

Consolidated Financial Statements

**Brainhunter Inc.**

September 30, 2005

## AUDITORS' REPORT

To the Shareholders of  
**Brainhunter Inc.**

We have audited the consolidated balance sheet of **Brainhunter Inc.** as at September 30, 2005 and the consolidated statement of operations and loss, (deficit) retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2004 and for the year then ended, prior to adjustment for the change in accounting policies and for the restatements described in note 2, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated December 13, 2004. We have audited the adjustments to the 2004 consolidated financial statements as described in note 2 and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Toronto, Canada,  
January 26, 2006.

*Ernst + Young LLP*

Chartered Accountants

**Brainhunter Inc.**

**CONSOLIDATED BALANCE SHEET**

As at September 30

	2005 \$	2004 \$
		<i>[restated - note 2]</i>
<b>ASSETS</b>		
<b>Current</b>		
Restricted short-term investment <i>[note 11]</i>	125,000	500,000
Accounts receivable	16,223,905	12,957,254
Investment tax credits recoverable <i>[note 4]</i>	250,000	736,452
Deposits and prepaid expenses	312,618	152,661
Future income tax asset <i>[note 7]</i>	523,432	444,334
<b>Total current assets</b>	<b>17,434,955</b>	<b>14,790,701</b>
Restricted short-term investment <i>[note 11]</i>	—	125,000
Capital assets, net <i>[note 5]</i>	5,701,846	4,431,653
Investment tax credits recoverable <i>[note 4]</i>	1,094,507	350,897
Deferred financing costs <i>[note 15]</i>	434,000	200,000
Intangible assets, net of amortization <i>[note 8]</i>	3,262,222	3,375,139
Goodwill <i>[note 8]</i>	9,382,402	9,356,093
Due from related parties <i>[note 6]</i>	282,159	330,698
Future income tax asset <i>[note 7]</i>	500,496	2,142,940
	<b>38,092,587</b>	<b>35,103,121</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness <i>[note 10]</i>	10,578,481	5,920,652
Accounts payable and accrued liabilities	6,364,660	6,544,760
Current portion of deferred lease inducement	35,700	—
Current portion of long-term debt <i>[note 11]</i>	1,046,685	914,748
Deferred revenue	575,654	104,966
<b>Total current liabilities</b>	<b>18,601,180</b>	<b>13,485,126</b>
Deferred lease inducement	294,529	238,002
Long-term debt <i>[note 11]</i>	760,951	881,513
<b>Total long-term liabilities</b>	<b>1,055,480</b>	<b>1,119,515</b>
Commitments and contingencies <i>[note 9]</i>		
<b>Shareholders' equity</b>		
Capital stock <i>[note 12]</i>	20,484,854	19,481,055
Warrants <i>[notes 3 and 12]</i>	68,945	—
Contributed surplus <i>[notes 12 and 13]</i>	973,744	—
Equity component of convertible note obligation <i>[note 3]</i>	53,040	—
(Deficit) retained earnings	(3,144,656)	1,017,425
<b>Total shareholders' equity</b>	<b>18,435,927</b>	<b>20,498,480</b>
	<b>38,092,587</b>	<b>35,103,121</b>

See accompanying notes

On behalf of the Board:

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

**Brainhunter Inc.****CONSOLIDATED STATEMENT OF OPERATIONS  
AND LOSS**

Year ended September 30

	2005	2004
	\$	\$
		<i>[restated - note 2]</i>
<b>Revenue</b>	<b>76,061,391</b>	68,893,460
Cost of revenues	<b>59,984,183</b>	54,869,138
<b>Gross profit</b>	<b>16,077,208</b>	14,024,322
<b>Expenses</b>		
Other staffing costs	<b>8,244,541</b>	7,870,672
Selling, general and administrative	<b>6,883,308</b>	3,087,312
	<b>15,127,849</b>	10,957,984
Income before interest, amortization and income taxes	<b>949,359</b>	3,066,338
Interest expense, net <i>[note 11]</i>	<b>474,620</b>	425,829
Amortization	<b>2,012,009</b>	3,385,655
	<b>2,486,629</b>	3,811,484
Loss before income taxes	<b>1,537,270</b>	745,146
Provision for (recovery of) income taxes <i>[note 7]</i>	<b>1,853,488</b>	(548,326)
<b>Net loss for the year</b>	<b>3,390,758</b>	196,820
<b>Loss per share <i>[note 12[f]]</i></b>		
Basic	<b>\$ (0.08)</b>	—
Diluted	<b>\$ (0.08)</b>	—

*See accompanying notes*

**Brainhunter Inc.**

**CONSOLIDATED STATEMENT OF (DEFICIT)  
RETAINED EARNINGS**

Year ended September 30

	2005	2004
	\$	\$
		<i>[restated - note 2]</i>
<b>Retained earnings, beginning of year</b>		
As previously reported	2,937,304	2,547,417
Restatements <i>[note 2[b] to 2[g]]</i>	(1,919,879)	—
Retained earnings, beginning of year, as restated	1,017,425	2,547,417
Change in accounting policy <i>[note 2[a]]</i>	(757,648)	—
Retained earnings, beginning of year, as adjusted	259,777	2,547,417
Net loss for the year	(3,390,758)	(196,820)
Shares purchased for cancellation, excess of cost over book value	(13,675)	(1,333,172)
<b>(Deficit) retained earnings, end of year</b>	<b>(3,144,656)</b>	1,017,425

*See accompanying notes*

**Brainhunter Inc.****CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended September 30

	2005	2004
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(3,390,758)	(196,820)
Add (deduct) items not affecting cash		
Future income taxes	1,850,077	(588,326)
Investment tax credits	(295,395)	(549,656)
Accretion of interest	55,855	38,744
Deferral of lease inducement	92,226	238,002
Stock-based compensation expense	243,376	—
Amortization of capital assets	899,092	937,691
Amortization of intangible assets	1,112,917	2,447,964
	567,390	2,327,599
Net change in non-cash working capital items <i>[note 14]</i>	(3,692,369)	(1,507,550)
<b>Cash provided by (used in) operating activities</b>	<b>(3,124,979)</b>	<b>820,049</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares <i>[note 12]</i>	—	9,254,535
Exercise of common share purchase warrants <i>[note 12]</i>	584,500	703,717
Exercise of common share options <i>[note 12]</i>	150,670	40,319
Purchase of common shares <i>[note 12]</i>	(26,615)	(2,028,414)
Advances from bank credit facility	3,245,660	5,108,003
Proceeds from long-term debt	358,000	1,000,000
Transfer to restricted short-term investments <i>[note 11]</i>	—	(1,000,000)
Repayment of long-term debt <i>[note 11]</i>	(356,000)	(2,089,574)
<b>Cash provided by financing activities</b>	<b>3,956,215</b>	<b>10,988,586</b>
<b>INVESTING ACTIVITIES</b>		
Additions to capital assets	(2,133,617)	(2,190,482)
Advances to related parties	48,539	112,104
Share purchase loans <i>[note 12]</i>	(104,289)	(265,000)
Business acquisitions, net of cash acquired <i>[note 3]</i>	(54,038)	(10,167,091)
<b>Cash used in investing activities</b>	<b>(2,243,405)</b>	<b>(12,510,469)</b>
<b>Net decrease in cash during the year</b>	<b>(1,412,169)</b>	<b>(701,834)</b>
Cash, beginning of year <i>[note 10]</i>	767,348	1,469,182
<b>(Bank overdraft) cash, end of year <i>[note 10]</i></b>	<b>(644,821)</b>	<b>767,348</b>
<b>Supplemental cash flow information</b>		
Income taxes paid	36,621	—
Interest paid	418,765	390,849

*See accompanying notes*

**Brainhunter Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**[a] Basis of consolidation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"] and include the accounts of Brainhunter Inc. and from the respective dates of acquisition of control, its wholly owned subsidiaries, collectively referred to herein as the "Company". All significant inter-company balances and transactions have been eliminated on consolidation.

**[b] Revenue recognition**

The Company provides computer and engineer consultant placements to customers based on written agreements. Revenue from contracts that is earned over a period of time is recognized monthly when clients are billed for hours worked at agreed rates. Other one-time fees earned for individual placements are recognized in the month the individual commences the new job.

The Company enters into written contracts with customers to complete specific software consulting projects. Customer billings are prepared monthly based on hours worked and agreed rates, at which time revenue is recognized. To a significantly lesser degree certain other contracts are fixed-price, for which revenue is recognized monthly using the percentage of completion basis, based on management estimates.

The Company markets third-party software for which customers are billed upon delivery. The Company also supplies consulting and training services related to the software, for which revenue is recognized when these services are provided.

The Company earns revenue from software licenses for in-house developed software that is deferred and amortized over the term of the license. Software implementation revenue is recognized in the period the implementation is completed.

The Company's accounting policy complies with the revenue determination requirements set forth in EIC-142, "Revenue Arrangements with Multiple Deliverables", relating to the separation of multiple deliverables into individual accounting units with determinable fair values.

Service revenue on fixed-price contracts is recognized on a percentage of completion basis whereby revenue is recorded at the estimated net realizable value of work completed to date. Estimated losses on contracts in progress are recognized when known. Deferred revenue represents amounts billed in advance of satisfying the related service.

**Brainhunter Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**[c] Capital assets**

Capital assets are recorded at cost, less related investment tax credits. Amortization is provided for over the estimated useful lives of the related assets at the following annual rates and methods:

Furniture and office equipment	20% declining balance
Computer equipment	30% declining balance
Computer software	100% declining balance
Developed software	Straight-line over 5 years
Leasehold improvements	Straight-line over the lease term

**[d] Goodwill**

Goodwill represents the excess of the purchase consideration paid over the fair value of identifiable net assets of acquired businesses. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations.

**[e] Intangible assets**

Intangible assets, comprising contracts, non-competes, customer relationships, trademarks, tradenames, internet domain addresses, and patented technology are being amortized on a straight-line basis over their estimated period of benefit which varies from two to five years.

During 2004 the unamortized value of certain intangibles in the accounts was written off, since the subsidiaries that they relate to were inactive. The charge to the consolidated statement of operations and loss was \$391,764.

**Brainhunter Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**[f] Income taxes**

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement values and tax value of assets and liabilities and for the benefit of tax losses that are carried forward to offset future years' current taxes payable if they are likely to be realized. Future tax assets and liabilities are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based upon available information, it is more likely than not that some of or all of the future income tax assets may not be realized.

**[g] Deferred lease inducements**

Leasehold inducements comprise free rent and leasehold improvement incentives. Leasehold inducements are deferred and amortized to reduce rental expense on a straight-line basis over the term of the related lease.

**[h] Research and development**

Research and development costs are expensed as incurred unless the development costs meet certain generally accepted accounting criteria in Canada.

**[i] Investment tax credits**

Investment tax credits relating to qualifying research and development expenditures are recorded as a reduction from the expenditures or assets to which they relate and there is reasonable assurance that the investment tax credits will be realized.

**[j] Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year end. Revenue and expense items are translated into Canadian dollars using exchange rates in effect on the transaction dates. Gains and losses from translation activities are included in earnings for the year.

**Brainhunter Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**[k] Financial instruments**

The fair value of financial instruments approximates their carrying value unless otherwise disclosed in the consolidated financial statements.

**[l] Use of estimates and assumptions**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the allowance for potentially uncollectible accounts receivable, accrued liabilities, the length of product cycles and the related useful life of capital assets, providing for the recovery of investment tax credits, and providing for a valuation allowance for future income tax credits and the classification of the current year's benefit expected to be realized, all of which are based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on these consolidated financial statements of changes in estimates in future periods could be significant. Actual results could differ from those estimates.

**[m] Deferred financing costs**

Financing costs relating to long-term debt are deferred and amortized on the straight-line basis over the term of the debt.

**[n] Impairment of long-lived assets**

The Company reviews long-lived assets such as capital assets and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment of the carrying value of the assets exist and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value.

**[o] Asset retirement obligations**

Effective October 1, 2004, the Company adopted the recommendations of CICA Section 3110, "Asset Retirement Obligations" ["CICA 3110"]. Under the new standard the Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset. The adoption of CICA 3110 did not have any impact on the Company's consolidated financial statements.

**Brainhunter Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND RESTATEMENTS**

**[a] Stock-based compensation plan**

The Company has a stock-based compensation plan which is described in note 13. Effective October 1, 2004 the Company adopted retroactively, without restatement, the revisions to CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* ["CICA 3870"]. Under this standard, the Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black-Scholes valuation model and charged to operations over the vesting period of the options granted, with a corresponding credit to contributed surplus. The effect of adopting CICA 3870 increased the contributed surplus and reduced the retained earnings accounts as at October 1, 2004 both by \$757,648.

**[b] Intangible assets**

The Company has determined that the accounting for its acquisitions resulted in not allocating a portion of the acquisitions to identifiable intangibles apart from goodwill in accordance with CICA Handbook Section 1581, *Business Combinations*.

The Company has reviewed the accounting for its acquisitions completed in the years ended September 30, 2003 and 2004, and goodwill has been restated for the recognition of identifiable intangible assets acquired and the resulting future income tax liabilities. As a result, intangible assets totalling \$5,431,339 were recorded, with goodwill being reduced by \$3,062,807, future income tax assets reduced by \$260,706, and future income tax liabilities by \$2,107,826, arising from the new intangible assets, were recorded. The intangible assets are amortized on the straight-line basis over their estimated period of benefit, which varies from two to five years, with the result that, for the year ended September 30, 2004, amortization expense was increased by \$2,056,200 and related future income tax recoveries of \$888,726 were recorded. The tables in note 2[h] summarize the effects of this restatement.

**[c] Purchase consideration**

The Company has reviewed the accounting for certain of its acquisitions and the relevant guidance under Canadian GAAP. As a result, the Company has excluded from the purchase consideration the common share purchase warrants issued to the employees of Prolink Consulting Inc. ["Prolink"] [\$83,820] and Sirius [\$143,231] and other staffing costs [\$350,000] allocated to these acquisitions. The effect of this restatement was to reduce goodwill by \$577,051 and increase other staffing costs by \$350,000 for the year ended September 30, 2004. The tables in note 2[h] summarize the effects of this restatement.

## **Brainhunter Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

#### **[d] Lease inducement**

The Company has reviewed the terms and conditions of its premise leases and the relevant guidance under Canadian GAAP. As a result, the Company recognized a lease inducement of \$238,002 for the free-rent period granted on one of these leases and has increased general, selling and administrative expenses by \$238,002 for the year ended September 30, 2004. The tables in note 2[h] summarize the effects of this restatement.

#### **[e] Interest expense**

The Company has reviewed the terms and conditions of the zero-interest vendor-take-back loans issued as partial purchase consideration in several acquisitions and the relevant guidance under Canadian GAAP. As a result, the Company has reduced the purchase consideration recorded for the acquisitions of Brainhunter.com Ltd. [\$97,391] and Protec Employment Services Limited ["Protec"] [\$63,591], with the effect of reducing goodwill by these same amounts and long-term debt by \$112,488 at September 30, 2004. The Company also recognized an imputed interest expense of \$98,281 for the year ended September 30, 2004. The tables in note 2[h] summarize the effects of this restatement.

#### **[f] Developed software**

The Company has reviewed its policy on the amortization of internally developed software and the relevant guidance under Canadian GAAP. As a result, the Company has reversed that portion of amortization [\$92,043] charged for the year ended September 30, 2004 pertaining to developed software that had not yet been deployed. The tables in note 2[h] summarize the effects of this restatement.

#### **[g] Investment tax credits**

The Company has reviewed its accounting for investment tax credits. As a result, the Company has reduced its investment tax credits recoverable by \$158,165 at September 30, 2004 and increased other staffing costs for the year then ended by the same amount. The tables in note 2[h] summarize the effects of this restatement.

**Brainhunter Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**[h] Summary of changes in significant accounting policies and restatements:**

**CONSOLIDATED STATEMENT OF OPERATIONS AND LOSS, RESTATED**

	<b>Year ended September 30, 2004</b>			
	<b>As previously reported</b>	<b>Restatements</b>	<b>Note 2</b>	<b>As restated</b>
	<b>\$</b>	<b>\$</b>		<b>\$</b>
<b>Revenue</b>	68,893,460	—		68,893,460
Cost of revenues	54,869,138	—		54,869,138
<b>Gross margin</b>	14,024,322	—		14,024,322
<b>Expenses</b>				
Other staffing costs	7,362,507	508,165	[c] [g]	7,870,672
General, selling and administrative	2,849,310	238,002	[d]	3,087,312
	10,211,817	746,167		10,957,984
Income before interest, amortization and income taxes	3,812,505	(746,167)		3,066,338
Interest expense, net	327,548	98,281	[e]	425,829
Amortization	1,421,498	1,964,157	[b] [f]	3,385,655
	1,749,046	2,062,438		3,811,484
Income (loss) before income taxes	2,063,459	(2,808,605)		(745,146)
Income taxes	340,400	(888,726)	[b]	(548,326)
<b>Net income (loss) for the year</b>	1,723,059	(1,919,879)		(196,820)
<b>Earnings (loss) per share</b>				
Basic	\$ 0.04	\$ (0.04)		—
Diluted	\$ 0.04	\$ (0.04)		—

**Brainhunter Inc.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**CONSOLIDATED BALANCE SHEET, RESTATED**

	As at September 30, 2004				
	As previously reported \$	Restatements \$	Note 2	Reclassifications \$	As restated \$
<b>ASSETS</b>					
<b>Current</b>					
Restricted short-term investment	—	—		500,000	500,000
Accounts receivable	12,957,254	—		—	12,957,254
Investment tax credits recoverable	1,245,514	(158,165)	[g]	(350,897)	736,452
Deposits and prepaid expenses	352,661	—		(200,000)	152,661
Future income tax asset	750,000	—		(305,666)	444,334
	15,305,429	(158,165)		(356,563)	14,790,701
Restricted short-term investment	—	—		125,000	125,000
Capital assets	4,339,612	92,041	[f]	—	4,431,653
Investment tax credits recoverable	—	—		350,897	350,897
Deferred financing costs	—	—		200,000	200,000
Intangible assets	—	3,375,139	[b]	—	3,375,139
Goodwill	12,765,783	(3,827,093)	[b] [c] [e]	417,403	9,356,093
Due from related parties	1,277,825	—		(947,127)	330,698
Future income tax asset	3,340,612	(284,239)	[b]	(913,433)	2,142,940
	37,029,261	(802,317)		(1,123,823)	35,103,121
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Bank indebtedness	5,920,652	—		—	5,920,652
Accounts payable and accrued liabilities	6,136,110	—		408,650	6,544,760
Current portion of long-term debt	435,000	—		479,748	914,748
Future income tax liabilities	—	305,666	[b]	(305,666)	—
Deferred revenue	104,966	—		—	104,966
	12,596,728	305,666		582,732	13,485,126
Deferred lease inducement	—	238,002	[d]	—	238,002
Long-term debt	848,749	(112,488)	[e]	145,252	881,513
Future income tax liabilities	—	913,433	[b]	(913,433)	—
	848,749	1,038,947		(768,181)	1,119,515
<b>Shareholders' equity</b>					
Capital stock	20,646,480	(227,051)	[c]	(938,374)	19,481,055
Retained earnings	2,937,304	(1,919,879)	[b] [c] [d] [e] [f] [g]	—	1,017,425
	23,583,784	(2,146,930)		(938,374)	20,498,480
	37,029,261	(802,317)		(1,123,823)	35,103,121