

**BRAINHUNTER INC.**

**Management Discussion and Analysis  
For the Period Ended  
June 30, 2009**

**August 6, 2009**

## **BASIS OF PRESENTATION**

The Management's Discussion and Analysis, dated August 6, 2009 should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes for the period ended June 30, 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 thousands of 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 achieve 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 Inc. (“Brainhunter” or the “Company”) specializes in the provision of staffing solutions (contingent staffing, managed staffing, permanent staffing and staffing software solutions) to major companies and governments in Canada and the U.S. Currently, the largest part of the business is providing IT and engineering staffing consultants, on a contract basis, to major companies and government entities in Canada. The Company also sells recruiting related software including applicant tracking systems (“ATS”), vendor management software (“VMS”), and job board software. Brainhunter deploys over 1,400 contractors with an internal staff of over 170 personnel. Operations are ISO 9001:2000 Certified.

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.

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's proprietary Human Capital Management Platform (Applicant Tracking Systems, Vendor Management Systems and Back Office Systems) enables the Company to provide a fully integrated end-to-end recruiting and staffing services and solution to end clients and staffing agencies. The Company'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.

The company has delivery capability across Canada and in select US jurisdictions and maintains offices in Toronto, Ottawa, Montreal, Calgary and Hyderabad, India.

Brainhunter's shares are traded on the Toronto Stock Exchange (**TSX:BH**).

## **RESTRUCTURING**

Over the past few years, Brainhunter has experienced rapid growth both organically and through numerous acquisitions. In the expectation of achieving further growth, the Company recently incurred losses due to the addition of overhead costs in excess of those required to manage the existing levels of business, especially under current economic conditions.

The Company has reviewed its expectations for growth and the opportunities available. It has re-framed its business strategy and has determined that its best course is to focus on those opportunities most relevant to its core business and to take appropriate steps to right-size its organizational structure to be able to take advantage of those opportunities in a cost-effective manner.

Therefore, since the beginning of the fiscal year the Company has re-organized its structure: it has reduced its employee complement by greater than 80 people, more than 1/3 of its workforce in place at the beginning of the fiscal year. In addition, it has taken steps to reduce the floor space of its Toronto head office from approximately 33,000 square feet to approximately 16,000 square feet effective January 1, 2010. Excess space in Calgary has also been listed for lease.

The Company's management believes it is now in much better condition to take advantage of the expected improvement in the economy when it occurs.

### **Restructuring provision**

In June 2009, the Company recorded a provision of \$3,771 for the expected costs of the above initiatives. The major components of the provision are:

- Lease loss provision related to excess office space in Toronto, Calgary and Montreal (\$1,072)
- Severance costs (\$1,844)
- Litigation settlements and legal fees (\$855)

Other key events which have occurred recently relate to the Management and Board of Directors:

1. On June 12, 2009, John McKimm resigned as Chairman and CEO and Director of the Company. Raj Singh, President and COO, accepted the position of CEO at the request of the Board of Directors.
2. On July 20, 2009 at the Annual General Meeting, certain directors declined to stand for re-election and the shareholders elected seven new directors;
  - Paul Benson, President & CEO of Benson Van Laer & Co., Limited Market Dealer
  - Hon. Herb Dhaliwal, President and CEO of Dynamic Facility Services Ltd.
  - Terence Donnelly, Executive Vice President of Mandrake Management Consultants Corp.
  - Paul Jaggard, President of Vincero Capital Management Inc.
  - Aditya Jha, President & CEO of Karma Candy Inc.
  - Michele McCarthy, Chief Legal Officer, Resmor Trust Company
  - Donald McCreesh, President of The Garnet Group

Returning to the Board are Raj Singh and John Jaakkola.

### Closing of UK Division

On June 12, 2009, the Company announced the closing of its operations in UK as part of its ongoing restructuring plan. The Company will use its resources to focus on its core Staffing and Solutions business in Canada and the U.S.A.

As a result of the closure, the historical financial information of the UK division has been reclassified as discontinued operations in the consolidated financial statements. The results of operations related to discontinued operations of the UK division for the period ended June 30, 2009 and 2008 are as follows:

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
	\$	\$	\$	\$
Revenue	43	35	78	38
Costs and expenses	4	17	15	19
	39	18	63	19
Sales and marketing	204	118	455	267
General and administrative	39	53	116	98
Operating loss before income taxes	(204)	(153)	(508)	(346)
Loss on disposition (net of tax)	(293)	—	(293)	—
<b>Net loss from discontinued operations</b>	<b>89</b>	<b>(153)</b>	<b>(215)</b>	<b>(346)</b>

Assets and liabilities of discontinued operations for the UK division are as follows:

	<b>June 30, 2009</b>	<b>September 30, 2008</b>
	\$	\$
Accounts receivable	44	28
Prepaid expenses	3	13
Property, plant and equipment, net	6	7
<b>Total assets held as discontinued operations</b>	<b>53</b>	<b>48</b>

	<b>June 30, 2009</b>	<b>September 30, 2008</b>
	\$	\$
Accounts payable and accrued liabilities	25	24
Deferred revenue	1	1
<b>Total liabilities held as discontinued operations</b>	<b>26</b>	<b>25</b>

## 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 June 30, 2009 had a working capital deficiency. The Company was unable to re-finance its subordinated debt as it came due in Q1 and Q2 and is currently operating under the terms of a Standstill Agreement with its banker.

The Company has negotiated short term extensions of its debt and has engaged Ernst & Young Orenda Corporate Finance Inc. to advise the Company on strategic alternatives which may include the sale of the company or refinancing the Company's existing debt.

### Term Facility

The Company operates under a \$26 million Term Facility Agreement ("Term Facility") with its bank. The Term Facility expired October 15, 2008. Interest is payable at rates of Prime + 2% to Prime + 7.5%, depending on the amount borrowed. The Term facility is collateralized by a charge against all assets of the Company.

On April 3, 2009, the Company executed a Standstill Agreement ("Agreement") with the Bank which provided for the extension of the Term Facility to September 30, 2009 in order to provide the Company sufficient opportunity to pursue a course of action leading to the a sale of the Company or a refinancing as described above, which would allow the Term Facility to be repaid by September 30, 2009 ("Refinancing Process").

Other terms of the Agreement as amended include the issue of Term Notes as described below. As well, the Agreement contained milestones which lead to an Agreement being executed by September 8, 2009 in a form satisfactory to the bank which provided for the Term Facility being refinanced by September 30, 2009.

The Company has been vigorously pursuing the steps necessary to lead to the refinancing of the Term Facility but has not been able to meet the agreed time-lines. The bank continues to work with the Company towards a satisfactory resolution.

### **Debenture**

The Company has a subordinated debenture (“Debenture”) of \$5,442 which was due to be repaid on December 15, 2008. On April 3, 2009, the Company executed an agreement whereby the Debenture, was extended to September 30, 2009, with an interest rate of 15% per annum payable monthly depending on certain financial ratios plus 3% per annum payable at the end of the term. The Debenture agreement is similar in structure to the Term Facility Standstill Agreement. The Debenture is collateralized by a charge on all assets of the Company subordinated to the Bank.

### **Term Notes**

The Company had issued convertible term notes which fell due December 2008 (\$7,756) and February 2009 (\$2,586). As of August 6, 2009, the convertible note holders have agreed to replace the convertible notes with Term Notes due January 31, 2010 carrying an interest rate of 15% per annum payable on a monthly basis subject to certain financial ratios being met. The Term Notes will have 500 share purchase warrants per one thousand dollars of Term Notes exercisable at \$0.20 per share. The Term Notes are collateralized by a charge on all assets of the Company subordinated to the Bank Term Facility and the Debenture.

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, execute the refinancing or other alternatives being examined with the assistance of its advisors 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

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. The Company received the final \$125 for achieving the last milestone in March 2009, representing the completion of this transaction.

The Company's results of operations related to discontinued operations of the job board business for the periods ended June 30, 2009 and 2008 are shown below.

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
	\$	\$	\$	\$
Revenue	—	3	—	1,070
Costs and expenses	—	3	—	592
	—	—	—	478
Sales and marketing	—	—	—	410
General and administrative	—	—	—	64
Operating income before gain on disposition	—	—	—	4
Gain on disposition (net of tax)	—	1,625	250	7,070
<b>Net income from discontinued operations</b>	<b>—</b>	<b>1,625</b>	<b>250</b>	<b>7,074</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 is currently 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**

The Company has been experiencing declines in revenues consistent with the shrinkage of the general economy. On a year-to-date basis, revenues declined \$19,350 (10.8%) from the same period last year. Gross Profit declined \$4,875 or 19% over the same period.

Recognizing the need to re-organize and restructure, the Company has been actively pursuing a policy of “right-sizing” the operations. As a result, the sum of the operating costs before Restructuring, financing and other costs has been reduced by \$4,675 (19%) from \$24,187 to \$19,512 for the nine months ending June 30.

The net impact of the reductions in gross profit and the reductions in operating costs on a year to date basis is \$200.

Restructuring costs of \$4,135 have been incurred on a year to date basis as well as further costs incurred to close the unprofitable operations in the United Kingdom. In addition the Company has incurred \$1,218 in Financing costs on a year to date basis. These costs are primarily fees paid to banks and consultants to execute the Company’s review and pursuit of strategic alternatives.

The Company believes that the combination of the steps taken to reduce operating costs and the execution of its pursuit of strategic alternatives will result in the Company being in a far better position to take advantage of the opportunities which are expected to arise when the economy recovers.

### **Revenues**

Revenues for the three months ended June 30, 2009 decreased \$7,605 or 12.5% from \$60,978 in fiscal 2008 to \$53,421 in fiscal 2009. For the nine months ended June 30, 2009, revenues decreased \$19,350 or 10.8% to \$160,308, down from \$179,658 for the same period in the prior year. A deterioration of customer demand under the current economic condition resulted in lower sales in addition to the reduced revenue due to sale of the Careersite business and closing down of UK division.

Brainhunter’s Staffing Division accounted for \$50,924 or 95.3% of total revenues for the three months ended June 30, 2009 compared to \$58,705 or 96.3% for the same period in fiscal 2008, representing a decrease of \$7,781 or 13.3%. For the nine months ended June 30, 2009, Brainhunter’s Staffing Division accounted for \$152,742 or 95.3% of total revenues compared to \$172,742 or 96.2% for the same period in fiscal 2008, representing a decrease of \$20,000 or 11.6%. 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 \$2,497 or 4.7% of total revenues for the three months ended June 30, 2009 compared to \$2,273 or 3.7% for the same period in fiscal 2008, representing an increase of \$224 or 9.9%. For the nine months ended June

30, 2009, Brainhunter's Solutions Division accounted for \$7,566 or 4.7% of total revenues compared to \$6,916 or 3.8% for the same period in fiscal 2008, representing an increase of \$650 or 9.4%. The increase is mainly attributable to a rise in software sales, increased customer's activity on existing contracts and continued growth in new customer relationships.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the three months ended June 30, 2009, 27% of revenues are related to various Federal Government of Canada agencies and departments, compared to 30% 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% of consolidated revenues, compared to 33% for the same period in fiscal 2008. For the three months and nine months ended June 30, 2009, the overall dollar values of revenues derived from the Federal Government has decreased \$3,996 from \$18,388 to \$14,392 and \$15,018 from \$59,010 to \$43,992 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 last period. The Company has won or renewed over \$26.0 million of new contracts during the quarter. 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 Profit**

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 \$5,403 or 10.3% from \$52,469 in Q3 fiscal 2008 to \$47,066 in Q3 fiscal 2009. For the nine months ended June 30, 2009, the cost of sales decreased \$14,475 or 9.4% from \$154,061 in the first three quarters of fiscal 2008 to \$139,586 in the first three 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 third quarter of fiscal 2008 to 88.1% in Q3 fiscal 2009, and from 85.8% in the first three quarters of fiscal 2008 to

87.1% 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 profit than traditional full-service contract staffing sales because no recruiting function is required.

Cost of sales in the Company's Staffing Division accounted for \$45,540 or 96.8% of the consolidated cost of sales in the third quarter of fiscal 2009, compared to \$51,099 or 97.4% of the consolidated cost of sales for the same period of fiscal 2008, representing a decrease of \$5,559 or 10.9%. For the nine months ended June 30, 2009, cost of sales in the Company's Staffing Division accounted for \$134,568 or 96.4% of the consolidated cost of sales, compared to \$149,831 or 97.3% of the consolidated cost of sales in the first three quarters of fiscal 2008, representing a decrease of \$15,263 or 10.2%. For the three months ended June 30, 2009, the gross profit related to the Staffing Division is \$5,384 or 10.6% of related revenues, compared to \$7,606 or 13.0% of related revenue for the same periods in the prior year. For the nine months ended June 30, 2009, the gross profit related to the Staffing Division is \$18,174 or 11.9% of related revenues, compared to \$22,911 or 13.3% of related revenue for the same periods in the prior year. The decrease in gross profit percentage is a result of the vendor managed payrolling sales, as noted above, which have lower profit than the traditional full-service contract staffing sales.

Cost of sales in the Company's Solution Division accounted for \$1,526 or 3.2% of the consolidated cost of sales in the third quarter of fiscal 2009, compared to \$1,370 or 2.6% of the consolidated cost of sales for the same period of fiscal 2008, representing an increase of \$156 or 11.4%. For the nine months ended June 30, 2009, cost of sales in the Company's Solution Division accounted for \$5,018 or 3.6% of the consolidated cost of sales, compared to \$4,230 or 2.7% of the consolidated cost of sales for the same period in the prior year, representing an increase of \$788 or 18.6%. For the three months ended June 30, 2009, the gross profit related to the Solutions Division is \$971 or 38.9% of related revenues compared to \$903 or 39.7% of related revenue for the same period in fiscal 2008. For the nine months ended June 30, 2009, the gross profit related to the Solutions Division is \$2,548 or 33.7% of related revenues in the first three quarters of fiscal 2009 compared to \$2,686 or 38.8% of related revenue for the same period in fiscal 2008. The decrease in gross profit is the result of utilizing more contractors, versus employees, in delivering services.

Overall, the Company reported gross profit of \$6,355 or 11.9% of revenues in the quarter ended June 30, 2009, compared to \$8,509 or 14.0% of revenues in the quarter ended June 30, 2008. For the nine months ended June 30, 2009, consolidated gross profit was \$20,722 or 12.9% of revenues compared to \$25,597 or 14.2% of revenues in the first nine months of fiscal 2008. The gross profit percentage fluctuates as it is dependent on the level of revenue generated from each division (product or service mix), and changes due to demands and competition in the market place (market conditions), and as noted above, the consolidated profit has been impacted by the increase in vendor managed payrolling revenues, which have lower gross profit percentage.

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

Other staffing costs have decreased \$1,621 or 30.7% to from \$5,281 in Q3 fiscal 2008 to \$3,660 in Q3 fiscal 2009. On a year to date basis, other staffing costs have decreased from \$16,082 in fiscal 2008 to \$13,051 in fiscal 2009, representing a decrease of \$3,031 or 18.8%. The decrease is due primarily to the reduced commission fees, salaries and benefits, in part due to changed compensation plans, and also due to lower business volumes, resulting in lower headcounts and associated costs.

Selling, general and administrative expenses have increased \$926 or 50.3% from \$1,840 in Q3 fiscal 2008 to \$2,766 in the same period in fiscal 2009. As a percentage of revenue, the selling, general and administrative costs have increased to 5.2% of revenue in Q3 fiscal 2009 versus 3.0% in Q3 fiscal 2008. The increase in Q3 2009 was primarily due to additional \$941 reserves for litigation settlements and legal fees that are expected in the near future. On a year to date basis, selling, general and administrative expenses have decreased from \$8,105 in fiscal 2008 to \$6,461 in fiscal 2009, representing a decrease of \$1,644 or 20.3%. The decrease was mainly because of the \$2,050 non-recurring costs recorded in Q2 fiscal 2008. 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 the first nine months of fiscal 2009:

- Rent for Toronto, Ottawa, Calgary, Edmonton, India and UK offices \$1,509
- Reserves for litigation settlements \$1,289 and legal fees and other corporate legal costs \$471
- Various Office expense \$1,217 including costs for webhosting, equipment rental and maintenance, telephone bill and etc.
- Audit and other professional fees \$357

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 June 30, 2009 and \$246 for the nine months ended June 30, 2009 compared to same period in fiscal 2008.

## **Income before the undernoted costs, being restructuring costs, write down of investment, interest expense, taxes, amortization and financing cost**

As a result of the above, income before the undernoted costs is reported as a loss of \$71 for Q3 fiscal 2009 versus an earning of \$1,388 for Q3 fiscal 2008. For the nine months ended June 30, 2009, income before the undernoted costs is \$1,210 versus \$1,410 for the same period in fiscal 2008.

## Write down of investments

The downturn of the global economy has led to a significant deterioration in market capitalization for many companies. Based on the preliminary evaluations, the Company recorded a \$455 non cash write-down of its investments, of which \$293 is related to the closing of its UK division, which has been reclassified as discontinued operations.

## 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.

	Q3 2009	Q3 2008	Q3 YTD 2009	Q3 YTD 2008
Interest expense cash	792	706	2,068	2,427
Interest expense non-cash	33	131	433	876

As described in the Financing Resources section below, majority of the Company's term notes were extended during the third quarter of fiscal 2009 with higher interest rate, resulting in higher interest expense in the quarter ended June 30, 2009.

## Amortization

Amortization expense of capital and intangible assets in Q3 fiscal 2009 was \$157 and \$979 respectively, a decrease of \$319 for amortization of capital assets and an increase of \$189 for amortization of intangible assets compared to the same period in the prior year. For the nine months ended June 30, 2009, the amortization expense for capital assets decreased \$329 to \$497 while the amortization for intangible assets increased \$39 to \$3,044.

## 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 Q3 fiscal 2009 same as in Q3 fiscal 2008, and nil recovery for the nine months ended June 30, 2009 versus a recovery of \$1,768 for the nine months ended June 30, 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 nine months ended June 30, 2009, financing cost have increased to \$687 and \$1,218 respectively, compared to \$30 and \$159 for the same periods in the prior year. The increase is predominantly because the Company's bank facility and the majority of the existing term notes have matured. These are being refinanced during the periods at a higher interest rate, as well as the incurrence of the fees associated with obtaining the necessary extensions.

## **Net Earnings (Loss)**

Based on all of the above, the Company is reporting a net loss of \$6,652 for Q3 fiscal 2009 or \$0.15 per share from Continued Operations, and a loss of \$497 from Discontinued Operations, compared to a net loss of \$745 or \$0.02 per share from Continued Operations, offset by a gain of \$1,472 from Discontinued Operations for Q3 fiscal 2008. For the nine months ended June 30, 2009, the company is reporting a net loss of \$10,898 or \$0.23 per share from Continued Operations, and a loss of \$551 from Discontinues Operations, compared to a net loss \$4,115 or \$0.10 per share from Continued Operations, offset by a gain of \$6,728 from Discontinued Operations for the nine months ended June 30, 2008. Non cash expenses contributing to the loss totaled \$4,483 for Q3 and \$7,175 for the first three quarters of fiscal 2009, including amortization of intangible assets \$979 for Q3 and \$3,044 for the first three quarters.

**SELECTED QUARTERLY INFORMATION**  
(\$,000 except earnings per share)

	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sep 30 2008	June 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007
Revenue	53,421	52,684	54,203	54,080	60,978	60,288	58,392	53,705
Income before the undermoted costs <i>(note 1)</i>	(71)	58	1,223	1,509	1,388	(1,309)	1,331	1,346
Net loss from continuing operations	(6,652)	(2,645)	(1,050)	(536)	(745)	(2,406)	(964)	(2,258)
Net profit (loss) from discontinued operations	(497)	(26)	(28)	(38)	1,472	5,286	(30)	245
Net profit (loss) for the period	(7,149)	(2,671)	(1,078)	(574)	727	2,880	(994)	(2,013)
Earnings (loss) per share								
Continuing Operations - Basic and Diluted	(0.15)	(0.06)	(0.03)	(0.01)	(0.35)	(0.09)	(0.02)	(0.05)
Discontinued Operations - Basic and Diluted	(0.01)	0.00	0.00	0.00	0.19	0.00	0.00	0.01

Note 1: Income before the undermoted costs being restructuring costs, write down of investment, interest expense, amortization, tax and financing cost.

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 (used in) Operating Activities***

The Company used \$2,169 from operating activities before non-cash working capital in Q3 fiscal 2009, while providing \$627 in Q3 fiscal 2008. For the nine months ended June 30, the Company used \$3,172 cash from operating activities before non-cash working capital in fiscal 2009, while using \$1,292 for the same period in fiscal 2008.

For the period ended June 30, 2009, the Company was provided with \$2,042 from non-cash working capital compared to \$3,004 for the same period ended June 30, 2008. For the nine months ended June 30, 2009, the Company was provided with \$1,661 non-cash working capital while \$3,397 in the same period in fiscal 2008. Changes in non-cash working capital represents period over period movement in non-cash current assets and liabilities such as receivables, prepaid and deposit, accounts payable and deferred revenue. The movements in these non-cash current assets and liabilities are due to timing differences in the collection of receivables, deferred revenue and payments of liabilities, prepaid and deposit.

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

Cash provided by financing activities was \$360 in Q3 fiscal 2009 while \$4,982 was used in Q3 fiscal 2008. For the nine months ended June 30, 2009, \$1,904 cash was provided by financing activities, while \$9,637 cash was used in the same period in fiscal 2008. The increased cash in fiscal 2009 was primarily due to increased bank loan.

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

Cash used in investing activities was \$18 for the period ended June 30, 2009 compared to \$123 for the same period in the prior year. For the nine months ended June 30, 2009, cash used in investing activities was \$130 compared to \$732 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***

Cash used in operating activities of discontinued operations for the three and nine months ended June 30, 2009 was \$215 and \$513 respectively, compared to \$151 and \$353 for the same periods in fiscal 2008. The majority of the cash was used by the operations in the UK division. The UK division was closed down in June 2009, as disclosed above in the "Closing of UK Divison" section. During the nine months periods ended June 30, 2009, the Company received \$250 for achieving the 3<sup>rd</sup> and 4<sup>th</sup> milestone pursuant to the Careersite transaction, while for the three months and nine months ended June 30, 2008, the Company received \$1,625 and \$7,070 respectively from Careersite transaction, as

illustrated in the “Sale of Brainhunter’s North American Careersite Business” section above.

### Obligations by year

			Operating Leases	Long Term Pay in Cash	Pay in Shares	Total
Year ending:	Sept	2009	\$369	\$16,169	200	\$16,738
	Sept	2010	\$1,467	\$108	-	\$1,575
	Sept	2011	\$1,459	-	-	\$1,459
	Sept	2012	\$1,479	-	-	\$1,479
	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>\$8,378</b>	<b>\$16,277</b>	<b>\$200</b>	<b>\$24,855</b>

### Financing Resources

See Term Facility, Debenture and Term Notes in “GOING CONCERN” section.

### Due from Related Parties

At March 31, 2009, the Company reported as “Due from Related Parties” an amount of \$1,117 which was comprised of \$798 due from the Chairman and CEO and \$319 due from the President. During the June quarter, the Chairman and CEO resigned from the Company. As a result the \$798 has been reclassified as Accounts Receivable as at June 30, 2009. Of the total \$798, \$468 is secured by convertible notes issued by the Company, which are in the process of being exchanged for Term Notes as described above. The interest rate and repayment date of the loan matches the interest rate and repayment date of the Term Notes. A further \$155 is collateralized by shares of the Company.

The President as at March 31, 2009 became the CEO and thus the amount of \$319 due from the new CEO constitutes the entire balance of the “Due from Related Parties”. The amount of \$319 is secured by convertible notes issued by the Company, which are in the process of being exchanged for Term Notes as described above. The interest rate and repayment date of the loan to the CEO matches the interest rate and repayment date of the Term Notes.

## **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. The Company did not purchase any shares in Q3 fiscal 2009. The NCIB expired on April 3, 2009. A total of 1,841,500 shares were purchased for cancellation during the NCIB.

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

While no options were granted or exercised, 125,000 options and 266,125 warrants expired in Q3 fiscal 2009.

## **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 June 30, 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 June 30, 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 required date for implementation for interim and annual financial statements is for fiscal years beginning on or after January 1, 2011, which in the case of the Company would be the year beginning October 1, 2011. While the Company has begun evaluating this new framework and assessing the adoption of IFRS, 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 2012.

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 2012 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 June 30, 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 June 30, 2009, 27% of revenues related to various Federal Government of Canada agencies and departments [2008 – 30%]. During the nine month period ended June 30, 2009, 27% of revenues related to various Federal Government of Canada agencies and departments [2008 – 33%].

At period end, the accounts receivable from all Federal Government of Canada were 23% of the Company's total accounts receivable [2008 - 26%].

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

	June 30, 2009	September 31, 2008
	\$	\$
Accrued but not invoiced trade receivables	1,558	1,923
Invoiced receivables within normal payment terms	30,151	32,343
Invoiced receivables past normal payment terms but not impaired	250	1,058
General receivables	1,427	832
Allowance for doubtful accounts	(445)	(308)
<b>Total accounts receivable, net</b>	<b>32,941</b>	<b>35,848</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 June 30, 2009, the Company recorded a foreign exchange loss of \$121 [2008 – gain \$18]. For the nine month period ending June 30, 2009 the Company recorded a gain of \$212 [2008 – loss \$128]. Increases 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 June 30, 2009 of approximately +/- \$46.

### 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 June 30, 2009, the total bank facility outstanding was \$17,618 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 June 30, 2009 of approximately +/- \$44.

### 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 through the availability of funding from committed credit facilities. See "Going Concern" section above.

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 June 30, 2009.

## **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 June 30, 2009, total managed capital was \$23,694 [September 30, 2008 - \$32,240], comprised of shareholders' (deficit)/equity of (\$10,647) [September 30, 2008 - \$348], term bank facility of \$17,864 [September 30, 2008 - \$15,409] and interest-bearing debt of \$16,477 [September 30, 2008 - \$16,483].

## **Transactions with Related Parties**

Related party transactions consist of loans to the CEO of the Company, collateralized by convertible term notes issued by the Company with same interest rate and same maturity date of the convertible note. Prior periods related party transactions also included loans to companies related to the prior Chairman of the Company which are non-interest bearing and with no fixed repayment terms. The Chairman resigned on June 12, 2009, subsequently, these loans have been reclassified as accounts receivable. See "Due from Related Parties" section above.

## **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 June 30, 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).