

BRAINHUNTER INC.

**Management Discussion and Analysis
For the Period Ended
December 31, 2008**

April 3, 2009

BASIS OF PRESENTATION

The Management's Discussion and Analysis, dated April 3, 2009 should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes for the period ended December 31, 2008. 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

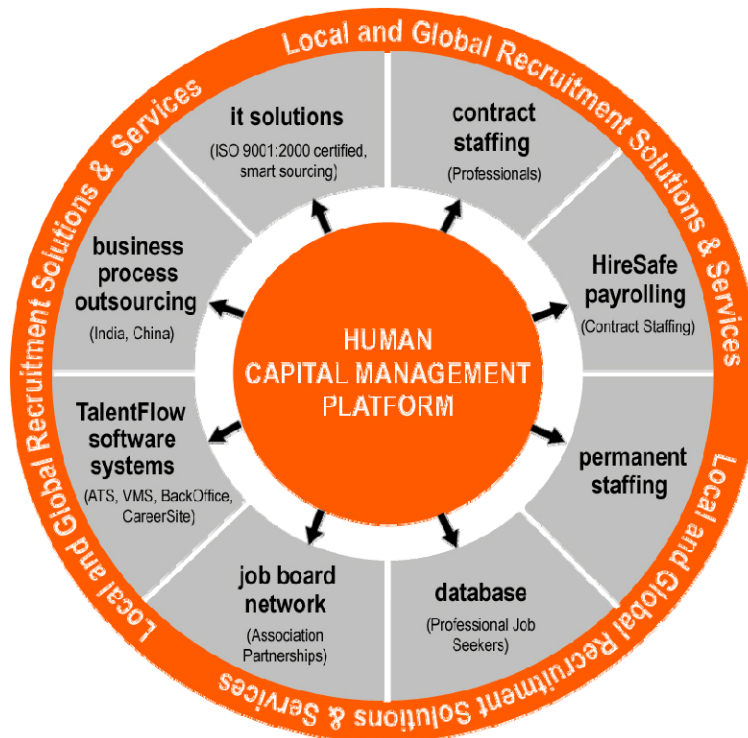
Certain statements in this MD&A may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Brainhunter and its subsidiary entities, or the industry, to be materially different 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) 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 in the following market sectors: Information Technology, Engineering, Industrial and Health Care.

These services are provided to customers throughout Canada, the United States and globally under the brand Brainhunter. Brainhunter’s multifaceted revenue stream is in seven related practice areas including:

Contract Staffing (Annuity Revenue), **Permanent Staffing** (Transaction Fees / Retainers), **Specialized Job Boards** (Posting Fees / Subscriptions / Services), **Technology Sales** (Licenses / Services), **Professional Services / Solutions Delivery** (Project Revenue), and **Business Process Outsourcing (“BPO”)** Centre (Annuity Revenue)



Brainhunter’s Technology Platform and Best practices strive to deliver the most cost effective and flexible recruiting and staffing solutions in the marketplace today. Brainhunter offers solutions that are modular in nature and are customizable to suit both small and large scale business processes. Brainhunter’s has over 2,000 clients including

over 200 of North America's leading corporation's plus over 30 federal and provincial government departments. Brainhunter's Job Seeker Database currently holds over 1.2 million professional resumes and is one of the largest active databases for professional staffing in North America.

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange (**TSX:BH**). Brainhunter deploys over 1,600 Contractors / Consultants with an internal staff of over 220 personnel. The Company has delivery capability across Canada including Toronto, Ottawa, Maritimes, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian China, 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 December 31, 2008 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 December 31, 2008. The Term Facility expired October 15, 2008, but the bank has agreed to extend the Term Facility to September 30, 2009 subject to a Standstill Agreement ("Agreement") executed April 3, 2009 as described in Note 17. In addition, as of April 3, 2009, the Company continues to negotiate with its convertible lenders in order to refinance \$7,756 due December 2008 and \$2,536 due February 2009. The Company is committed to pursuing a course of action leading to a privatization of the Company or a refinancing resulting in the bank and other debtholders being repaid. The Company's ability to continue as a going concern is dependent upon the Company's ability to retain the ongoing support of its bank and execute the privatization or refinancing and generate profitable operations. The outcome of these matters is uncertain.

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

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

DIVESTITURES

Sale of Brainhunter’s North American Careersite Business (in \$000’s)

On February 6, 2008, the Company executed several agreements “(Agreements”) to sell various components which comprised its North American Careersite Business (“Business”) to Workopolis for a total consideration of \$10,000 cash (“Consideration”) payable on meeting certain transition milestones specific to each agreement. The Business consisted of the existing client activity and a perpetual 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 service.

Pursuant to the Agreements, the remaining \$500 of the Consideration are being paid to the Company at the rate of \$125 per quarter, as agreed quarterly transition milestones are achieved. In the period ended December 31, 2008, the Company received \$125 for achieving the 3rd milestones, aggregated to a total of \$375.

The Company’s results of operations related to discontinued operations for the 3 months ended December 31, 2008 and 2007 are shown below.

(\$000's)	Three Months ended December 31,	
	2008	2007
Results of Operations		
Revenues	-	737
Costs and expenses	-	414
	-	323
Sales and marketing	-	256
General & administrative	-	26
Income before gain on disposition	-	41
Gain on disposition	125	-
Income before income taxes	125	41
Income tax expense	-	-
Net income	125	41

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 ending December 31, 2008 decreased \$4,173 or 7.1% versus the three months ending December 31, 2007 from \$58,393 to \$54,220. The decrease is attributable to the downside of the economic environment in addition to the reduced revenue due to sale of the Careersite business.

Brainhunter's Staffing Division accounted for \$51,790 or 95.5% of total revenues for the three months ended December 31, 2008 compared to \$56,069 or 96.0% for the same period in fiscal 2007, representing a decrease of \$4,279 or 7.6% decrease over the prior year period. 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 \$2,430 or 4.5% of total revenues in the first three months of fiscal 2008 compared to \$2,324 or 4.0% in the same period in fiscal 2007, representing an increase of \$106 or 4.6% over the prior year period. The increase is mainly attributable to a rise in customer's activity on existing contracts and a growth in new customer relationships.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the three months ending December 31, 2008, 26.5% of revenues related to various Federal Government of Canada agencies and departments, compared to 33.0% of revenues from the prior year. The overall dollar values of revenues derived from the Federal Government has decreased during the three months ended December 31, 2008 to \$14,362 compared to \$19,297 in the same period prior year. The revenues derived from the Federal Government of Canada are declining because some of the contracts with the Government ended during the period. The Company is currently diligently negotiating for new contracts.

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 \$3,257 or 6.5% from \$49,732 in Q1 fiscal 2007 to \$46,475 in Q1 fiscal 2008, an amount commensurate with the decrease in revenues. Cost of sales as a percentage of revenues slightly increased from 85.2% in the first three months of fiscal 2007 to 85.7% in the same periods in fiscal 2008, on a period-over-period basis reflecting the evolution in the mix of the business which include significant vendor managed payrolling sales for several Tier-1 customer relationships. This business has lower margins than traditional full-service contract staffing sales because no recruiting function is required.

Cost of sales in the Company’s Staffing Division accounted for \$44,886 or 96.6% of the total cost of sales in the first three months of fiscal 2008 compared to \$48,343 or 97.2% of the total cost of sales in the first three months of fiscal 2007, representing a decrease of \$3,457 or 7.2% decrease over the prior year. The gross margin related to the Staffing Division is \$6,904 or 13.3% of related revenues in the three months ended December 31, 2008 compared to \$7,726 or 13.8% 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 \$1,589 or 3.4% of the total cost of sales in the three months ended December 31, 2008 compared to \$1,389 or 2.8% of the total cost of sales in same period in the prior year, representing an increase of \$200 or 14.4% increase over the prior year. The gross margin related to the Solutions Division is \$841 or 34.6% of related revenues in the first three months of fiscal 2008 compared to \$935 or 40.2% of related revenue for the same period in fiscal 2007. The \$94 or 10.1% decrease in gross margin is the result of utilizing more contractors, versus employees, in delivering services.

Overall, the Company reported gross margins of \$7,745 or 14.3% of revenues in the quarter ending December 31, 2008, compared to \$8,661 or 14.8% of revenues in the quarter ending December 31, 2007. The gross margin % fluctuates as it is dependent on

the level of revenue generated from each division, and changes due to demands and competition in the market place, and as noted above, it has been impacted by the increase in vendor managed payroll revenues, which have lower gross margin percentage.

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

Other staffing costs have slightly increased \$5 or 0.1% to \$5,092 in Q1 fiscal 2009, up from \$5,087 in the same period in the prior year. As a percentage of revenue, other staffing costs have increased to 9.4% of revenue in Q1 fiscal 2009 versus 8.7% in Q1 fiscal 2008. The % change in staffing cost is a direct result of the lower sales volumes and revenue.

Selling, general and administrative expenses have decreased \$727 or 31.4% in Q1 fiscal 2009 from \$2,314 to \$1,587. As a percentage of revenue, the selling, general and administrative costs have decreased to 2.9% of revenue in Q1 fiscal 2009 versus 4.0% in Q1 fiscal 2008. The decrease is mainly contributed to the foreign exchange gain of \$350, whereas it was a loss of \$108 in the same period in the prior year, representing a net increase of \$458. In response to the lower sales volumes and weak economic environment, all non-essential spending management has been eliminated. Marketing and promotion spending was cut and only incurred when necessary to support the sales, saving \$129 from the same period in the prior year.

Earnings before interest, taxes and amortization (EBITDA)

As a result of the above, EBITDA is reported as \$1,066 for Q1 fiscal 2009 versus \$1,260 for Q1 fiscal 2008.

Interest

The interest costs are predominantly related to amounts paid on the Company’s term bank facility, the convertible notes, and the debenture. Interest expense is composed of cash interest expense and non-cash or accretive interest. Accretive interest is a notional interest cost which represents the difference between the coupon rate of the specific piece of debt and an estimated cost of capital to the Company. When a piece of debt is incurred at a rate below the Company’s estimated cost of capital, GAAP requires the debt to be discounted by the difference between the two interest rates and that discount amortized over the life of the debt as accretive or non-cash interest expense.

(\$000's)	Q1 2009	Q1 2008
Interest Expense Cash	740	876
Interest Expense Non Cash	317	335

The term bank facility, which has reduced to \$19.4 million in Q1 fiscal 2009 from \$28.9 million in Q1 fiscal 2008, resulted lower interest expense compared to the same period in the prior year.

Amortization

Amortization of property, plant and equipment and intangible assets in Q1 fiscal 2009 is \$174 and \$1,038 respectively, a decrease of \$4 for property, plant and equipment and a decrease of \$83 for amortization of intangible assets from the same period of the prior year.

Income Tax Expense

The provision for income taxes differs from the expense that would be obtained by applying the statutory rate to net income before income taxes as a result of such items as, amounts not deductible for tax purposes, future tax assets and liabilities, and the benefit of losses recorded. The Company has sufficient tax losses acquired through acquisitions to reduce the payment of income taxes but is still subject to corporate minimum taxes, and future tax provisions. The Company has recorded nil recovery in Q1 fiscal 2009 compared to a recovery of \$216 in Q1 fiscal 2008.

Net Earnings (Loss)

The Company is reporting for Q1 fiscal 2009 a net loss of \$1,078 or \$0.03 per share from Continued Operations, offset by a gain of \$125 from Discontinued Operations, compared to a net loss of \$993 or \$0.02 per share from Continued Operations, offset by earnings of \$41 from Discontinued Operations for Q1 fiscal 2008.

SELECTED QUARTERLY INFORMATION

For the period ended December 31st (\$,000 except earning per share)		
	2008	2007
Revenue	54,220	58,393
Cost of Sales	46,475	49,732
Gross Margin	7,745	8,661
Other operating costs	6,679	7,401
EBITDA	1,066	1,260
Interest - cash	740	876
Interest -non cash	317	335
Amortization of capital assets	174	178
Amortization of intangibles	1,038	1,121
Loss before tax	(1,203)	(1,250)
Income Tax	—	(216)
Loss from continuing operations	(1,203)	(1,034)
Income from discontinued operations	—	41
Gain from disposal of discontinued operations	125	—
Net loss	(1,078)	(993)
Earnings per share Continued operations-Basic and diluted	\$ (0.03)	\$ (0.02)
Earnings per share Discontinued operations-Basic and	—	—

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 Used in Operating Activities

The Company generated \$262 from operating activities before non-cash working capital in Q1 fiscal 2009, while \$354 in Q1 fiscal 2008. This was offset by the non-cash working capital, which used up \$3,886 cash for the period ended December 31, 2008 while \$3,016 for the same period ended December 31, 2007. The change is due primarily to a decrease in accounts payable of \$2,732, an increase in accounts receivable of \$377 and an increase in deposit and prepaid of \$716 in the quarter.

Cash Provided by Financing Activities

Cash provided by financing activities increased \$3,568 in Q1 fiscal 2009 while \$3,026 in Q1 fiscal 2008. Bank loan facility increased \$4,021 in Q1 fiscal 2009 from the same period in the prior year, offset by repayment of long term debt of \$210 and increased loan to related parties of \$206.

Cash Used in Investing Activities

Cash used in investing activities was \$69 for the period ended December 31, 2008 compared with cash usage of \$405 for the same period in the prior year. The reduced 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 period, the company received \$125 for achieving the 3rd 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)

			Long Term Debt		Total
		Operating Leases	Pay in Cash	Pay in Shares	
Year ending:	2009	\$1,155	\$16,119	\$200	\$17,505
	2010	\$1,467	\$262	-	\$1,707
	2011	\$1,459	-	-	\$1,459
	2012	\$1,480	-	-	\$1,480
	2013	\$1,459	-	-	\$1,459
	2014	\$1,345	-	-	\$1,345
	2015	\$526	-	-	\$526
	2016	\$253	-	-	\$253
	2017	\$21	-	-	\$21
Total		\$9,165	\$16,381	\$200	\$25,756

Financing Resources

Term Credit Facility

At December 31, 2008, 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, and is due on demand subject to the finalization of the Standstill Agreement as described in Note 17 of the Financial Statements and is classified as a current obligation.

Subsequent Financing Arrangement re the Term Credit Facility

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

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

Debenture

A debenture, as described in Note 6[a] of the Financial Statements with a carrying value of \$5,442 as at December 31, 2008, matured on December 15, 2008. On April 3, 2009, an agreement was executed whereby the debenture, including accrued interest, was extended to September 30, 2009, with an interest rate of 15% per annum payable monthly based on certain financial ratios plus 3% per annum payable at the end of the term. The other terms are similar to the Agreement as described in Note 6[a] of Financial Statements.

Term Notes

At April 3, 2009, the Company is in the process of issuing \$11 million in Term Notes, subordinated to the term bank credit facility and the debenture. The Term Notes are expected to be issued with a term of January 31, 2010, paying 15% per annum interest payable monthly based on certain financial ratios and carrying 5.5 million share purchase warrants, exercisable to December 31, 2010 at a price of \$0.20 per share. The term notes are redeemable with no penalty at any time by the Company on 60 days notice. These Term Notes will replace Convertible term notes in place at September 30, 2008 as described in Note 6 of Financial Statements at carrying values of \$7.756 million and \$2.536 million.

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

Advances to Related Parties and Share Purchase Loans

As at December 31, 2008, the Company recorded a total of \$1,059 advanced to Related Parties, of which \$410 was an advance to the Chairman and \$319 to the President 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 and the President hold 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 and taxes. 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 December 31, 2008, the Company had purchased for cancellation 192,000 common shares for an aggregate purchase price of \$37, of which \$85 has been charged to capital stock and \$48 to contributed surplus.

Exercise of Options and Warrants

While no options were granted, exercised or expired in Q1 fiscal 2009, 5,413,000 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 December 31, 2008.

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.

Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued the Emerging Issues Committee (EIC) Abstract EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities," effective for interim and annual financial statements ending on or after January 20, 2009. Earlier adoption of this abstract is permitted. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, "Financial Instruments—Recognition and Measurement." It states that an entity's own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retrospectively, without restatement of prior periods, to all financial assets and liabilities measured at fair value. The Company will adopt this abstract during the second quarter of the 2009 fiscal year. The Company is currently considering the impact of adopting EIC-173 on its consolidated financial statements and cannot reasonably estimate its effect at this time.

Financial Instruments and Risk Management

Upon adoption of 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 three-month period ended December 31, 2008.

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 period ended December 31, 2008, 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 28% of the Company's total accounts receivable [2008 - 29%].

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

	December 31, 2008
	\$
Accrued but not invoiced trade receivables	2,010
Invoiced receivables within normal payment terms	33,055
Invoiced receivables past normal payment terms but not impaired	698
General receivables	870
Allowance for doubtful accounts	(380)
Total accounts receivable, net	36,253

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 December 31, 2008 the Company recorded a foreign exchange gain of \$350 [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 month ended December 31, 2008 of approximately +/- \$51.

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 December 31, 2008, the total bank facility outstanding was \$19,430 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 month ended December 31, 2008 of approximately +/- \$49.

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 December 31, 2008. 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 December 31, 2008, total managed capital was \$35,251 [September 30, 2008 - \$32,240], comprised of shareholders' (deficit)/equity of (\$760) [September 30, 2008 - \$348], term bank facility of \$19,430 [September 30, 2008 - \$15,409] and interest-bearing debt of \$16,581 [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 most recent period ending December 31, 2008, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Legal Proceedings

The company is involved in several pieces of litigation. Management believes that the litigation provisions which have been made by the Company are sufficient to offset any uncertainties.

Comparative Consolidated Financial Statements

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.