

**BRAINHUNTER INC.**

**Management Discussion and Analysis  
For the Period Ended  
March 31, 2009**

**May 7, 2009**

## **BASIS OF PRESENTATION**

The Management's Discussion and Analysis, dated May 7, 2009 should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes for the period ended March 31, 2009. Additional information relating to Brainhunter Inc. ("Brainhunter") is available on SEDAR.

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

## **FORWARD-LOOKING STATEMENTS**

Certain statements in this MD&A may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Brainhunter and its subsidiary entities, or the industry, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in Brainhunter's publicly filed documents (which are available on SEDAR at [www.sedar.com](http://www.sedar.com)) and elsewhere in this document. The risks and uncertainties include: the ability to maintain profitability and manage growth; reliance on and retention of professionals; competition; performance obligations and client satisfaction; fixed price and contingency engagements; collectability of accounts receivable; general state of the economy; possible acquisitions; possible future litigation; interest rate fluctuations; insurance limits; legislative and regulatory changes; revenue and cash flow volatility; operating risks; residential market risk; protection of intellectual property; appraisal mandates; restrictions on growth. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, Brainhunter cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and, except in accordance with applicable law, Brainhunter assumes no obligations to update or revise them to reflect new events or circumstances. Additionally, Brainhunter undertakes no obligation to comment on analyses, expectations or statements made by third parties in respect of Brainhunter, its financial or operating results, or its securities.

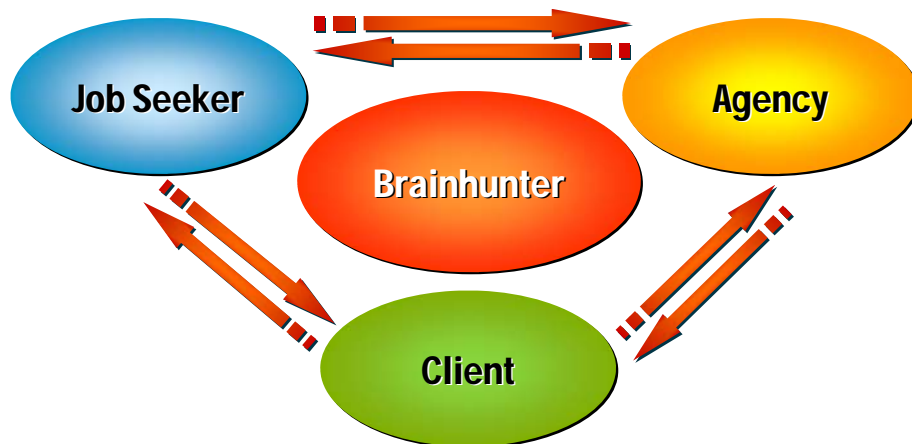
## BUSINESS OVERVIEW

Brainhunter is an ISO 9001:2000 Certified “**Technology Driven Staffing Procurement Services and Solutions**” company. Brainhunter’s business is focused on using the Brainhunter Human Capital Management Platform to provide fully integrated end-to-end recruiting and staffing services and solutions to both private and public sector clients.

Brainhunter, together with its predecessor firms, has been providing technical resources in the staffing industry for more than 25 years. Over the past few years, Brainhunter has experienced rapid growth both organically and through numerous acquisitions. The company has evolved from a pure provider of IT solutions into one of the leading technical professional staffing companies in Canada.

Led by a highly experienced management team, the Company enjoys a solid customer base of more than 350 active clients in a variety of industries, and has over 100 preferred vendor relationships. Utilizing its highly scalable technology platform and a substantial talent pool, Brainhunter offers cost-effective and flexible staffing solutions with global delivery capability. With a proven track record of performance, management believes Brainhunter is one of the largest IT contract staffing service providers to the Canadian federal government.

Acting as a conduit between job seekers and clients corporations, Brainhunter provides the means to help organizations meet all facets of their staffing requirements. The Company also delivers web-based recruitment solutions through its technology platform, handling all interactions among clients, job seekers and staffing vendors on a real-time basis. Brainhunter’s centralized vendor strategy provides a streamlined staffing procurement process and a single point of accountability for all parties involved, thereby reducing time to hire and creating a competitive marketplace for industry participants. While many corporations have been consolidating their staffing needs amongst fewer vendors, this strategy allows Brainhunter to increasingly become the clients’ *vendor of choice* by deploying its business model across multiple channels, markets and service offerings.



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 provides the following for its clients:

- **Software that helps clients**
  - identify candidates (CareerSite)
  - manage the hiring process (Applicant Tracking)
  - manage the employment agencies (Vendor Management)
  - manage the administration (BackOffice)
  
- **Solutions that provide clients with**
  - **Specialty practice teams** in software development (migration QA, sustaining engineering, etc.)
  - **Remote engineering** capability to allow clients to manage development teams remotely
  - **SmartSourcing** utilizing on-shore/off-shore strategies and processes to provide clients with cost effective people solutions
  - **Automated administration** of payrolls, billing, contract and document management, government compliance
  - **Recruitment process outsourcing ("RPO")** helping clients outsource their recruiting processes
  - **Managed services** where the client outsources the people management aspect of help desks, telesales, infrastructure support, etc.
  
- **Services that provide contract and permanent personnel to clients**
  - provide recruiting teams
  - largest professional database in Canada
  - permanent recruitment
  - contract staffing (at present the largest portion of our revenue)

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange (**TSX:BH**). Brainhunter deploys over 1,600 Contractors / Consultants with an internal staff of over 200 personnel. The Company has delivery capability across Canada including Toronto, Ottawa, Maritimes, Montréal, Calgary, Vancouver, activities in Dalian China, a BPO 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 March 31, 2009 had both a shareholders' deficiency and 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 March 31, 2009, which covenants have been waived. 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 May 7, 2009, the Company continues to negotiate with its convertible lenders in order to refinance \$7,756 due December 2008 and \$2,586 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 their rights and remedies should the Company fail to meet its covenant obligations or other conditions. If the bank or other debtholders exercise their 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 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 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, 2008 the amount of \$2,000 for completion of the transition of the related technology.

Pursuant to the Agreements, the remaining \$500 of the Consideration were paid to the Company at the rate of \$125 per quarter, as agreed quarterly transition milestones were achieved. In the period ended March 31, 2009, the Company received \$125 for achieving the last milestones, aggregated to a total of \$500.

The Company's results of operations related to discontinued operations for the periods ended March 31, 2009 and 2008 are shown below.

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>March 31,</u> <u>2009</u>	<u>March 31,</u> <u>2008</u>	<u>March 31,</u> <u>2009</u>	<u>March 31,</u> <u>2008</u>
	\$	\$	\$	\$
Revenue	—	330	—	1,067
Costs and expenses	—	176	—	589
	—	154	—	478
Sales and marketing	—	168	—	410
General and administrative	—	23	—	64
Income before gain on disposition	—	(37)	—	4
Gain on disposition (net of tax)	125	5,445	250	5,445
Income before income taxes	125	5,408	250	5,449
Income tax expense	—	—	—	—
<b>Net income</b>	<b>125</b>	<b>5,408</b>	<b>250</b>	<b>5,449</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 is also negotiating an arrangement with an association of newspapers in South America to provide the technology for job boards for the members of the association.

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

### **Revenues**

Revenues for the three months ended March 31, 2009 decreased \$7,589 or 12.6% versus the three months ended March 31, 2008 from \$60,290 to \$52,701. For the six months ended March 31, 2009, revenues decreased \$11,762 or 9.9% to \$106,921, down from \$118,683 for the same period in the prior year. The ongoing general slow down in the economy contributed to lower sales in addition to the reduced revenue due to sale of the Careersite business.

Brainhunter's Staffing Division accounted for \$50,062 or 95.0% of total revenues for the three months ended March 31, 2009 compared to \$57,971 or 96.2% for the same period in fiscal 2008, representing a decrease of \$7,909 or 13.6%. For the six months ended March 31, 2009, Brainhunter's Staffing Division accounted for \$101,852 or 95.3% of total revenues compared to \$114,040 or 96.1% for the same period in fiscal 2008, representing a decrease of \$12,188 or 10.7%. The decrease is mainly attributable to a decrease in the IT and Permanent staffing business, as a result of the weak economy.

Brainhunter's Solutions Division accounted for \$2,639 or 5.0% of total revenues for the three months ended March 31, 2009 compared to \$2,319 or 3.8% for the same period in fiscal 2008, representing an increase of \$320 or 13.8%. For the six months ended March 31, 2009, Brainhunter's Solutions Division accounted for \$5,069 or 4.7% of total revenues compared to \$4,643 or 3.9% for the same period in fiscal 2008, representing an increase of \$426 or 9.2%. The increase is mainly attributable to a rise in customer's activity on existing contracts and a growth in new customer relationships, the result of a reorganization of the sales strategy.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the three months ended March 31, 2009, 28.9% of revenues are related to various Federal Government of Canada agencies and departments, compared to 35.4% for the same quarter in fiscal 2008. On a year to date basis, revenues from Federal Government of Canada agencies and departments comprised of 27.7% of consolidated revenues, compared to 34.2% for the same period in fiscal 2008. For the three months and six months ended March 31, 2009, the overall dollar values of revenues derived from the Federal Government has decreased \$6,087 from \$21,325 to \$15,238 and \$11,022 from \$40,622 to \$29,600 respectively, compared to the same periods in 2008. The revenues derived from the Federal Government of Canada are declining because two significant contracts with the Government ended during the periods. The Company has won or renewed over \$26.0 million of new contracts in recent weeks. Significant additional bids are in process.

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 decreased \$5,807 or 11.2% from \$51,862 in Q2 fiscal 2008 to \$46,055 in Q2 fiscal 2009. For the six months ended March 31, 2009, the cost of sales decreased \$9,064 or 8.9% from \$101,594 in the first two quarters of fiscal 2008 to \$92,530 in the first two quarters of fiscal 2009. The decrease in cost of sales is commensurate with the decrease in revenues and with reduction in cost structure. Cost of sales as a percentage of revenues increased from 86.0% in the second quarter of fiscal 2008 to 87.4% in Q2 fiscal 2009, and from 85.6% in the first two quarters of fiscal 2008 to 86.5% for the same period in fiscal 2009, 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 \$44,152 or 95.9% of the consolidated cost of sales in the second quarter of fiscal 2009, compared to \$50,391 or 97.2% of the consolidated cost of sales for the same period of fiscal 2008, representing a decrease of \$6,239 or 12.4%. For the six months ended March 31, 2009, cost of sales in the Company's Staffing Division accounted for \$89,038 or 96.2% of the consolidated cost of sales, compared to \$98,734 or 97.2% of the consolidated cost of sales in the first two quarters of fiscal 2008, representing a decrease of \$9,696 or 9.8%. For the three months ended March 31, 2009, the gross margin related to the Staffing Division is \$5,910 or 11.8% of related revenues, compared to \$7,580 or 13.1% of related revenue for the same periods in the prior year. For the six months ended March 31, 2009, the gross margin related to the Staffing Division is \$12,814 or 12.6% of related revenues, compared to \$15,306 or 13.4% 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 \$1,903 or 4.1% of the consolidated cost of sales in the second quarter of fiscal 2009, compared to \$1,471 or 2.8% of the consolidated cost of sales for the same period of fiscal 2008, representing an increase of \$432 or 29.4%. For the six months ended March 31, 2009, cost of sales in the Company's Solution Division accounted for \$3,492 or 3.8% of the consolidated cost of sales, compared to \$2,860 or 2.8% of the consolidated cost of sales for the same period in the prior year, representing an increase of \$632 or 22.1%. For the three months ended March 31, 2009, the gross margin related to the Solutions Division is \$736 or 27.9% of related revenues compared to \$848 or 36.6% of related revenue for the same period in fiscal 2008. For the six months ended March 31, 2009, the gross margin related to the Solutions Division is \$1,577 or 31.1% of related revenues in the first two quarters of

fiscal 2009 compared to \$1,783 or 38.4% of related revenue for the same period in fiscal 2008. The decrease in gross margin is the result of utilizing more contractors, versus employees, in delivering services.

Overall, the Company reported gross margins of \$6,646 or 12.6% of revenues in the quarter ended March 31, 2009, compared to \$8,428 or 14.0% of revenues in the quarter ended March 31, 2008. For the six months ended March 31, 2009, consolidated gross margins were \$14,391 or 13.5% of revenues compared to \$17,089 or 14.4% of revenues in the first six months of fiscal 2008. 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, the consolidated margin 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 decreased \$935 or 16.0% to \$4,914 in Q2 fiscal 2009, down from \$5,849 in the same period in the prior year. For the six months ended March 31, 2009, other staffing costs have decreased from \$10,950 in fiscal 2008 to \$10,006 in fiscal 2009, representing a decrease of \$944 or 8.6%. The following illustrated the major components of the decrease:

- For the three months and six months ended March 31, 2009, commissions decreased by \$427 and \$795 respective, partly due to a slow down in business and partly due to changed compensation plans.
- For the three months and six months ended March 31, 2009, salaries, benefits and management fees decreased by \$508 and \$149 respectively as a result of headcount reduction. Total salaries, benefits and management fees for Q2 fiscal 2009 was \$3,940, of which \$479 were accrued severance fees.

Selling, general and administrative expenses have decreased \$1,825 or 45.5% from \$4,010 in Q2 fiscal 2008 to \$2,185 in the same period in fiscal 2009. As a percentage of revenue, the selling, general and administrative costs have decreased to 4.1% of revenue in Q2 fiscal 2009 versus 6.7% in Q2 fiscal 2008. For the six months ended March 31, 2009, selling, general and administrative expenses have decreased from \$6,310 in fiscal 2008 to \$3,771 in fiscal 2009, representing a decrease of \$2,539 or 40.2%. The decrease was mainly because of the \$2,050 non-recurring costs recorded in Q2 fiscal 2008 that were not repeated in the same period in fiscal 2009. These non-recurring costs related to reserves for potential litigation settlements, internal control review pursuant to National Instrument 52-109 and general provision for uncollectible receivables. See details of these costs in Q2 fiscal 2008 Management Discussion and Analysis. The following represents the major selling, general and administrative expenses in Q2 fiscal 2009:

- Rent for Toronto, Ottawa, Calgary, Edmonton, India and UK offices \$519
- Legal fees \$579, including non-recurring litigation and trademark fees (\$529) and other corporate legal costs (\$50)
- Various Office expense \$314 including costs for webhosting, equipment rental and maintenance, telephone bill and etc.
- Audit and other professional fees \$207

In response to the lower sales volumes and weak economic environment, all non-essential spending has been eliminated. Marketing and promotion spending has been cut and only incurred when necessary to support the sales, saving \$83 for the three months ended March 31, 2009 and \$207 for the six months ended March 31, 2009.

### **Earnings before interest, taxes, amortization and financing cost (EBITDA)**

As a result of the above, EBITDA is reported as a loss of \$453 for Q2 fiscal 2009 versus a loss of \$1,431 for Q2 fiscal 2008. For the six months ended March 31, 2009, EBITDA is an earning of \$614 versus a loss of \$171 for the same period in fiscal 2008.

### **Interest**

The interest costs are predominantly related to amounts paid on the Company's term bank facility, convertible notes, and debentures. 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>Q2 2009</b>	<b>Q2 2008</b>	<b>Q2 YTD 2009</b>	<b>Q2 YTD 2008</b>
Interest Expense Cash	605	873	1,277	1,749
Interest Expense Non Cash	83	410	400	745

The term bank facility, which has decreased to \$17.4 million in Q2 fiscal 2009 from \$22.0 million in Q2 fiscal 2008, resulted lower interest expense compared to the same period in the prior year.

### **Amortization**

Amortization expense of capital and intangible assets in Q2 fiscal 2009 was \$167 and \$1,026 respectively, a decrease of \$5 for amortization of capital assets and \$68 for amortization of intangible assets compared to the same period in the prior year. For the six months ended March 31, 2009, the amortization expense for capital assets decreased \$8 to \$342 while the amortization for intangible assets decreased \$150 to \$2,065.

## **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 nil recovery in Q2 fiscal 2009 compared to a recovery of \$5 in Q2 fiscal 2008, and nil recovery for the six months ended March 31, 2009 versus \$221 for the six months ended March 31, 2008.

## **Financing Cost**

The financing costs are service fees paid to the TD bank and other financial service companies to refinance the Company's term bank facility and long term debt notes. For the three months and six months ended March 31, 2009, financing cost have increased to \$462 and \$530 respectively, compared to \$100 and \$100 for the same periods in the prior year. The increase is mainly because the Company's bank facility and majority of the existing term notes have matured and are being refinanced during the periods.

## **Net Earnings (Loss)**

Based on all of the above, the Company is reporting a net loss of \$2,796 for Q2 fiscal 2009 or \$0.06 per share from Continued Operations, offset by a gain of \$125 from Discontinued Operations, compared to a net loss of \$4,075 or \$0.09 per share from Continued Operations, offset by a gain of 6,995 from Discontinued Operations for Q2 fiscal 2008. For the six months ended March 31, 2009, the company is reporting a net loss of \$4,000 or \$0.09 per share from Continued Operations, offset by a gain of \$250 from Discontinues Operations, compared to a net loss \$5,109 or \$0.12 per share from Continued Operations, offset by a gain of \$6,996 from Discontinued Operations for the six months ended March 31, 2008. Non cash expenses contributing to the loss totaled \$1,228 for Q2 and \$2,694 for the first two quarters of fiscal 2009, including amortization of intangible assets \$1,026 for Q2 and \$2065 for the first two quarters.

## SELECTED QUARTERLY INFORMATION

(\$,000 except earnings per share)

	<b>Mar 31</b>	<b>Dec 31</b>	<b>Sep 30</b>	<b>June 30</b>	<b>Mar 31</b>	<b>Dec 31</b>	<b>Sep 30</b>	<b>June 30</b>
	<b>2009</b>	<b>2008</b>	<b>2008</b>	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>
Revenue	52,701	54,220	54,102	61,013	60,518	58,393	53,705	55,679
Income before write off of capital assets, transaction costs, interest, amortization and other	(453)	1,066	1,509	1,235	(1,500)	1,260	1,346	1,818
Net loss from continuing operations	(2,796)	(1,203)	(536)	(14,561)	(4,144)	(1,034)	(2,258)	(654)
Net profit from discontinued operations	125	125	(38)	7,905	32	41	245	209
Net loss for the period	(2,671)	(1,078)	(574)	(6,656)	(4,112)	(993)	(2,013)	(445)
Earnings (loss) per share								
Continuing Operations - Basic and Diluted	(0.06)	(0.03)	(0.01)	(0.35)	(0.09)	(0.02)	(0.05)	(0.02)
Discontinued Operations - Basic	0.00	0.00	0.00	0.19	0.00	0.00	0.01	—
Discontinued Operations - Diluted	0.00	0.00	0.00	0.19	0.00	0.00	0.01	—

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

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

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Summary of Cash Flow**

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

The Company used \$1,568 from operating activities before non-cash working capital in Q2 fiscal 2009, while \$2,466 in Q2 fiscal 2008. For the six months ended March 31, the Company used \$1,306 from operating activities before non-cash working capital, while \$2112 for the same period in fiscal 2008.

The changes in the above was offset by the non-cash working capital, which provided \$3,766 cash for the period ended March 31, 2009 while \$3,806 for the same period ended March 31, 2008. In Q2 fiscal 2009, the non-cash working capital was generated primarily by an increase in accounts payable of \$3,686, a decrease in deposit and prepaid of \$612, offset by an increase in accounts receivable of \$608. For the six months ended March 31, 2009, the Company used \$111 non-cash working capital while provided \$790 in the same period in fiscal 2008. Year to date, the non-cash working capital change was due primarily to an increase in accounts receivable of \$984, deposit and prepaid of \$104, offset by a decrease in accounts payable of \$953.

#### ***Cash Used in Financing Activities***

Cash used in financing activities was \$2,279 in Q2 fiscal 2009 while \$8,091 in Q2 fiscal 2008. For the six months ended March 31, 2009, \$1,280 cash was provided by financing activities, while \$5,065 cash was used in the same period in fiscal 2008. Majority of the cash in Q2 fiscal 2009 was used to pay off the Company's borrowings, including \$2,035 bank loan facility and \$110 long term debt.

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

Cash used in investing activities was \$44 for the period ended March 31, 2009 compared to \$204 for the same period in the prior year. For the six months ended March 31, 2009, cash used in investing activities was \$113 compared to \$609 for the same period in the prior year. The reduction in property, plant and equipment expenditure reflected the Company's strategy to minimize non-essential spending under the weak economy.

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

During the three months and six months periods ended March 31, 2009, the Company received \$125 and \$250 respectively, for achieving the 3<sup>rd</sup> and 4<sup>th</sup> milestone pursuant to the Careersite transaction as illustrated in the "Sale of Brainhunter's North American Careersite Business" section above.

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

			Operating Leases	Long Term Debt		Total
				Pay in Cash	Pay in Shares	
Year ending:	Sept	2009	\$751	\$16,169	200	\$17,120
	Sept	2010	\$1,467	\$185	-	\$1,652
	Sept	2011	\$1,459	-	-	\$1,459
	Sept	2012	\$1,480	-	-	\$1,480
	Sept	2013	\$1,459	-	-	\$1,459
	Sept	2014	\$1,345	-	-	\$1,345
	Sept	2015	\$526	-	-	\$526
	Sept	2016	\$253	-	-	\$253
	Sept	2017	\$21	-	-	\$21
	<b>Total</b>		<b>\$8,761</b>	<b>\$16,354</b>	<b>\$200</b>	<b>\$25,315</b>

## Financing Resources

### *Term Credit Facility*

At March 31, 2009, the Company had a revolving demand credit facility of \$26 million from a Schedule "A" bank, 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. The credit facility expired on October 15, 2008.

### *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 18, 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 6[a] of the Financial Statements with a carrying value of \$5,442 as at March 31, 2009, 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.

## **Term Notes**

At May 7, 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 March 31, 2011 at a price of \$0.20 per share. The term notes are 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 March 31, 2009 as described in Note 6 of Financial Statements at carrying values of \$7.756 million and \$2.586 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***

As at March 31, 2009, the Company recorded a total of \$1,117 advanced to Related Parties, of which \$468 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 amortization, interest, taxes and financing cost. 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. For the period ended March 31, 2009, the Company had purchased for cancellation 615,500 common shares for an aggregate purchase price of \$76, of which \$194 has been charged to contributed surplus and \$270 to reduce capital stock. The NCIB expired on April 3, 2009. The total number of shares acquired during the NCIB was 1,841,500.

## Exercise of Options and Warrants

No options were granted, exercised or expired in Q2 fiscal 2009 and 1,393,000 warrants expired during the period.

# OTHER

## Changes in Accounting Policies

### *General Standards on Financial Statement Presentation*

Effective fiscal 2009, the Company adopted Canadian Institute of Chartered Accountants Handbook (“CICA Handbook”) Section 1400 “General Standards on Financial Statement Presentation”. The adoption of the new standards resulted in additional disclosure with regard to assessing 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. These disclosures are included in Note 1[a] to the financial statements

### *Goodwill and Intangible Assets*

Effective fiscal 2009, the Company adopted 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 new standard had no impact on the Company’s consolidated financial statements for the quarter ended March 31, 2009.

### *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. This new standard had no impact on the Company’s consolidated financial statements for the quarter ended March 31, 2009.

## **Future Changes in Significant Accounting Policies**

### ***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.

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

Upon adoption of 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 six-month period ended March 31, 2009.

The fair values of the Company's current assets and current 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, well-established companies and governmental agencies.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the three month period ended March 31, 2009, 29% of revenues related to various Federal Government of Canada agencies and departments [2008 – 35%]. During the six month period ended March 31, 2009, 28% of revenues related to various Federal Government of Canada agencies and departments [2008 – 34%].

At period end, the accounts receivable from all Federal Government of Canada were 28% of the Company's total accounts receivable [2008 - 30%].

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

March 31, 2009

	\$
Accrued but not invoiced trade receivables	2,527
Invoiced receivables within normal payment terms	34,111
Invoiced receivables past normal payment terms but not impaired	82
Invoiced receivables impaired	-
General receivables	656
Allowance for doubtful accounts	(515)
<b>Total accounts receivable, net</b>	<b>36,861</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. In the three month period ending March 31, 2009, the Company recorded a foreign exchange loss of \$34 [2008 - \$110 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 three months ended March 31, 2009 of approximately +/- \$64.

### **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 March 31, 2009, the total bank facility outstanding was \$17,394 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 three months ended March 31, 2009 of approximately +/- \$43.

### **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 6 and 7 of the Company's consolidated financial statements for the quarter ended March 31, 2009. 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 March 31, 2009, total managed capital was \$30,446 [September 30, 2008 - \$32,240], comprised of shareholders' (deficit)/equity of (\$3,502) [September 30, 2008 - \$348], term bank facility of \$17,394 [September 30, 2008 - \$15,409] and interest-bearing debt of \$16,554 [September 30, 2008 - \$16,483].

### **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 period ended March 31, 2009, 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**

Certain of the comparative amounts have been reclassified to conform to the current year's method of presentation and to reflect discontinued operations.

## **Additional Information**

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