to 3.60	544,422	1.5	3.25	395,337	3.25
4.03 to 4.38	582,020	5.1	4.03	105,075	4.05
5.55 to 6.25	36,000	2.0	5.70	17,000	5.68
\$0.25 to 6.25	<u>1,492,340</u>	3.0 years	\$3.05	<u>806,558</u>	\$2.48

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at September 30, 2003 and for the nine months ended  
September 30, 2003 and 2002 is unaudited)

**g) Warrants issued (Unaudited):**

As part of the acquisition of the net operating assets of Workforce Logistics Inc., effective April 1, 2003, the Company issued warrants that are exercisable into 94,612 common shares upon the payment of \$5.18 per share by the holder of the warrants and expire in June, 2006.

As at September 30, 2003, there are also warrants outstanding exercisable into 240,827 (December 31, 2002 — 229,636; December 31, 2001 — 209,667) common shares upon the payment of \$4.03 per share by the holder of the warrants. The warrants have expiry dates ranging from April 20, 2006 to March 31, 2008. The Company may be required to issue additional warrants that are exercisable for up to 27,662 common shares.

**7. Preferred shares:**

**a) Authorized:**

Unlimited number of preferred shares, issuable in series.

**b) Class A preferred shares:**

2000:

In April 2000, the Company authorized and issued 1,297,686 Class A preferred shares to investors for cash consideration totaling \$4,055,000.

**Class A preferred share terms:**

The Class A preferred shares are convertible at any time, at the option of the holder, one-to-one into common shares of the Company. The Class A preferred shares were amended upon the closing of the April 2001 Class B preferred share financing to have no redemption features. The Company has the right to convert the Class A preferred shares into common shares in the event of a public offering or any transaction such as an amalgamation or merger which would result in the common shares of the Company being publicly traded on any stock exchange in the U.S. (see notes 15(b) and (c)).

Also, as part of the amendments made to the Class A preferred shares in April 2001, voting rights were added such that Class A preferred share holders have voting rights equivalent to the number of common shares into which the Class A preferred shares are convertible. With respect to dividends, holders of Class A preferred shares are entitled to receive dividends and other distributions equivalent to those declared or paid on common shares. Holders of Class A preferred shares are entitled to receive a Class A preferred liquidation payment before any payment is made in respect to common shares or any other securities junior to the Class A preferred shares. The Class A preferred liquidation payment is the greater of \$3.13 per share plus all declared but unpaid dividends and the value of the shares if they were converted into common shares.

**c) Class B preferred shares:**

2001:

In April 2001, the Company authorized and issued an additional 2,981,366 Class B preferred shares to investors for cash consideration totaling \$11,750,000 (net of \$250,000 of share issue costs).

2000:

In December 2000, the Company authorized and issued 1,488,406 Class B preferred shares to investors for cash consideration totaling \$7,851,000. Based on the second round of Class B preferred shares issued in April 2001 investors in the December 2000 round were issued an additional 462,237 Class B preferred shares to reduce their effective per share price to be equivalent to April 2001 per share price.

**Class B preferred share terms:**

The Class B preferred shares are convertible at any time, at the option of the holder, one-to-one into common shares of the Company. The Class B preferred shares were amended upon the closing of the April 2001 Class B preferred share financing to have no redemption features. The Company has the right to convert the Class B preferred shares into common shares in the event of a public offering or any transaction such as an amalgamation or merger which would result in the common shares of the Company being publicly traded on any stock exchange in the U.S. (see notes 15(b) and (c)).

Holders of Class B preferred shares have voting rights equivalent to the number of common shares into which the Class B preferred shares are convertible. With respect to dividends, holders of Class B preferred shares are entitled to receive non-cumulative dividends at the rate of 8% per annum before any other distribution is declared or paid on common shares or Class A preferred shares as well as the right to participate in any dividend paid on common shares or Class A preferred shares. Holders of Class B preferred shares are entitled to receive a Class B preferred liquidation payment before any payment is made in respect to common shares or any other securities junior to the Class B preferred shares. The Class B preferred liquidation payment is the greater of \$4.03 per share plus preferred dividends at a rate of 8% per annum from their issuance and the value of the shares if they were converted into common shares.

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at September 30, 2003 and for the nine months ended  
September 30, 2003 and 2002 is unaudited)

Until their terms were revised on April 20, 2001, each of the Class A and Class B preferred shares contained a liability (being their redemption right) and an equity component (being the option to convert into common shares) which were presented separately in the consolidated balance sheets until that date. The following values were ascribed to the liability and equity components of the Class A and B preferred shares issued in 2000 at the time of issuance:

	<u>Class A</u>	<u>Class B</u>
Liability .....	\$1,092	\$2,114
Equity .....	<u>2,963</u>	<u>5,737</u>
	<u>\$4,055</u>	<u>\$7,851</u>

Following April 20, 2001, there was no longer any liability component to the Class A and Class B preferred shares and accordingly the entire value of those instruments was included as equity on the consolidated balance sheets. Upon the elimination of the redemption rights, the debt component of the preferred shares was moved to shareholders' equity.

#### 8. Commitments:

Future minimum lease payments under non-cancelable operating leases are as follows:

	<u>September 30, 2003</u>	<u>December 31, 2002</u>
	(Unaudited)	
2003 .....	\$ 232	\$ 535
2004 .....	891	458
2005 .....	645	374
2006 .....	206	77
Thereafter .....	—	—
Total minimum lease payments .....	<u>\$1,974</u>	<u>\$1,444</u>

Rent expense for the nine months ended September 30, 2003 and 2002 and the years ended December 31, 2002, 2001 and 2000 was \$936,000, \$656,000, \$843,000, \$456,000 and \$118,000, respectively. The Company is also responsible for certain common area costs at its various leased premises.

#### 9. 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.

#### 10. Stock-based compensation related to licence revenue:

	<u>Nine Months Ended September 30,</u>		<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Unaudited)				
Gross licence revenue .....	\$7,896	\$2,935	\$4,427	\$1,221	\$164
Less: Stock-based compensation related to licence revenue .....	(56)	(96)	(107)	(40)	—
Net licence revenue .....	<u>\$7,840</u>	<u>\$2,839</u>	<u>\$4,320</u>	<u>\$1,181</u>	<u>\$164</u>

The stock-based compensation related to licence revenue results from warrants that have been issued to a reseller of the Company's software based on customer referrals from that reseller.

**WORKBRAIN CORPORATION**

**Notes to Consolidated Financial Statements — (Continued)**

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
 (Information presented as at September 30, 2003 and for the nine months ended  
 September 30, 2003 and 2002 is unaudited)

**11. Research and development expenses:**

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Gross research and development expenses .....	\$3,677	\$2,247	\$3,600	\$3,366	\$1,628
Less: Investment tax credits realized .....	(235)	—	(144)	—	—
Net research and development expenses .....	<u>\$3,442</u>	<u>\$2,247</u>	<u>\$3,456</u>	<u>\$3,366</u>	<u>\$1,628</u>

**12. Net income (loss) per share:**

**a) 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:

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Net income (loss) .....	\$ 1,424	\$(1,558)	\$(3,082)	\$(9,306)	\$(4,505)
Weighted average number of common shares outstanding (000's):					
Basic .....	6,753	6,359	6,359	6,398	6,464
Effect of stock options issued .....	359	—	—	—	—
Effect of warrants outstanding .....	58	—	—	—	—
Effect of Class A preferred shares .....	1,298	—	—	—	—
Effect of Class B preferred shares .....	4,932	—	—	—	—
Diluted .....	<u>13,400</u>	<u>6,359</u>	<u>6,359</u>	<u>6,398</u>	<u>6,464</u>
Net income (loss) per share:					
Basic .....	<u>\$ 0.21</u>	<u>\$ (0.25)</u>	<u>\$ (0.48)</u>	<u>\$ (1.45)</u>	<u>\$ (0.70)</u>
Diluted .....	<u>\$ 0.11</u>	<u>\$ (0.25)</u>	<u>\$ (0.48)</u>	<u>\$ (1.45)</u>	<u>\$ (0.70)</u>

At September 30, 2002 and December 31, 2002, 2001 and 2000, all stock options, warrants, Class A and Class B preferred shares outstanding were not included in the calculation of diluted loss per share because the Company had losses for those periods and to do so would have been anti-dilutive.

**b) Pro-forma 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 pro-forma net income (loss) per share. The pro-forma amounts are adjusted to retroactively reflect the conversion of the preferred shares into common shares on a one-for-one basis (see note 15(b)).

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

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

(Information presented as at September 30, 2003 and for the nine months ended September 30, 2003 and 2002 is unaudited)

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Pro-forma net income (loss):					
Net income (loss) .....	\$ 1,424	\$ (1,558)	\$ (3,082)	\$ (9,306)	\$ (4,505)
Preferred share accretion .....	—	—	—	529	458
Basic and diluted net income (loss) .....	<u>\$ 1,424</u>	<u>\$ (1,558)</u>	<u>\$ (3,082)</u>	<u>\$ (8,777)</u>	<u>\$ (4,047)</u>
Pro-forma weighted average number of Common Shares outstanding (000's):					
Common Shares .....	6,753	6,359	6,359	6,398	6,464
Class A preferred shares .....	1,298	1,298	1,298	1,298	908
Class B preferred shares .....	4,932	4,932	4,932	3,922	12
Basic .....	12,983	12,589	12,589	11,618	7,384
Effect of stock options issued .....	359	—	—	—	—
Effect of warrants outstanding .....	58	—	—	—	—
Diluted .....	<u>13,400</u>	<u>12,589</u>	<u>12,589</u>	<u>11,618</u>	<u>7,384</u>
Pro-forma net income (loss) per share:					
Basic .....	<u>\$ 0.11</u>	<u>\$ (0.12)</u>	<u>\$ (0.24)</u>	<u>\$ (0.76)</u>	<u>\$ (0.55)</u>
Diluted .....	<u>\$ 0.11</u>	<u>\$ (0.12)</u>	<u>\$ (0.24)</u>	<u>\$ (0.76)</u>	<u>\$ (0.55)</u>

At September 30, 2002 and December 31, 2002, 2001 and 2000 stock options and warrants outstanding were not included in the calculation of pro-forma diluted loss per share because the Company had losses for those periods and to do so would have been anti-dilutive.

### 13. 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:

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Combined Canadian basic federal and provincial income tax rate .....	36.6%	38.6%	38.6%	42.1%	43.6%
Increase (decrease) in income tax rate resulting from:					
Permanent differences .....	4.0	(8.2)	(4.7)	(9.2)	(10.1)
Change in valuation allowance .....	(33.4)	(23.7)	(26.5)	(22.7)	(23.2)
Change in enacted rates .....	<u>(7.2)</u>	<u>(6.7)</u>	<u>(7.4)</u>	<u>(10.2)</u>	<u>(10.3)</u>
Effective income tax rate .....	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at September 30, 2003 and for the nine months ended  
September 30, 2003 and 2002 is unaudited)

**b) Components of future income tax asset:**

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

	<b>September 30,</b>	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(Unaudited)		
Future income tax assets:			
Non-capital income tax loss carryforwards . . . . .	\$ 299	\$ 850	\$ 2,202
Research and development expenditure carryforwards . . . . .	803	577	276
Deferred revenue recognized for tax purposes . . . . .	2,361	2,504	638
Leasehold inducements recognized for tax purposes . . . . .	39	42	54
	3,502	3,973	3,170
Less: Valuation allowance . . . . .	(3,502)	(3,973)	(3,170)
Net future income tax asset . . . . .	\$ —	\$ —	\$ —

**c) Tax losses:**

As of September 30, 2003, the Company had non-capital income tax loss carryforwards of approximately \$992,000 available to reduce future years' income for Canadian tax purposes. These losses will expire in 2008.

**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:

	<b>Nine Months Ended</b>		<b>Year Ended December 31,</b>		
	<b>September 30,</b>		<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>2003</b>	<b>2002</b>			
	(Unaudited)				
Revenue by geographic location:					
United States . . . . .	\$21,037	\$ 7,449	\$11,671	\$2,659	\$392
United Kingdom . . . . .	1,867	3,068	3,975	1,067	—
Canada . . . . .	1,417	756	1,203	12	25
	\$24,321	\$11,273	\$16,849	\$3,738	\$417

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

	<b>September 30,</b>	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>	<b>2001</b>
	(Unaudited)		
Property and equipment by geographic location:			
Canada . . . . .	\$1,830	\$1,208	\$662
United States . . . . .	162	107	146
	\$1,992	\$1,315	\$808

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

In the nine months ended September 30, 2003, no customers of the Company accounted for 10% or greater of unaudited net revenue. In the nine months ended September 30, 2002, two customers of the Company accounted for 27.2% and 12.7% of unaudited net revenue. In the year ended December 31, 2002, one customer of the Company accounted for 23.6% of net revenue. In the year ended December 31, 2001, three customers of the Company accounted for 28.5%, 19.2% and 17.8% of net revenue. In the year ended December 31, 2000, three customers of the Company accounted for 49.6%, 25.2% and 18.5% of net revenue.

## WORKBRAIN CORPORATION

### Notes to Consolidated Financial Statements — (Continued)

(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
 (Information presented as at September 30, 2003 and for the nine months ended  
 September 30, 2003 and 2002 is unaudited)

**15. Subsequent events:**

**a) 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 and retained earnings and cash flows from the date of acquisition.

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

Working capital .....	\$ 83
Property and equipment .....	68
Customer relationships .....	325
Developed technology .....	408
Purchased in-process research and development .....	205
Goodwill .....	<u>2,711</u>
Net assets .....	<u>\$3,800</u>

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 .....	<u>500</u>
Total consideration .....	<u>\$3,800</u>

The cash and common shares held in escrow will be 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 is exercisable into one common share, at an exercise price of \$5.18. Warrants expire at the earlier of three years from the date of issue, or 20 days after a liquidation event, as defined in the warrant agreement.

**b) Proposed share capital reorganization:**

The terms of the Company’s Class A and Class B preferred shares allow for their conversion into common shares concurrent with the closing of the proposed Initial Public Offering referred to in c) below on the basis of one common share for each Class A preferred share and each Class B preferred share. Pursuant to amended articles of incorporation to be obtained concurrent with the closing of the proposed Initial Public Offering, the Company will:

- i) consolidate its outstanding common shares on the basis of two new common shares for every five existing common shares; and
- ii) cancel the authorized Class A and Class B preferred shares.

The impact of the proposed share capital consolidation has been reflected retroactively in these consolidated financial statements and the accompanying notes. The impact of the proposed preferred share conversion has been reflected in the statements of operations and in note 12(b) as pro-forma net income (loss) per share.

**c) Proposed Initial Public Offering of common shares:**

The Company entered into an underwriting agreement dated December 2, 2003 relating to a proposed Initial Public Offering of 2,860,000 common shares to be issued at a price of C\$14.00 per share.

The share issuance costs, including underwriters’ fees are expected to total approximately \$3,082,000.

## AUDITORS' REPORT

The Board of Directors

WORKBRAIN CORPORATION:

We have audited the consolidated balance sheets of Workforce Logistics Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. 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, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

(Signed) KPMG LLP

CHARTERED ACCOUNTANTS

Toronto, Canada

October 21, 2003

**WORKFORCE LOGISTICS INC.**

**CONSOLIDATED BALANCE SHEETS**

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

	<u>March 31,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>	<u>2001</u>
	(Unaudited)		
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents .....	\$ 33	\$ 317	\$ 440
Accounts receivable .....	261	289	12
Other (note 2) .....	<u>123</u>	<u>118</u>	<u>91</u>
Total current assets .....	417	724	543
Property and equipment (note 3) .....	<u>58</u>	<u>49</u>	<u>85</u>
Total assets .....	<u>\$ 475</u>	<u>\$ 773</u>	<u>\$ 628</u>
<b>Liabilities and stockholders' equity:</b>			
Current liabilities:			
Accounts payable and accrued liabilities .....	\$ 119	\$ 141	\$ 135
Deferred revenue .....	<u>25</u>	<u>167</u>	<u>10</u>
Total current liabilities .....	<u>144</u>	<u>308</u>	<u>145</u>
Stockholders' equity:			
Common stock (note 4):			
Authorized — 130,000,000; \$0.01 par value Issued and outstanding			
121,779,799 (2002: 41,085,248; 2001: 40,801,623) .....	1,218	411	408
Convertible promissory notes (note 5) .....	—	6,442	4,538
Contributed surplus .....	8,695	2,933	2,919
Deficit .....	<u>(9,582)</u>	<u>(9,321)</u>	<u>(7,382)</u>
Total stockholders' equity .....	<u>331</u>	<u>465</u>	<u>483</u>
Total liabilities and stockholders' equity .....	<u>\$ 475</u>	<u>\$ 773</u>	<u>\$ 628</u>
Commitments (note 6)			
Guarantees (note 7)			
Subsequent event (note 10)			

See accompanying Notes to Consolidated Financial Statements

**WORKFORCE LOGISTICS INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	<b>Three Months Ended</b>		<b>Year Ended December 31,</b>		
	<b>March 31,</b>		<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Revenue:					
Licence .....	\$ 154	\$ —	\$ 275	\$ —	\$ —
Service, maintenance & other .....	267	10	464	4	—
Net revenue .....	<u>421</u>	<u>10</u>	<u>739</u>	<u>4</u>	<u>—</u>
Cost of revenue:					
Licence .....	—	—	20	—	—
Service, maintenance & other .....	72	109	342	1	—
Total cost of revenue .....	<u>72</u>	<u>109</u>	<u>362</u>	<u>1</u>	<u>—</u>
Gross profit .....	<u>349</u>	<u>(99)</u>	<u>377</u>	<u>3</u>	<u>—</u>
Operating expenses:					
Sales and marketing .....	41	37	259	317	484
Research and development .....	272	278	1,025	1,866	1,810
General and administrative .....	170	153	580	1,199	1,144
Stock-based compensation .....	—	2	17	125	—
Total operating expenses .....	<u>483</u>	<u>470</u>	<u>1,881</u>	<u>3,507</u>	<u>3,438</u>
Loss from operations .....	(134)	(569)	(1,504)	(3,504)	(3,438)
Interest income .....	—	1	1	18	12
Net loss .....	<u>\$ (134)</u>	<u>\$ (568)</u>	<u>\$ (1,503)</u>	<u>\$ (3,486)</u>	<u>\$ (3,426)</u>
Loss per share:					
Basic and diluted .....	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>
Weighted average number of shares outstanding .....	<u>41,085</u>	<u>40,802</u>	<u>40,807</u>	<u>40,671</u>	<u>35,790</u>

See accompanying Notes to Consolidated Financial Statements

**WORKFORCE LOGISTICS INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

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

	<u>Common Stock</u>		<u>Convertible Promissory Notes</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Number</u>	<u>Amount</u>				
Balances at December 31, 1999 . . . .	33,500,000	\$ 335	\$ —	\$ 115	\$ (192)	\$ 258
Issuance of common stock . . . . .	7,105,000	71	—	2,679	—	2,750
Issuance of convertible promissory notes . . . . .	—	—	1,000	—	—	1,000
Interest on convertible promissory notes . . . . .	—	—	7	—	(7)	—
Net loss . . . . .	—	—	—	—	(3,426)	(3,426)
Balances at December 31, 2000 . . . .	40,605,000	406	1,007	2,794	(3,625)	582
Issuance of common stock for services rendered . . . . .	186,623	2	—	49	—	51
Stock-based compensation on stock options issued . . . . .	—	—	—	74	—	74
Issuance of common stock on stock option exercise . . . . .	10,000	—	—	2	—	2
Issuance of convertible promissory notes . . . . .	—	—	3,260	—	—	3,260
Interest on convertible promissory notes . . . . .	—	—	271	—	(271)	—
Net loss . . . . .	—	—	—	—	(3,486)	(3,486)
Balances at December 31, 2001 . . . .	40,801,623	408	4,538	2,919	(7,382)	483
Issuance of common stock for services rendered . . . . .	283,625	3	—	12	—	15
Stock-based compensation on stock options issued . . . . .	—	—	—	2	—	2
Issuance of convertible promissory notes . . . . .	—	—	1,468	—	—	1,468
Interest on convertible promissory notes . . . . .	—	—	436	—	(436)	—
Net loss . . . . .	—	—	—	—	(1,503)	(1,503)
Balances at December 31, 2002 . . . .	41,085,248	411	6,442	2,933	(9,321)	465
Interest on convertible promissory notes . . . . .	—	—	127	—	(127)	—
Conversion of convertible promissory notes into common stock . . . . .	80,694,551	807	(6,569)	5,762	—	—
Net loss . . . . .	—	—	—	—	(134)	(134)
Balances at March 31, 2003 (Unaudited) . . . . .	<u>121,779,799</u>	<u>\$1,218</u>	<u>\$ —</u>	<u>\$8,695</u>	<u>\$ (9,582)</u>	<u>\$ 331</u>

See accompanying Notes to Consolidated Financial Statements

**WORKFORCE LOGISTICS INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	<u>Three Months</u> <u>Ended March 31,</u>		<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Unaudited)				
Cash flows from operating activities:					
Net loss .....	\$ (134)	\$ (568)	\$ (1,503)	\$ (3,486)	\$ (3,426)
Adjustments to reconcile net loss to net cash used for operating activities:					
Depreciation .....	17	14	60	41	20
Stock-based compensation .....	—	2	17	125	—
Change in operating assets and liabilities:					
Accounts receivable .....	28	12	(277)	(12)	—
Other .....	(5)	(2)	(27)	(17)	(34)
Accounts payable and accrued liabilities .....	(22)	3	6	(4)	117
Deferred revenue .....	<u>(142)</u>	<u>(10)</u>	<u>157</u>	<u>10</u>	<u>—</u>
Net cash used for operating activities .....	<u>(258)</u>	<u>(549)</u>	<u>(1,567)</u>	<u>(3,343)</u>	<u>(3,323)</u>
Cash flows from investing activities:					
Purchase of property and equipment .....	<u>(26)</u>	<u>(17)</u>	<u>(24)</u>	<u>(77)</u>	<u>(50)</u>
Net cash used for investing activities .....	<u>(26)</u>	<u>(17)</u>	<u>(24)</u>	<u>(77)</u>	<u>(50)</u>
Cash flows from financing activities:					
Proceeds from issuance of common stock .....	—	—	—	2	2,750
Proceeds from issuance of convertible promissory notes .....	<u>—</u>	<u>160</u>	<u>1,468</u>	<u>3,260</u>	<u>1,000</u>
Net cash provided by financing activities .....	<u>—</u>	<u>160</u>	<u>1,468</u>	<u>3,262</u>	<u>3,750</u>
Change in cash and cash equivalents .....	(284)	(406)	(123)	(158)	377
Cash and cash equivalents, beginning of period .....	317	440	440	598	221
Cash and cash equivalents, end of period .....	<u>\$ 33</u>	<u>\$ 34</u>	<u>\$ 317</u>	<u>\$ 440</u>	<u>\$ 598</u>
Supplemental cash flow information:					
Cash paid for:					
Interest .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Income taxes .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Non-cash investing and financing activities:					
Accrued interest on convertible promissory notes .....	<u>\$ 127</u>	<u>\$ 97</u>	<u>\$ 436</u>	<u>\$ 271</u>	<u>\$ 7</u>
Issuance of common stock for services rendered .....	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 17</u>	<u>\$ 125</u>	<u>\$ —</u>
Issuance of common stock on conversion of promissory notes .....	<u>\$ 6,569</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying Notes to Consolidated Financial Statements

**WORKFORCE LOGISTICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at March 31, 2003 and for the three months ended  
March 31, 2003 and 2002 is unaudited)

Workforce Logistics Inc. (the Company) is a provider of schedule optimization software. The Company develops, markets and sells its solutions for enterprise-wide workforce management software through various channels.

**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.

The unaudited financial information included in these consolidated financial statements is based upon the accounting policies described in this note to the annual consolidated financial statements. The information furnished reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented.

**b) Principles of consolidation:**

These consolidated financial statements include the accounts of Workforce Logistics Inc. and its wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated.

**c) Revenue recognition:**

The Company's revenue are derived primarily from licence fees and service fees. The Company licenses software under non-cancelable licence and hosting agreements and provides services, including implementation, consulting, training, hosting and postcontract customer support (PCS) to its customers. 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).

To date, most 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 have been recognized under contract accounting using the percentage of completion method to measure progress towards completion. The Company uses the ratio of incurred costs to estimated total costs as the measure of its progress on each contract.

Hosting fees are included in the contract accounting revenue as the Company has not sold this element separately and thus, has not determined the fair value of the fees.

PCS fees are recognized ratably over the term of the support contract, which are generally one year in length, based on the contractually-stated renewal prices provided to customers.

Accounts receivable reflected on the consolidated balance sheets represent amounts from fees that are due from customers 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.

**d) Research and development costs:**

Research and development costs are charged to the consolidated statements of operations in the period in which they are incurred unless specified 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 period in which they were incurred.

**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 during each period to prepare these consolidated financial statements in conformity with Canadian GAAP. Actual results could differ from these estimates.

**f) Concentrations of credit risk:**

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

Cash and cash equivalent balances consist of deposits with major commercial banks, the maturities of which are less than three months from the date of purchase.

The Company sells its products directly to end users. The Company maintains reserves for potential credit losses, but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area.

**WORKFORCE LOGISTICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at March 31, 2003 and for the three months ended  
March 31, 2003 and 2002 is unaudited)

At each of March 31, 2003 and December 31, 2002 and 2001, one customer represented 100% of the Company's balance of accounts receivable.

**g) Financial instruments:**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and convertible promissory notes.

*Fair value*

The carrying amounts of cash and cash equivalents, accounts receivable, other and accounts payable and accrued liabilities approximate their fair market values because of the short-term nature of these instruments. The fair values of the convertible promissory notes approximate their carrying values.

**h) Property and equipment:**

Property and equipment are stated at cost, net of accumulated depreciation and are depreciated over their estimated useful lives. The depreciation policies for property and equipment, by category, are as follows:

<u>Asset</u>	<u>Basis</u>	<u>Rate</u>
Computer equipment and software .....	Straight-line	2 years
Office furniture and equipment .....	Straight-line	5 years

The Company reviews the carrying values of its property and equipment 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 fair value is charged to the consolidated statement of operations.

**i) Income taxes:**

The Company uses the liability method of tax allocation for 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.

**j) Loss per share:**

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

Potentially dilutive items to the Company's common stock include stock options, warrants and convertible promissory notes. To March 31, 2003, potentially dilutive items have not been dilutive to the Company's common stock, and accordingly all potentially dilutive items are excluded from the per share calculations.

**k) Stock-based compensation plans:**

The Company has one stock-based compensation plan, which is described in note 4. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on the exercise of stock options or the purchase of stock is credited to stockholders' equity. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to deficit.

A fair value-based method of accounting is applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments.

**WORKFORCE LOGISTICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

(Information presented as at March 31, 2003 and for the three months ended  
March 31, 2003 and 2002 is unaudited)

The following table reports pro-forma amounts for net loss and basic and diluted net loss per share including stock-based compensation expense for options issued to employees and directors under the Company's stock-based compensation plan, determined based on the fair value, at the grant dates. The fair value of option grants made to employees were estimated using the minimum value method, with the following assumptions: risk free interest rates ranging from 3.0% to 6.0%, dividend yield of 0.0% and expected lives of options of four years. The fair value of option grants made to other than employees were estimated using a Black Scholes model, with the following assumptions: expected volatility ranging from 55% to 99%, risk free interest rate ranging from 3.0% to 6.0%, dividend yield of 0.0% and expected lives of options of four years.

	<b>Three Months Ended March 31,</b>		<b>Year Ended December 31,</b>		
	<u>2003</u>	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	(Unaudited)				
Net loss:					
As reported .....	\$ (134)	\$ (568)	\$ (1,503)	\$ (3,486)	\$ (3,426)
Pro-forma .....	<u>\$ (144)</u>	<u>\$ (587)</u>	<u>\$ (1,562)</u>	<u>\$ (3,609)</u>	<u>\$ (3,522)</u>
Basic and diluted net loss per share:					
As reported .....	\$ (0.00)	\$ (0.01)	\$ (0.04)	\$ (0.09)	\$ (0.10)
Pro-forma .....	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.09)</u>	<u>\$ (0.10)</u>

**1) Guarantees:**

Obligations under guarantees are not recognized in the financial statements but are disclosed in accordance with the CICA Accounting Guideline AcG-14. The guideline does not apply to product warranties.

**2. Other:**

Other assets at March 31, 2003 and December 31, 2002 include an advance of \$25,000 (December 31, 2001 — nil) to an executive officer of the Company.

**3. Property and equipment:**

	<u>March 31,</u>	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Unaudited)		
Computer equipment and software .....	\$162	\$136	\$112
Office furniture and equipment .....	<u>34</u>	<u>34</u>	<u>34</u>
	196	170	146
Less: Accumulated depreciation .....	<u>138</u>	<u>121</u>	<u>61</u>
	<u>\$ 58</u>	<u>\$ 49</u>	<u>\$ 85</u>

**4. Common stock:**

**a) Authorized:**

130,000,000 shares of common stock with par value of \$0.01 per share.

**b) Transactions:**

2003:

The Company issued 80,694,551 shares of common stock to convertible promissory note holders on the automatic conversion of their promissory notes plus accrued interest earned to March 31, 2003 on that date. Accordingly, the value ascribed to the common stock issued related to the convertible promissory notes was transferred to common stock.

2002:

The Company issued 283,625 shares of common stock to consultants in consideration for services to the Company valued at approximately \$15,000. Stock-based compensation expense of \$15,000 was recorded related to the issuance of this common stock. Stock-based compensation of \$2,000 was recorded related to the issuance of 210,000 stock options to consultants of the Company.

**WORKFORCE LOGISTICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

(Information presented as at March 31, 2003 and for the three months ended  
March 31, 2003 and 2002 is unaudited)

2001:

The Company issued 186,623 shares of common stock to consultants and employees in consideration for services to the Company valued at approximately \$51,000. Stock-based compensation of \$51,000 was recorded related to the issuance of this common stock. Stock-based compensation of \$74,000 was recorded related to the issuance of 496,000 stock options to consultants of the Company. In addition, the Company issued 10,000 shares of common stock to an employee of the Company for cash consideration of \$2,000 under a stock option exercise.

2000:

The Company issued 7,105,000 shares of common stock in a second round financing to investors for proceeds of \$2,750,000.

**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 shares of common stock which may be set aside for issuance under the Plan is 8,000,000 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 four year period. Any option granted which, for any reason, is canceled or terminated prior to its exercise, will become available for grant under the Plan. In accordance with the Plan, the exercise price of options is based on the Board's determination of fair value of the Company's common stock.

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. Actual option terms have generally ranged from five to ten years. Options issued under the Plan are non-transferable.

**d) Continuity of options issued under the Plan:**

A summary of the status of the Plan as of March 31, 2003 and December 31, 2002, 2001 and 2000, and the changes during the periods ended March 31, 2003 and December 31, 2002, 2001 and 2000 is presented below:

	<u>Three Months Ended</u> <u>March 31, 2003</u>		<u>Year Ended</u> <u>December 31, 2002</u>	
	<u>Number</u>	<u>Weighted Average</u> <u>Exercise Price</u>	<u>Number</u>	<u>Weighted Average</u> <u>Exercise Price</u>
	(Unaudited)			
Outstanding, beginning of period .....	3,636,000	\$0.13	3,351,000	\$0.14
Granted .....	—	—	360,000	0.11
Exercised .....	—	—	—	—
Forfeited .....	—	—	(75,000)	0.20
Outstanding, end of period .....	<u>3,636,000</u>	0.13	<u>3,636,000</u>	0.13
Options exercisable, end of period .....	<u>2,847,875</u>	\$0.12	<u>2,674,125</u>	\$0.12
	<u>Year Ended December 31,</u>			
	<u>2001</u>		<u>2000</u>	
	<u>Number</u>	<u>Weighted Average</u> <u>Exercise Price</u>	<u>Number</u>	<u>Weighted Average</u> <u>Exercise Price</u>
Outstanding, beginning of year .....	3,605,000	\$0.14	2,054,167	\$0.10
Granted .....	556,000	0.17	1,705,000	0.19
Exercised .....	(10,000)	0.20	—	—
Forfeited .....	(800,000)	0.20	(154,167)	0.10
Outstanding, end of year .....	<u>3,351,000</u>	0.14	<u>3,605,000</u>	0.14
Options exercisable, end of year .....	<u>1,781,625</u>	\$0.13	<u>500,000</u>	\$0.10

**WORKFORCE LOGISTICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

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

(Information presented as at March 31, 2003 and for the three months ended  
March 31, 2003 and 2002 is unaudited)

e) **Summary of the balances of options issued under the Plan at March 31, 2003 (unaudited):**

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at Mar. 31, 2003	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Number Exercisable at Mar. 31, 2003	Weighted Avg. Exercise Price
\$ 0.05	606,000	3.7 years	\$0.05	606,000	\$0.05
0.10	2,000,000	6.5	0.10	1,625,000	0.10
0.20	880,000	7.5	0.20	491,875	0.20
0.50	150,000	4.4	0.50	125,000	0.50
\$0.05 to 0.50	<u>3,636,000</u>	6.2 years	\$0.13	<u>2,847,875</u>	\$0.12

f) **Summary of the balances of options issued under the Plan at December 31, 2002:**

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at Dec. 31, 2002	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Number Exercisable at Dec. 31, 2002	Weighted Avg. Exercise Price
\$ 0.05	606,000	4.0 years	\$0.05	606,000	\$0.05
0.10	2,000,000	6.8	0.10	1,500,000	0.10
0.20	880,000	7.8	0.20	446,250	0.20
0.50	150,000	4.7	0.50	121,875	0.50
\$0.05 to 0.50	<u>3,636,000</u>	6.5 years	\$0.13	<u>2,674,125</u>	\$0.12

g) **Warrants outstanding:**

Under the Company's second round common stock financing, which was completed in July 2000, 2,215,000 warrants with an exercise price of \$2.00 per share and an expiry date in November 2003 were issued and are outstanding as at March 31, 2003.

5. **Convertible promissory notes:**

a) **Convertible first promissory notes:**

In fiscal 2000, the Company issued \$1,000,000 aggregate principal amount of 9% convertible promissory notes (First Promissory Notes). In fiscal 2001, the Company issued \$3,260,000 aggregate amount of 9% First Promissory Notes. The First Promissory Notes matured on March 31, 2003 and were converted into common stock of the Company at a conversion price of \$0.20 per share. Interest on the First Promissory Notes was due upon maturity, and was also converted into common stock of the Company at a conversion price of \$0.20 per share.

b) **Convertible second promissory notes:**

In fiscal 2002, the Company issued \$1,468,000 aggregate principal amount of 9% convertible promissory notes (Second Promissory Notes). The Second Promissory Notes matured on March 31, 2003 and were converted into common stock of the Company at a conversion price of \$0.028 per share. Interest on the Second Promissory Notes was due upon maturity, and was also converted into common stock of the Company at a conversion price of \$0.028 per share.

The convertible promissory notes are included as equity on the consolidated balance sheet as, based upon their terms, the holders have no ability to require the Company to make any payment of the instrument other than in its common stock.

**WORKFORCE LOGISTICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at March 31, 2003 and for the three months ended  
March 31, 2003 and 2002 is unaudited)

The following table shows the amounts related to the convertible promissory notes that have been included in stockholders' equity and the number of shares of common stock into which those promissory notes would be converted into:

	<b>December 31,</b>			
	<b>2002</b>		<b>2001</b>	
	<b>Shares</b>	<b>Dollars</b>	<b>Shares</b>	<b>Dollars</b>
First Promissory Notes .....	21,299,925	\$4,260	21,299,925	\$4,260
Second Promissory Notes .....	52,410,715	1,468	—	—
	73,710,640	5,728	21,299,925	4,260
Cumulative accrued interest .....	5,294,945	714	1,387,960	278
	<u>79,005,585</u>	<u>\$6,442</u>	<u>22,687,885</u>	<u>\$4,538</u>

**6. Commitments:**

a) **Future minimum lease payments under non-cancelable operating leases are as follows:**

	<b>March 31, 2003</b>	<b>December 31, 2002</b>
	(Unaudited)	
2003 .....	\$149	\$201
2004 .....	190	190
Thereafter .....	—	—
Total minimum lease payments .....	<u>\$339</u>	<u>\$391</u>

Rent expense for the three months ended March 31, 2003 and 2002 and the years ended December 31, 2002, 2001 and 2000 was \$48,000, \$45,000, \$187,000, \$175,000 and \$156,000, respectively. The Company is also responsible for certain common area costs at its leased premises.

b) The Company issued a letter of credit in the amount of C\$10,000 which was outstanding at both March 31, 2003 and December 31, 2002.

**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. 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 U.S. basic federal, state and local income tax rate to net loss before income taxes. These differences result from the following items:

	<b>Three Months Ended March 31,</b>		<b>Year Ended December 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	(Unaudited)				
Combined U.S. basic federal, state and local income tax rate .....	40.0%	40.0%	40.0%	40.0%	40.0%
Increase (decrease) in income tax rate resulting from:					
Change in valuation allowance .....	(40.0)	(41.5)	(35.3)	(39.9)	(39.4)
Other items .....	—	1.5	(4.7)	(0.1)	(0.6)
Effective income tax rate .....	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>

**WORKFORCE LOGISTICS INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
(Amounts in U.S. Dollars, Tabular Amounts in Thousands, Except Share and Per Share Data)  
(Information presented as at March 31, 2003 and for the three months ended  
March 31, 2003 and 2002 is unaudited)

**b) Components of future income tax asset:**

The components of the temporary differences which have created the future income tax asset, are as follows:

	<u>March 31,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u> <u>2001</u>	
	(Unaudited)		
Future income tax assets:			
Non-capital income tax loss carryforwards .....	\$ 3,392	\$3,338	\$2,820
Property and equipment .....	<u>10</u>	<u>10</u>	<u>—</u>
	3,402	3,348	2,820
Less: Valuation allowance .....	<u>(3,402)</u>	<u>(3,348)</u>	<u>(2,820)</u>
Net future income tax asset .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**c) Tax losses:**

The Company has the following non-capital income tax losses available to reduce future years' income for US tax purposes that expire in the years indicated:

<u>Year of expiry</u>	<u>March 31,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
	(Unaudited)	
2019 .....	\$ 192	\$ 192
2020 .....	3,384	3,384
2021 .....	3,475	3,475
2022 .....	1,295	1,295
2023 .....	<u>134</u>	<u>—</u>
	<u>\$8,480</u>	<u>\$8,346</u>

**9. Segmented information:**

The Company operates in a single reportable operating segment, the employee scheduling segment of the workforce management software market. The single reportable operating segment derives its revenue from the sale of software solutions including related services. All of the Company's revenue to date has been derived from customers located within the United States and all of the Company's long-lived assets are located within the United States.

In the three months ended March 31, 2003, two customers of the Company accounted for 78.2% and 17.5% of unaudited net revenue, respectively. In the three months ended March 31, 2002, one customer of the Company accounted for 100% of unaudited net revenue. In the year ended December 31, 2002, two customers of the Company accounted for 63.4% and 28.0% of net revenue, respectively. In the year ended December 31, 2001, three customers of the Company accounted for 48.6%, 36.5% and 14.9% of net revenue, respectively.

**10. Subsequent event:**

Effective April 1, 2003, the net operating assets and liabilities of the Company were sold to a wholly-owned subsidiary of Workbrain Corporation in exchange for promissory notes. Subsequently, the promissory notes were settled by the issuance of cash, common shares and warrants of Workbrain Corporation.

**COMPILATION REPORT ON UNAUDITED PRO FORMA CONSOLIDATED  
FINANCIAL STATEMENTS**

The Board of Directors  
WORKBRAIN CORPORATION

We have read the accompanying unaudited pro forma consolidated statements of operations of Workbrain Corporation (the "Company") for the nine months ended September 30, 2003 and for the year ended December 31, 2002, and have performed the following procedures:

1. Compared the figures in the columns captioned "Workbrain Corporation" to the unaudited consolidated statement of operations of the Company for the nine months ended September 30, 2003, and the audited consolidated statement of operations of the Company for the year ended December 31, 2002, respectively, and found them to be in agreement.
2. Compared the figures in the columns captioned "Workforce Logistics Inc." to the unaudited consolidated statement of operations of Workforce Logistics Inc. for the three months ended March 31, 2003, and the audited statement of operations of Workforce Logistics Inc. for the year ended December 31, 2002, respectively, and found them to be in agreement.
3. Made enquiries of certain officials of the Company who have responsibility for financial and accounting matters about:
  - (a) The basis for determination of the pro forma adjustments; and
  - (b) Whether the unaudited pro forma consolidated statements of operations comply as to form in all material respects with Rule 41-501, *General Prospectus Requirements*.

The officials:

- (a) described to us the basis for determination of the pro forma adjustments, and
  - (b) stated that the unaudited pro forma consolidated statements of operations comply as to form in all material respects with Rule 41-501, *General Prospectus Requirements*.
4. Read the notes to the unaudited pro forma consolidated statements of operations, and found them to be consistent with the basis described to us for determination of the pro forma adjustments.
  5. Recalculated the application of the pro forma adjustments to the aggregate of the amounts in the columns captioned "Workbrain Corporation" and "Workforce Logistics Inc." for the nine months ended September 30, 2003, and for the year ended December 31, 2002, and found the amounts in the columns captioned "Pro Forma Nine months ended September 30, 2003" and "Pro Forma Year ended December 31, 2002" to be arithmetically correct.

A pro forma statement of operations is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro forma adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the unaudited pro forma consolidated statements of operations, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

(Signed) KPMG LLP

CHARTERED ACCOUNTANTS

Toronto, Canada  
December 2, 2003

**WORKBRAIN CORPORATION**

**UNAUDITED PRO FORMA INTERIM CONSOLIDATED STATEMENT OF OPERATIONS**

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

Nine months ended September 30, 2003

	<u>Workbrain Corporation</u> Nine months ended September 30, 2003	<u>Workforce Logistics Inc.</u> Three months ended March 31, 2003	<u>Pro Forma</u> <u>Adjustments</u>	<u>Note</u>	<u>Pro Forma</u> Nine months ended September 30, 2003
Revenue:					
Licence .....	\$ 7,840	\$ 154	\$ —		\$ 7,994
Service, maintenance & other ...	<u>16,481</u>	<u>267</u>	<u>—</u>		<u>16,748</u>
Net revenue .....	<u>24,321</u>	<u>421</u>	<u>—</u>		<u>24,742</u>
Cost of revenue:					
Licence .....	279	—	—		279
Service, maintenance & other ...	12,148	72	—		12,220
Cost of revenue accruals (recoveries), net .....	<u>(553)</u>	<u>—</u>	<u>—</u>		<u>(553)</u>
Total cost of revenue .....	<u>11,874</u>	<u>72</u>	<u>—</u>		<u>11,946</u>
Gross profit .....	<u>12,447</u>	<u>349</u>	<u>—</u>		<u>12,796</u>
Operating expenses:					
Sales and marketing .....	6,216	41	—		6,257
Research and development .....	3,442	272	—		3,714
General and administrative .....	1,321	170	—		1,491
Amortization of acquisition- related intangibles .....	211	—	13	4a)	224
Amortization of stock-based compensation .....	<u>3</u>	<u>—</u>	<u>—</u>		<u>3</u>
Total operating expenses .....	<u>11,193</u>	<u>483</u>	<u>13</u>		<u>11,689</u>
Income (loss) from operations .....	1,254	(134)	(13)		1,107
Interest income — net .....	<u>170</u>	<u>—</u>	<u>—</u>		<u>170</u>
Net income (loss) .....	<u>\$ 1,424</u>	<u>\$(134)</u>	<u>\$(13)</u>		<u>\$ 1,277</u>
Net income (loss) per share:					
Basic .....	<u>\$ 0.21</u>				<u>\$ 0.19</u>
Basic weighted average number of shares .....	<u>6,753</u>		<u>112</u>	4b)	<u>6,865</u>
Diluted .....	<u>\$ 0.11</u>				<u>\$ 0.09</u>
Diluted weighted average number of shares .....	<u>13,400</u>		<u>113</u>	4b)	<u>13,513</u>

See accompanying Notes to Unaudited Interim Pro Forma Consolidated Statement of Operations

**WORKBRAIN CORPORATION**

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**

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

Year ended December 31, 2002

	<u>Workbrain Corporation</u> Year ended December 31, 2002	<u>Workforce Logistics Inc.</u> Year ended December 31, 2002	<u>Pro Forma</u> <u>Adjustments</u>	<u>Note</u>	<u>Pro Forma</u> <u>Year ended</u> <u>December 31, 2002</u>
Revenue:					
Licence . . . . .	\$ 4,320	\$ 275	\$ —		\$ 4,595
Service, maintenance & other . . . .	<u>12,529</u>	<u>464</u>	<u>—</u>		<u>12,993</u>
Net revenue . . . . .	<u>16,849</u>	<u>739</u>	<u>—</u>		<u>17,588</u>
Cost of revenue:					
Licence . . . . .	83	20	—		103
Service, maintenance & other . . . .	8,623	342	—		8,965
Cost of revenue accruals (recoveries), net . . . . .	<u>(359)</u>	<u>—</u>	<u>—</u>		<u>(359)</u>
Total cost of revenue . . . . .	<u>8,347</u>	<u>362</u>	<u>—</u>		<u>8,709</u>
Gross profit . . . . .	<u>8,502</u>	<u>377</u>	<u>—</u>		<u>8,879</u>
Operating expenses:					
Sales and marketing . . . . .	5,905	259	—		6,164
Research and development . . . . .	3,456	1,025	—		4,481
General and administrative . . . . .	2,215	580	—		2,795
Amortization of acquisition- related intangibles . . . . .	—	—	504	4a)	504
Amortization of stock-based compensation . . . . .	<u>268</u>	<u>17</u>	<u>—</u>		<u>285</u>
Total operating expenses . . . . .	<u>11,844</u>	<u>1,881</u>	<u>504</u>		<u>14,229</u>
Income (loss) from operations . . . .	(3,342)	(1,504)	(504)		(5,350)
Interest income — net . . . . .	260	1	—		261
Net income (loss) . . . . .	<u><u>\$(3,082)</u></u>	<u><u>\$(1,503)</u></u>	<u><u>\$(504)</u></u>		<u><u>\$(5,089)</u></u>
Net income (loss) per share:					
Basic . . . . .	<u><u>\$ (0.48)</u></u>				<u><u>\$ (0.75)</u></u>
Basic weighted average number of shares . . . . .	<u>6,359</u>		<u>446</u>	4b)	<u>6,805</u>
Diluted . . . . .	<u><u>\$ (0.48)</u></u>				<u><u>\$ (0.75)</u></u>
Diluted weighted average number of shares . . . . .	<u>6,359</u>		<u>446</u>	4b)	<u>6,805</u>

See accompanying Notes to Unaudited Pro Forma Consolidated Statement of Operations

## WORKBRAIN CORPORATION

### Notes to Unaudited Pro Forma Consolidated Statements of Operations

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

#### 1. Basis of presentation:

The unaudited pro forma consolidated statements of operations of Workbrain Corporation ("Workbrain") for the nine months ended September 30, 2003 and the year ended December 31, 2002 have been prepared by management after giving effect to the acquisition by Workbrain Corporation of the net operating assets of Workforce Logistics Inc. ("Workforce") These unaudited pro forma consolidated statements of operations have been compiled from and include:

- a) A pro forma consolidated statement of operations combining the unaudited consolidated statement of operations of Workbrain for the nine months ended September 30, 2003 (which include the operations of Workforce from the effective acquisition date of April 1, 2003) with Workbrain's share (100%) of the operations of Workforce for the three months ended March 31, 2003 on a consolidated basis based on the unaudited results of operations.
- b) A pro forma consolidated statement of operations combining the audited consolidated statement of operations of Workbrain for the year ended December 31, 2002 with Workbrain's share (100%) of the operations of Workforce for the year ended December 31, 2002, on a consolidated basis based on the audited results of operations.

The unaudited pro forma consolidated statements of operations for the nine months ended September 30, 2003 and the year ended December 31, 2002 have been prepared as if the transaction described in Note 3 had occurred on January 1, 2002.

It is management's opinion that these unaudited pro forma consolidated statements of operations include all adjustments necessary for the fair presentation of the transaction described in Note 3 in accordance with Canadian generally accepted accounting principles applied on a basis consistent with Workbrain's accounting policies. The unaudited pro forma consolidated financial statements are not intended to reflect the results of operations of Workbrain which would have actually resulted had the transaction been effected on the dates indicated. Further, the unaudited pro forma financial information is not necessarily indicative of the results of operations that may be obtained in the future.

The unaudited pro forma consolidated statements of operations should be read in conjunction with the historical consolidated financial statements and notes thereto of Workbrain and Workforce described above.

#### 2. Summary of significant accounting policies:

The unaudited pro forma consolidated statements of operations have been compiled using the significant accounting policies as set out in the audited consolidated financial statements of Workbrain for the year ended December 31, 2002, which are included elsewhere in this prospectus. The significant accounting policies of Workforce conform in all material respects to those of Workbrain.

#### 3. Acquisition of Workforce Logistics Inc.:

Effective April 1, 2003, Workbrain acquired the net operating assets of 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 from the date of acquisition.

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

Working capital .....	\$ 83
Capital assets .....	68
Customer relationships .....	325
Developed technology .....	408
Purchased in-process research and development .....	205
Goodwill .....	<u>2,711</u>
Net assets .....	<u>\$3,800</u>

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.

## WORKBRAIN CORPORATION

### Notes to Unaudited Pro Forma Consolidated Statements of Operations — (Continued)

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

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, Workbrain 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 .....	<u>500</u>
Total consideration .....	<u>\$3,800</u>

The cash and common shares held in escrow will be released after one year, based on satisfaction of indemnification requirements, as defined in the purchase 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 is exercisable into one common share, at an exercise price of \$5.18. Warrants expire at the earlier of three years from the date of issue, or 20 days after a liquidation event, as defined in the warrant agreement.

#### 4. Adjustments to the unaudited pro forma consolidated statements of operations:

- a) A pro forma adjustment has been made to the unaudited pro forma consolidated statements of operations for the year ended December 31, 2002 and for the nine months period ended September 30, 2003 to record 12 months and 3 months of amortization, respectively, on intangible assets, consisting of customer relationships, developed technology, and purchased in-process research and development, being amortized over two years, three years, and one year, respectively.
- b) A pro forma adjustment has been made to reflect the weighted average number of Workbrain's common shares outstanding during the period assuming the acquisition of Workforce and the related share exchange was completed effective January 1, 2002, after giving effect to Workbrain's share capital reorganization concurrent with the closing of Workbrain's initial public offering as more fully described in note 15 (b) in Workbrain's December 31, 2002 audited consolidated financial statements.

## CERTIFICATE OF THE ISSUER

Date: December 3, 2003

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 13 of the *Securities Act* (New Brunswick), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder. For the purposes of the Province of Québec, this prospectus contains no misrepresentation likely to affect the value or the market price of the securities to be distributed.

(Signed) DAVID OSSIP  
Chief Executive Officer

(Signed) MATTHEW CHAPMAN  
Chief Financial Officer

On behalf of the Board of Directors

(Signed) ROGER MARTIN  
Director

(Signed) DAVID GOLDMAN  
Director

## CERTIFICATE OF THE UNDERWRITERS

Date: December 3, 2003

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Section 13 of the *Securities Act* (New Brunswick), by Section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island) and by Part XIV of the *Securities Act* (Newfoundland and Labrador) and the respective regulations thereunder. For the purposes of the Province of Québec, to our knowledge this prospectus contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

RBC DOMINION SECURITIES INC.

CIBC WORLD MARKETS INC.

By: (Signed) Sanjiv Samant

By: (Signed) Kevin W. Dalton

NATIONAL BANK FINANCIAL INC.

By: (Signed) Brian Campbell

GRIFFITHS MCBURNEY & PARTNERS

SPROTT SECURITIES INC.

By: (Signed) J. Robert Fraser

By: (Signed) Jeff Kennedy

## AUDITORS' CONSENT

The Board of Directors of  
WORKBRAIN CORPORATION

We have read the prospectus dated December 3, 2003 relating to the sale and issue of common shares of the Company. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of the Company on the consolidated balance sheets of the Company as at December 31, 2002 and 2001 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. Our report is dated March 14, 2003, except as to note 15 a), which is as of October 24, 2003, and notes 15 b) and c), which are as of December 2, 2003.

(Signed) KPMG LLP

Chartered Accountants

Toronto, Canada  
December 3, 2003

## AUDITORS' CONSENT

The Board of Directors of  
WORKBRAIN CORPORATION

We have read the prospectus dated December 3, 2003 relating to the sale and issue of common shares of Workbrain Corporation. We have complied with Canadian generally accepted standards for an auditors' involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of Workbrain Corporation on the consolidated balance sheets of Workforce Logistics Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. Our report is dated October 21, 2003.

(Signed) KPMG LLP

Chartered Accountants

Toronto, Canada  
December 3, 2003

**w@rkbrain**

ENTERPRISE WORKFORCE MANAGEMENT