

# **BRAINHUNTER INC.**

## **ANNUAL INFORMATION FORM**

**Date of Issue:** April 3, 2009

**Last Fiscal Year End:** September 30, 2008

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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:**

- 8th Floor, 1001 Maisonneuve West, Montreal, Que,
- 1545 Carling Avenue Suite 600 Ottawa, ON, K1Z 8P9
- 6815-8th Street NE, Suite 125, Calgary, AB, T2E 7H7
- H.No 8-2-351/1/12, Ground Floor, Fortune -54, Avenue 8, Road No.3, Banjara Hills, Hyderabad – 500 034, Andhra Pradesh, India
- 83 Victoria Street, London, England, SW1H 0HW

**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, 2008 and at date of issue, the BH corporate structure was as follows:

Active 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 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 ISO9001:2000 Certified “Staffing Services and Solutions” Company. Brainhunter’s business is focused on using a leading technology platform to provide end to end recruiting and staffing services and solutions in information technology, engineering and other selected market sectors. These services are provided to clients throughout Canada, United States, and globally under the Brand “Brainhunter”.

Brainhunter’s technology platform and best practices strive to deliver the most cost effective and flexible recruiting and staffing services and solutions in the marketplace today. The solutions are modular in nature and customizable to suit both small and large scale business processes. Brainhunter has over 2000 clients including a number of America’s leading corporations and over 30 federal and provincial government groups. Brainhunter’s Jobseeker database currently holds in excess of 1.2 million professionals 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. Brainhunter deploys over 1,600 consultants and has an internal staff of over 200 personnel. The Company has delivery capability across Canada and in the United States including Toronto, Ottawa, Maritimes, Montreal, Calgary, Vancouver, activities in Dalian China, and an office in Hyderabad India, and the UK.

## 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 was 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. 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.

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 included 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, 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.

**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.

**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.

**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.

**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.

**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 were 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 zero-interest vendor-take-back loans have a nominal value of \$2,200,000 and are being 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.

#### **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 and was repaid on November 16, 2007.

### **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.

#### **\$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 were convertible to 428,571 common shares at the option of the holder of the Convertible Preferred Shares.

#### **\$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 (“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.

The term facility ended October 15, 2008. Under the terms of a Standstill Agreement executed on April 3, 2009, the term facility was extended to September 30, 2009.

**\$5,000,000 Debenture (“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%.

The debenture was extended on April 3, 2009 to September 30, 2009 at a cash interest cost of 15% per annum plus a payment on termination of 3% per annum.

**\$7,856,000 Convertible Notes (“Convertible Notes 1”)**

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 were 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.

**\$2,586,000 Convertible Notes (“Convertible Notes 2”)**

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.

#### **\$11,000,000 Term Notes**

As part of the extensions of the Term Facility and the Debenture, the Company agreed to replace Convertible Notes 1 and Convertible Notes 2 with an issue of term notes. The expected terms of the new notes include a term of January 31, 2010 at 15% per annum interest and 5,500,000 share purchase warrants at a price of \$0.20 per share.

### **3.3 Dispositions**

#### 3.3.1 Disposition of subsidiaries

The Company has made no dispositions of subsidiaries since inception.

#### 3.3.2 Disposition of businesses

##### **Disposition of the Careersite business**

On February 6, 2008, the Company executed several agreements (“Agreements”) to sell various components which comprised its North American Careersite Business (“Business”) to Workopolis for a total consideration of \$10,000,000 cash (“Consideration”) payable on meeting certain transition milestones specific to each agreement. The Business consisted of the existing client activity and a perpetual licence to use the Brainhunter Careersite technology in Canada and the United States. As part of the agreements, also executed were a non-compete agreement, a one-year technology support agreement and a transition services agreement. In addition, the Company entered into a software development agreement with Workopolis for separate consideration.

Pursuant to the Agreements, the Company received on March 3, 2008 the amount of \$7,500,000 less closing adjustments of \$7,000 for a net consideration of \$7,493,000. Further, pursuant to the Agreements, the Company received on April 4, 2008 the amount of \$2,000,000, and quarterly transition milestone payments of \$125,000 in each of May, August, and November, 2008 and February, 2009 for a total consideration of \$10,000,000.

### **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. 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 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.

### 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, 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. Brainhunter's BPO services is focusing 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. The health care industry is now positioned to rival IT as the staffing sector with the greatest shortage of skilled personnel.

### **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.

### **4.3 Solutions Delivery Business**

Brainhunter Inc.'s subsidiary's TrekLogic Inc. ("TrekLogic") is an Information Technology ("IT") Services company's providing software solutions services to a high profile client base primarily in the U.S. and is built around a number of high value-added specialty practice areas where TrekLogic has 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 is a provider of IT solutions to other businesses. It is 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 220 employees in its offices in Toronto, Ottawa, Montreal, activities in Dalian China and an office in India.

## **4.5 Risk Factors**

Brainhunter's management views risk and uncertainty as being inherent in every business venture and undertaking. Management considers risk to encompass all factors, influences, trends, developments and eventualities, both foreseeable and unforeseeable, that may affect the Company and either prevent the Company from reaching its intended goal of sustained and growing profitability, or cause Brainhunter's results to differ materially from those expected. Management, in consultation with the board of directors of the Company, develops strategies and takes measures to eliminate, mitigate or protect against these significant risks, to the extent reasonably possible given the human and financial resources available to the Company. However, management also believes that some risks cannot be foreseen, or if foreseen cannot be eliminated, mitigated, protected or insured against.

Listed below are several key risks that affect the Company's business and the market for Brainhunter's shares. Current and potential shareholders of Brainhunter should consider these risks and uncertainties when evaluating an investment in Brainhunter's securities. This list is not exhaustive and there may be other risks or uncertainties, both foreseeable and unforeseeable, which affect the business of the Company.

### **Industry Conditions**

Management has no ability to influence the state of the Human Capital Management industry and specifically the type and amount of outsourced contract and permanent staffing services required by the Company's existing and prospective customers and the prices they are willing to pay for those services as conditions change.

**Competition**

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

**Pricing and Margins**

Mainly as a result of the highly competitive environment in the staffing industry, the Company's ability to adjust prices is in many cases limited by the terms of its engagement for services by its customers. Also due to the intense competitive pressures in its industry, the Company's margins have also historically been relatively narrow and are expected to continue to be so in the future. Narrow margins magnify the impact on operating results of variations in sales volumes, and operating costs, which may, consequently, impact the earnings of the Company. While the Company continuously seeks ways to improve sales volumes, gross margins and reduce operating expenses as a percentage of sales, there can be no assurance that the Company will be successful in such efforts. Management believes that although the Company's margins are considered narrow in general business terms, its margins are in the normal range of margins found generally in the Human Capital Management industry.

**Customer Concentration**

The Company deals only with customers, which, in management's 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 the funds owed to the Company by that customer. This risk is mitigated by the fact that the Company's largest single customer represented 16% of revenues in Fiscal 2008. The second largest customer represented 13% of revenues in Fiscal 2008. All other customers each represented less than 10% of revenues. Individual departments and agencies of the Federal Government of Canada represented about 31% of total revenues in Fiscal 2008 and approximately 26% of its accounts receivable at September 30, 2008.

**Personnel**

The success of the Company is dependent upon its personnel. The unexpected loss or departure of any of the Company's key officers or employees could be detrimental to the future operations of the Company. The success of the Company's business will depend, in part, upon the Company's ability to attract and retain qualified personnel as they are needed. There can be no assurance that the Company will be able to engage the services of such personnel or retain its current personnel. Management seeks to have employment and compensation policies and practices in place that, to the extent reasonably possible, enhance the retention and future recruitment of qualified personnel

**Foreign Currency Risk**

The Company earns approximately 6% of its revenues in US dollars. To the extent the Canadian dollar appreciates against the US dollar, the realization from the Company's US dollar revenue may be negatively impacted in the short term. A sudden significant shift in the exchange rates could affect the realization of

funds receivable. The Company has not entered into any currency hedging contracts in the past, but periodically evaluates the merits and feasibility of such contracts as a risk mitigation strategy

### **Future Operations**

The Company's ability to continue ongoing operations is dependent upon its ability to generate sufficient cash flow and obtain sufficient financing to fund its business to the point that it can maintain profitable operations or continue operations in periods where profitability is not maintained. There is no assurance that the Company will be able to continue to generate net income and positive cash flow or obtain financing necessary to fund operations while operating improvements are implemented. Management continues to work on many fronts in an effort to maintain sustained and consistent profitability for the Company. Given the number of risks and variables affecting the Company, management cannot guarantee that this goal will be reached.

### **Growth**

The Company may also be subject to growth related risks, including capacity constraints and pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to hire and train qualified sales representatives, to implement and improve its operational and financial systems and to manage and expand its offices. The inability of the Company to deal with its growth could have a material adverse impact on its business, operations and prospects.

### **Interest Rates**

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

### **Management Information Systems**

The Company will rely upon the accuracy and proper utilization of management information systems to provide timely distribution services and to track properly its financial information. The occurrence of a significant system failure could have a material adverse effect on the Company's operating and financial results. Management has implemented policies and procedures that seek to minimize and mitigate the risk of a significant system failure, but cannot guarantee the continuity of management information systems.

### **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.

### **Potential Volatility of Share Prices**

The market price for Brainhunter's common shares could be subject to wide fluctuations in response to quarter-to-quarter variations in operating results, the gain or loss of significant contracts, announcements of technological

developments by the Company or its competitors, changes in income estimates by analysts and market conditions in the industry, as well as general economic conditions or other risk factors. In addition, stock markets have experienced volatility that has affected the market prices for many companies' stock that often has been unrelated to the operating performance of such companies. These market fluctuations could limit the Company's ability to engage in merger and acquisition activities, or hamper or prevent the Company from successfully consummating a sale of its equity securities in the future, which in turn could have a material and adverse effect on the Company's liquidity. Management has little or no control over the price of its common shares in the face of broad stock market changes rooted in global or local economic conditions or investor opinion, mood or trends.

## 5.0 FINANCIAL INFORMATION

### 5.1 Annual Information

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

	2008	2007	2006
Current Assets	\$36,208	\$44,862	\$41,423
Non-current Assets	19,011	36,125	42,285
<b>Total Assets</b>	<b>\$55,219</b>	<b>\$80,987</b>	<b>\$83,708</b>
Current Liabilities	\$53,821	\$27,779	\$28,376
Non-current Liabilities	1,050	40,143	38,754
Total Liabilities	54,871	67,922	67,130
Shareholder Equity	348	13,065	16,578
<b>Total Liabilities and Equity</b>	<b>\$55,219</b>	<b>\$80,987</b>	<b>\$83,708</b>

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

	Year	Year	Year
	2008	2007	2006
<b>Revenue</b>	<b>\$234,026</b>	<b>\$221,313</b>	<b>\$166,504</b>
Cost of Sales	200,561	188,731	138,830
<b>Gross Margin</b>	<b>33,465</b>	<b>32,582</b>	<b>27,673</b>
Other Operating Costs	30,961	25,597	24,627
<b>Income before write off of capital assets, transaction costs, interest, amortization, and other</b>	<b>2,504</b>	<b>6,985</b>	<b>3,046</b>
Interest	4,959	4,478	3,602
Amortization	5,142	5,638	5,606
Impairment of Goodwill	13,662	-	-
Other	710	605	-
<b>Earnings before Tax</b>	<b>(21,969)</b>	<b>(3,736)</b>	<b>(6,162)</b>
Tax	(1,694)	(3)	(1,462)
<b>Net Earnings (loss) from continuing operations</b>	<b>(\$20,275)</b>	<b>(\$3,733)</b>	<b>(\$4,700)</b>
Results from discontinued operations	7,940	782	-
<b>Net Earnings (loss) for the period</b>	<b>(\$12,335)</b>	<b>(\$2,951)</b>	<b>(\$4,700)</b>
Earnings per share continuing operations-basic and diluted	(\$0.48)	(\$0.09)	(\$0.11)
Earnings per share discount operations-basic and fully diluted	\$0.18	\$0.02	N/A

## 6.0 MANAGEMENT DISCUSSION and ANALYSIS

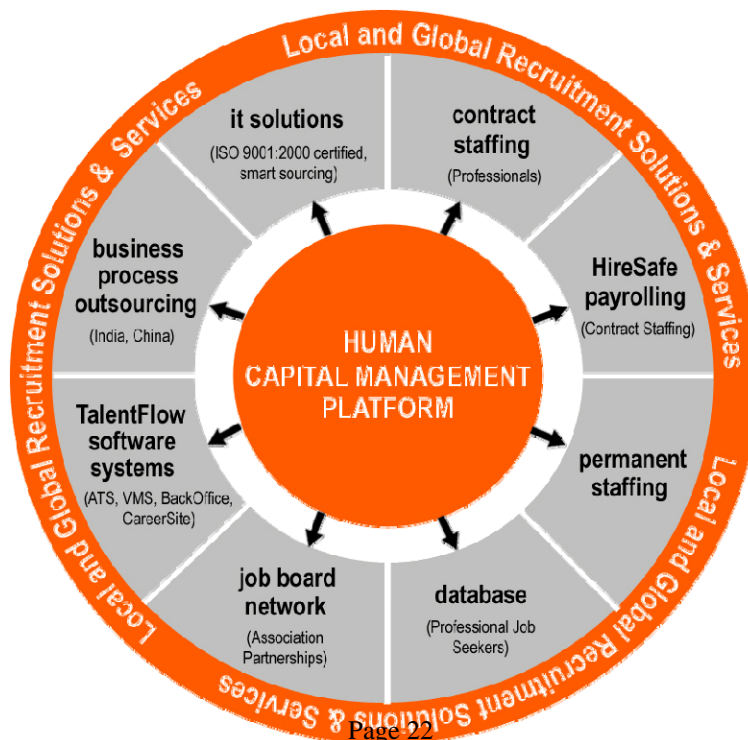
### 6.1 Management Discussion and Analysis for the year ending September 30, 2008

#### 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 / Services), **Technology Sales** (Licenses / Services), **Professional Services / Solutions Delivery** (Project Revenue), and **Business Process Outsourcing (“BPO”) Centre** (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 has over 2,000 clients including over 200 of North America's leading corporations 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 220 personnel. The Company has delivery capability across Canada including Toronto, Ottawa, Maritimes, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian China, an office in Hyderabad, India and delivery capability in select US jurisdictions and the UK.

## **STRATEGIC ALTERNATIVES**

The Company has engaged a global corporate finance advisory firm to advise on strategic alternatives which may include taking the public company Brainhunter private, and/or financing that will enable the Company to take advantage of both acquisition and organic growth opportunities in the market place.

## **GOING CONCERN**

This Management Discussion and Analysis has been prepared on a going concern basis, which assumes that the future operations will allow for the realization of assets and discharge of liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company has incurred losses from continuing operations over the past several years and as at September 30, 2008 had a working capital deficiency. The Company was in breach of its financial covenants in its \$26 million Term Facility Agreement ("Term Facility") with its bank as at September 30, 2008. The Term Facility expired October 15, 2008, but the bank has agreed to extend the Term Facility to September 30, 2009 subject to a Standstill Agreement ("Agreement") executed April 3, 2009 as described in Note 17 of the financial statements. In addition, as of April 3, 2009, the Company continues to negotiate with its convertible lenders in order to refinance \$7,726 due December 2008 and \$2,465 due February 2009. The Company is committed to pursuing a course of action leading to a privatization of the Company or a refinancing resulting in the bank and other debtholders being repaid. The Company's ability to continue as a going concern is

dependent upon the Company's ability to retain the ongoing support of its bank and execute the privatization or refinancing and generate profitable operations. The outcome of these matters is uncertain.

There are no assurances that the bank or other debtholders will not exercise its rights and remedies should the Company fail to meet its covenant obligations or other conditions. If the bank or other debtholders exercise its rights there can be no assurances that a similar replacement facility or other refinancing can be obtained.

The consolidated financial statements which are incorporated into this Management Discussion and Analysis by reference do not include any adjustments to the carrying value and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and such adjustments could be material.

## **DIVESTITURES**

### **Sale of Brainhunter's North American Careersite Business (in \$000's)**

On February 6, 2008, the Company executed several agreements ("Agreements") to sell various components which comprised its North American Careersite Business ("Business") to Workopolis for a total consideration of \$10,000 cash ("Consideration") payable on meeting certain transition milestones specific to each agreement. The Business consisted of the existing client activity and a perpetual license to use the Brainhunter Careersite technology in Canada and the United States. As part of the agreements, also executed were a non-compete agreement, a one-year technology support agreement and a transition services agreement. In addition, the Company entered into a software development agreement with Workopolis for separate consideration.

Pursuant to the Agreements, the Company received in March, 2008 the amount of \$7,500 less closing adjustments of \$7 for a net consideration of \$7,493. Further, pursuant to the Agreements, the Company received in April 4, 2008 the amount of \$2,000 for completion of the transition service.

Pursuant to the Agreements, the remaining \$500 of the Consideration is being paid to the Company at the rate of \$125 per quarter, as agreed quarterly transition milestones are achieved. As of September 30, 2008, the Company received \$250 for achieving the 1st and 2nd milestones.

In fiscal 2008, the Company is recognizing a gain on the disposition of the Careersite Business of \$9,459 being the proceeds received during the year less expenses.

The Company's results of operations related to discontinued operations for the year ended September 30, 2008 and 2007 are shown below.

(\$000's)	2008 \$	2007 \$
Revenue	1,088	3,251
Costs and expenses	586	1,773
	502	1,478
Sales and marketing	409	633
General and administrative	65	63
Income before gain on disposition	28	782
Gain on disposition	9,459	—
Income before income taxes	9,487	782
Income tax expense	1,547	—
<b>Results of Discontinued Operations</b>	<b>7,940</b>	<b>782</b>

Although the Company has exited the market in Canada and the USA for its Careersite Business, the Company is continuing to expand the Careersite Business in other parts of the world. The company has opened an office in London, England and has begun signing agreements with professional associations to provide the technology to power the association's job boards in the same manner as was done in North America. The Company has also negotiated an arrangement with an association of newspapers in South America to provide the technology for job boards for the members of the association.

## GOODWILL VALUATION

In accordance with Canadian generally accepted accounting principles ("Canadian GAAP") section 3062, "Goodwill and Other Intangible Assets", as at June 30, 2008, the Company performed its annual goodwill impairment test as one reporting unit.

The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value of a reporting unit is based on a fair value measure.

We determined the fair value of the Company by multiplying the closing price of the shares as of June 30, 2008 with total shares outstanding. The results indicated that the estimated fair value of the Company was less than its carrying value and as such we performed step two of the impairment test for the Company.

If the carrying amount of the reporting unit exceeds its fair value, step two requires the fair value of the reporting unit be allocated to the underlying assets and liabilities of that reporting unit, whether or not previously recognized, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net gain or loss.

The Company determined the carrying value of goodwill by utilizing a combination of valuation techniques including the expected present value of future cash flows approach. Such valuations involve significant assumptions regarding future operating performance. As a result, the Company estimated the step two goodwill impairment by determining the implied fair value of goodwill in the same manner as if it had acquired the Company as of the date of the step one assessment. As part of this process, the Company engaged an independent valuator to assist in determining the extent of the impairment charge.

The impairment test identified the fair market value of intangible assets to be \$28.8 million compared to its carrying value of \$7.7 million. The identified intangible assets include customer intangible, software intangible and trade mark intangible. According to Canadian GAAP, the excess of fair market value over carrying value is not subject to write up. Step two of the impairment test concluded that the carrying value of the Company exceeded its fair value, and as a result, the Company recorded an impairment charge of \$13,662.

### **Summary of Impairment Calculations (\$000's)**

Fair market value of issued share capital based on closing market price June 30, 2008	14,780
Debt outstanding at June 30, 2008	<u>33,965</u>
Enterprise value of company	<u>48,745</u> (A)
Valuation of assets as at June 30, 2008	
Tangible assets (net)	21,726
Intangible assets	28,800
Future income tax liability	<u>(8,352)</u>
Total	<u>42,174</u> (B)
Residual available for Goodwill ((A) minus (B))	<u>6,571</u>

The goodwill impairment charge is non-cash in nature and does not affect the Company's liquidity, cash flows from operating activities, and will not have an impact on future operations.

## **RESTATEMENT OF QUARTERLY RESULTS**

Based on further review and analysis related to the following, the Company is providing the following restatement of quarterly earnings during fiscal 2008:

### **1. Reclassification of discontinued operations**

In fiscal 2008, the Company sold its Careersite Business to Workopolis. The Company recognized gains on the disposition when cash proceeds were received. According to EIC 142 – Revenue Arrangements, as there were 2 units of accounting in the agreement, the timing of revenue recognition for a given unit of accounting will depend on the nature of

that unit of accounting and whether the general conditions for revenue recognition have been met. As a result, the results from discontinued operations was overstated by \$6,992 in Q2 and \$835 in Q4, whereas understated \$7,827 in Q3. As a result, net earnings per share for discontinued operations in Q3 increased from \$0.04 to \$0.19.

## 2. Goodwill impairment charge

In accordance with Canadian generally accepted accounting principles ("Canadian GAAP") section 3062, "Goodwill and Other Intangible Assets", as at June 30, 2008, the Company performed its annual goodwill impairment test as one reporting unit. The goodwill impairment charge of \$13,662 was not recorded in the Company's previously filed consolidated financial statements for the period ended June 30, 2008 as the goodwill impairment test was not finalized until March 2009. This adjustment did not affect income before interest, amortization and income taxes, but increased net loss for the period by this amount and reduced goodwill on the balance sheet to \$6,571. Net loss per share for continuing operations in Q3 increased from \$0.02 to \$0.35.

	Quarter ended		
	Sep 30 2008 (Fourth Quarter)	June 30 2008 (Third Quarter)	Mar 31 2008 (Second Quarter)
Net loss from continuing operations - as reported	(14,198)	(899)	(4,144)
Results of discontinued operations (net of tax)- as reported	(750)	1,625	7,024
Net profit (loss) for the period - as reported	(14,948)	726	2,880
Goodwill impairment	13,662	(13,662)	—
Results of discontinued operations	(835)	7,827	(6,992)
Income tax expense	1,547	(1,547)	—
Net loss from continuing operations - restated	(536)	(14,561)	(4,144)
Results of discontinued operations (net of tax) - restated	(38)	7,905	32
Net profit (loss) for the period - restated	(574)	(6,656)	(4,112)
Earnings (loss) per share - as reported			
Continuing Operations - Basic and Diluted	(0.33)	(0.02)	(0.09)
Discontinued Operations - Basic	(0.02)	0.04	0.16
Discontinued Operations - Diluted	(0.02)	0.04	0.14
Earnings (loss) per share - restated			
Continuing Operations - Basic and Diluted	(0.01)	(0.35)	(0.09)
Discontinued Operations - Basic	—	0.19	0.00
Discontinued Operations - Diluted	—	0.19	0.00

	<b>Quarter ended</b>	
	<b>June 30 2008 (Third Quarter)</b>	<b>Mar 31 2008 (Second Quarter)</b>
Accounts receivable - as reported	41,354	44,742
Accounts payable and accrued liabilities- as reported	24,641	25,079
Goodwill - as reported	20,233	20,233
Deferred revenue - as reported	484	368
Deficit - as reported	(9,224)	(9,950)
<b>Adjustments related to discontinued operations and goodwill:</b>		
Accounts receivable	125	—
Accounts payable and accrued liabilities	837	(501)
Goodwill	(13,662)	—
Deferred revenue	—	7,493
Deficit	(14,374)	(6,992)
Accounts receivable - restated	41,479	44,742
Accounts payable and accrued liabilities- restated	25,478	24,578
Goodwill - restated	6,571	20,233
Deferred revenue - restated	484	7,861
Deficit - restated	(23,598)	(16,942)

## **REVIEW OF FISCAL 2008 OPERATIONS (in \$000's)**

### Revenues

Revenues for the fiscal year ended September 30, 2008 increased \$12,713 or 5.7% versus fiscal 2007 from \$221,313 to \$234,026. The increase is attributable to organic growth across all sectors of the business, offset by the reduction due to sale of the Careersite business.

Brainhunter's Staffing Division accounted for \$224,660 or 96.0% of total revenues for fiscal 2008 compared to \$214,259 or 96.8% for the same period in fiscal 2007, representing an increase of \$10,401 or 4.9% increase over the prior year period. The increase is mainly attributable to an increase in the IT and Engineering contract staffing business, as a result of organic growth initiatives.

Brainhunter's Solutions Division accounted for \$9,366 or 4.0% of total revenues in fiscal 2008 compared to \$7,054 or 3.2% in the same period in fiscal 2007, representing an increase of \$2,312 or 32.8% over the prior year period. The increase is mainly attributable to a rise in customer activity on existing 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 fiscal 2008, 31.1% of revenues related to various Federal Government of Canada agencies and departments, compared to 37.2% of revenues from the prior year. The overall dollar values of revenues derived from the Federal Government has decreased during fiscal 2008 to \$73,279 compared to \$83,050 in the same period 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 business.

Management believes that there are long-term 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 in the long term.

#### Cost of Sales & Gross Margin

Cost of sales includes all direct costs incurred in the providing of Staffing and Solutions services. These costs include primarily the costs of contract staff, and billable employees, with small amounts for 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 \$11,830 or 6.3% from \$188,731 in fiscal 2007 to \$200,561 in fiscal 2008, an amount commensurate with the increase in revenues. Cost of sales as a percentage of revenues slightly increased from 85.3% in fiscal 2007 to 85.7% in fiscal 2008, 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 \$194,785 or 97.1% of the total cost of sales in fiscal 2008 compared to \$184,874 or 98.0% of the total cost of sales in fiscal 2007, representing an increase of \$9,911 or 5.4% increase over the prior year. The gross margin related to the Staffing Division is \$29,875 or 13.3% of related revenues in 2008 compared to \$29,385 or 13.7% of related revenue for the same periods 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 \$5,776 or 2.9% of the total cost of sales in fiscal 2008 compared to \$3,857 or 2.0% of the total cost of sales in the prior year, representing an increase of \$1,919 or 49.8% increase over the prior year. The gross margin related to the Solutions Division is \$3,590 or 38.3% of related revenues in fiscal 2008 compared to \$3,197 or 45.3% of related revenue in fiscal 2007. The increase in sales is a result of organic growth in the Solution's Division as a result of new customer relationships and a rise in customer contracts. The decline in gross margin percentages is the result of utilizing more contractors, versus employees, in delivering services.

Overall, the Company reported gross margins of \$33,465 or 14.3% of revenues in fiscal 2008, compared to \$32,582 or 14.7% of revenues fiscal 2007. 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 gross margin percentage.

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

Other staffing costs have increased \$2,721 or 14.6% to \$21,336 in fiscal 2008, up from \$18,615 in the prior year. The major components of the increase in fiscal 2008 are:

- Sales staff salaries increased by \$2,132. This was deemed necessary by management to properly service the new tier one relationships which the company has obtained. It is expected that additional revenues and margins will flow from the addition of these personnel.
- Finance, IT, HR salaries and management fees increased by \$589, due to the addition of new staff during the fiscal year to meet the increased business needs.

Selling, general and administrative expenses have increased \$2,643 or 37.9% in fiscal 2008 from \$6,982 to \$9,625. The components of the increase are summarized below:

- costs and reserves for current and potential litigation settlements (\$1,041 non-recurring costs recorded in Q2 fiscal 2008)
- amounts spent on the review of Internal Controls pursuant to National Instrument 52-109 (\$515)
- rent for additional office spaces in Toronto, Calgary and UK (\$483)
- Front Office and Back Office development cost (\$300). These costs were capitalized in fiscal 2007 while expensed in fiscal 2008
- increased audit fee for additional work related to sale of careersite (\$158)
- write off of investments in a start-up business (\$108, non-recurring costs recorded in Q2 fiscal 2008)

As a percentage of revenue, total selling, general and administrative costs have increased to 4.1% of revenue in fiscal 2008 versus 3.2% in fiscal 2007.

**Earnings before internal costs related to the sale of discontinued operations, impairment of goodwill, amortization, interest and taxes (EBITDA)**

As a result of the above, EBITDA is reported as \$2,504 for fiscal 2008 versus \$6,985 for fiscal 2007. EBITDA decreased as percentage of revenue, from 3.2% in 2007 to 1.1% for fiscal 2008.

**Internal costs related to the sale of discontinued operations**

The Company incurred \$710 of costs directly related to the sale of discontinued operations. These costs are primarily expenses related to work relating to the sale of careersite.

**Impairment of goodwill**

The Company completed step one of the goodwill impairment test during the third quarter of 2008. In performing the goodwill assessment, it used current market capitalization, discounted cash flows, and other factors as the best evidence of fair value. After completing step one, the Company determined that goodwill was potentially impaired since the estimated fair value of the Company was less than the carrying value. As a result, the Company estimated the step two goodwill impairment by determining the implied fair value of good will in the same manner as if it had acquired the Company as of the date of the step one assessment.

As at September 30, 2008, the Company completed step two of the goodwill impairment test and concluded that goodwill was impaired by \$13,662. As part of this process, the Company engaged an independent valuator to assist in determining the extent of the impairment charge. See “Goodwill Valuation” section.

**Interest**

The interest costs are predominantly related to amounts paid on the Company’s term bank facility, the convertible notes, and the debenture. Interest expense is composed of 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>2008</b>	<b>2007</b>
Interest expense	3,368	3,003
Interest expense Accreted	1,591	1,474
Interest actually paid in cash	2,872	2,780

Cash 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 of property, plant and equipment and intangible assets in fiscal 2008 is \$739 and \$4,403 respectively, an increase of \$21 for property, plant and equipment and a decrease of \$517 for amortization of intangible assets in the prior year.

#### 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 \$1,694 for fiscal 2008 versus \$3 for fiscal 2007.

#### Net Loss

The Company is reporting for a net loss of \$12,335 or \$0.48 per share from Continued Operations, offset by a gain of \$7,940 or \$0.18 per share basic and diluted from Discontinued Operations in fiscal 2008, compared to a net loss of \$3,733 or \$0.09 per share from Continued Operations, offset by earnings of \$782 or \$0.02 per share from Discontinued Operations in fiscal 2007.

### **REVIEW OF FOURTH QUARTER 2008 OPERATIONS (in \$000's)**

During the three months ended September 30, 2008, consolidated revenue increased 0.7% to \$54,102 in 2008 compared to \$53,705 in the corresponding period in 2007. The increase is attributable to organic growth across all sectors of the business, offset by the reduction due to sale of the Careersite business, as discussed in this MD&A.

Consolidated fourth quarter EBITDA grew 12.1% year-over-year to \$1,509 in 2008 compared to \$1,346 in the corresponding period of 2007. The increase was attributed to the increase in sales and elimination of all non-essential spending.

The Company recorded a net loss from continuing operations of \$536 for the three months ended September 30, 2008, or basic and diluted loss per share of \$0.01, compared to a net loss of \$2,258 or basic and diluted loss per share of \$0.05 in the corresponding period of 2007.

## SELECTED YEARLY INFORMATION

For the years ended September 30th (\$,000 except earning per share)		
	<b>2008</b>	<b>2007</b>
<b>Revenue</b>	<b>234,026</b>	<b>221,313</b>
Cost of Sales	200,561	188,731
Gross Margin	33,465	32,582
Other operating costs	30,961	25,597
<b>Earnings before the following:</b>	<b>2,504</b>	<b>6,985</b>
Internal costs related to the sale of discontinued operations	710	—
Impairment of goodwill	13,662	—
Write-off of capital assets	—	120
Transaction costs	—	114
Interest - cash	3,368	3,003
Interest - non cash	1,591	1,474
Amortization of capital assets	739	718
Amortization of intangibles	4,403	4,920
Other	—	372
<b>Loss before tax</b>	<b>(21,969)</b>	<b>(3,736)</b>
Income Tax	(1,694)	(3)
<b>Net loss from continuing operations</b>	<b>(20,275)</b>	<b>(3,733)</b>
Income from discontinued operations	28	782
Gain from disposal of discontinued operations	9,459	—
Income tax expense	1,547	—
<b>Results from discontinued operations</b>	<b>7,940</b>	<b>782</b>
<b>Net loss</b>	<b>(12,335)</b>	<b>(2,951)</b>
Earnings per share Continued operations - Basic and diluted	\$ 0.48	\$ (0.09)
Earnings per share Discontinued operations - Basic and diluted	\$ 0.18	\$ 0.02

The Company's yearly 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.

## SELECTED QUARTERLY INFORMATION

	Quarter ended			
	Sep 30 2008	June 30 2008	Mar 31 2008	Dec 31 2007
Revenue	54,102	61,013	60,518	58,393
Income before write off of capital assets, transaction costs, interest, amortization and other	1,509	1,235	(1,500)	1,260
Net loss from continuing operations	(536)	(14,561)	(4,144)	(1,034)
Net profit from discontinued operations	(38)	7,905	32	41
Net loss for the period	(574)	(6,656)	(4,112)	(993)
Earnings (loss) per share				
Continuing Operations - Basic and Diluted	(0.01)	(0.35)	(0.09)	(0.02)
Discontinued Operations - Basic	0.00	0.19	0.00	0.00
Discontinued Operations - Diluted	0.00	0.19	0.00	0.00

	Quarter ended			
	Sep 30 2007	June 30 2007	Mar 31 2007	Dec 31 2006
Revenue	53,705	55,679	57,904	54,025
Income before write off of capital assets, transaction costs, interest, amortization and other	1,346	1,818	1,972	1,849
Net loss from continuing operations	(2,258)	(654)	(402)	(419)
Net profit from discontinued operations	245	209	170	158
Net loss for the period	(2,013)	(445)	(232)	(261)
Earnings (loss) per share				
Continuing Operations - Basic and Diluted	(0.05)	(0.02)	(0.01)	(0.01)
Discontinued Operations - Basic	0.01	—	—	—
Discontinued Operations - Diluted	0.01	—	—	—

The comparative quarterly financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

## **LIQUIDITY AND CAPITAL RESOURCES**

As described in the Financial Statements and later in this section of the MD&A, the Company has extended an existing financing bank financing arrangement to September 30, 2009, under the terms of a Standstill agreement and has executed a similar agreement with its debenture holder. The Company is dependent on the support of its bank to maintain sufficient liquidity to execute its plans in an orderly fashion.

### **Summary of Cash Flow**

#### ***Cash Provided by (Used in) Operating Activities***

The Company used \$1,761 cash from continued operating activities for the year ended September 30, 2008 while it generated \$3,651 for the year ended September 30, 2007. This significant change was mainly due to the net loss of \$20,275 during the year, for the reasons as described in “Review of Operations” above.

The improvement in the Accounts Receivable collection process generated \$8,441 non-cash working capital for the year ended September 30, 2008. This was partially offset by the decrease in Accounts Payable. Total increase in non-cash working capital of \$6,414 was used to meet cash required in continued operations.

#### ***Cash Provided by (Used in) Financing Activities***

The Company used \$12,938 cash in financing activities for the year ended September 30, 2008 while provided \$2,124 for the same period in the prior year. The cash flow in fiscal year 2008 reflected repayments of term bank credit facility and long term debt of \$9,075 and \$3,097 respectively.

#### ***Cash Used in Investing Activities***

Cash used in investing activities was \$1,160 for the year ended September 30, 2008 compared with cash usage of \$1,898 for the same period in the prior year. Total cash used in property, plant and equipment expenditures were \$970, including \$470 leasehold improvement additions, of which \$245 was non-cash for the Company’s new premises in Toronto, computer hardware and software \$663, and furniture and fixtures \$82. During fiscal year 2008, the Company paid \$135 contingent considerations to the vendors of Prolink and Protec. The terms of these acquisitions included a guaranteed minimum value of the share consideration of \$2.00 and \$1.20 per share respectively over defined periods as the shares were released from escrow.

#### ***Cash Provided by Discontinued Operations***

The Careersite transaction closed in February, 2008, resulting in the injection of \$9.75 million in cash, \$7.5 million in March, 2008, \$2.0 million in April, 2008 and \$125 thousand in both May and September, 2008, substantially reducing the Company’s credit

requirements. The company also incurred \$291 transaction costs related to the sales of discontinued operations, and used \$42 in operating activities of discontinued operations, resulting in a net cash proceed of \$9,445.

### ***Future Use of 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. The Company's principal requirements for cash during 2008-2009 are primarily expected to consist of funding for operations and the following financing and investment items:

- repayment of term bank credit facility of \$15,409
- repayment of long-term debt of \$16,075
- property, plant and equipment expenditure of \$343, mainly for computer hardware and software

### **Contractual Obligations by year (\$000's)**

		Operating Leases	Long Term Debt		Total
			Pay in Cash	Pay in Shares	
Year ending:	2009	1,574	15,944	200	17,718
	2010	1,467	339	—	1,806
	2011	1,459	—	—	1,459
	2012	1,480	—	—	1,480
	2013	1,459	—	—	1,459
	2014	1,345	—	—	1,345
	2015	526	—	—	526
	Thereafter	274	—	—	274
		9,584	16,283	200	26,067

### **Financing Resources**

#### **Term Credit Facility**

On September 30, 2008 the Company had a revolving demand credit facility of \$26 million from a Schedule "A" bank, which matured October 15, 2008, bearing interest at prime plus 0.5% to 2.0%, depending on a specific bank covenant ratio, and which was collateralized by a general security agreement that constituted a first charge over all the assets of the Company. On September 30, 2008 the Company was in breach of certain bank covenants relating to financial ratios. The term bank credit facility has been classified as current.

### **Subsequent Financing Arrangement re the Term Credit Facility**

On April 3, 2009 the Company executed a Standstill Agreement (“Agreement”) with the Bank which provided for the extension of the facility to September 30, 2009 subject to certain conditions including the issue of Term Notes as described below. The Bank has agreed, subject to certain terms and covenants, to extend the Term Bank Credit Facility, in order to provide the Company sufficient opportunity to pursue a course of action leading to the privatization of the Company or a refinancing, resulting in the Bank being repaid on September 30, 2009. Interest is payable at rates of Prime + 2% to Prime + 7.5%, depending on the amount borrowed. Key terms in the Agreement require the Company to provide to the Bank prior to June 15, 2009, a signed letter of intent from an independent party detailing a proposed transaction which would result in the Bank being repaid and to provide a final agreement by July 31, 2009.

In addition, the Company is required to provide to the bank by May 3, 2009 agreements from the Convertible Note holders that they have agreed to postpone payment of principal and certain interest payments until September 30, 2009 or until the bank is repaid. The Company intends to satisfy this condition by replacing the Convertible Notes with Term Notes as described below.

### **Debenture**

A debenture, as described in Note 7[a] of the Financial Statements with a carrying value of \$5,368 as at September 30, 2008, matured on December 15, 2008. On April 3, 2009, an agreement was executed whereby the debenture, including accrued interest, was extended to September 30, 2009, with an interest rate of 15% per annum payable monthly based on certain financial ratios plus 3% per annum payable at the end of the term. The other terms are similar to the Agreement as described in Note 7[a] of the Financial Statements.

### **Term Notes**

At April 3, 2009, the Company is in the process of issuing \$11 million in Term Notes, subordinated to the term bank credit facility and the debenture. The Term Notes are expected to be issued with a term of January 31, 2010, paying 15% per annum interest payable monthly based on certain financial ratios and carrying 5.5 million share purchase warrants, exercisable to December 31, 2010 at a price of \$0.20 per share. The term notes are expected to be redeemable with no penalty at any time by the Company on 60 days notice. These Term Notes will replace Convertible term notes in place at September 30, 2008 as described in Note 7 of the Financial Statements at carrying values of \$7.726 million and \$2.465 million.

Given the current economic conditions, there is no certainty that the Company will be able to meet all conditions associated with the Term Credit Facility, the Debenture and the proposed Term Notes.

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

As at September 30, 2008, the Company recorded a total of \$853 advanced to Related Parties, of which \$410 was an advance to the Chairman of the Company to purchase convertible notes of the Company from other non-related note-holders. The loan bears interest at 8% per annum, is secured by the convertible notes, and is repayable on the maturity dates of the convertible notes, being November 15, 2008. The Chairman holds the convertible notes on the same terms as other holders of the convertible notes. The term of the loan has been extended to coincide with the Term Notes as described above.

## **EBITDA**

Management defines EBITDA as earnings before costs to complete sale of discontinued operations, impairment of goodwill, write off of capital assets, transaction costs, amortization, interest, taxes and other. The Company's method of recording EBITDA may not be comparable to similar measures presented by other companies.

## **CAPITAL TRANSACTIONS**

### **Normal Course Issuer Bid**

In April, 2008, the Company commenced a Normal Course Issuer Bid (NCIB) to purchase for cancellation up to 2,197,921 of its Common Shares, approximately 5% of the Common Shares issued and outstanding as of March 31, 2008. As at September 30, 2008, the Company had purchased for cancellation 1,034,000 Common Shares for an aggregate purchase price of \$392, of which \$448 has been charged to capital stock and \$56 to contributed surplus. The NCIB will expire on April 3, 2009.

### **Conversion of Preferred Shares**

In June 2008, 3,931,193 Series A Preferred Shares were converted to 3,931,193 Common Shares. In August 2008, 428,571 Series A preferred shares were converted to 428,571 common shares.

### **Exercise of Options and Warrants**

The Company granted 100,000 stock options in December 2007, 275,000 stock options in March 2008 and 250,000 stock options in July 2008. The weighted average fair value was \$0.13, \$0.20 and zero respectively. The following assumptions were used in arriving at the fair value of the options using Black-Scholes option pricing model:

Risk-free interest rates:	3.0%-3.69%
Expected life of Option:	5 years
Stock volatility:	46.78%-46.82%

Expected dividend yield: Nil

While no warrants were exercised, 50,000 options were exercised in fiscal 2008, raising \$36 cash for the period. In addition, 1,315,000 warrants and 2,658,134 options expired during the period.

## **OTHER**

### **Changes in Accounting Policies**

Effective fiscal 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535 “Capital Disclosure”, Section 3862 “Financial Instruments – Disclosure” and Section 3863 “Financial Instruments – Presentation”. The adoption of the new standards resulted in additional disclosure with regard to financial instruments and the Company’s objectives, policies and processes for managing capital. These new standards had no impact on the classification and valuation of the Company’s consolidated financial statements for the year ended September 30, 2008.

### **Recently issued accounting pronouncements**

#### ***General Standards on Financial Statement Presentation***

CICA Handbook Section 1400 “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess an entity’s ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The changes are effective for the Company for interim and annual financial statements beginning on October 1, 2008.

#### ***Goodwill and Intangible Assets***

CICA Handbook Section 3064 “Goodwill and Intangible Assets”, which replaces CICA Handbook Section 3062 “Goodwill and Intangible Assets”, and Section 3450 “Research and Development Costs”, establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be recognized in the financial statements under certain circumstances. This standard is effective for the Company for interim and annual financial statements beginning on October 1, 2008. The Company has not yet determined the impact of the adoption of this change on these consolidated financial statements.

#### ***International Financial Reporting Standards (“IFRS”)***

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements

relating to fiscal years beginning on or after January 1, 2011. While the Company has begun evaluating this new framework and assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### ***Business Combinations***

In January 2009, the CICA issued the new handbook Section 1582, “Business Combinations,” effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of the adoption of this pronouncement on its consolidated financial statements, the impact will be limited to any future acquisitions beginning in fiscal 2011.

In January 2009, the CICA issued the new handbook Section 1601, “Consolidated Financial Statements,” and Section 1602, “Non-Controlling Interests,” effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of the adoption of these pronouncements on its consolidated financial statements in fiscal 2011 in connection with its conversion to IFRS.

### ***Fair Value of Financial Assets and Financial Liabilities***

In January 2009, the CICA issued the Emerging Issues Committee (EIC) Abstract EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities,” effective for interim and annual financial statements ending on or after January 20, 2009. Earlier adoption of this abstract is permitted. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, “Financial Instruments—Recognition and Measurement.” It states that an entity's own credit and the credit risk of the counterparty should be taken into account in

determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retrospectively, without restatement of prior periods, to all financial assets and liabilities measured at fair value. The Company will adopt this abstract during the second quarter of the 2009 fiscal year. The Company is currently considering the impact of adopting EIC-173 on its consolidated financial statements and cannot reasonably estimate its effect at this time.

### **Financial Instruments and Risk Management**

Upon adoption of CICA Handbook Section 3855, 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 Company had no financial instruments classified as available-for-sale, held-for-trading or held-to-maturity during the year ended September 30, 2008.

The fair values of the Company's current assets and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

The fair values of the Company's current assets and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair market value of long-term debt approximates carrying value based on the Company's current borrowing rates for similar types of borrowing arrangements.

### **Credit risk**

Credit risk arises from exposure to clients, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. The Company manages its credit risk with respect to accounts receivable primarily by dealing with credit worthy customers. Substantially all of the Company's revenue and the resulting accounts receivable are from large companies and governmental agencies.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the year, 31.1% [2007 - 37.2%] of revenue related to various Federal Government of Canada agencies and departments.

At year end, the accounts receivable from all Federal Government of Canada were 25.6% of the Company's total accounts receivable [2007 – 31.0%].

The following table sets out details of the age of accounts receivable that are outstanding and related allowance for doubtful accounts:

	2008
	\$
Accrued but not invoiced trade receivables	1,945
Invoiced receivables within normal payment terms	32,343
Invoiced receivables past normal payment terms but not impaired	1,058
General receivables	838
Allowance for doubtful accounts	(308)
<b>Total accounts receivable, net</b>	<b>35,876</b>

### **Foreign currency rate risk**

The Company is exposed to risk due to fluctuations in the exchange rate of the U.S. dollar in relation to the Canadian dollar. The objective of the Company's foreign exchange risk management is to minimize potential adverse effect on the Company's financial statements. During the year, the Company recorded a \$23[2007 - \$203] foreign exchange loss. Increase in the value of the Canadian dollar can reduce net earnings and declines can result in increased earnings, a +/- 5% change in the key foreign currencies would, everything else being equal, have had the following effect on the Company's reported net loss for the year ended September 30, 2008 of approximately +/- \$200.

### **Interest rate risk**

The objective of the Company's interest rate management is to minimize the volatility of the Company's earnings. The Company is exposed to interest rate risk in the event of fluctuation of the Canadian dollar prime rate on the term bank facility.

At September 30, 2008, the total bank facility outstanding was \$15,409 which is subject to movements in floating interest rates. A +/- 1% change in interest rates would, everything else being equal, have an effect on the Company's net loss for the year ended September 30, 2008 of approximately +/- \$154.

### **Liquidity Risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point of time. 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. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining relationships with Schedule "A" banks and through the availability of funding from committed credit facilities.

The contractual maturities of the Company's financial liabilities and term bank facilities were presented in notes 7 and 8 of the Financial Statements. The majority of the financial liabilities were restructured subsequent to the balance sheet date.

## **Management of Capital**

The Company defines capital that it manages as the aggregate of its shareholders' equity, term bank facility and interest-bearing debt. The Company's objectives when managing capital are to create an optimal capital structure that safeguards the Company's ability to continue as a going concern while providing optimal returns for shareholders.

As at September 30, 2008, total managed capital was \$32,240 [2007 - \$55,538], comprised of shareholders' equity of \$348 [2007 - \$13,065], term bank facility of \$15,409 [2007 - \$24,484] and interest-bearing debt of \$16,483 [2007 - \$17,989].

## **Transactions with Related Parties**

Related party transactions consist of loans to companies related to the Chairman of the Company which are non-interest bearing and with no fixed repayment terms. The Company also made loans to the Chairman and President of the Company, collateralized by convertible term notes issued by the Company with 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 ended September 30, 2008, 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 that the litigation provisions which have been made by the Company are sufficient to offset any uncertainties.

## **Comparative Consolidated Financial Statements**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

## **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 17 months are shown below:

Year	Month	Average Daily Trading Volume	Average Daily Trading Price
2007	October	19,300	\$0.67
	November	6,859	\$0.54
	December	15,137	\$0.44
2008	January	29,645	\$0.54
	February	18,740	\$0.50
	March	53,270	\$0.45
	April	43,155	\$0.43
	May	48,810	\$0.39
	June	24,824	\$0.34
	July	4,614	\$0.31
	August	8,870	\$0.29
	September	18,419	\$0.30
	October	15,514	\$0.17
	November	70,980	\$0.18
	December	31,490	\$0.16
2009	January	27,152	\$0.16
	February	11,574	\$0.11
	March	27,855	\$0.11

### 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, 2008 and date of issue 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 May, 2009.

During the period from October 1, 2007 to February 28, 2009, no changes occurred in the board:

### 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 Jaakkola, Sao Paulo, Brazil	Director (Independent)	Retired Deloitte Consulting Latin America • CEO • 2001 to 2003 ICS Deloitte Europe • CEO 1997 to 2001	March 31, 2005
Adam Jasek, Ottawa,	Director (Independent)	Businessman AJJA Information Technology Consultants Inc. •	March 28, 2006

Ontario		Chairman and CEO 1985 to 2005	
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 director is, at date of Issue of this Annual 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 this Annual Information Form, 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.

- Mr. Jasek is an officer of 2106083 Ontario Ltd., a small private company which owned and operated a restaurant. The company filed for bankruptcy on June 24, 2008 and has not been discharged at date of issue of this Annual Information Form.
- Messrs. Gillies, Jaakkola, Kirby, McKimm, Penturn, 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, McKimm, Penturn, 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.
- Mr. McKimm is subject to a management cease trade order in respect of securities of the Corporation, issued by the Ontario Securities Commission on January 16, 2009, due to a delay in the filing of the Corporation's financial statements for the year ended September 30, 2008. The order is expected to be revoked two business days after the filing of these financial statements.

## 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, 2008.

	<b>Common</b>	<b>%</b>
Shares held by Group	14,192,187	30%
Total shares outstanding	47,047,175	100%

## 9.3 Board Committees

### 9.3.1 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 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 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 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. 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>2008 Actual Fees</b>	<b>2007 Actual Fees</b>
Annual Audit of the consolidated financial statements	\$275,000	\$250,000
Assistance with the accounting and disclosure requirements and additional audit procedures regarding the sale of job board business to Workopolis	\$15,000	N/A
Asistance with the accounting and disclosure requirements regarding CICA HB 3862 "Financial Instruments - Disclosure" and CICA HB 1535 "Capital Disclosure"	TBD	N/A
General accounting and disclosure and other out of scope services as required by the Company	TBD	\$55,000
Assistance with the implementation of Management Certification of Internal Controls over Financial	None to date	N/A
General tax services	TBD	N/A

**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 2008 to the date of this document.

**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.