# BRAINHUNTER INC.

# Management Discussion and Analysis
# For the Period Ending
# June 30, 2007

**August 8, 2007**

## BASIS OF PRESENTATION

The Management's Discussion and Analysis, dated August 8, 2007 should be read in conjunction with the interim unaudited consolidated financial statements and the accompanying notes. Additional information relating to Brainhunter Inc. ("Brainhunter") is available on SEDAR.

The Company's interim unaudited 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

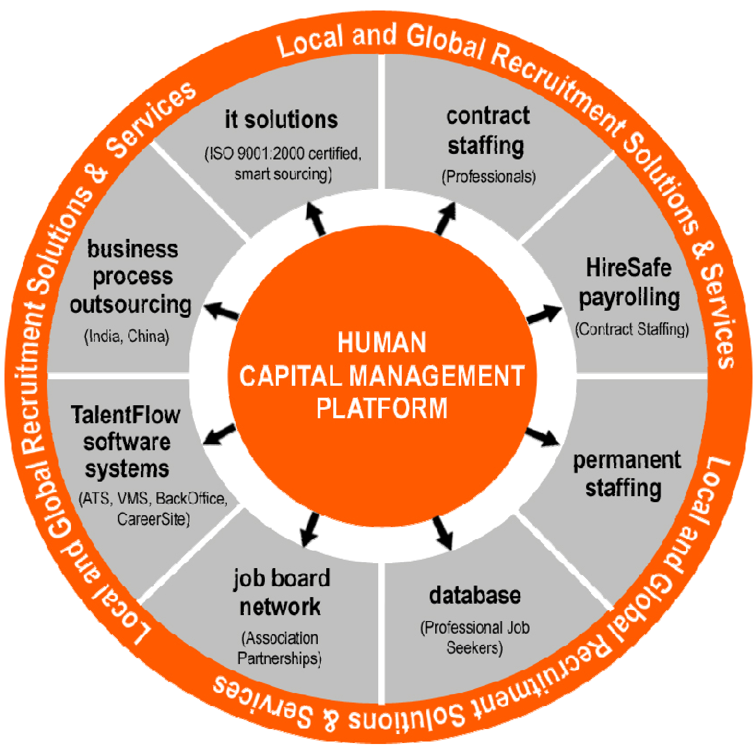
Certain statements in this MD&A may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Brainhunter and its subsidiary entities, or the industry, to be materially different 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) 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; collectibility 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 June quarter for Fiscal 2007 increased $14,518,406 or 34.5% versus the June quarter of Fiscal 2006 from $ 42,056,200 to $56,574,606.The revenues for the nine months ending June 30th, 2007 increased $50,603,556 or 42.4% to $169,857,549, up from $119,253,993 for the same period in the prior year. The increase for the nine month period is attributable to the organic growth in the Staffing and Solutions business and also from the timing of the acquisitions of AJJA and iGate in Q1 of Fiscal 2006.

Brainhunter's Staffing Division accounted for $164,740,317 or 97.0% of total revenues for the nine months ended June 30, 2007 compared to $117,262,422 or 98.3% for the same period in fiscal 2006, representing an increase of $47,477,895 or 40.5% increase over the prior year period. The increase is mainly attributable to an increase in the IT and engineering staffing business, mainly in Toronto, 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 $5,117,233 or 3.0% of total revenues in the first nine months of fiscal 2007 compared to $1,991,571 or 1.7% in the same period in fiscal 2006, representing an increase of $3,125,662 or 156.9% increase over the prior year periods. The increase is mainly attributable to a rise in customer's activity on contracts compared to the prior year period 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 nine months ended June 30, 2007, 38.2% of revenues related to various Federal Government of Canada agencies and departments, compared to 45.3% in the same periods of the prior year. The overall dollar values of revenues derived from the Federal Government has increased during the nine months ended June 30, 2007 to $64,923,450 compared to $53,822,929 in the same periods of the prior year. 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 $13,316,287 or 38.3% for the Q3 Fiscal 2007 versus Q3 Fiscal 2006 from $34,725,307 to $48,041,594, and on a June YTD basis the cost of sales increased $45,095,057 or 45.5% from $99,051,896 in the first nine months of fiscal 2006 to $144,146,953 in the first three quarters of fiscal 2007, an amount commensurate with the increase in revenues. Cost of sales as a percentage of revenues increased from 83.1% in the first 9 months of fiscal 2006 to 84.9% 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 $141,355,946 or 98.1% of the total cost of sales in the first three quarters of fiscal 2007 compared to $97,966,114 or 98.9% of the total cost of sales in the same period of the prior year, representing an increase of $43,389,832 or 44.3% increase over the prior year. The gross margin related to the Staffing Division is $23,384,371 or 14.2% of related revenues in the nine months ended June 30, 2007 compared to $19,296,308 or 16.5% of related revenue for the same period in the prior year. 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 $2,791,007 or 1.9% of the total cost of sales in the nine months ended June 30, 2007 compared to $1,085,782 or 1.1% of the total cost of sales for the same period in the prior year, representing a increase of $1,705,225 or 157.1% increase over the prior year. The gross margin related to the Solutions Division is $2,326,226 or 45.5% of related revenues in the first three quarters of fiscal 2007 compared to $905,789 or 45.5% of related revenue for the first three quarters of fiscal 2006. The $1,420,437 or 156.8% 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 of customer contracts.

Overall, the Company reported gross margins of $8,533,012 or 15.1% of revenues in the quarter ending June 30, 2007, compared to $7,330,893 or 17.4% of revenues in the quarter ending June 30, 2006, and on a June YTD basis the gross margin amounted to $25,710,596 or 15.1% of revenues in the nine month period ended June 30th, 2007, compared to $20,202,097 or 16.9% for the same periods in the prior year. 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 vendor managed payrolling sales, which have lower percentage of gross margins.

**Overhead expenses ("Other Staffing Costs" and "General, Selling and Administrative")**

Overhead expenses showed a decrease in the June quarter fiscal 2007 versus the June quarter of fiscal 2006 of $1,366,055 from $7,871,806 to $6,505,751 representing a 17.4% decrease and on a June YTD basis, overhead expenses increased $591,888 from $18,941,831 to $19,533,719 representing an increase of 3.1%. As a % of Revenue, overhead expenses were 11.5% in the first nine months of fiscal 2007, down from 15.9% in the first nine months of fiscal 2006.

Other staffing costs have decreased $1,227,479 or -20.7% to $4,710,143 in the quarter ending June 30, 2007, down from $5,937,622 in the same period in the prior year, and on a June YTD basis, other staffing costs increased $594,261 or 4.4% to $14,188,872 up from $13,594,611 in the same period in the prior year. During the June quarter of 2006, a restructuring allowance of $1,645,000 was recorded. The selling, general and administrative expenses have decreased $138,577 or -7.2% in the quarter ending June 30, 2007 from $1,934,184 to $1,795,608. On a June YTD basis, the selling, general and administrative expenses have decreased $2,373 or 0.0% to $5,344,847 in the first nine months of fiscal 2007 from $5,347,220 in the same periods of the prior year. As a percentage of revenue the selling, general and administrative costs have decreased from 4.5% in the first nine months of fiscal 2006 to 3.1% in the first nine months of fiscal 2007.

**Earnings before Interest, Taxes and Amortization (EBITDA)**

As the result of the above, EBITDA is reported as $2,027,261 for the third quarter of fiscal 2007 versus a loss of $540,913 for the same quarter in fiscal 2006. On a YTD basis EBITDA is $6,176,877 for the first nine months of fiscal 2007 versus $1,260,266 for the same nine months of fiscal 2006. EBITDA increased as a percentage of Revenue, from -1.3% in the third quarter fiscal 2006 to 3.6% to the same quarter of Fiscal 2007. In the nine month ended June 30th, 2007, EBITDA increased as a percentage of Revenue from 1.1% to 3.6% in the nine months ended June 30, 2007. As noted previously, the increase is largely due to organic growth in both the Staffing and Solutions business.

**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.

| | **Q3 2007** | **Q3 2006** | **Q3 YTD 2007** | **Q3 YTD 2006** |
|---|---|---|---|---|
| Interest Expense Cash | $735,432 | $640,168 | $2,227,761 | $1,620,396 |
| Interest Expense Non cash | $336,922 | $287,297 | $975,384 | $935,905 |

Cash interest costs are 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 Q3 fiscal 2007 is $469,733 and $975,336 respectively, an increase of $213,908 for capital assets mainly due to the amortization of Brainhunter's developed software ($137,883) and a decrease of $211,998 for intangible assets, from the same period in the prior year. In the June YTD basis, the amortization expense for capital assets increased $413,345 to $1,206,750 while the amortization expense for intangibles decreased $227,002 to $2,926,000. In addition, the Company amortized $363,849 of deferred financing costs in Q3 fiscal 2007 and $996,976 for the nine months ended June 30th, 2007, costs primarily related to obtaining the debt financing necessary to acquire AJJA and iGate in October and November, 2005.

**Loss before Income Tax**

Based on all of the above, the Company is reporting a loss before income taxes of $854,011 for the quarter ending June 30, 2007 compared to a loss of $3,183,677 for the quarter ending June 30, 2006 and a loss of $2,155,994 for the nine months ended June 30th, 2007 versus a loss of $5,749,995 for the same periods the prior year. As noted previously, the loss is largely the result of amortization expenses of intangible assets from acquisition activities.

### 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 loss recorded. The Company has sufficient tax losses acquired through acquisitions to reduce the payment of income taxes but is still subject to Provincial capital taxes, corporate minimum taxes, and future tax provisions. The Company has a recovery of $408,697 in the third quarter of Fiscal 2007 compared to a recovery of $721,079 for the same quarter in the prior year and on a YTD basis of Fiscal 2007, the Company has a total recovery of $1,216,934 versus a recovery of only $866,613 for the nine months ended June 30th, 2006.

### Net Earnings (Loss)

The Company is reporting a net loss of $445,314 or $0.01 per share basic and diluted for the quarter ending June 30th, 2007, and a loss of $939,060 or $0.02 for the nine months ended June 30th, 2007 compared to a Net Loss of $2,462,598 or $0.06 per share basic and diluted for the quarter ended June 30, 2006 and a net loss of $4,883,380 or $0.12 per share basic and diluted for the nine months ended June 30th, 2006.

## Liquidity

### Cash and Bank Indebtedness

The Company’s term bank facility as of June 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 16th, 2005.

Cash provided by Operations for the nine months ended June 30, 2007 was $735,596 while Cash provided by Operations for the nine months ended June 30, 2006 was $1,123,057. This significant change resulted mainly from two factors:

1. the improvement in EBITDA from $1,260,266 in the nine months ending June 30, 2006 to $6,176,877 in the nine months ending June 30, 2007, offset by
2. the increase in cash used to fund the YTD net change in non-cash working capital from $1,544,532 to $(3,258,708), which occurred primarily as a result of reducing the Company’s accounts payable while increasing accounts receivable to fund the growth in business. It is due to the company’s policy of reporting outstanding cheques as a reduction in payables and an increase in term bank facility, as if they had already cleared the bank.

Below is a comparison restatement with outstanding cheques added to payables instead of term bank facility (in $,000).

| | June 30/07 | Sept 30/06 | Change |
|---|---|---|---|
| **Amounts due per financial statements** | | | |
| Accounts payable | $23,920 | $23,518 | $402 |
| | | | |
| Bank indebtedness | $21,839 | $19,146 | $2,693 |
| OS cheques net of cash | $451 | $2,650 | ($2,199) |
| Total | $22,290 | $21,796 | $494 |
| **Total payables and bank** | **$46,210** | **$45,314** | **$896** |
| | | | |
| **Amounts due restated** | | | |
| Accounts payable | $23,920 | $23,518 | $402 |
| OS cheques net of cash | $451 | $2,650 | ($2,199) |
| Total | $24,371 | $26,168 | ($1,797) |
| | | | |
| Bank term facility | $21,839 | $19,146 | $2,693 |
| **Total payables and bank** | **$46,210** | **$45,314** | **$896** |

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

| | | | | Long Term Debt | | Total |
|---|---|---|---|---|---|---|
| | | | Operating Leases | Pay in Cash | Pay in Shares | |
| Year ending: | Sept | 2007 | $356 | $993 | $233 | $1,582 |
| | Sept | 2008 | $1,828 | $8,006 | | $9,834 |
| | Sept | 2009 | $1,659 | $10,882 | | $12,541 |
| | Sept | 2010 | $1,467 | $477 | | $1,944 |
| | Sept | 2011 | $1,459 | $0 | | $1,459 |
| | Sept | 2012 | $1,480 | $0 | | $1,480 |
| | Sept | 2013 | $1,459 | $0 | | $1,459 |
| | Sept | 2014 | $1,345 | $0 | | $1,345 |
| | Sept | 2015 | $526 | $0 | | $526 |
| | Sept | 2016 | $253 | | | $253 |
| | | 2017 | $21 | | | $21 |
| | **Total** | | **$11,852** | **$20,358** | **$233** | **$32,443** |

**Issue of Common Shares**

The Company did not issue any common shares in the third quarter of Fiscal 2007. As a result of the exercise of options during the third quarter of 2007, the Company raised $115,200 compared to raising $36,681 during the same period from the prior year. On a June YTD basis, the company raised $115,200 during the nine months ended June 30, 2007 compared to raising $60,663 from the exercise of options.

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

The company recorded an advance to the senior executive of $13,333 during the June quarter of fiscal 2007 compared to recording a repayment of $76,782 for the same quarter the prior year. In the nine months ended June 30, 2007, the company recorded an advance of $263,333 to the senior executives, compared to a repayment of $51,215 in the nine months ended June 30, 2006. This advance is repayable in October, 2008 and pays interest of 8% per annum. In third quarter fiscal 2007, the Company did not advance any monies to individuals to acquire shares in the Company, compared to advancing $242,000 in the same period in the prior year. The advances to acquire the shares are collaterized by the Company shares. The loans are part of employment contracts for new senior management personnel. They are accounted for as an offset to Share Capital.

**Repayment of Long-term Obligations**

The Company repaid $1,045,258 of long-term debt during the third quarter of 2007, compared to a repayment of $131,688 in the same quarter of 2006. On a YTD basis, the Company repaid $2,354,112 of long-term debt during the nine months ended June 30, 2007 compared to a repayment of $516,284 for the same period of the prior year. All of the repayments are scheduled payments on long-term debt.

**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. Approximately 50% of the financing was subscribed to by the Company management and directors.

**Capital Expenditures**

The Company recorded $38,722 on Capital Expenditures during the quarter ended June 30, 2007, compared to the $494,441 spent in the quarter ended June 30, 2006. During the nine months ended June 30, 2007, the Company spent $763,730 compared to the $1,044,746 spent in the nine months ended June 30, 2006. The current expenditures for the nine months ended June 30, 2007 were made primarily in enhancing the Brainhunter software ($286,913), and in computer hardware and software ($123,022), and leasehold improvements of ($258,029) for the Company's new premises in Ottawa. This expenditure is being offset by a leasehold improvement allowance of $272,751.

## SELECTED QUARTERLY INFORMATION

For the Three Months ended June 30th ($,000 except earning per share)

| | **2007** | **2006** | **2005** |
|---|---|---|---|
| **Revenue** | **56,575** | **42,056** | **20,017** |
| Cost of Sales | 48,042 | 34,725 | 15,858 |
| Gross Margin | 8,533 | 7,331 | 4,159 |
| Other operating costs | 6,506 | 7,872 | 3,873 |
| **EBITDA** | **2,027** | **(541)** | **286** |
| Interest - cash | 735 | 640 | 112 |
| Interest -non cash | 337 | 287 | 16 |
| Amortization of capital assets | 470 | 256 | 343 |
| Amortization of intangibles | 975 | 1,187 | 199 |
| Amortization of deferred financing costs | 364 | 272 | 0 |
| **Earnings (loss) before tax** | **(854)** | **(3,183)** | **(384)** |
| Income Tax | (409) | (721) | (139) |
| **Net earnings (loss)** | **(445)** | **(2,462)** | **(245)** |
| Earnings per share basic | ($0.01) | ($0.06) | ($0.01) |
| Earnings per share fully diluted | ($0.01) | ($0.06) | ($0.01) |
| **Total assets** | **84,214** | **79,805** | **41,969** |
| **Total long-term financial liabilities** | **39,706** | **38,410** | **1,766** |

For the Nine Months ended June 30th ($,000 except earning per share)

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Revenue** | **169,858** | **119,254** | **57,355** |
| Cost of Sales | 144,147 | 99,052 | 45,001 |
| Gross Margin | 25,711 | 20,202 | 12,354 |
| Other operating costs | 19,534 | 18,942 | 10,303 |
| **EBITDA** | **6,177** | **1,260** | **2,051** |
| Interest - cash | 2,228 | 1,620 | 324 |
| Interest -non cash | 975 | 936 | 53 |
| Amortization of capital assets | 1,207 | 793 | 964 |
| Amortization of intangibles | 2,926 | 3,153 | 662 |
| Amortization of deferred financing costs | 997 | 508 | 0 |
| **Earnings (loss) before tax** | **(2,156)** | **(5,750)** | **48** |
| Income Tax | (1,217) | (867) | (76) |
| **Net earnings (loss)** | **(939)** | **(4,883)** | **124** |
| Earnings per share basic | ($0.02) | ($0.12) | $0.00 |
| Earnings per share fully diluted | ($0.02) | ($0.12) | $0.00 |

# OTHER

**Financial Instruments and 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.

**EBITDA**

Management defines EBITDA as earnings before amortization, interest and taxes. The Company's method of calculating EBITDA may not be comparable to similar measures presented by other companies.

**Transactions with Related Parties**

No transactions occurred with related parties during the quarter outside the normal course of business and as reported in the financial statements.

## 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 interim quarter ending June 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.