

**BRAINHUNTER INC.**

**Management Discussion and Analysis  
For the Period Ending  
December 31, 2005**

**February 14, 2006**

## **BASIS OF PRESENTATION**

The Management's Discussion and Analysis, dated February 14, 2006 should be read in conjunction with the interim unaudited consolidated financial statements and the accompanying notes. Additional information relating to Brainhunter Inc. ("Brainhunter") is available on SEDAR.

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

## **FORWARD-LOOKING STATEMENTS**

All statements in this MD&A that do not directly and exclusively relate to historical facts constitute "forward-looking statements". These statements are based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to projections of revenues, earnings, segment performance, cash flows, and contract awards. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation and not restricted to the timing and size of new contracts, acquisitions and other corporate developments, the ability to attract and retain qualified individuals, market competition in the rapidly evolving information technology industry, general economic and business conditions, foreign exchanges, and the status or outcome of legal and/or regulatory proceedings.

All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on the Company's behalf are qualified by the cautionary statements in this section. The Company does not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

## **BUSINESS OVERVIEW**

Brainhunter is an ISO 9001:2000 Certified "Technology Driven Professional Services Business". The Company uses its Recruiting and Staffing Technology Platform to provide a competitive advantage in building a Professional Services Practice around the Contract Staffing sector of the economy.

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

1. **Contract Staffing** (Annuity Revenue) – **High Growth** / Full Service / Administrative
2. **Permanent Staffing** (Transaction Fees / Retainers) – **Strategic Service** / Full Service / Virtual Agency
3. **Specialized Job Boards** (Posting Fees / Subscriptions) – **High Growth** / Traditional Job Posting Model (Customers)/ Reverse Job Posting Model (Job Seekers) / Database Access Model (Customers)
4. **Technology Sales** (Licenses / Services) – **Strategic Service** / Applicant Tracking / System / Vendor Management System / Back Office Systems
5. **Professional Services / Solutions Delivery** (Project Revenue) – **Strategic Service** / Brainhunter Technology Platform Development, Support, Customization / Outsourcing
6. **Business Process Outsourcing (“BPO”) Centre** (Annuity Revenue) – **High Growth** / 24/7 Recruiting Support / Sales and Customer Support / 24/7 Telemarketing / Joint Venture Outsourcing of Specialized Business Processes / Including Software Development
7. **Infrastructure Services** (Annuity Revenue) – **High Growth** / Back Office Administration / Receivables Factoring / Recruiting Support

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

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange. Brainhunter deploys over 1,200 Contractors / Consultants with an internal staff of over 200 personnel. The Company has delivery capability in Toronto, Ottawa, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian, China and a BPO office in Hyderabad, India.

## THE QUARTER IN REVIEW

### *Overview*

In the *Contract Staffing* sector, the focus has been on enhancing our preferred supplier arrangements with large users of IT or Engineering contract services. During fiscal 2005, our preferred supplier arrangements increased to over 60, expanding the Company's coverage in Quebec and Alberta.

The company has successfully launched its Business Process Outsourcing ("BPO") centre in India. The centre is now fully operational and has signed 15 new supplier agreements in the USA and 12 in India. In addition, the BPO operation has several Recruiting Process Outsourcing proposals for major clients in the pipeline. The BPO Centre provides recruiting support for Brainhunter's Canadian and U.S. Staffing activities and marketing support for Brainhunter's North American Job Board business.

Brainhunter has launched a separate Permanent Staffing Group. The group has added over 36 major Fortune 1,000 clients to the Company's base of business, has grown to 6 people and has enjoyed growing profitability almost from its creation.

Brainhunter has made a significant investment in its operational infrastructure through the development of a comprehensive and robust Back Office System, along with significant enhancements to the Applicant Tracking and Vendor Management applications. The Back Office System will dramatically improve internal efficiencies and allow Brainhunter to service customers better. More importantly, the Back Office System provides Brainhunter with a major competitive advantage in positioning the Company as a Master Vendor providing the operational infrastructure that manages the Contract Staffing Business processes in the relationship between Agency, Customer and Job Seekers. Brainhunter now operates 106 specialized Job Boards with sales now tracking close to \$2.0 million per annum for job postings.

Brainhunter has completed its marketing and branding realignment, brand rationalization and unified corporate identity program enterprise-wide across the 10 acquired entities. In addition, the Company has implemented a brand awareness advertising campaign that will carry on into early Fiscal 2006 throughout key geographic areas in Canada

## *Acquisitions*

### **AJJA Information Technology Consultants Inc.**

On October 11, 2005, 100% of the common and preference shares of AJJA Information Technology Consultants Inc. ("AJJA"), an information technology staffing company, were acquired for cash, convertible notes, and zero-interest vendor-take-back loans. The convertible notes have a nominal value of \$4,000,000 and are to be repaid \$325,000 quarterly plus interest beginning December 31, 2006 and \$337,500 quarterly plus interest beginning June 30, 2007. Interest is payable on each payment date at the rate equivalent to that on a 90-day Canadian Treasury Bill for the 90-day period immediately preceding each payment date, with interest accruing from October 1, 2006. The notes are convertible over their term to common shares of the Company at an exercise price of \$1.00 per share. In accordance with CICA 3860, the convertible notes are to be separated into two components: a financial liability to make future payments and an equity instrument that is effectively a call option granting the holder the right, for a specified period of time, to convert into common shares of the Company. The Company has calculated the fair value of the financial liability component of the convertible notes to be \$3,122,573 by discounting the quarterly payments of principal plus estimated interest using an effective interest rate of 15% per annum. This discount on the convertible notes is being charged to interest expense over the term of the loan. The carrying amount of the equity instrument, \$877,427, was determined by deducting the fair value of the financial liability from the amount of the convertible notes as a whole. The zero-interest vendor-take-back loans have a nominal value of \$2,200,000 and are to be repaid \$36,667 monthly for 60 months. The Company has calculated the fair value of the vendor-take-back loans to be \$1,541,268 by discounting the monthly payments using an effective interest rate of 15%. This discount on the vendor-take-back loans is being charged to interest expense over the term of the loans. The results of AJJA have been consolidated commencing October 11, 2005.

The purchase price components for the acquisition of AJJA are:

	\$
Cash consideration	6,200,000
Liability portion of notes	3,122,573
Conversion rights on notes	877,427
Vendor-take-back loans	1,541,268
Transaction costs	555,668
	<hr/> 12,296,936 <hr/>

## **iGate Mastech Ltd.**

On November 16, 2005, 100% of the common shares of iGate Mastech Ltd. ("iGate"), an information technology staffing company, were acquired for cash and a promissory note. The promissory note has a nominal value of \$500,000 that is due November 16, 2007. The promissory note pays interest only quarterly at the rate equivalent to that on a 90-day Canadian Treasury Bill for the 90-day period immediately preceding each payment date. The Company has calculated the fair value of the promissory note to be \$399,829 by discounting the nominal value plus the stream of estimated quarterly interest payments using an effective interest rate of 15% per annum. This discount on the promissory note is being charged to interest expense over the term of the note. The results of iGate have been consolidated commencing November 16, 2005.

The purchase price components for the acquisition of iGate are:

	\$
Cash consideration	12,293,000
Vendor-take-back loans	399,829
Transaction costs	1,101,000
	<hr/> 13,793,829 <hr/>

## ***Financing***

On November 16, 2005, the Company obtained a revolving demand credit facility of \$20,000,000 from a Schedule "A" bank, with a term of two years, bearing interest at prime plus 0.5% to 1.5%, depending on a specific bank covenant ratio, collateralized by a general security agreement that constitutes a first charge over all the assets of the Company. A portion of the proceeds was used to retire the \$10,000,000 facility in place on September 30, 2005.

On November 16, 2005, the Company issued a debenture for \$5,000,000, repayable on December 15, 2008, paying interest only during the term on a quarterly basis at 12% per annum. The debenture is collateralized by a floating charge on all assets, subordinated only to the general security agreement held by the Company's bank. The lender was issued 1,000,000 common share purchase warrants of the Company, exercisable at \$1.00 per common share at any time, with total return to the lender guaranteed at 15%.

In November 2005, the Company issued convertible notes of \$7,856,000 with a term of three years, paying interest only during the term at 8% per annum. The notes are collateralized by a floating charge on the Company's assets, subordinated to the security of the Company's bank and the debenture. The notes are convertible at \$1.50 of the face value per common share at any time, and were accompanied by 500 common share purchase warrants of the Company per \$1,000 face value, exercisable at \$1.00 per common share at any time. After a year, should the Company's common shares trade above a weighted average trading price of \$2.00 over 20 days, the Company retains the option to require holders of these convertible notes to convert or redeem them.

## SELECTED QUARTERLY INFORMATION

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

	2005	2004	2003
<b>Revenue</b>	<b>\$33,862</b>	<b>\$17,789</b>	<b>\$16,305</b>
Cost of sales	28,098	13,816	12,129
<b>Gross margin</b>	<b>5,764</b>	<b>3,973</b>	<b>4,176</b>
Other operating costs	5,049	3,078	3,124
<b>EBITDA</b>	<b>715</b>	<b>895</b>	<b>1,052</b>
Interest	597	111	149
Amortization	1,034	551	1,006
<b>Earnings (loss) before tax</b>	<b>(916)</b>	<b>233</b>	<b>(103)</b>
Income tax	22	97	(46)
<b>Net (loss) earnings</b>	<b>\$(938)</b>	<b>\$136</b>	<b>\$(57)</b>
Earnings (loss) per share-basic	\$(0.02)	\$0.00	\$0.00
Earnings (loss) per share-fully diluted	\$(0.02)	\$0.00	\$0.00

## REVIEW OF OPERATIONS

### Revenues

Revenues for the three months ending December 31, 2005 increased \$16,072,571 or 90.3%, to \$33,861,839, up from \$17,789,268 for the same period in the prior year. The increase is mainly attributable to the two first quarter acquisitions of AJJA Information Technology Consultants Inc. (“AJJA”) on October 11, 2005 and iGate Mastech Ltd. (“iGate”) on November 16, 2005, and an increase in the Staffing business offset by a decline in the Solutions business.

Brainhunter’s Staffing Division accounted for \$33.3 million or 98.2% of total revenues for the months ended December 31, 2005 compared to \$16.1 million or 90.6% for the same period in fiscal 2005, representing an increase of \$17.1 million or 106.3% increase over the prior year period. As noted above, the increase is mainly attributable to the acquisitions of AJJA and iGate, representing approximately \$15 million of the total increase, and due to a \$2.4 million increase in the IT staffing market, mainly in Toronto, as a result of organic growth and being classified as the primary vendor on contract arrangements, offset by a decrease of approximately \$400,000 in engineering staffing which is attributable equally to a decline in engineering contracts and a strategic withdrawal from low margin industrial staffing business.

Brainhunter's Solutions Division accounted for \$604,000 or 1.8% of total revenues in the first quarter of fiscal 2006 compared to \$1.7 million or 9.4% in the same period in fiscal 2005, representing a decrease of \$1.08 million or 64.2% decrease over the prior year period. The decrease is mainly attributable to a \$1 million decline in a customer's activity on contracts compared to the prior year period. The customer represents greater than 80% of the solutions business, however, is less than 1% of the total revenue for the first quarter of fiscal 2006.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the three months ended December 31, 2005, 48% of revenues related to various Federal Government of Canada agencies and departments, compared to 39% in the same period of the prior year.

Management believes that there are trends in North America, which will provide the Company with significant opportunities in 2006 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 coupled with the two acquisitions of iGate and AJJA, will significantly drive our revenue and profitability growth in 2006.

### **Cost of Sales & Gross Margin**

Cost of sales includes all direct costs incurred in the providing of Staffing and Solutions services. These costs include contract staff, billing employees, hardware and software sold as part of a solution and travel and living expenses required to provide the service.

The overall Cost of sales increased \$14,280,846 or 103.4% from \$13,816,516 in Q1 fiscal 2005 to \$28,097,362 in Q1 fiscal 2006, an amount commensurate with the increase in revenues, and as a result of the two acquisitions. Cost of sales as a % of revenues, increased from 77.7% to 83.0% on a period-over-period basis reflecting the evolution in the mix of the business, and the two acquisitions, 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 \$27.7 million or 98.6% of the total cost of sales in the current quarter compared to \$12.7 million or 92.2% in same quarter of fiscal 2005, representing an increase of \$15.0 million or 118.0% increase over the same quarter in the prior year. The gross margin related to the Staffing Division was \$5.6 million or 16.8% of related revenues in the three months ended December 31, 2005,

compared to \$3.4 million or 21.2% of related revenue for the same period in the prior year. The decrease in gross margin percentage is a result of the current quarter acquisitions, which have gross margins in the 15-17% range and include vendor managed payrolling sales, as noted above.

Cost of sales in the Company's Solution Division accounted for \$397,000 or 1.4% of the total cost of sales in the three months ended December 31, 2005 compared to \$1.12 million or 8.7% of the total cost of sales for the same period in the prior year, representing a decrease of \$723,000 or a 64.4% decrease over the prior year. The gross margin related to the Solutions Division was \$214,000 or 35.4% of related revenues in the first quarter of fiscal 2006, compared to \$609,000 or 36.1% of related revenue for the first quarter of fiscal 2005. The \$395,000 decrease in gross margin is consistent with the decline in revenue from the same period in the prior year.

Overall, the Company reported gross margins of \$5,764,477 or 17.0% of revenues in the three month period ended December 31, 2005 compared to \$3,972,752 or 22.3% of revenues for the same period in the prior year. The gross margin fluctuates as it is dependent on the level of revenue generated from each division, the industry costs of acquisitions, and changes due to demands and competition in the market place, and as noted above, it has been impacted by vendor managed payrolling sales.

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

Overhead expenses showed an increase in the first quarter of fiscal 2006 versus the first quarter of fiscal 2005 of \$1,971,677 from \$3,078,286 to \$5,049,963 representing a 64.1% increase. As a % of Revenue, overhead expenses were 14.9% in Q1 fiscal 2006, down from 17.3% in Q1 fiscal 2005.

Other staffing costs have increased \$1,673,784 or 94.7% to \$3,441,117 in the three months ended December 31, 2005, up from \$1,767,333 for the same period in the prior year. The increase is attributable to the acquisition of iGate and AJJA and is consistent as a percentage of revenue at 10% when comparing period-over-period.

Selling, general and administrative has increased \$297,893 or 22.7% to \$1,608,846 in the first quarter of fiscal 2006 up from \$1,310,953 in the same quarter of the prior year. The increase is attributable to the acquisitions of iGate and AJJA. As a percentage of revenue, selling, general and administrative costs have decreased from 7.4% in the Q1 fiscal 2005 to 4.8% in Q1 fiscal 2006.

#### **Earnings before Interest, Taxes and Amortization (EBITDA)**

As a result of the above, EBITDA is reported as \$714,515 for the first quarter of fiscal 2006 versus \$894,466 for the same in quarter in fiscal 2005. EBITDA declined as a % of Revenue, from 5.0% in the three months ended December 31, 2004 to 2.1% in the three months ended December 31, 2005. As noted previously, the decline is largely due to the decline in gross margin from 22.3% of sales in Q1 fiscal 2005 to 17.0% of sales in Q1 fiscal 2006.

**Interest**

Interest costs increased by \$485,801 from \$111,196 in the first quarter of fiscal 2005 to \$596,997 in the first quarter of fiscal 2006 as a result of financing the increased Working Capital requirements of the increased business, the convertible note obligations, and the \$5 million debenture. Interest costs are increasing over time commensurate with the increase in Revenues, being the cost of financing accounts receivable for contract staffing and solutions business.

The interest costs are predominantly related to amounts paid on the Company's current line of credit, the convertible notes, and the debentures, but also includes imputed interest and non-cash interest. The accretion of interest for the current quarter was \$200,856 compared to \$18,475 for the same quarter in the prior year.

**Amortization**

Amortization expense increased by \$483,208, from \$550,903 in the first quarter of fiscal 2005 to \$1,034,111 in the first quarter of fiscal 2006. The largest portion of amortization expense is the amortization of intangible assets. The increase in amortization expense is mainly due the addition of approximately \$15 million in intangibles relating to the acquisition of AJJA and iGate.

**Earnings (Loss) before Income Tax**

Based on all of the above, the Company is reporting a loss before income taxes of \$916,595 for the three months ended December 31, 2005 versus income of \$232,367 for the three months ended December 31, 2004. As noted previously, the loss is largely the result of amortization expenses of intangible assets from acquisition activities.

**Income Tax Expense**

The provision for income taxes differs from the expense that would be obtained by applying the statutory rate to net income before income taxes as a result of such items as, amounts not deductible for taxes purposes, future tax assets and liabilities, and the benefit of loss recorded. The Company has sufficient tax losses acquired through acquisitions to reduce the payment of income taxes but is still subject to Provincial capital taxes, corporate minimum taxes, and future tax provisions. These amounted to \$21,482 in the current quarter, and \$96,827 for the same quarter in the prior year.

**Net Earnings (Loss)**

The Company is reporting a Net Loss of \$938,076 or \$(0.02) per share basic and diluted for the three months ended December 31, 2005 compared to a Net Earnings of \$135,540 or \$0.00 per share basic and diluted for the three months ended December 31, 2004.

**SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table provides summary financial data for our last eight quarters:

*(Expressed in thousands of dollars, except per share amounts)*

	Quarter ended			
	Dec 31 2005	Sep 30 2005	Jun 30 2005	Mar 31 2005
Revenue	\$33,862	\$18,707	\$20,017	\$19,548
Net income (loss)	(\$938)	(\$3,516)	(\$246)	\$235
Net income (loss) per share				
-Basic	\$(0.02)	\$(0.06)	\$(0.01)	\$0.01
-Diluted	\$(0.02)	\$(0.06)	\$(0.01)	\$0.01
	Dec 31 2004	Sep 30 2004	Jun 30 2004	Mar 31 2004
Revenue	\$17,789	\$16,576	\$17,463	\$18,549
Net income (loss)	\$136	(\$546)	(\$80)	\$489
Net income (loss) per share				
-Basic	\$0.00	\$(0.01)	\$(0.00)	\$0.01
-Diluted	\$0.00	\$(0.01)	\$(0.00)	\$0.01

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.

The Company recognizes revenue as work is performed and revenue and profitability are negatively impacted as a result of statutory holidays and vacation periods. Typically, the Company's first and fourth quarter indicate reduced revenue and profitability levels as a result of the Christmas season and summer vacation period. The second quarter's revenue and profitability are normally positively impacted due to the Federal Government of Canada's March 31<sup>st</sup> year-end as consultants are fully utilized and additional consultants are engaged to finalize the work.

# Liquidity

## Cash and Bank Indebtedness

At December 31, 2005, the Company reported Bank Indebtedness of \$17,947,358. This number consisted of the actual draw against the Company's line of credit of \$19,288,563, offset by Cash on hand of \$1,341,205.

The Company's line of credit as at December 31, 2005 was \$20,000,000. The Company's interest rate is prime plus 0.5% to 1.5%, depending on a specific bank covenant ratio. This bank line was obtained November 16, 2005, and a portion of the proceeds was used to retire the \$10,000,000 line of credit in place at September 30, 2005.

Cash provided by Operations for the quarter ended December 31, 2005 was \$1,609,942, while Cash used in Operations for the quarter ended December 31, 2004 was \$(97,640). This significant improvement resulted mainly from the net change in non-cash working capital, which increased from \$(1,188,387) to \$1,329,994, primarily as a result of reducing the Company's accounts payable and accrued liabilities.

Obligations by year (\$,000)

		Operating Leases	Long-Term Debt		Total
			Pay in Cash	Pay in Shares	
Year ending:	Sept 2006	\$ 1,141	\$ 1,082	\$ 445	\$ 2,668
	Sept 2007	823	2,081		2,904
	Sept 2008	823	2,357		3,180
	Sept 2009	662	14,621		15,283
	Sept 2010	662	440		1,102
	Sept 2011	662	37		699
	Sept 2012	662	-		662
	Sept 2013	662	-		662
	Sept 2014	662	-		662
	Sept 2015	163	-		163
	<b>Total</b>	<b>\$ 6,922</b>	<b>\$ 20,618</b>	<b>\$ 445</b>	<b>\$ 27,985</b>

## Issue of Common Shares

The Company raised \$16,050 during the first quarter of 2006 on the issue of common shares due to the exercise of options. This compares to \$423,557 raised in the first quarter of 2005 from the exercise of warrants, less \$258,578 paid out under a normal-course issuer bid completed in October 2004.

### **Advances to Related Parties**

The company recorded net advances of \$37,490 to related parties during the three months ended December 31, 2005, compared to net repayments of \$261,789 in the three months ended December 31, 2004.

### **Proceeds from Long-Term Obligations**

On November 16, 2005, the Company issued convertible term notes of \$7,856,000 with a term of three years, paying interest only during the term at 8% per annum. The notes are convertible at \$1.50 of the face value per Company common share at any time, and were accompanied by 500 common share purchase warrants of the Company per \$1,000 face value, exercisable at \$1.00 per common share at any time. After a year, should the Company's common shares trade above a weighted average trading price of \$2.00 over 20 days, the Company retains the option to require holders of these convertible notes to convert or redeem them. Net proceeds of the issue were \$7,234,150, of which \$358,000 were received in the last quarter of fiscal 2005 and \$6,876,150 in the first quarter of 2006, and were directed to the acquisitions of AJJA and iGate and to the Company's working capital.

Also on November 16, 2005, the Company issued a debenture for \$5,000,000, repayable on December 18, 2008, paying interest only during the term on a quarterly basis at 12% per annum; the lender was issued 1,000,000 common share purchase warrants of the Company, exercisable at \$1.00 per common share at any time, with total return to the lender guaranteed at 15%. Net proceeds of the issue were \$4,881,984

### **Repayment of Long-term Obligations**

The Company repaid \$152,833 of long-term debt during the first quarter of 2006, compared to repayments of \$75,000 in the first quarter of 2005. All of the repayments are scheduled payments on long-term debt.

### **Business Acquisitions**

The Company reported cash costs of \$19,330,765, net of cash acquired, to acquire AJJA and iGate in the first quarter of 2006. This compares to the cash costs of \$64,755 recorded for the first quarter of 2005, when the Company completed the acquisitions of Vision2Hire and Promethean. The acquisitions of AJJA and iGate were funded primarily by the Convertible term notes and Debenture financings described above.

### **Capital Expenditures**

The Company spent \$376,711 on Capital Expenditures during the three months ended December 31, 2005, somewhat lower than the \$591,016 spent in the three months ended December 31, 2004. The current expenditures were made primarily in enhancing the Brainhunter software (\$266,600) and in computer hardware and software (\$88,800).

### **EBITDA**

Management defines EBITDA as earnings before amortization, interest and taxes. The Company's method of calculating EBITDA may not be comparable to similar measures presented by other companies.

## **OTHER**

### **Transactions with Related Parties**

No transactions occurred with related parties during the quarter outside the normal course of business.

### **Legal Proceedings**

The company is involved in several pieces of litigation. Management believes the litigations are without merit and that the provisions, which have already been made by the Company, are sufficient to offset any uncertainties.

### **Financial Instruments and Other Instruments**

Accounts receivable, investment tax credits recoverable and income taxes payable, and accounts payable and accruals constitute instruments that approximate fair value due to the near term maturity.

The Company sells primarily to large, well-established customers. The Company is exposed to risk due to fluctuations in the exchange rate of the U.S. dollar.

### **Additional Information**

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