

# **BRAINHUNTER INC.**

## **ANNUAL INFORMATION FORM**

**Date of Issue:** December 31, 2007

**Last Fiscal Year End:** September 30, 2007

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## 2.0 CORPORATE STRUCTURE

### 2.1 Name and Incorporation

Brainhunter Inc. (“BH” or the “Company”)

**Executive Office:**

Suite 2000, 2 Sheppard Avenue East, Toronto, ON, M2N 5Y7

**Other Business Offices:**

- 1155 Boul Rene Levesque Ouest, Bureau 2500, Montreal, Que, H3B 2K4
- 1545 Carling Avenue Suite 600 Ottawa, ON, K1Z 8P9
- 6815-8th Street NE, Suite 125, Calgary, AB, T2E 7H7
- 10665 Jasper Avenue, Suite 900, Edmonton, AB, T5J 2K4
- 100 Park Royal, Suite 200, West Vancouver, BC, V7T 1A2
- H.No 8-2-351/1/12, Ground Floor, Fortune -54, Avenue 8, Road No.3, Banjara Hills, Hyderabad – 500 034, Andhra Pradesh, India
- 28 Broadway, St James's Park, London, England, SW1H 9JX

**Registered Office:**

Suite 300, 2355 Skymark Avenue, Mississauga, ON, L4W 4Y6

Brainhunter Inc. was incorporated on January 14, 2000 as Red Lantern Corporation under the *Business Corporations Act* (Alberta) and was classified as a Junior Capital Pool Corporation as defined by Alberta Securities Rule 46-501. The shares of Red Lantern Corporation were listed on the Canadian Venture Exchange on August 23, 2000, which exchange subsequently became the TSX Venture Exchange.

On June 21, 2002, Red Lantern Corporation was continued into Ontario and concurrently changed its name to TrekLogic Technologies Inc.

On November 14, 2003, the shares of TrekLogic Technologies Inc. were listed on the Toronto Stock Exchange.

On May 20, 2004, TrekLogic Technologies Inc. changed its name to Brainhunter Inc.

### 2.2 Inter-Corporate Relationships

As at September 30, 2007, the BH corporate structure was as follows:

Subsidiary companies. owned 100%:

- TrekLogic Inc.
- Brainhunter Canada Inc.
- Protec Employment Services Limited
- Brainhunter (Ottawa) Inc.
- Vision2Hire Solutions Inc.
- Brainhunter Recruiting (India) Private Limited
- Brainhunter Venture Partnerships Inc.
- Brainhunter UK Limited

Partially-owned companies:

- Siolink Solutions Inc. (40% interest)

All subsidiaries are incorporated or continued under the laws of Ontario or the laws of Canada, except Brainhunter Recruiting (India) Private Limited which is incorporated under the laws of India, and Brainhunter UK Limited which is incorporated under the laws of the United Kingdom.

## 3.0 GENERAL DEVELOPMENT of the BUSINESS

### 3.1 Overview

Brainhunter is an ISO 9001:2000 Certified “**Technology Driven Staffing Procurement Services and Solutions**” company. Brainhunter’s business is focused on using the Brainhunter Human Capital Management Platform to provide fully integrated end-to-end recruiting and staffing services and solutions in the following market sectors: Information Technology, Engineering, Industrial and Health Care.

These services are provided to customers throughout Canada, the United States and globally under the brand Brainhunter. Brainhunter’s multifaceted revenue stream is in seven related practice areas including:

**Contract Staffing** (Annuity Revenue), **Permanent Staffing** (Transaction Fees / Retainers), **Specialized Job Boards** (Posting Fees / Subscriptions), **Technology Sales** (Licenses / Services), **Professional Services / Solutions Delivery** (Project Revenue), **Business Process Outsourcing (“BPO”) Centre** (Annuity Revenue), **Infrastructure Services** (Annuity Revenue)

Brainhunter’s Technology Platform and Best practices strive to deliver the most cost effective and flexible recruiting and staffing solutions in the marketplace today. Brainhunter offers solutions that are modular in nature and are customizable to suit both small and large scale business processes. Brainhunter’s customer base includes over 200 of North America’s leading corporation’s plus over 30 federal and provincial government departments.

Brainhunter's Job Seeker Database currently holds over 1.2 million professional resumes and is one of the largest active databases for professional staffing in North America.

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange (**TSX:BH**). Brainhunter deploys over 1,600 Contractors / Consultants with an internal staff of over 200 personnel. The Company has delivery capability in Toronto, Ottawa, Maritimes, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian China, a BPO office in Hyderabad, India and delivery capability in select US jurisdictions.

## **3.2 History**

### **3.2.1 Company Formation**

TrekLogic Inc. ("TrekLogic") was incorporated under the *Business Corporations Act* (Ontario) as a private company on August 27, 1997. The purpose of TrekLogic was to provide software solutions to clients, primarily Sun Microsystems Inc. In 1999, TrekLogic earned the highly-desired designation "Sun Microsystems Strategic Partner", due to its extensive knowledge of UNIX and the Sun operating systems, knowledge which allows it to be a leader in consulting and migration projects relating to Sun operating systems.

On October 1, 2001, TrekLogic amalgamated with Stepping Solutions Inc. with the resulting company named TrekLogic Inc. Stepping Solutions Inc. was formed in 1999 and was in the business of providing contract staffing, primarily to the Government of Ontario. A wholly-owned subsidiary of Stepping Solutions Inc., Next Millennium Inc., became a wholly-owned subsidiary of TrekLogic Inc. Next Millennium Inc. was in the business of reselling software.

On June 21, 2002, Red Lantern Corporation, an Alberta company classified as a Junior Capital Pool Corporation as defined by Alberta Securities Rule 46-501, was continued into Ontario and concurrently changed its name to TrekLogic Technologies Inc.

On June 25, 2002, TrekLogic Inc. completed a reverse take-over transaction with TrekLogic Technologies Inc. Under the terms of the transaction agreement, TrekLogic Technologies Inc. acquired 100% of the shares of TrekLogic Inc. in an exchange for shares of TrekLogic Technologies Inc. so that the controlling shareholders of TrekLogic Inc. became the controlling shareholders of TrekLogic Technologies Inc. and TrekLogic Inc. became a 100% owned subsidiary of TrekLogic Technologies Inc. The reverse take-over transaction is being accounted for in the financial statements of TrekLogic Technologies Inc. as a purchase with TrekLogic Inc. as the purchaser.

On July 22, 2002 the TSX-Venture Exchange announced that it was accepting for filing the qualifying transaction of TrekLogic Technologies Inc. (formerly Red Lantern Corporation), that being the acquisition of TrekLogic Inc.

On November 14, 2003, TrekLogic Technologies Inc. was listed and began trading on the Toronto Stock Exchange.

On May 20, 2004, TrekLogic Technologies Inc. changed its name to Brainhunter Inc.

### **3.2.2 Acquisitions**

#### **Xycorp Inc.**

On July 25, 2002 the Company acquired Xycorp Inc., a privately held company, located in Toronto, Ontario, which is in the business of providing contract IT personnel to major companies such as IBM and Manulife Insurance, and various ministries of the Government of Ontario. In addition, it places IT personnel on a permanent basis. Purchase price was \$1,000 plus future payments based on cash flow to a maximum of \$300,000.

#### **Brainhunter.com Ltd.**

Effective March 31, 2003, the Company acquired all of the issued and outstanding shares of Brainhunter.com Ltd. ("Brainhunter"), a web-enabled end-to-end recruitment technology platform. Consideration for the purchase, totalling \$4,083,831, consisted of 2,186,110 Series A preferred shares of the Company valued at \$1,093,055, three-year vendor-take-back notes totalling \$1,298,749 of which \$840,367 is paid in cash as a percentage of revenue over time and \$458,382 is paid in Company common shares at the prevailing market price at maturity, net cash of \$1,643,527, and transaction costs of \$48,500.

#### **InBusiness Solutions Inc.**

Effective May 1, 2003, the Company acquired 62.3% of the issued and outstanding shares of InBusiness Solutions Inc. ("InBusiness"), an information technology solutions and services company listed on the TSX Venture exchange. Consideration for the purchase consisted of \$2,000,000 in cash plus transaction costs of \$37,433. Because the Company acquired control of InBusiness, the InBusiness acquisition has been accounted for in accordance with the purchase method of accounting.

On December 11, 2003 the Company issued an offer to acquire all issued and outstanding common shares including options and warrants of not already owned by the Company for a cash price of \$0.15 per share. On December 11, 2003 the Company held 30,000,000 of the 48,157,307 issued and outstanding common shares of InBusiness as well as 30,000,000 common share purchase warrants exercisable at \$0.10 per warrant for the period ending April, 2005.

In April, 2004, the Company, having obtained all outstanding shares of InBusiness, obtained regulatory consent to have InBusiness cease to be a reporting issuer in Canada.

**IT Assets of Thinkpath Inc.**

On June 27, 2003, the Company acquired the information technology (“IT”) assets of Thinkpath Inc. (“Thinkpath”). These assets include the ongoing business of contract IT staff and the use of the Thinkpath brand in Canada for IT staffing. The assets were acquired for \$200,000 cash, a promissory note for \$60,000, and transaction costs of \$19,136.

**Advanced Solutions Group Inc.**

Effective June 30, 2003, the Company acquired all of the issued and outstanding shares of Advanced Solutions Group Inc., an information technology solutions company. Consideration for the purchase, totalling \$254,269, consisted of 100,000 common shares of the Company valued at \$135,000, 50,000 common share purchase warrants of the Company valued at \$5,865, net cash of \$82,608, and transaction costs of \$30,796.

**ProTec Employment Services Limited**

Effective July 31, 2003, the Company acquired all of the issued and outstanding shares of ProTec Employment Services Limited, operating as “ProTec Global Staffing, an engineering and industrial staffing company. Consideration for the purchase, totalling \$1,570,293, consisted of 1,000,000 common shares of the Company valued at \$1,200,000, a promissory note for \$300,000, 101,000 common share purchase warrants of the Company valued at \$48,055 and transaction costs of \$22,238. Additionally, a contingent consideration may be incurred of up to \$500,000 in cash and additional warrants based on certain income benchmarks, through September 30, 2007.

**Prolink Consulting Inc.**

Effective October 1, 2003, the Company acquired 100% of the shares of Prolink Consulting Inc. (“Prolink”), an information technology staffing company. Consideration for the purchase, totalling \$1,857,675, consisted of 550,000 common shares of the Company with a deemed value of \$2 per share, 355,000 common share purchase warrants valued at \$108,154, net cash of \$457,311, and transaction costs of \$108,390. All shares have escrow periods of up to three years tied to management contracts and performance criteria. Results of Prolink are included in the consolidated financial statements of the Company as of the effective date.

**Sirius Consulting Group Inc.**

Effective November 1, 2003, The Company acquired 100% of the shares of Sirius Consulting Group Inc. (“Sirius”), an information technology staffing company. Consideration for the purchase, totalling \$5,741,818, consisted of a \$1.0M two-year transferable convertible note at an interest rate tied to the 90-day treasury bills rate, exercisable at \$3.00 per common share of the Company, net cash of

\$4,123,739, and transaction costs of \$474,848. The convertible note has quarterly repayment terms over a two-year period. Results of Sirius are included in the consolidated financial statements of the Company as of the effective date.

**Vision2Hire Solutions Inc.**

Effective November 30, 2004, Vision2Hire Solutions Inc (“V2H”) was acquired for a total consideration of \$689,964 consisting of cash of \$100,798, a zero-interest note payable of \$446,054 convertible for a term of 3 years to Brainhunter shares at an exercise price of \$2.00 per share, and transaction costs of \$143,112. One senior technical sales executive joined Brainhunter as a result of the acquisition and all technology and sales support has been taken over by Brainhunter.

**Promethean Systems Consultants Inc.**

Effective January 1, 2005, 100% of Promethean Systems Consultants Inc. (“Promethean”) was acquired for a total consideration of \$294,252 consisting of 150,000 shares of the Company and 511,125 share purchase warrants of the Company exercisable at a price of \$1.00 per share for a period of 4 years. In addition, the Company guaranteed bank debt of the former shareholders of Promethean in the amount of \$100,000 and incurred transaction costs of \$26,000. Promethean was acquired to expand the range of solutions services offered and to consolidate existing opportunities in the Contract Staffing sector. Results of Promethean are included in the consolidated financial statements of the Company as of the effective date.

**AJJA Information Technology Consultants Inc.**

On October 11, 2005, 100% of the common and preference shares of AJJA Information Technology Consultants Inc. ("AJJA"), an information technology staffing company, were acquired for cash, convertible notes, and zero-interest vendor-take-back loans. The convertible notes have a nominal value of \$4,000,000 and are to be repaid \$325,000 quarterly plus interest beginning December 31, 2006 and \$337,500 quarterly plus interest beginning June 30, 2007. Interest is payable on each payment date at the rate equivalent to that on a 90-day Canadian Treasury Bill for the 90-day period immediately preceding each payment date, with interest accruing from October 1, 2006. The notes are convertible over their term to common shares of the Company at an exercise price of \$1.00 per share. In accordance with CICA 3860, the convertible notes are to be separated into two components: a financial liability to make future payments and an equity instrument that is effectively a call option granting the holder the right, for a specified period of time, to convert into common shares of the Company. The Company has calculated the fair value of the financial liability component of the convertible notes to be \$3,122,573 by discounting the quarterly payments of principal plus estimated interest using an effective interest rate of 15% per annum. This discount on the convertible notes is being charged to interest expense over the term of the loan. The carrying amount of the equity instrument, \$877,427, was determined by deducting the fair value of the financial liability from the

amount of the convertible notes as a whole. The zero-interest vendor-take-back loans have a nominal value of \$2,200,000 and are to be repaid \$36,667 monthly for 60 months. The Company has calculated the fair value of the vendor-take-back loans to be \$1,541,268 by discounting the monthly payments using an effective interest rate of 15%. This discount on the vendor-take-back loans is being charged to interest expense over the term of the loans. The results of AJJA have been consolidated commencing October 11, 2005.

#### **iGate Mastech Ltd.**

On November 16, 2005, 100% of the common shares of iGate Mastech Ltd. ("iGate"), an information technology staffing company, were acquired for cash and a promissory note. The promissory note has a nominal value of \$500,000 that is due November 16, 2007. The promissory note pays interest only quarterly at the rate equivalent to that on a 90-day Canadian Treasury Bill for the 90-day period immediately preceding each payment date. The Company has calculated the fair value of the promissory note to be \$399,829 by discounting the nominal value plus the stream of estimated quarterly interest payments using an effective interest rate of 15% per annum. This discount on the promissory note is being charged to interest expense over the term of the note. The results of iGate have been consolidated commencing November 16, 2005. On March 24, 2006 iGate was renamed Brainhunter Integrated Staffing Services Inc.

### **3.2.3 Financings**

#### **\$430,325 Private Placement**

On December 23, 2002, the Company received regulatory approval and closed off a private placement of \$430,325, for which it issued 1,229,500 units, each unit consisting of one common share and one purchase warrant. Each warrant entitled the holder to acquire one common share at \$0.35 in the first year and at \$0.40 in the second year

#### **\$4,000,000 Private Placement**

On April 15, 2003, the Company closed a Private Placement Financing for a total of \$4,000,000 in gross proceeds. In connection with the Financing, 6,000,000 common shares and 2,000,000 Convertible Preferred Shares were issued, all shares issued at \$0.50 per share. The Convertible Preferred Shares are convertible to 2,000,000 common shares at the option of the holder of the Convertible Preferred Shares. All shares are subject to a four-month hold period, normal for Private Placement Financing of this size and nature. As part of the costs of the financing, the Company issued, to the broker who arranged the financing, 600,000 warrants as a Compensation Option, exercisable for two years from date of closing at \$0.50 per share.

#### **\$3,300,000 Private Placement**

On July 10, 2003, the Company closed a Private Placement Financing for a total of \$3,300,000 in gross proceeds. In connection with the Financing, 4,285,714

common shares and 428,571 Convertible Preferred Shares were issued, all shares issued at \$0.70 per share. The Convertible Preferred Shares are convertible to 428,571 common shares at the option of the holder of the Convertible Preferred Shares. As part of the costs of the financing, the Company issued, to the broker who arranged the financing, 257,142 warrants as a Compensation Option, exercisable for two years from date of closing at \$0.70 per share. Additionally, a financial advisor was paid 50,000 Options on the same terms for corporate services.

#### **\$10,000,000 Private Placement**

On February 2, 2004, the Company completed a private placement of 5,555,556 common shares at \$1.80 per share for gross proceeds of \$10.0M. In connection with this private placement, the Company issued compensation warrants exercisable to acquire an aggregate of 283,335 common shares at \$1.88. Insiders acquired approximately \$3.7M of the financing.

#### **\$20,000,000 Term Facility**

On November 16, 2005, the Company obtained a revolving demand credit facility of \$20,000,000 from a Schedule "A" bank, with a term of two years, bearing interest at prime plus 0.5% to 1.5%, depending on a specific bank covenant ratio, collateralized by a general security agreement that constitutes a first charge over all the assets of the Company. A portion of the proceeds was used to retire the \$10,000,000 facility in place on September 30, 2005. On September 22, 2006, the facility was increased to \$22,000,000. On May 14, 2007 the facility was increased to \$26,000,000.

#### **\$5,000,000 Debenture**

On November 16, 2005, the Company issued a debenture for \$5,000,000, repayable on December 15, 2008, paying interest only during the term on a quarterly basis at 12% per annum. The debenture is collateralized by a floating charge on all assets, subordinated only to the general security agreement held by the Company's bank. The lender was issued 1,000,000 common share purchase warrants of the Company, exercisable at \$1.00 per common share at any time, with total return to the lender guaranteed at 15%.

#### **\$7,856,000 Convertible Notes**

In November 2005, the Company issued convertible notes of \$7,856,000 with a term of three years, paying interest only during the term at 8% per annum. The notes are collateralized by a floating charge on the Company's assets, subordinated to the security of the Company's bank and the debenture. The notes are convertible at \$1.50 of the face value per common share at any time, and were accompanied by 500 common share purchase warrants of the Company per \$1,000 face value, exercisable at \$1.00 per common share at any time. After a year, should the Company's common shares trade above a weighted average trading price of \$2.00 over 20 days, the Company retains the option to require holders of these convertible notes to convert or redeem them.

### **\$2,586,000 Convertible Notes**

On February 2, 2007, the Company closed a convertible note financing, raising \$2,586,000. The principal is repayable only at maturity, being February 2, 2009. Interest is accrued quarterly at 10% per annum in cash or shares of the Company at the option of the note-holder. The notes are convertible at any time to shares of the Company at a price of \$0.75 per share. Each \$100 note was entitled to 50 common share purchase warrants exercisable at \$0.60 per share until February 2, 2009. Approximately 50% of the financing was subscribed to by the Company management and directors.

## **3.3 Dispositions**

The Company has made no dispositions of companies or businesses since inception.

## **3.4 Industry Trends**

Management believes that there are trends in North America, which will provide the Company with significant opportunities over the immediate future to profitably expand the business of the Company:

- The continuing trend by primary IT users to “outsource” IT development projects to Solutions providers like Brainhunter to avoid having a large IT infrastructure
- The continuing trend by large scale Information Technology users and Systems Integrators to use IT contractors for projects in lieu of using permanent employees

Management believes that the IT development sector will continue to expand over the coming years as the economy generally recovers from the economic doldrums of the first years of the 21<sup>st</sup> century.

Management believes that the time is opportune to effect a consolidation strategy within the IT Contract Staffing industry.

## **4.0 NARRATIVE DESCRIPTION of the BUSINESS**

### **4.1 Introduction**

Brainhunter is a high value added technology company providing end-to-end HCM Solutions based on proprietary technology and processes under the brand BRAINHUNTER to a wide variety of corporate and government clients on a national scale. Brainhunter's HCM solutions are structured across two primary categories:

1. **Contract & Permanent Staffing Services** are the key focus of the Company. This is a high growth opportunity where revenue is driven from annuity contract and permanent staffing placements. The HCM marketplace, in particular contract staffing solutions, represents over 10% of the North American GDP, and approximately \$5.89 billion of contract Staffing Services in Canada alone. Brainhunter's HCM technology platform provides a significant competitive advantage allowing Brainhunter to create, develop and manage Strategic Staffing Services relationships with clients where the focus is on providing the client with an end-to-end staffing solution with emphasis on becoming the dominant provider of annuity contract staffing and permanent staffing placements in Canada.
2. **Solutions Delivery** is comprised of approximately 75 highly specialized technical employees supporting a strong core, highly profitable solutions business that is an enabler in managing the Brainhunter HCM technology platform providing the engine driving Brainhunter's high growth Staffing Services consolidation strategy. Additionally, the Solutions division manages the research and development initiatives and ASP infrastructure that drives an ever-increasing licensing fees revenue stream from HCM Solutions sales; and fast growing posting revenues generated from over 85 internally-hosted specialized job boards.

### **4.2 Staffing Business**

#### **Staffing Business Overview**

The Staffing Business is composed of the businesses of Brainhunter Canada Inc., Brainhunter (Ottawa) Inc., and Protec Employment Services Limited,

#### **Nature of Business**

Brainhunter is creating a staffing business, focused on providing contract consultants primarily to the Information Technology (IT) sector and secondarily to the engineering sector using a technologically advanced recruiting platform

(the Brainhunter recruiting platform) that offers a significant competitive advantage and a strong point of differentiation from competitive staffing providers. Based on this competitive advantage as well as the Company's management expertise in the contract staffing industry, Brainhunter will execute a consolidation strategy to become the leading technology staffing firm in Canada.

### **Brainhunter Technology Advantage**

The core technology for the Brainhunter recruiting platform is the database engine that captures, screens, and presents candidates to clients in an accurate and timely manner. The proprietary matching algorithms rely on translating our recruiting and screening techniques developed over the past 20 years into an automated computer system. The platform offers a cost effective WEB based enterprise total staffing solution with the same or better level of service than traditional employment agencies. Management believes that the Brainhunter technology currently has no significant direct competitor that provides a WEB-based total staffing solution exactly similar to Brainhunter.

### **Business Process Outsourcing ("BPO") centre in India**

In March 2005, the Company launched its BPO centre in India. The BPO centre is a core component of Brainhunter's strategy to provide its customers with the most comprehensive recruiting and staffing services and solutions in the marketplace today. Together with a fully integrated technology platform encompassing Applicant Tracking Systems, Vendor Management Systems, Back Office Systems, a network of over 100 specialized Job Boards and one of the largest active databases of professionals in North America, the BPO Centre adds to Brainhunter 24/7 recruiting capability for contract staffing in both Canada and the United States, telemarketing support for Job Board sales initiatives and supports strategic initiatives in India focussed on total outsourcing solutions. Initially, Brainhunter's BPO services will focus on industry verticals where Brainhunter has strong domain knowledge, expertise and business relationships, namely systems integration & consulting, financial services, insurance, petrochemical, telecom, retail and healthcare. Emphasis is on business processes where Brainhunter has specialized knowledge and where the value proposition for our customers has an immediate ROI impact. Additionally, the BPO Centre is providing contract and permanent staffing services to multinational corporations with a presence in India.

### **Target Market**

Brainhunter is targeting a select set of clients across all major industries and geographic locations and especially Fortune 1000 clients and emerging growth companies utilizing skilled or professional labor, as well as Canadian federal and provincial government ministries and agencies. Geographically the main target areas are Toronto, Ottawa, Montreal, Calgary, Edmonton, Vancouver and Brainhunter will selectively support its base of global customers internationally.

**Toronto** is extremely attractive because of the historical relationship and existing

brand equity through the staffing entities acquired by the Company: Thinkpath IT, Xycorp, Brainhunter, Prolink, ProTec, Promethean, and iGATE. Most of these companies have been in existence for many years (between 6 and 28 years) with substantial staffing relationships and Vendor of Record status. We can therefore continue to penetrate the existing accounts and win more business in this large market in a short period of time, through the application of the sophisticated technology advantage. It is our belief that the build up of the critical mass, our combined size and capability will also allow us to effectively compete against large players for the major accounts in our target market. This belief has been supported by several major client “wins” over the last 12 months. In the IT staffing market, size, financial strength and stability factors are all important in winning major accounts.

**Ottawa** represents the Canadian City with the largest demand for technology professionals, and has been and will continue to be the home to most of the Canadian emerging technology growth companies, when the economical cycle reverses. This market is also fortunate to have the bulk of the federal government IT business. InBusiness, Sirius, and AJJA, our Ottawa based acquisitions, have an established presence in Ottawa spanning 25 years. They have substantially penetrated the federal government and Brainhunter continues to build its combined market share within the government entities.

### **Consolidation Opportunity**

The highly fragmented nature of the industry, combined with the scalability of Brainhunter’s front-end marketing & recruiting platform, back-end financial system and management and financial expertise present a large consolidation business opportunity.

The US has experienced a high degree of consolidation over the last 30 to 40 years. Most of the large US staffing firms referenced were grown through large amounts of acquisition.

In Ontario alone, there is an estimated 576 technology staffing companies with sales ranging from less than \$1 million to approximately \$200 million. Many of the operators run their business operation at a very unsophisticated small business level. Also, many of these operators are at or nearing retirement without a clear exit strategy to capitalize of the value built in the business.

Because staffing is a service business, there are very little fixed assets to dispose of or integrate into the post merged entity. The integration efforts are primarily focused on receivables, client relationships, consultant’s relationships, the sales & recruiting team and forging a common corporate cultures, business values and to use established business practices.

Brainhunter’s infrastructure, financial position, operational Best Practices, sound management and operational capability is extremely well positioned to execute a

similar, “tried & true”, proven consolidation strategy in the Canadian market to develop and emerge as the largest, leading technology staffing firm in the country.

## **Industry Analysis----The Staffing Industry Size and Growth Drivers**

The North American staffing industry has been estimated to be worth in excess of \$US102 billion (SI Report). The industry has experienced a growth rate of over 14% from 1993 through 2000, slowed in 2001 and 2005. This growth rate is expected to continue into the future (SI Report). There is healthy growth rate within the industry-by-industry segment. The temporary help segment continues to dominate the market. This growth trend is expected to continue as more professional and technical workers pursue alternate employment options and the provision of their services as consultants as opposed to being full-time employees. Even though the PEO (Professional Employment Organization) is in a separate category, there is also a compelling argument that this may well be classified as temporary help.

Business expansion continues to drive job growth in North America. The technology sector (engineering and information technology) and Health Care continues to be forecasted as the main areas of growth. Despite the cyclical downturn in the economy, a severe shortage of technology and Health Care professionals is expected to plague Canada and the US.

The latter half of 2006 has seen a tightening of the supply/demand gap for Technical Professionals. This has been accompanied by an increase in the billing and wage rates for IT Contractors. (HCM Report Reference, SunTrust Robinson Humphrey<sup>SM</sup>, Safari Snapshots, December 1, 2006)

Moreover, this growth is also fueled by business expansion in the non-technology sectors. The accounting and finance sector is experiencing job growth between 30%-40% per annum (SI Report). There is also substantial growth in the management, sales and marketing, technical recruiting and other general non-technology areas.

Demand for health care services are also increasing. Many health care workers themselves are retiring and requiring health care services. For instance, the average U.S. nurse is 49 years old. The health care industry is now positioned to rival IT as the staffing sector with the greatest shortage of skilled personnel. The U.S. Bureau of Labour statistics project that nearly half of the 30 fastest growing occupations between 1999 and 2006 will be health services related.

## **Structure**

The US and Canadian staffing industry is highly competitive and fragmented. There is specialization along many lines. For example, some agencies may specialize along verticals such as engineering, accounting and finance, health care, IT, sales and marketing and many other verticals along job function. Other agencies have developed sub-specialization and are focused on certain market niches within verticals. For example, some agencies sub-specialize in IT contracting and may further focus on the provision of specific IT skill-sets or software solution such as SAP programs or JD Edwards System specialists. Moreover, these smaller agencies tend to be local and operate within narrow geographic segments.

While there is very little start up capital required entering the agency business, there are substantial barriers to growth. Specialization, low barriers to entry and limited geographic focus have resulted in high fragmentation. There are, however, a number of very large agencies. These agencies are generalists serving many employment verticals, international, national or at least spanning many geographic areas, and are often publicly traded companies. These companies have market capitalization of over US\$400 million, ranging to the largest, Adecco SA, with a market capitalization of US\$13.1 billion.

### **4.3 Solutions Delivery Business**

Brainhunter Inc.'s subsidiary's TrekLogic Inc. ("TrekLogic") and a portion of the recent acquisition of Promethean Systems Consultants Inc. ("Promethean") are an Information Technology ("IT") Services company's providing software solutions services to a high profile client base primarily in the U.S. and are built around a number of high value-added specialty practice areas where TrekLogic have a competitive advantage, either due to specialized expertise or proprietary software tools used in the provision of services. TrekLogic is committed to making the investment in developing both software tools and highly trained personnel that results in a distinct competitive advantage.

TrekLogic are providers of IT solutions to other businesses. They are focused in the following areas:

- Software Solutions. This is the primary business. Specializing in the design, development and maintenance of software solutions that facilitate electronic commerce based upon Internet technology;
- migration of application systems and data between operating platforms;
- custom software solutions; and
- consultancy projects.

It is the view of management that there are significant benefits to be derived from the joining together of the software solutions and the contract staffing businesses. By having a contract staffing business, the software solutions business has access

to a large pool of available software talent, and is able to quickly identify the most appropriate people when solutions projects require additional resources. At the same time the contract staffing business provides excellent qualified leads to upcoming major projects through its large base of relationships in the IT world.

The market for the services offered by TrekLogic is, in practical terms, limited only by the Company's ability to grow in a manner, which allows the Company to maintain its high standards of quality and customer satisfaction.

The Company's competitive advantage lies in its ability to provide services based on either a technology advantage (i.e. proprietary software tools) or a domain knowledge, (i.e. specific industry expertise).

## **4.4 Employees**

As of the date of this Annual Information Form, the Company has approximately 250 employees in its offices in Toronto, Ottawa, Montreal, Calgary, Edmonton, Vancouver, activities in Dalian China and a BPO office in India.

## **4.5 Risk Factors**

The Company is subject to a number of risks and uncertainties that could significantly affect the Company's future results of operations and financial condition.

### **Competition**

The Company operates in intensely competitive markets. Market conditions may in the future be such that obtaining good margins becomes a particular challenge.

### **Failure of a Key Customer**

The Company deals only with customers, which, in its opinion can be relied upon to pay for the services rendered. Nevertheless, there is always the possibility that some customer may experience difficulties, which may affect the collection of all of the funds owed to the Company by that customer. This risk is mitigated by the fact that only one single customer represents 15% of revenues with all other customers representing less than 10% of revenues. The Federal Government of Canada and its agencies represented about 45% of total revenues in Fiscal 2006 and approximately 32% of its accounts receivable at September 30, 2006.

### **Foreign Currency Risk**

The Company earns approximately 4% of its revenues in US dollars. A sudden significant shift in the exchange rates could affect the realization of funds receivable.

**Interest Rate Risk**

The Company is exposed to interest rate fluctuations as the interest rate on its term bank facility is tied to prime interest rates.

**Legal Proceedings**

The company is involved in several pieces of litigation. Management believes that any necessary provisions have been made in the accounts of the Company, but the outcome of the litigation is not certain.

## 5.0 FINANCIAL INFORMATION

### 5.1 Annual Information

#### Balance Sheet as at September 30 (\$,000)

	2007	2006	2005
Current Assets	\$46,523	\$41,423	\$17,435
Non-current Assets	37,257	42,285	20,658
<b>Total Assets</b>	<b>\$83,780</b>	<b>\$83,708</b>	<b>\$38,093</b>
Current Liabilities	\$27,779	\$28,376	\$18,602
Non-current Liabilities	42,936	38,754	1,055
Total Liabilities	70,715	67,130	19,657
Shareholder Equity	13,065	16,578	18,436
<b>Total Liabilities and Equity</b>	<b>\$83,780</b>	<b>\$83,708</b>	<b>\$38,093</b>

#### Statement of Operations for the year ending September 30 (\$,000 except earnings per share)

	2007	2006	2005
<b>Revenue</b>	<b>\$224,565</b>	<b>\$166,504</b>	<b>\$76,061</b>
Cost of Sales	190,505	138,830	59,984
<b>Gross Margin</b>	<b>34,060</b>	<b>27,673</b>	<b>16,077</b>
Other Operating Costs	26,292	24,627	15,128
<b>Income before write off of capital assets, transaction costs, interest, amortization, and other</b>	<b>7,768</b>	<b>3,046</b>	<b>949</b>
Interest	4,478	3,602	475
Amortization	5,638	5,606	2,012
Other	605	-	-
<b>Earnings before Tax</b>	<b>(2,953)</b>	<b>(6,162)</b>	<b>(1,538)</b>
Tax	(2)	(1,462)	1,853
<b>Net Earnings</b>	<b>(\$2,951)</b>	<b>(\$4,700)</b>	<b>(\$3,391)</b>
Earnings per share-basic	(\$0.07)	(\$0.11)	(\$0.08)
Earnings per share-fully diluted	(\$0.07)	(\$0.11)	(\$0.08)

## **6.0 MANAGEMENT DISCUSSION and ANALYSIS**

### **6.1 Management Discussion and Analysis for the year ending September 30, 2007**

#### **BASIS OF PRESENTATION**

The Management's Discussion and Analysis, dated December 31, 2007 should be read in conjunction with the audited consolidated financial statements and the accompanying notes. Additional information relating to Brainhunter Inc. ("Brainhunter") is available on SEDAR.

The Company's audited consolidated financial statements and accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP") of the Canadian Institute of Chartered Accountants ("CICA") using the same accounting policies and methods as the most recent audited consolidated financial statements. All dollar amounts are in Canadian dollars unless otherwise indicated.

#### **FORWARD-LOOKING STATEMENTS**

Certain statements in this MD&A may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Brainhunter and its subsidiary entities, or the industry, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in Brainhunter's publicly filed documents (which are available on SEDAR at [www.sedar.com](http://www.sedar.com)) and elsewhere in this document. The risks and uncertainties include: the ability to maintain profitability and manage growth; reliance on and retention of professionals; competition; performance obligations and client satisfaction; fixed price and contingency engagements; collectability of accounts receivable; general state of the economy; possible acquisitions; possible future litigation; interest rate fluctuations; insurance limits; legislative and regulatory changes; revenue and cash flow volatility; operating risks; residential market risk; protection of intellectual property; appraisal mandates; restrictions on growth. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, Brainhunter cannot assure investors that actual

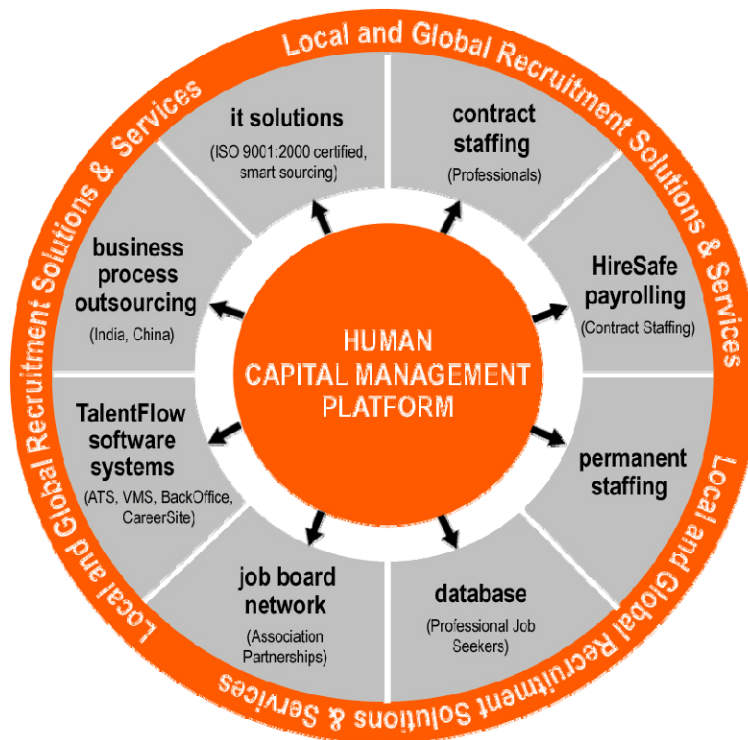
results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and, except in accordance with applicable law, Brainhunter assumes no obligations to update or revise them to reflect new events or circumstances. Additionally, Brainhunter undertakes no obligation to comment on analyses, expectations or statements made by third parties in respect of Brainhunter, its financial or operating results, or its securities.

## BUSINESS OVERVIEW

Brainhunter is an ISO 9001:2000 Certified “**Technology Driven Staffing Procurement Services and Solutions**” company. Brainhunter’s business is focused on using the Brainhunter Human Capital Management Platform to provide fully integrated end-to-end recruiting and staffing services and solutions in the following market sectors: Information Technology, Engineering, Industrial and Health Care.

These services are provided to customers throughout Canada, the United States and globally under the brand Brainhunter. Brainhunter’s multifaceted revenue stream is in seven related practice areas including:

**Contract Staffing** (Annuity Revenue), **Permanent Staffing** (Transaction Fees / Retainers), **Specialized Job Boards** (Posting Fees / Subscriptions), **Technology Sales** (Licenses / Services), **Professional Services / Solutions Delivery** (Project Revenue), **Business Process Outsourcing (“BPO”) Centre** (Annuity Revenue), **Infrastructure Services** (Annuity Revenue)



Brainhunter's Technology Platform and Best practices strive to deliver the most cost effective and flexible recruiting and staffing solutions in the marketplace today. Brainhunter offers solutions that are modular in nature and are customizable to suit both small and large scale business processes. Brainhunter's customer base includes over 200 of North America's leading corporation's plus over 30 federal and provincial government departments. Brainhunter's Job Seeker Database currently holds over 1.2 million professional resumes and is one of the largest active databases for professional staffing in North America.

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange (**TSX:BH**). Brainhunter deploys over 1,700 Contractors / Consultants with an internal staff of over 250 personnel. The Company has delivery capability in Toronto, Ottawa, Maritimes, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian China, a BPO office in Hyderabad, India and delivery capability in select US jurisdictions.

## **REVIEW OF OPERATIONS**

### **Revenues**

Revenues for the fiscal year ending September 30, 2007 increased \$58,061,235 or 34.9% versus the year end of Fiscal 2006 from \$166,503,522 to \$224,564,757. The increase is attributable to organic growth in all sectors of the business and also from the timing of the acquisitions of AJJA and iGate in Q1 of Fiscal 2006.

Brainhunter's Staffing Division accounted for \$217,511,172 or 96.9% of total revenues for fiscal 2007 compared to \$163,271,838 or 98.1% in fiscal 2006, representing an increase of \$54,239,334 or 33.2% increase over the prior year period. The increase is mainly attributable to an increase in the IT and engineering staffing business, as a result of organic growth and being classified as the primary vendor on contract arrangements and also from the timing of the acquisitions of AJJA and iGate in Q1 Fiscal 2006.

Brainhunter's Solutions Division accounted for \$7,053,585 or 3.1% of total revenues in fiscal 2007 compared to \$3,231,684 or 1.9% in fiscal 2006, representing an increase of \$3,821,901 or 118.3% increase over the prior year period. The increase is mainly attributable to a rise in customer's activity on contracts and a growth in new customer relationships.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the year, 37.2% of revenues related to various Federal Government of Canada agencies and departments, compared to 45.8% of revenues from the prior year. The overall dollar values of revenues derived from the Federal Government has increased during the year ended September 30, 2007 to \$83,049,542 compared to \$76,286,765 in fiscal 2006. The revenues derived from the Federal Government of Canada are declining

as a percentage of total Company revenues as more revenues are derived from other sectors of the economy.

Management believes that there are trends in North America, which will provide the Company with significant opportunities to profitably expand the business of the Company:

- The continuing trend by primary IT users to “outsource” IT development projects to Solutions providers like Brainhunter to avoid having a large IT infrastructure
- The continuing trend by large scale Information Technology users and Systems Integrators to use IT contractors for projects in lieu of using permanent employees

Management believes that these trends will significantly drive our revenue and profitability growth.

### **Cost of Sales & Gross Margin**

Cost of sales includes all direct costs incurred in the providing of Staffing and Solutions services. These costs include contract staff, billing employees, hardware and software sold as part of a solution and travel and living expenses required to provide the service.

The overall cost of sales increased \$51,673,914 or 37.2% from \$138,830,406 in 2006 to \$190,504,320 in 2007, an amount commensurate with the increase in revenues. Cost of sales as a percentage of revenues increased from 83.4% in fiscal 2006 to 84.8% in fiscal 2007 on a period-over-period basis reflecting the evolution in the mix of the business which include significant vendor managed payrolling sales for several Tier-1 customer relationships. This business has lower margins than traditional full-service contract staffing sales because no recruiting function is required.

Cost of sales in the Company’s Staffing Division accounted for \$186,647,169 or 98.0% of the total cost of sales in 2007 compared to \$137,096,548 or 98.8% of the total cost of sales in 2006, representing an increase of \$49,550,621 or 36.1% increase over the prior year. The gross margin related to the Staffing Division is \$30,864,003 or 14.2% of related revenues in 2007 compared to \$26,175,291 or 16.0% of related revenue in 2006. The decrease in gross margin percentage is a result of the vendor managed payrolling sales, as noted above, which have lower margins than the traditional full-service contract staffing sales.

Cost of sales in the Company’s Solution Division accounted for \$3,857,151 or 2.0% of the total cost of sales in 2007 compared to \$1,733,859 or 1.2% of the total cost of sales in the prior year, representing an increase of \$2,123,292 or 122.5% increase over the prior year. The gross margin related to the Solutions Division is \$3,196,434 or 45.3% of related revenues in fiscal 2007 compared to \$1,497,825 or 46.3% of related revenue from fiscal 2006. The \$1,698,609 or 113.4% increase in gross margin is a result of organic growth in the Solution’s Division as a result of new customer relationships and a rise in customer contracts.

Overall, the Company reported gross margins of \$34,060,437 or 15.2% of revenues in the year ending September 30, 2007, compared to \$27,673,116 or 16.6% of revenues in the year ending September 30, 2006. The gross margin fluctuates as it is dependent on the level of revenue generated from each division, and changes due to demands and competition in the market place, and as noted above, it has been impacted by the increase in vendor managed payrolling revenues, which have lower percentage of gross margins.

#### **Overhead expenses (“Other Staffing Costs” and “General, Selling and Administrative”)**

Overhead expenses showed an increase in fiscal 2007 versus fiscal 2006 of \$1,665,114 from \$24,627,420 to \$26,292,534 representing a 6.8% increase. As a % of Revenue, overhead expenses were 11.7% in fiscal 2007, down from 14.8% the previous year.

Other staffing costs have increased \$1,636,967 or 9.3% to \$19,248,137 in 2007, up from \$17,611,170 in the prior year due to the change in commission structure in 2007. The selling, general and administrative expenses have increased \$28,147 or 0.4% in fiscal 2007 from \$7,016,250 to \$7,044,397. As a percentage of revenue the selling, general and administrative costs have decreased from 4.2% in fiscal 2006 to 3.1% in fiscal 2007.

#### **Earnings before write off of capital assets, transaction costs, interest, taxes amortization and other (EBITDA)**

As the result of the above, EBITDA is reported as \$7,767,903 for fiscal 2007 versus \$3,045,696 for fiscal 2006. EBITDA increased as a percentage of Revenue, from 1.8% in 2006 to 3.5% for fiscal 2007. As noted previously, the increase is largely due to organic growth in both the Staffing and Solutions business.

#### **Write-Off of Capital Assets**

Prior to December 31, 2007, the Company occupied space on 1 complete floor and 2 partial floors in its Toronto location. On December 1, 2007, the Company surrendered leases for the two small spaces and entered into one lease for a single space, so that the Company has two full floors in the building. The Company decided to prospectively record a provision for \$120,000 at September 30, 2007 for the write-off of leasehold improvements arising from the space consolidation which was to take place December 1, 2007.

#### **Transaction Expenses**

In 2007, the Company adopted the new CICA policy “Financial Instruments” changed its accounting policy relating to transaction costs of obtaining the bank and long-term debt financing paid to intermediaries and professional advisors aiding the Company in obtaining the financing. Under the new policy those costs are expensed as incurred as a separate line on the consolidated statements of operations and loss which amounted to \$113,784 in fiscal 2007. In previous years, those transactions costs were deferred and amortized over the term of the related financing as a separate line in the consolidated

statement of operations and loss and the amortized balance disclosed in the deferred financing costs on the consolidated balance sheets.

### **Interest**

The interest costs are predominantly related to amounts paid on the Company's term bank facility, the convertible notes, and the debentures. Interest expense is composed of two components; cash interest expense and non-cash or accretive interest. Accretive interest is a notional interest cost which represents the difference between the coupon rate of the specific piece of debt and an estimated cost of capital to the Company. When a piece of debt is incurred at a rate below the Company's estimated cost of capital, GAAP requires the debt to be discounted by the difference between the two interest rates and that discount amortized over the life of the debt as accretive or non-cash interest expense.

	<b>2007</b>	<b>2006</b>
Interest Expense	\$3,003,503	\$2,484,580
Interest Expense accreted	\$1,474,368	\$1,117,631
Interest actually paid in cash	\$2,779,764	\$2,484,580

Interest expense is increasing over time commensurate with the increase in revenues, being the cost of financing accounts receivable for contract staffing and solutions business.

### **Amortization**

Amortization expense of capital and intangible assets in fiscal 2007 is \$1,736,791 and \$3,901,336 respectively, an increase of \$662,473 for capital assets mainly due to the amortization of Brainhunter's developed software (\$1,045,262) and an increase of \$287,000 for intangible assets, from the prior year.

### **Other**

During Fiscal 2007 the Company recorded, as an expense, costs of \$341,576 which it incurred relating to a 2005 acquisition, Promethean Systems Consultants Inc. In addition, the Company recorded as an expense an amount of \$30,036 which represents the non-cash increase in the estimate of the interest guarantee on the \$5,000,000 debenture held by Roynat. Under the new accounting policies this interest guarantee is regarded as an embedded derivative and therefore subject to annual revaluation.

### **Loss before Income Tax**

Based on all of the above, the Company is reporting a loss before income taxes of \$2,953,491 for fiscal 2007 compared to a loss of \$6,162,160 for fiscal 2006. As noted previously, the loss is largely the result of amortization expenses of intangible assets from

acquisition activities of \$3,901,336, accreted interest of \$1,474,368, amortization of capital assets of \$1,736,791 and interest of \$3,003,503.

### **Income Tax Expense**

The provision for income taxes differs from the expense that would be obtained by applying the statutory rate to net income before income taxes as a result of such items as, amounts not deductible for tax purposes, future tax assets and liabilities, and the benefit of losses recorded. The Company has sufficient tax losses acquired through acquisitions to reduce the payment of income taxes but is still subject to corporate minimum taxes, and future tax provisions. The Company has recorded a recovery of \$2,884 in Fiscal 2007 compared to a recovery of \$1,461,788 for fiscal 2006.

### **Net Loss**

The Company is reporting a net loss of \$2,950,607 or \$0.07 per share basic and diluted for fiscal 2007, compared to a net loss of \$4,700,372 or \$0.11 per share basic and diluted for the fiscal 2006.

**SELECTED ANNUAL INFORMATION**

For the year ended September 30th (\$,000 except earning per share)

	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Revenue</b>	<b>224,565</b>	<b>166,503</b>	<b>76,061</b>
Cost of Sales	190,504	138,830	59,984
Gross Margin	34,061	27,673	16,077
Other operating costs	26,293	24,627	15,127
<b>Earnings before write off of capital assets, transaction costs, interest, amortization and other</b>	<b>7,768</b>	<b>3,046</b>	<b>950</b>
Transaction Expenses	114	-	-
Write Off of Capital Assets	120	-	-
Interest	3,004	2,481	419
Interest accreted	1,474	1,118	56
Amortization of capital assets	1,737	1,074	899
Amortization of intangibles	3,901	3,614	1,113
Amortization of deferred financing costs	-	917	-
Other	372		
<b>Loss before tax</b>	<b>(2,954)</b>	<b>(6,158)</b>	<b>(1,537)</b>
Income Tax	(3)	(1,462)	1,853
<b>Net loss</b>	<b>(2,951)</b>	<b>(4,696)</b>	<b>(3,390)</b>
Loss per share basic	(\$0.07)	(\$0.11)	(\$0.08)
Loss per share fully diluted	(\$0.07)	(\$0.11)	(\$0.08)
<b>Total assets</b>	<b>83,780</b>	<b>83,708</b>	<b>38,093</b>
<b>Total liabilities</b>	<b>42,936</b>	<b>38,754</b>	<b>1,055</b>

## SELECTED QUARTERLY INFORMATION

*(Expressed in thousands of dollars, except per share amounts)*

	Quarter ended			
	Sep 30 2007	Jun 30 2007	Mar 31 2007	Dec 31 2006
Revenue	\$ 54,707	\$ 56,575	\$ 58,553	\$ 54,730
Income before write off of capital assets, transaction costs, interest, amortization and other	\$ 1,591	\$ 2,027	\$ 2,142	\$ 2,007
Net loss	\$ (2,011)	\$ (445)	\$ (232)	\$ (261)
Net loss per share - Basic	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ (0.01)
- Diluted	\$ (0.05)	\$ (0.01)	\$ (0.01)	\$ (0.01)
	Sep 30 2006	Jun 30 2006	Mar 31 2006	Dec 31 2005
Revenue	\$ 47,250	\$ 42,056	\$ 43,336	\$ 33,861
Income (loss) before write off of capital assets, transaction costs, interest, amortization and other	\$ 1,786	\$ (541)	\$ 1,087	\$ 715
Net income (loss)	\$ 184	\$ (2,463)	\$ (1,483)	\$ (938)
Net loss per share - Basic	\$ (0.01)	\$ (0.06)	\$ (0.04)	\$ (0.02)
- Diluted	\$ (0.01)	\$ (0.06)	\$ (0.04)	\$ (0.02)

The Company's quarterly results fluctuate based on a number of factors. Operations are driven by the timing of contracts, business renewals, acquisitions, reorganizations, and are subject to some quarterly seasonality due to the timing of the Federal Government of Canada's year-end, vacation periods and statutory holidays.

The Company recognizes revenue as work is performed and revenue and profitability are negatively impacted as a result of statutory holidays and vacation periods. Typically, the Company's first and fourth quarter indicate reduced revenue and profitability levels as a result of the Christmas season and summer vacation period. The second quarter's revenue and profitability are normally positively impacted due to the Federal Government of Canada's March 31<sup>st</sup> year-end as consultants are fully utilized and additional consultants are engaged to finalize work.

## **Liquidity**

The nature of the Company's business requires it to have access to cash to fund the payments to contractors until the related invoices to the Company's clients can be collected. To that end, the Company relies on cash generated from operations, and has a term credit facility with a Schedule "A" bank.

### **Term Credit Facility**

The Company's term bank facility as of September 30, 2007 was \$26,000,000. The Company's interest rate is prime plus 0.5% to 1.5%, depending on a specific bank covenant ratio. This term bank facility was obtained November 14th, 2005, in the amount of \$20,000,000 with a maturity date of November 14, 2007. On September 22, 2006 the facility was increased to \$22,000,000 and the maturity date was revised to October 15, 2008. The facility was increased on May 14, 2007 to \$26,000,000.

The Company has requested the bank to increase the credit facility to extend the term of the facility beyond its current term date of October 15, 2008, and to amend the ratio covenants. At date of writing, negotiations are proceeding.

Under the terms of the term bank facility agreement, the Company is required to fulfill the conditions of two ratio covenants. At September 30, 2007, the Company was in accordance with the Debt-to-Equity Covenant, but in violation of the Fixed Cost Coverage covenant; the Company had a ratio of 1.23 versus the required ratio of 1.25. The lending bank has agreed to waive the covenant requirement as at September 30, 2007. On December 24, 2007, the bank temporarily increased the facility by \$4,000,000 to \$30,000,000 until January 14, 2008, when the facility is expected to revert to \$26,000,000.

### **Cash from Operations**

Cash generated by operations for the year ended September 30, 2007 is \$4,433,298 while for the year ended September 30, 2006 the cash used by operations was \$432,016. This significant change resulted mainly from the improvement in Earnings before write-off of capital assets, transaction costs, interest amortization and other from \$3,045,696 in fiscal 2006 to \$7,767,903 in fiscal 2007.

Cash was used in operations to increase non-cash working capital, primarily accounts receivable which increased by \$4,864,276 as a result of growth in the business.

**Obligations by year (\$,000)**

			Operating Leases	Long Term Debt		Total
				Pay in Cash	Pay in Shares	
Year ending:	Sept	2008	\$1,791	\$3,030	\$200	\$5,021
	Sept	2009	\$1,659	\$14,683	-	\$16,343
	Sept	2010	\$1,467	\$76	-	\$1,543
	Sept	2011	\$1,459	-	-	\$1,459
	Sept	2012	\$1,480	-	-	\$1,480
	Sept	2013	\$1,459	-	-	\$1,459
	Sept	2014	\$1,345	-	-	\$1,345
	Sept	2015	\$526	-	-	\$526
	Sept	2016	\$253	-	-	\$253
	Sept	2017	\$21	-	-	\$21
	<b>Total</b>		<b>\$11,460</b>	<b>\$17,789</b>	<b>\$200</b>	<b>\$29,449</b>

**Issue of Common Shares**

Pursuant to exercise of warrants the Company received \$8,000 during the year ; also issued common shares as the repayment of debt worth \$258,216 in fiscal 2007. As well, as a result of the exercise of options during 2007, the Company raised \$220,200 compared to raising \$66,299 in 2006.

**Advances to Related Parties and Share Purchase Loans**

In fiscal 2007 the company recorded an advance to a senior executive of \$253,333 in fiscal 2007 compared to recording a repayment of \$92,009 for the prior year. This advance is repayable in October, 2008 and pays interest of 8% per annum. The loan was collateralized by a convertible note in the amount of \$258,000 held by the executive which was issued by the Company as part of its 8% convertible note financing issued in 2005. This loan was accounted for as due from related parties.

In fiscal 2007, the Company advanced \$235,620 to a senior executive to acquire shares in the Company, compared to advancing \$242,000 in the prior year. The loan is collateralized by the Company shares, and is accounted for as an offset to Share Capital.

**Repayment of Long-term Obligations**

The Company repaid \$3,099,147 of long-term debt during fiscal 2007, compared to a repayment of \$587,104 in fiscal 2006. All of the repayments are scheduled payments on long-term debt. The Company expects to repay approximately \$3,230,000 in long term debt in fiscal 2008, pursuant to the terms of the debt instruments.

## **Proceeds from Long-Term Financing**

On February 2, 2007, the Company closed a convertible note financing, raising \$2,586,000. The principal is repayable only at maturity, being February 2, 2009. Interest is accrued quarterly at 10% per annum in cash or shares of the Company at the option of the note-holder. The notes are convertible at any time to shares of the Company at a price of \$0.75 per share. Each \$100 note was entitled to 50 common share purchase warrants exercisable at \$0.60 per share until February 2, 2009. Company management and directors subscribed to \$1,350,000 of the financing.

## **Capital Expenditures**

The Company recorded \$1,300,729 on Capital Expenditures during fiscal 2007, compared to the \$1,699,252 spent in fiscal 2006. The current expenditures for 2007 were made primarily in enhancing the Brainhunter software (\$286,912), and in computer hardware and software (\$350,740), and leasehold improvements of (\$552,602) for the Company's new premises in Ottawa, and Calgary and Toronto. The expenditure on leasehold improvements is being offset by leasehold improvement allowances of \$380,848 in total.

The company has no major commitments to capital expenditures. Capital expenditures for Fiscal 2008 are planned at approximately \$900,000, being the completion of leasehold improvements in its corporate offices, and replacement of computer equipment and furniture when required.

# **OTHER**

## **Change in Accounting Policy**

### **Financial instruments**

Effective October 1, 2006, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 1530: Comprehensive Income; Section 3251: Equity; Section 3855: Financial Instruments – Recognition and Measurement; and Section 3865: Hedges, retroactively, without restatement. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured in the consolidated balance sheets at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will

depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its accounts receivable as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, debt and the term bank facility are classified as other financial liabilities and measured at amortized cost. The principal changes in the accounting for financial instruments are described below.

### **Costs of obtaining bank and long-term debt financing**

The Company has changed its accounting policy relating to costs of obtaining bank and other debt financing paid directly to the financing institution. Those costs are now netted against the carrying value of the related debt and amortized into accreted interest expense using the effective interest rate method, resulting in an increase in interest expense of \$374,167. Prior to the adoption of the new standards, those costs were previously reported in deferred costs and amortized over the term of the related financing. The amortization of these costs was reported as a separate line in the consolidated statements of operations and loss and the amortized balance disclosed in deferred costs on the consolidated balance sheets.

The Company has also changed its accounting policy relating to transaction costs of obtaining bank and long-term debt financing paid to intermediaries and professional advisors aiding the Company in obtaining the financing. Under the new policy those costs are expensed as incurred as a separate line in the consolidated statements of operations and loss. Under the previous policy those transaction costs were deferred and amortized over the term of the related financing as a separate line in the consolidated statements of operations and loss and the amortized balance disclosed in deferred financing costs on the consolidated balance sheets. The change in policy has been made retrospectively effective October 1, 2006 and had the effect of increasing the deficit at October 1, 2006 by \$911,027.

### **Embedded Derivative**

Included in the Company's debt in the financial statements as described in note 10(a) is an embedded derivative. Based upon the new recommendations, the financial instrument is required to be bifurcated with the embedded derivative recorded at fair value at each reporting date and the resultant change in fair value is included in other expenses. The change in policy has been made retrospectively effective October 1, 2006 and resulted in a decrease in warrants and long-term debt of \$58,840 and \$163,165, respectively, an increase in derivative liability of \$352,983 and an increase to the deficit at October 1, 2006 by \$130,978.

### **Other Instruments**

Accounts receivable, investment tax credits recoverable and income taxes payable, and accounts payable and accruals constitute instruments that approximate fair value due to the near term maturity.

The Company sells primarily to large, well-established customers. The Company is exposed to risk due to fluctuations in the exchange rate of the U.S. dollar. The company is also exposed to risk as its term bank facility interest rate fluctuates with the prime interest rate.

### **Transactions with Related Parties**

Related Party transactions consists of loans to companies related to the Charirman of the Company which are non-interest bearing and with no fixed repayment terms and also a loan to the President of the Company collateralized by convertible term notes issued by the Company with an 8% interest and a maturity date of the convertible note.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

### **Internal Control Over Financial Reporting**

During the most recent period ending September 30, 2007, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **Legal Proceedings**

The company is involved in several pieces of litigation. Management believes the litigations are without merit and that the provisions, which have already been made by the Company, are sufficient to offset any uncertainties.

### **Additional Information**

Additional information about the Company may be obtained on SEDAR at [www.SEDAR.com](http://www.SEDAR.com).

## 7.0 SHARE CAPITAL

### 7.1 Capital Structure

The authorized capital structure of the Company consists of:

1. Unlimited number of common shares
2. Unlimited number of preferred shares
3. Unlimited number of non-cumulative, non-redeemable, non-retractable, convertible, voting Series A Preferred Shares

### 7.2 Trading of Securities

Brainhunter's common shares are listed for trading on the Toronto Stock Exchange ("TSX") under the symbol "BH". The average trading volume and prices for the previous 13 months are shown below:

Year	Month	Average Daily Trading Volume	Average Daily Trading Price
2006	October	20,390	\$0.61
	November	15,818	\$0.58
	December	22,674	\$0.53
2007	January	36,177	\$0.58
	February	44,165	\$0.69
	March	18,527	\$0.74
	April	81,705	\$0.77
	May	19,364	\$0.76
	June	56,667	\$0.76
	July	61,214	\$0.75
	August	14,355	\$0.72
	September	17,942	\$0.69
	October	19,300	\$0.67
	November	6,859	\$0.54

### 7.3 Dividends

1. There are no restrictions to prevent the issuer from paying dividends.
2. No dividends have been paid in the past three fiscal years.
3. The issuer does not intend to pay dividends in the foreseeable future, as it is the issuer's intention to reinvest profits into the business.

#### **7.4 Transfer Agent**

The Company's transfer agent and registrar is Computershare Trust Company of Canada at its offices at Suite 600, 530-8<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3S8.

### **8.0 ESCROWED SECURITIES**

At September 30, 2007 no shares were held in escrow.

## 9.0 DIRECTORS AND OFFICERS

The directors of the Company are elected each year at the annual meeting of the shareholders of the Company, for a term of one year. The next annual meeting of the shareholders will be held in March, 2008.

During the period from October 1, 2006 to September 30, 2007, the following changes occurred in the board:

- Don McCreesh left the board June 14, 2007
- Matthew Shaw left the board August 13, 2007
- Rene Eichenberger joined the board September 18, 2007

### Directors and Officers of the Company as of date of this AIF

Name, Place of Residence	Position with Company	Present and Principal Occupation during the last 5 years	Date of Appointment as Director
John McKimm Toronto, Ontario	Director (Insider), Chairman and CEO	Brainhunter Inc. • Chairman and CEO 2000 to present Jovian Capital Corporation • Director 2003 to present Altus Group Income Fund • Trustee 2003 to present	January 14, 2000
Honourable Michael Kirby Ottawa, Ontario	Director (Independent)	The Mental Health Commission of Canada • Chairman 2007 to present Government of Canada • Senator 1984 to 2006 Bank of Nova Scotia • Director 2000 to present Extendicare Inc. • Director 1987 to present Indigo Books and Music • Director 2001 to present Energy Savings Income Trust • Director 1997 to present MDC Partners Inc • Director 2000 to present	June 25, 2002
James Penturn Toronto, Ontario	Director (Independent)	John Penturn & Son Limited • President 1998 to present IPICO Inc. • Director 2006 to present	June 25, 2002
Mel Steinke, Pickering, Ontario	Director (Insider)	IPICO Inc • Executive Chairman 2007 to present Burntsand Inc. • President & CEO 2002 to 2003 Descartes Systems Inc. • President 2001 to 2002 CGI Inc. • Executive Vice President 1999 to 2000 Deloitte Systems/DRT • CEO 1990 to 1999	August 15, 2002
Raj Singh, Toronto, Ontario	Director (Insider), President and COO	Brainhunter.com Ltd. • Chairman and CEO 1999 to March 2003 (when acquired by Brainhunter) Procom Inc. • 1991 to 1999 Managing Consultant	June 19, 2003
John Gillies, Oakville, Ontario	Director (Independent)	Retired Arbor Memorial Services • President and CEO 1994 to 1997 IPICO Inc. • Director 2007 to present	March 31, 2005
John	Director	Retired	March 31,

Jaakkola, Sao Paulo, Brazil	(Independent)	Deloitte Consulting Latin America • CEO • 2001 to 2003 ICS Deloitte Europe • CEO 1997 to 2001	2005
Adam Jasek, Ottawa, Ontario	Director (Independent)	Businessman AJJA Information Technology Consultants Inc. • Chairman and CEO 1985 to 2005	March 28, 2006
Rene Eichenberger, West Palm Beach, Florida	Director (Independent)	Crossbow Ventures • Managing Partner 1999 to present	September 18, 2007
Robert Prentice Toronto, Ontario	CFO and Corporate Secretary	Brainhunter Inc. • CFO and Corp. Secretary 2000 to present	N/A

Except as disclosed below, no proposed director is, at the time of this Management Information Circular, or has been, within the ten (10) years before the date of this Management Information Circular, a director or executive officer of any company that, while the person was acting in that capacity:

- (a) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
- (b) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
- (c) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets,

or has, within the ten (10) years before the date of the Management Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

- Mr. McKimm, in his capacity as an insolvency practitioner, has been a director or executive officer of companies that became bankrupt, made a proposal under legislation relating to bankruptcy or insolvency or was subject to or instituted proceedings, arrangements or compromises with creditors or had a receiver,

receiver manager or trustee appointed to hold its assets. Mr. McKimm is no longer an insolvency practitioner and as a result, as at the date hereof, he is no longer a director or executive officer of any of the aforementioned companies.

- Messrs. Gillies, Jaakkola, Kirby, McCreesh, McKimm, Penturn, Shaw, Singh and Steinke were subject to a management cease trade order in respect of securities of the Corporation, issued by the Ontario Securities Commission on May 31, 2005 due to a delay in the filing of the Corporation's financial statements for the interim period ended March 31, 2005. The Corporation subsequently filed the financial statements and the order was revoked on August 11, 2005.
- Messrs. Gillies, Jaakkola, Kirby, McCreesh, McKimm, Penturn, Shaw, Singh and Steinke were subject to a management cease trade order in respect of securities of the Corporation, issued by the Ontario Securities Commission on January 16, 2006, due to a delay in the filing of the Corporation's financial statements for the year ended September 30, 2005. The Corporation subsequently filed the financial statements and the order was revoked on March 8, 2006.

## 9.2 Shares held by the Directors and Officers as a Group

Issued and Outstanding Common Shares held by Directors and Officers listed above as a group as at November 30, 2007.

	<b>Common</b>	<b>%</b>
Shares held by Group	9,927,766	23%
Total shares outstanding	43,958,411	100%

## 9.3 Board Committees

### 9.3.1 Lead Director

During the period October, 2006 to June, 2007, Don McCreesh acted as Lead Director. During the period June, 2007 to present, John Gillies has acted as Lead Director.

### 9.3.2 Governance Committee

The mandate of the Governance Committee is to make recommendations to the Board of Directors regarding governance policies and then implement and oversee such governance policies as are approved by the Board.

The members of the Governance Committee during the period October, 2006 to June, 2007 were Don McCreesh, (chair) John Gillies, John Jaakkola and Michael Kirby.

The members of the Governance Committee during the period June, 2007 to present are Jim Penturn (chair), John Gillies, John Jaakkola, and Adam Jasek.

### **9.3.3 Compensation Committee**

The mandate of the Compensation Committee is to make recommendations to the Board of Directors regarding compensation policies and then implement and oversee such compensation policies as are approved by the Board.

The members of the Compensation Committee during the period October, 2006 to June, 2007 were Michael Kirby, (chair) John Gillies, John Jaakkola and Don McCreesh.

The members of the Compensation Committee during the period June, 2007 to present are Michael Kirby, (chair) John Gillies, John Jaakkola and Adam Jasek.

### **9.3.4 Audit Committee**

#### **Charter of the Audit Committee**

The overall purpose of the Audit Committee of Brainhunter Inc. (the "Corporation") is to ensure that the Corporation's management has designed and implemented an effective system of internal financial controls, to review and report on the integrity of the consolidated financial statements of the Corporation and to review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts.

#### **Members of the Audit Committee**

The members of the Audit Committee at all relevant times during the period from October, 2006 to June, 2007 were John Gillies (chair), Don McCreesh and John Jaakkola.

The members of the Audit Committee at all relevant times during the period from June, 2007 to present are John Gillies (chair), John Jaakkola and Jim Penturn.

#### **Financial Literacy of the Members of the Audit Committee**

Mr. Gillies is a financial expert by virtue of being a Certified Management Accountant and as demonstrated by his experience as CFO of Falconbridge Limited, a multi-billion dollar mining company.

Mr. Jaakkola is financially literate by virtue of his senior executive experience as a CEO regarding the issues surrounding the development of a high-growth technology services company, specifically the European and Latin American operations of the Technology sectors of Deloitte Consulting. As CEO he had extensive experience in and responsibilities for all financial aspects of operating an international business enterprise.

Mr. McCreesh is financially literate by virtue of his senior executive experience and knowledge of the human resources issues surrounding the staffing operations of the company, particularly employer and employee taxation and liability issues. He has an MBA and has been a senior executive of a multinational corporation with extensive budget responsibilities.

Mr. Penturn is financially literate by virtue of his having practiced in the investment banking sector for a number of years.

**Reliance on Certain Exemptions**

At no time since the commencement of the Company’s most recently completed financial year has the company relied on the following exemptions available under the Instrument 52-110: section 2.4 (De Minimis Non-audit Services); section 3.2 (Initial Public Offerings); section 3.4 (Events Outside Control of Member); section 3.5 (Death, Disability or Resignation of Audit Committee Member); part 8 (Exemptions); section 3.3(2) (Controlled Companies); section 3.6 (Temporary Exemption for Limited and Exceptional Circumstances); and section 3.8 (Acquisition of Financial Literacy).

**Audit Committee Oversight**

At no time since the commencement of the Company’s most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board.

**External Auditor Service Fees**

	<b>2007 Actual Fees</b>	<b>2006 Actual Fees</b>
Annual Audit of the consolidated financial statements	\$250,000	\$250,000
Business Acquisition Reports and accounting consultations in connection with acquisitions	N/A	\$47,000
Accounting and auditing procedures in connection with the conversion and amalgamation of AJJA, iGate, and BH Ottawa	TBD	N/A
Accounting assistance for implementation of CICA HB 3855 “Financial Instruments”	\$10,000	N/A
Accounting and auditing services in connection with specific issues	N/A	\$36,000
General tax services related to our involvement with permitted tax compliance, tax advice and tax planning as required by the Company	TBD	\$22,000

## **10.0 OTHER**

### **10.1 Material Contracts**

The Company has not entered into any material contracts, not in the ordinary course of business, within the last three consecutive fiscal years.

### **10.2 Interest of Management and Others in Material Transactions**

No Directors, persons with more than 10% of any class of securities or members of Management have had any interest in a material transaction of the Company during from the beginning of Fiscal 2007 to the date of this document with the following exception: three directors collectively took up \$1,300,000 of the \$2,586,000 convertible financing obtained in February, 2007 on exactly the same terms as all other parties to the financing.

### **10.3 Interest of Experts**

#### **10.3.1 Names of Experts who have certified statements included in a filing during the fiscal year**

Ernst & Young, LLP

#### **10.3.2 Interests in the Company held by Ernst & Young, LLP**      NIL.

## **11.0 ADDITIONAL INFORMATION**

### **11.1 Information on SEDAR**

Additional information may be found at [www.SEDAR.com](http://www.SEDAR.com).

### **11.2 Information when Securities are in distribution**

The Company shall provide to any person, upon request to the Secretary of the Company at Suite 2000, 2 Sheppard Avenue East, Toronto, ON, M2N 5Y7

- a) when the securities of the Company are in the course of a distribution under a preliminary short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities:
  - i. one copy of the current AIF of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF;

- ii. one copy of the comparative consolidated financial statements of the Company for its most recently completed financial year for which statements have been filed together with the accompanying report of the auditors, and one copy of the most recent interim consolidated financial statements of the Company that have been filed, if any, for the period after the end of its most recently completed financial year;
  - iii. one copy of the information circular of the Company in respect of its most recent annual general meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead of that information circular, as appropriate; and iv. one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or
- b) at any other time, one copy of any of the documents referred to in (a)(i), (ii) and (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

### **11.3 Information in Information Circular**

Additional information, including information on remuneration of directors and officers, and principal holders of securities may be found in the Company's information circular prepared for the Company's annual meeting.

### **11.4 Information in Financial Statements**

Additional information is provided in the financial statements of the Company.