

**TREKLOGIC TECHNOLOGIES INC.**  
**FORM 51-901F—SCHEDULE C—MANAGEMENT DISCUSSION**  
**June 30, 2003**

## **CORPORATE PROFILE**

TrekLogic Technologies Inc. (“TrekLogic”) is an Information Technology (“IT”) Services company providing contract services (“Staffing”) and software solutions services (“Solutions”) to a high profile client base in Canada and the United States. The software solutions business is primarily in the U.S. and is built around a number of high value-added specialty practice areas where TrekLogic has a competitive advantage, either due to specialized expertise or proprietary software tools used in the provision of services. TrekLogic is committed to making the investment in developing both software tools and highly trained personnel that results in a distinct competitive advantage. The Solutions Division has three service groupings -- migration services (data, systems, and applications); software design and development; and Internet e-Business solutions. Solutions is a highly profitable core business for TrekLogic and an enabler for the software recruiting platform used in the Staffing business.

The Staffing Division is the high growth area of TrekLogic’s business. The focus is on providing contract and permanent IT staffing primarily to Canadian-based clients, corporate and government. Staffing services are provided on a complete, web-enabled fully-integrated recruiting software platform called Brainhunter. The Brainhunter recruiting platform provides TrekLogic with well-defined, competitive advantages in executing a high-growth strategy premised on both acquisition and organic initiatives.

There are many synergies between the Solutions and Staffing divisions including:

- ✓ sales and marketing (clients often require both solutions and staffing capabilities);
- ✓ cost structure savings on finance and administration levels;
- ✓ higher utilization of employees in the solutions business, with use of contractors, allowing faster and lower-risk scalability in pursuing Solutions growth strategies;
- ✓ Solutions is a low-cost enabler in deploying the Brainhunter recruiting platform.

## **MESSAGE TO SHAREHOLDERS**

### **Achievements Period**

The nine-month period ending June 30, 2003 has been a time of tremendous achievements for TrekLogic, in particular for the third quarter ending June 30, 2003. The major achievements include:

- ✓ closing a \$430,000 Private Placement Equity Financing in December, 2002;
- ✓ closing a \$4,000,000 Private Placement Equity Financing in April, 2003;
- ✓ acquiring 100% control of Toronto-based Brainhunter in April, 2003 which, among other things, gave TrekLogic a strong technology advantage in executing a high-growth strategy in the Staffing business;

- ✓ acquiring approximately 62.3% control of Ottawa-based InBusiness Solutions Inc. (“InBusiness”) in May, 2003, which provided TrekLogic with a strong Ottawa business base with over \$22 million of sales and added significantly to the depth of the executive management team in sales, corporate development and finance;
- ✓ acquiring 100% of the IT assets of Thinkpath Inc. (“Thinkpath”) in June, 2003, which added approximately \$3.9 million in sales;
- ✓ developing a healthy institutional investor interest in TrekLogic;
- ✓ appointing three new Directors, being Sheldon Inwentash, Matthew Shaw and Raj Singh, each of whom brings extensive experience and expertise to the Board.

As a result of these initiatives, the financial performance of TrekLogic grew significantly as follows:

- ✓ Revenue increased 597% for the quarter to \$6,910,360 and 309% for the nine months to \$11,514,113. Revenues for the fourth quarter ending September 30, 2003 are expected to be approximately double the first nine months’ results, based on trailing results for the acquisitions closed during the third quarter;
- ✓ Total equity grew to \$7,944,322 from \$2,419,831 as at September 30, 2002;
- ✓ Working capital remained strong;
- ✓ Operating credit facilities were increased to \$4,000,000 on a consolidated basis from \$500,000. Current sales, accounts receivable and profitability support a significant increase in operating credit facilities, assuming the same credit rating criteria as with the existing \$4,000,000 of credit facilities;
- ✓ Earnings from operations grew 216% for the quarter to \$742,124 from \$342,724 the previous year, and 171% for the nine-month period to \$1,601,579 from \$937,596 the previous year. EBITDA grew 195% for the quarter to \$668,409 and 163% to \$1,527,864 for the nine-month period. Significant additional growth is anticipated for the fourth quarter ending September 30, 2003, given the expectation regarding the sales increases;
- ✓ Usable tax loss carryforwards increased from approximately \$1.5 million to in excess of \$15.0 million, attributable to the acquisitions.

The growth strategies of TrekLogic include both organic and acquisition initiatives. Growth in the Solutions business will be driven primarily through organic initiatives. The Staffing business has a strong focus on acquisitions. The strength of the TrekLogic financial position, combined with the expertise of the executive management team and the Board of Directors, positions TrekLogic very well to take advantage of opportunities in the IT sector. Sales and marketing synergies between the Staffing and Solutions divisions are expected to contribute significantly to TrekLogic’s ability to develop a Canadian solutions business. The Staffing business in the near term is targeting the Toronto and Ottawa areas. The Solutions business at present is primarily U.S. and Ottawa based.

In the June quarter, the following significant events occurred:

#### **\$4,000,000 Private Placement Financing**

On April 15, 2003, the Company closed a Private Placement Financing for a total of \$4,000,000 in gross proceeds. In connection with the Financing, 6,000,000 Common Shares and 2,000,000 Convertible Preferred Shares were issued, all shares issued at \$0.50 per share. The Convertible Preferred Shares are convertible to 2,000,000 Common Shares at the option of the holder of the Convertible Preferred Shares. All shares are subject to a four-month hold period, normal for Private Placement Financing of this size and nature. As part of the costs of the financing, the Company issued, to the broker who arranged the financing, 600,000 warrants as a Compensation Option, exercisable for two years from date of closing at \$0.50 per share.

The purpose of the Financing was to fund the acquisition of Brainhunter and to acquire control of InBusiness.

### **Acquisition of Brainhunter**

On April 9, 2003, the Company acquired 100% of the capital of Brainhunter, a private company in the Staffing business. As well, Brainhunter provides a web-enabled end-to-end recruitment technology. The consideration for the acquisition is:

Cash on closing (net of cash in Brainhunter on closing)	\$1,716,000
Issue of Convertible Preferred Shares at \$0.50 per share. These shares are convertible into common shares at the option of the holder.	1,093,055
Interest-free Vendor Take-Back payable over three years based on a percentage of revenue	840,367
Interest-free Vendor Take-Back payable at the end of three years in Common shares of TrekLogic Technologies Inc. at the market price of the shares prevailing at that time.	<u>458,382</u>
Total	<u>\$4,107,804</u>

Brainhunter will provide TrekLogic with a very distinctive competitive advantage in executing a disciplined growth strategy within TrekLogic's Staffing Division.

TrekLogic's Business Strategy is focused on developing High Value Added Technology Services built on Distinct Competitive Advantages. The Brainhunter technology solution provides TrekLogic's Staffing Division with a Sustainable Competitive Advantage that increases revenue opportunities, reduces costs and provides a high value business proposition that enhances customer retention. Effectively, the Brainhunter technology, particularly when combined with the TrekLogic solutions expertise, allows TrekLogic to execute a high growth consolidation strategy in the staffing industry -- Faster, Cheaper and Better. Increased revenue will result from higher quality of candidates, faster response and delivery times, faster and better matching of candidates to jobs, broader market coverage and deeper client penetration. Costs will be reduced on all fronts including sales and marketing, recruiting, candidate acquisition and infrastructure. This end-to-end integrated supply chain solution will provide master vendor capability that provides a significant competitive advantage in that it reduces customers' total staffing costs, enhances customer penetration strategies and customer retention, allows TrekLogic

better control over its gross margins and enhances TrekLogic's relationship with the contract-based personnel deployed by TrekLogic with customers.

### **Acquisition of control of InBusiness**

In February, 2003, the Company reached an agreement (the "Agreement") with InBusiness, an Ottawa-based public company (TSX Venture: BIZ.T) operating in both the Solutions and Staffing businesses. Under the terms of the agreement, the Company agreed to advance to InBusiness \$2,000,000 in the form of a Convertible Debenture (the "Debenture") whereby, upon approval by the InBusiness shareholders, the Debenture would convert to 30,000,000 equity units of InBusiness as follows:

- \$500,000: 10,000,000 common shares at \$0.05 per share and 10,000,000 common share warrants where one warrant plus \$0.10 will entitle the holder to acquire one share for a period of twenty-four (24) months from the Closing Date; and
- \$1,500,000: 20,000,000 common shares at \$0.075 per share and 20,000,000 common share warrants where one warrant plus \$0.10 will entitle the holder to acquire one share for a period of twenty-four (24) months from the Closing Date.

Pursuant to the Agreement, the following occurred:

- In March, 2003, the Company advanced \$650,000 towards the purchase of the Debenture.
- In April, 2003, the Company advanced the remaining \$1,350,000 towards the purchase of the Debenture, and closed the transaction acquiring the Debenture.
- On April 29, 2003, the shareholders of InBusiness at a special meeting approved the terms of the Convertible Debenture. Immediately, the Company converted the Debenture to Common Shares of InBusiness.

As a result of the above actions, the Company now owns approximately 62.3% of the outstanding shares of InBusiness.

Concurrent with the conversion of the Debenture to Common Shares as described above, a private company controlled by two directors of TrekLogic Technologies Inc. invested \$350,000 to acquire control of a pre-existing convertible debenture obligation of InBusiness.

InBusiness is an established IT solutions and services company that delivers technology solutions in business intelligence, Oracle applications, systems integration and wireless/portal applications. With a team of over 160 IT professionals, InBusiness' clients include Fortune 500 corporations and government departments located in both Canada and the United States.

John McKimm, Chairman and CEO of TrekLogic, states, "InBusiness fits well with TrekLogic's business strategy. TrekLogic has been looking to add an Ottawa base, and InBusiness certainly meets all our requirements. The business mix is very similar and we expect significant synergies to result during the coming year."

### **Acquisition of the IT Assets of Thinkpath**

Effective June 9, 2003, the Company acquired, through its subsidiary Brainhunter, the IT staffing business of Thinkpath for \$200,000 cash and a \$60,000 promissory note. It is expected that the acquisition of the 35 Thinkpath contracts with mostly blue-chip companies will generate approximately \$3,500,000 in revenue on an annual basis as well as opening the doors to further expansion of business with these clients. One senior executive of Thinkpath joined Brainhunter as part of the transaction.

### **Bank Credit Facilities**

On May 31, 2003 the Company concluded a financing arrangement with a Canadian chartered bank to provide a \$2,000,000 revolving credit facility to TrekLogic at Prime + 1.5% and a separate \$2,000,000 revolving credit facility to InBusiness, also at Prime + 1.5%.

## **FINANCIAL RESULTS**

### **Revenues**

Revenues for the 3 months ending June 30, 2003 increased 597.2% to \$6,910,360 compared to \$1,157,177 for the three months ending June 30, 2002. For the nine-month period, revenues increased 309.2% to \$11,514,113 versus \$3,724,082 the previous year. The growth in revenues was primarily as a result of the acquisition of Xycorp Inc. effective July 1, 2002, the acquisition of Brainhunter on April 9, 2003, the acquisition of control of InBusiness on April 29, 2003 and the acquisition of the IT staffing business of Thinkpath effective June 9, 2003. The revenues being generated from the four acquisitions currently exceed \$40,000,000 annualized. Staffing revenues have enjoyed the largest growth, increasing to \$5,711,144 for the quarter and \$8,163,987 for the nine-month period versus \$117,693 and \$422,212, respectively. Staffing revenues grew 4,852.5% to \$5,711,144 for the quarter from \$117,693 the previous year. For the nine-month period, growth was 1,934.0% to \$8,163,987 from \$422,122. This growth was over 95% due to acquisitions. Solutions revenues were approximately flat for the quarter and up 9.4% for the nine-month period. Product sales are nominal at less than 5% of sales and occur generally in the provision of Solutions services.

### **Operating Expenses**

Operating expenses for the quarter ending June 30, 2003 increased 351.2%, and increased 243.0% for the nine months, when compared year over year for the same time periods. The increases are primarily due to the acquisitions of Brainhunter and InBusiness. These two acquisitions increased sales on an annual basis by over 400% and added the infrastructure capable of handling huge increases in sales with only minimal incremental cost increases. Additionally, significant depth was added to the executive management team including sales, corporate development and finance, and a strong business base was established in Ottawa. The Staffing business obtained a significant competitive advantage with the Brainhunter software recruiting platform.

The largest component of operating expenses is personnel costs which, between consulting fees and salaries and benefits, were 16.5% of revenues for the three months

ending June 30, 2003. This compares with 24.9% for the three-month period ending June 30, 2002. For the nine-month period, the comparisons are 16.6% versus 17.0%.

We expect personnel costs in this Operating Expenses category to significantly decrease as a percentage of sales, as sales grow.

Sales, general and administration (“SG&A”) costs for the quarter ending June 30, 2003 were 3.4% of revenues compared to 9.1% for the previous year. For the nine-month period, the comparisons are 5.2% and 10.8%. The SG&A infrastructure has significant excess capacity and costs are also expected to significantly decline as a percentage of sales, as sales grow.

### **Earnings from Operations**

Earnings from Operations increased 216.5% for the quarter ending June 30, 2003 and 170.8% for the nine-month period versus the same periods the previous year. As a percentage of sales, the comparisons are 10.7% versus 29.6% for the quarter, year over year, and 13.9% versus 25.2% for the respective nine-month periods. The declines as a percentage of revenues are primarily due to a change in business mix where Staffing sales, traditionally a lower margin business than Solutions services, grew to 82.6% of sales for the quarter ending June 30, 2003 versus 10.2% the previous year. The Staffing sales comparisons for the respective nine-month period were 70.9% versus 11.3%. This trend is expected to continue as TrekLogic continues to implement high growth strategies in the Staffing Division. The expectation is for operating earnings margins to stabilize in the 12% to 15% range as acquisitions are integrated and cost savings are realized.

### **Integration Costs**

The acquisitions of Brainhunter, Thinkpath and InBusiness have resulted in a number of one-time costs incurred during the quarter. This category of costs is expected to continue as a significant component of our growth is acquisition-based, and each acquisition will have certain one-time integration costs during the 30- to 180-day period following the acquisition closing date.

### **Gross Margin**

Gross margin for the three months ending June 30, 2003 was 30.7% of sales versus 63.4% the previous year. Gross margin for the 9-month period was 35.8% of sales, versus 53.0% the previous year. The reduction in gross margin percentages is due to the move toward a higher percentage of staffing sales in the revenue mix. Over time it is expected that gross margins will continue to decline gradually as TrekLogic continues to aggressively expand the Staffing Division, and ultimately stabilize at 20% to 25% of sales, depending on the mix of Solutions business.

### **Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”)**

For the three-month period ending June 30, 2003 EBITDA grew 195.0% from the previous year to \$668,409. Growth for the nine-month period was 163.0%, to \$1,527,864. As a percentage of sales, EBITDA was 9.7% versus 46.6% for the quarter, and 13.3% versus 25.2% for the nine months when compared against the same periods,

the previous year. As the acquisitions are integrated and cost savings are realized, we expect EBITDA margins to stabilize in the 12.0% to 13.0% of sales range. The decline in EBITDA percentages year over year is attributable to a higher component of sales being generated from Staffing as opposed to Solutions sales.

### **Interest Charges**

On a consolidated basis, TrekLogic has \$4,000,000 of operating credit facilities split equally between TrekLogic and its 62.3%-owned subsidiary, InBusiness. InBusiness utilizes their banking facilities more frequently than TrekLogic, which generally has a significant cash position. The only other material interest-bearing debt is a 6% Convertible Debenture for \$1,000,000 outstanding for InBusiness. This Debenture is expected to be converted to common shares of InBusiness within the coming year.

### **Working Capital and Cash Flow**

The Company had working capital as at June 30, 2003 of \$946,199, and unused operating credit facilities of approximately \$2.4 million. The Company generated cash from operations of \$555,226 during the quarter ending June 30, 2003 and \$1,414,771 for the nine-month period. Cash being generated from operations averaged \$185,075 per month for the quarter and \$157,197 per month over the nine-month period. The growth in monthly operating cash flow continues to significantly increase, post the quarter, as integration initiatives are finalized, additional cost savings are realized and organic sales strategies are implemented.

During the quarter, the three acquisitions made by the Company consumed a net cash amount of \$4,295,222 and working capital requirements due to sales growth used a further \$1,416,456 for a net cash utilization of \$5,711,678. This cash utilization was funded with an equity financing where the Company netted \$3,490,005 after all associated costs. The remaining \$2,221,673 was funded from existing cash and operating credit facilities. For the nine-month period, the Company generated operating cash flow of \$1,414,771 and used \$4,945,222 for acquisitions plus \$2,071,268 to fund working capital. A net amount of \$3,631,830 was received from equity financing.

Post the quarter ending June 30, 2003, the Company raised additional equity of \$3,300,000 in gross proceeds and currently has a significant cash surplus.

### **Tax Loss Carryforwards**

At September 30, 2002 the Company had approximately \$1,300,000 of losses carried forward to offset taxable income in fiscal 2003. These losses were obtained with the acquisition of Xycorp Inc. and Next Millennium Inc. Both InBusiness and Brainhunter have losses available to be offset against future taxable income. The Future Income Tax Assets recorded in the financial statements for the quarter ending June 30, 2003 are estimates based on consultation with tax advisors. The exact amount is being determined currently as part of the preparation of financial statements and tax returns as of the date of change of control, and will be finalized during the audit process for the year ending September 30, 2003. The tax loss carryforwards expire mostly during the period 2006 through 2009.



## **EVENTS SUBSEQUENT TO JUNE 30, 2003**

### **\$3,300,000 Private Placement Financing**

On July 10, 2003, the Company closed a Private Placement Financing for a total of \$3,300,000 in gross proceeds. In connection with the Financing, 4,285,714 common shares and 428,571 Convertible Preferred Shares were issued, all shares issued at \$0.70 per share. The Convertible Preferred Shares are convertible to 428,571 common shares at the option of the holder of the Convertible Preferred Shares. All shares are subject to a four-month hold period, normal for Private Placement Financing of this size and nature. As part of the costs of the financing, the Company issued, to the broker who arranged the financing, 257,142 warrants as a Compensation Option, exercisable for two years from date of closing at \$0.70 per share. Additionally, a financial advisor was paid 50,000 Options on the same terms for corporate services.

### **Issue of Options**

On July 7, 2003, the Company issued, pursuant to its current stock option plan, 1,200,000 options to executive officers and others with an exercise price of \$0.71, expiring on July 7, 2008, 1/3 vesting 12 months from date of issue, 1/3 vesting 24 months from date of issue and 1/3 vesting 36 months from date of issue

### **Acquisition of Advanced Solutions Group Inc.**

On July 31, 2003, the company announced the acquisition of Advanced Solutions Group Inc., ("Advanced") effective July 1, 2003. The purchase price is 100,000 shares and 50,000 share purchase warrants of the Company and an amount equal to the working capital of Advanced as at June 30, 2003. Advanced is a marketer of hardware and software and provides a range of consulting services pursuant to the marketing of those products.