

BRAINHUNTER INC.

**Management Discussion and Analysis
For the Period Ending
December 31, 2006**

February 8, 2007

BASIS OF PRESENTATION

The Management's Discussion and Analysis, dated February 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.

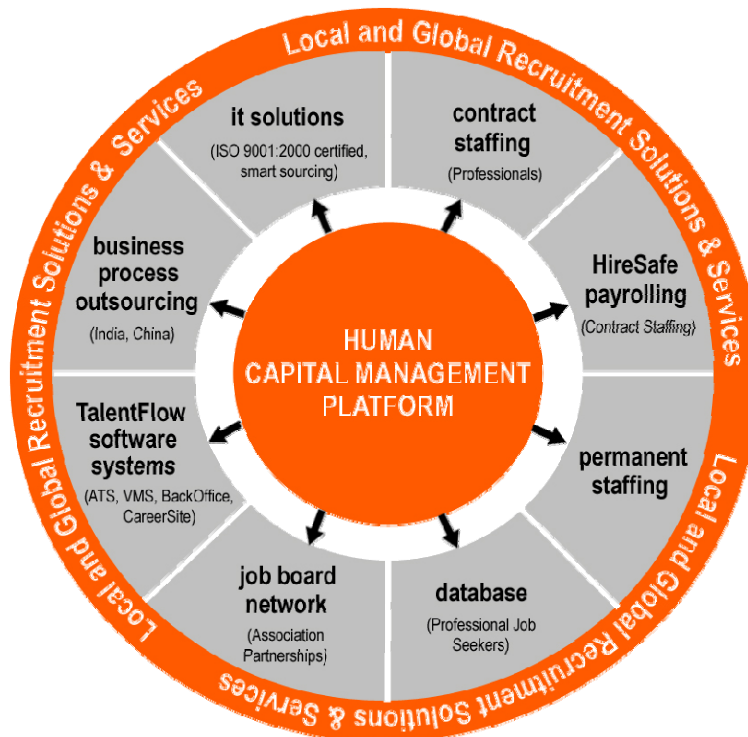
The Company's interim unaudited consolidated financial statements and accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP") of the Canadian Institute of Chartered Accountants ("CICA") using the same accounting policies and methods as the most recent audited 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. Those 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 (or the “Company”) is a leader in the global delivery of Human Capital Management (“HCM”) Solutions, Services and Software. Focused on all aspects of Staffing Procurement within organizations, Brainhunter provides end-to-end capability on a very robust, highly scalable, web enabled technology platform.



Brainhunter specializes in providing end-to-end recruiting and staffing solutions and services for IT, Engineering, Industrial and Health Care professionals, on a full time and contract basis, along with web enabled software solutions handling all aspects of the recruiting and staffing relationship between customer, contractor and agency. Functionality extends to all back office functions and the outsourcing of specialized business processes. Technology and services are provided to customers throughout Canada, the United States and globally under the brand Brainhunter, and drives a multifaceted revenue stream in related practice areas, including:

1. **Contract Staffing** (Annuity Revenue) – **High Growth**

- Full Service
- HireSafe Payrolling
- Recruiting Support
- BackOffice Processing

2. **Permanent Staffing** (Transaction Fees / Retainers) – **Strategic**
 - Full Service
 - Virtual Agency
3. **Specialized Job Boards** (Posting Fees / Subscriptions) – **High Growth**
 - Traditional Job Posting Model (Customers)
 - Reverse Job Posting Model (Job Seekers)
 - Database Access Model (Customers)
4. **TalentFlow Software Systems** (Licenses / Services) – **Strategic**
 - Applicant Tracking System
 - Vendor Management System
 - BackOffice Systems
 - CareerSite Systems
5. **Business Process Outsourcing** (India / China) (Annuity Revenue) - **High Growth**
 - 24/7 Recruiting / Sales and Customer Support
 - 24/7 Telemarketing
 - Outsourcing of Specialized Business Processes
 - SmartSourcing of Software Support and Development
6. **Professional Services / Solutions Delivery** (Project Revenue) - **Strategic**
 - Brainhunter Technology Platform Development, Support, Customization
 - Outsourcing / SmartSourcing®

Brainhunter's Human Capital Management Platform, supported by best practices, is believed to deliver the most cost effective, flexible and customizable recruiting and staffing solutions, services and processes in the marketplace today. The Platform is deployed internally and is delivered externally in a modular capacity, or as a fully integrated end-to-end solution. Software is sold on an ASP Model to customers in conjunction with Brainhunter's extensive Job Board Technology and Job Seeker Database capability (over 1.2 million resumes). It is supported by the Company's Professional Services division, which employs approximately 50 highly specialized, fully billable technical staff, operating on a highly profitable outsourcing business model.

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange. Brainhunter deploys over 1,600 Contractors/Consultants with an internal staff of over 250 personnel. The Company has delivery capability in Toronto, Ottawa, Winnipeg, Montréal, Calgary, Edmonton, Vancouver, Maritimes as well as activities in Dalian, China and in Hyderabad, India.

REVIEW OF OPERATIONS

Revenues

Revenues for the three months ending December 31, 2006 increased \$20,868,559 or 61.6% to \$54,730,398 in the current period, up from \$33,861,839 for the same period in the prior year. The increase is attributable approximately 75% to organic growth in the Staffing and Solutions business, and 25% to the timing of the acquisitions of AJJA and iGate in Q1 of Fiscal 2006.

Brainhunter's Staffing Division accounted for \$52,838,097 or 96.5% of total revenues compared to \$32,969,163 or 97.4% for the same period in fiscal 2006, representing an increase of \$19,868,934 or 60.3% 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.

Brainhunter's Solutions Division accounted for \$1,892,301 or 3.5% of total revenues compared to \$892,676 or 2.6% in the same period in fiscal 2006, representing an increase of \$999,625 or 112% increase over the prior year period. The increase is mainly attributable to a rise in customer's activity on contracts compared to the prior year period and an increase in new customer relationship.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the three months ended December 31, 2006, 39.3% of revenues related to various Federal Government of Canada agencies and departments, compared to 48.0% in the same period of the prior year.

Management believes that there are trends in North America, which will provide the Company with significant opportunities in 2007 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 in 2007.

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 \$18,270,416 or 65.0% from \$28,097,362 in Q1 fiscal 2006 to \$46,367,778 in Q1 fiscal 2007, an amount commensurate with the increase in revenues. Cost of sales as a percentage of revenues increased from 83.0% to 84.7% 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 \$45,383,064 or 97.9% of the total cost of sales in the current quarter compared to \$27,485,715 or 97.8% of the total cost of sales in the same quarter of fiscal 2006, representing an increase of \$17,987,349 or 65.1% increase over the same quarter in the prior year. The gross margin related to the Staffing Division is \$7,455,032 or 14.1% of related revenues in the three months ended December 31, 2006 compared to \$5,483,447 or 16.6% 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 \$984,714 or 2.1% of the total cost of sales in the three months ended December 31, 2006 compared to \$611,646 or 2.2% of the total cost of sales for the same period in the prior year, representing an increase of \$373,067 or 61.0% increase over the prior year. The gross margin related to the Solutions Division is \$907,588 or 48.0% of related revenues in the first quarter fiscal 2007 compared to \$281,029 or 31.5% of related revenue for the first quarter of fiscal 2006. The \$626,558 or 223.0% 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 contract.

Overall, the Company reported gross margins of \$8,362,620 or 15.3% of revenues in the three month period ended December 31, 2006, compared to \$5,764,477 or 17.0% of revenues in the same period 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.

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

Overhead expenses showed an increase in the first quarter fiscal 2007 versus the first quarter of fiscal 2006 of \$1,305,471 from \$5,049,963 to \$6,355,434 representing a 25.9% increase. As a % of Revenue, overhead expenses were 11.6% in Q1 fiscal 2007, down from 14.9% in Q1 fiscal 2006.

Other staffing costs have increased \$992,899 or 28.1% to \$4,530,733 in the three months ended December 31, 2006, up from \$3,537,834 in the same period in the prior year. The selling, general and administrative expenses have also increased \$312,572 or 20.7% to

\$1,824,701 in the first quarter of fiscal 2007 up from \$1,512,129 in the same quarter of the prior year.

Earnings before Interest, Taxes and Amortization (EBITDA)

As the result of the above, EBITDA is reported as \$2,007,186 for the first quarter of fiscal 2007 versus \$714,514 for the same quarter in fiscal 2006. EBITDA increased as a % of Revenue, from 2.1% in the three months ended December 31, 2005 to 3.7% in the three months ended December 31, 2006. As noted previously, the increase is largely due organic growth in both the Staffing & 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.

| | Q1, 2007 | Q1, 2006 |
|---------------------------|-----------------|-----------------|
| Interest Expense Cash | \$ 753,425 | \$ 396,141 |
| Interest Expense Non cash | \$ 312,529 | \$ 200,856 |

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 Q1 fiscal 2007 is \$271,206 and \$975,329 respectively, an increase of \$15,429 for capital assets and \$196,995 for intangible assets, from the same period in the prior year. The largest portion of amortization expense is the amortization of intangible assets. In addition, the Company amortized \$313,719 of deferred financing costs in Q1 fiscal 2007, costs 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 \$619,022 for the three months ended December 31, 2006 compared to a loss of \$916,594 for the three months ended December 31 2005. 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 \$(357,704) in the current quarter and an expense of \$21,482 for the same quarter in the prior year.

Net Earnings (Loss)

The Company is reporting a net loss of \$261,318 or \$(0.01) per share basic and diluted for the three months ended December 31, 2006 compared to a Net Loss of \$938,076 or \$(0.02) per share basic and diluted for the three months ended December 31, 2005.

Liquidity

Cash and Bank Indebtedness

The Company's term bank facility as of December 31, 2006 was \$22,000,000. 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 used in Operations for the quarter ended December 31 2006 was \$3,547,287, while Cash provided in Operations for the quarter ended December 31, 2005 was \$1,609,942. This significant change resulted mainly from two factors:

1. the improvement in EBITDA from \$714,514 in the quarter ending December 31, 2005 to \$2,007,186 in the quarter ending December 31, 2006, offset by
2. the increase in cash used to fund the net change in non-cash working capital from \$1,329,994 to \$(4,735,858), 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).

| | Dec 31/06 | Sep 30/06 | Change |
|---|------------------|------------------|---------------|
| Amounts due per financial statements | | | |
| Accounts payable | 20,988 | 23,518 | (2,530) |
| Bank indebtedness | 21,176 | 19,146 | 2,030 |
| OS cheques | <u>5,128</u> | <u>2,650</u> | <u>2,478</u> |
| Total | <u>26,304</u> | <u>21,796</u> | <u>4,508</u> |
| Total payables and bank | 47,292 | 45,314 | 1,978 |
| Amounts due restated | | | |
| Accounts payable | 20,988 | 23,518 | (2,530) |
| OS cheques | <u>5,128</u> | <u>2,650</u> | <u>2,478</u> |
| Total | <u>26,116</u> | <u>26,168</u> | <u>(52)</u> |
| Bank term facility | <u>21,176</u> | <u>19,146</u> | <u>2,030</u> |
| Total payables and bank | 47,292 | 45,314 | 1,978 |

Obligations by year (\$,000)

| | | | Operating Leases | Long Term Debt | | Total |
|--------------|--------------|------|---------------------|-----------------|------------------|-----------------|
| | | | | Pay in Cash | Pay in Shares | |
| Year ending: | Sept | 2007 | \$1,027 | \$3,562 | \$233 | \$4,821 |
| | Sept | 2008 | \$1,293 | \$6,619 | | \$7,913 |
| | Sept | 2009 | \$1,124 | \$7,280 | | \$8,404 |
| | Sept | 2010 | \$943 | \$0 | | \$943 |
| | Sept | 2011 | \$944 | \$0 | | \$944 |
| | Sept | 2012 | \$965 | \$0 | | \$965 |
| | Sept | 2013 | \$967 | \$0 | | \$967 |
| | Sept | 2014 | \$967 | \$0 | | \$967 |
| | Sept | 2015 | \$432 | \$0 | | \$432 |
| | Sept | 2016 | \$253 | | | \$253 |
| | | 2017 | \$21 | | | \$21 |
| | Total | | \$8,936 | \$17,461 | \$233 | \$26,630 |

Issue of Common Shares

The Company issued 338,375 common shares to repay \$225,188 of long term debt in the first quarter of 2007. No common shares were issued as a result of exercise of options during the first quarter of 2007 compared to raising \$16,050 during the same period from the prior year.

Advances to Related Parties and Share Purchase Loans

The company recorded an advance of \$250,000 to a senior executive during the three months ended December 31, 2006, compared to net advances of \$37,490 in the three months ended December 31, 2005. This amount is repayable in October, 2008 and pays interest of 8% per annum. In first quarter fiscal 2007, the Company did not advanced 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 collateralized 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 \$476,684 of long-term debt during the first quarter of 2007, compared to a repayment of \$152,833 in first quarter of 2006. All of the repayments are scheduled payments on long-term debt.

Capital Expenditures

The Company recorded \$604,898 on Capital Expenditures during the three months ended December 31, 2006, compared to the \$376,711 spent in the three months ended December 31, 2005. The current expenditures were made primarily in enhancing the Brainhunter software (\$253,360), in computer hardware and software (\$59,220), and leasehold improvements of \$259,487 for the Company's new premises in Ottawa. This expenditure is being offset by a leasehold improvement allowance of \$225,000.

SELECTED QUARTERLY INFORMATION

For the three months ended December 31st (\$,000 except earnings per share)

| | 2006 | 2005 | 2004 |
|--|-----------------|-----------------|-----------------|
| Revenue | \$54,730 | \$33,862 | \$17,789 |
| Cost of Sales | 46,368 | 28,097 | 13,816 |
| Gross Margin | 8,362 | 5,765 | 3,973 |
| Other operating costs | 6,355 | 5,050 | 3,078 |
| EBITDA | 2,007 | 715 | 895 |
| Interest - cash | 753 | 396 | 93 |
| Interest-non cash | 313 | 201 | 18 |
| Amortization of capital assets | 271 | 256 | 287 |
| Amortization of intangibles | 975 | 778 | 264 |
| Amortization of deferred financing costs | 314 | - | - |
| Earnings (loss) before tax | (619) | (916) | 233 |
| Income Tax | (358) | 22 | 97 |
| Net earnings (loss) | (261) | (938) | 136 |
| Earnings per share-basic | (\$0.01) | (\$0.02) | \$0.00 |
| Earnings per share-fully diluted | (\$0.01) | (\$0.02) | \$0.00 |
| Total assets | 85,229 | 80,397 | 39,232 |
| Total long-term financial liabilities | 42,792 | 21,553 | 1,220 |

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 December 31, 2006, 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.