BRAINHUNTER INC.

Management Discussion and Analysis
For the Period Ending March 31, 2005

August 5, 2005

BUSINESS OVERVIEW

Brainhunter is a high value added technology company specializing in providing end-to-end recruiting and staffing solutions and services. The Company provides 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. Technology and services are provided throughout Canada and the United States under the brand Brainhunter to a wide variety of corporate and government clients, and are divided into five core interrelated revenue streams as follows:

1. **Contract Staffing (Core Business / High Growth / IT, Engineering, Industrial, Health Care)**
2. **Permanent Staffing (Essential Service /Full Service, Virtual Agency)**
3. **Specialized Job Boards (Core Business / High Growth / Job Postings, Database Access)**
4. **Software Licenses (Essential Service / Applicant Tracking, Vendor Management, Back Office Systems)**
5. **Professional Services / Solutions Delivery (Essential Service / Project Revenue, Technology Platform Support, Business Process Outsourcing (“BPO”)**)

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 million resumes). The Platform provides the engine driving Brainhunter’s high-growth Recruiting and Staffing Solutions and Services strategy. It is supported by our solutions division which employs approximately 100 highly specialized, fully billable technical employees driving a highly profitable solutions business.

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange. Brainhunter deploys over 700 Contractors / Consultants with an internal staff of approximately 150 personnel. The Company has offices in Toronto, Ottawa, Calgary, Vancouver, a correspondence relationship in China and has recently opened a Business Process Outsourcing (“BPO”) office in India.

REVIEW OF ACCOUNTING POLICIES

Background
Ernst & Young LLP ("Ernst & Young") were appointed as auditors of Brainhunter for Fiscal 2005 on March 31, 2005 at the annual shareholders' meeting. Ernst & Young's first assignment under the terms of its engagement was to review the financial statements of Brainhunter for the period ending March 31, 2005, being the second quarter of Fiscal 2005. In the context of the review, Ernst & Young advised Brainhunter to review certain of its accounting policies, specifically:

- accounting for Goodwill, and consideration of the possibility that some of the Goodwill should have been allocated to Intangible Assets;
- accounting for the rent-free period of Brainhunter's corporate head office lease; and
- recording of imputed interest costs on interest-free debt which Brainhunter issued in the form of Vendor Take-backs on the above mentioned acquisitions.

Brainhunter has completed its review of the above and determined that certain restatements are warranted.

Accounting for Goodwill and Intangible Expenses
Brainhunter had made acquisitions which resulted in $12.8 million in Goodwill on the Balance Sheet as at September 30, 2004, approximately $10.1 million of which was recorded in Fiscal 2004.

For the Fiscal years ending September 2003 and 2004, the Company, in the context of its annual audit, reviewed the accounting for its acquisitions and determined at that time that the portion of the purchase price in excess of tangible assets was properly allocated to Goodwill and to Future Income Tax Assets, where the acquired companies had losses for Income Tax Purposes which could be utilized. No amounts were assigned to intangible assets such as customer contracts, customer lists, etc. and accordingly, the tax effect on any such allocations was not considered.

Brainhunter had not allocated a portion of the Goodwill to Intangible Assets as Brainhunter had determined that, in general, the tests were not met for inclusion in the suggested categories of Intangible Assets, namely Contracts and Customer Relationships. In general, it was felt that the contracts and customer relationships acquired were not firm enough to meet the criteria. Although they were ongoing relationships and the experience had been a high renewal rate, the contracts could be cancelled by the client without penalty with notice of between 10 to 30 days, depending on the client.

In the context of all major financial relationships, including banking relationships not giving any credit for goodwill and deducting it in their financial analyses of the Company, Brainhunter has allocated a portion of Goodwill to Intangible Assets.

As a result of conducting the review, and specifically the review and analysis of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1581, Brainhunter has allocated $5.4 million of $12.8 million of Goodwill to Intangible Assets as follows:

- Customer Relationships $4.1 million
- Contracts 1.1 million
- Non-compete agreements .2 million

The allocation of $5.4 million of Goodwill to Intangible Assets above creates an offsetting tax effect whereby Goodwill is increased by an amount of $2.1 million (the $5.4 million allocated to Goodwill at the current tax rate of 38%) and a Future Income Tax Liability is created in the same amount. This Future Income Tax Liability will, in the normal course, be drawn down as an offset and at the same rate as the Intangible Assets are amortized. For clarification, the creation of the Future Income Tax Liability is for accounting purposes only, and being effectively a notional liability only, has no impact on actual taxes payable.

The net immediate effect is to reduce Goodwill from $12.8 million to $7.4 million and then immediately increase it to $9.5 million.

As well, Brainhunter has recorded a charge for Amortization of the above-noted Intangible Assets for the year ended September 30, 2004 of $2.1 million, which, together with offsetting Income Tax adjustments of $0.9 million has resulted in a net adjustment to Net Income of $1.2 million for the year. This adjustment has no impact on EBITDA or cash flow but it does reduce reported Net Income after taxes.

Brainhunter has made this adjustment by restating its opening balance sheet for Fiscal 2005 and the comparative income statement and cash flow for the year ended September 30, 2004, including the impact on each quarter, as the quarterly financial statements are issued throughout Fiscal 2005.

Accounting for Lease Inducement (Free-Rent)

Brainhunter executed a lease in February, 2004 for the period April 1, 2004 to December 31, 2014, i.e. 10 years and 9 months. The nine months April 1, 2004 to December 31, 2004 were free of all rent cost, including basic rent and additional rent (taxes, operating costs, etc.). Part of the nine months was to allow time for the construction of leasehold improvements, including extensive air-conditioning for the server room. Brainhunter personnel moved into the premises over the period from June to September, from four different locations.

The Company did not account for a rent expense in the new premises in the period April, 2004 to September, 2004 because:

- the space was free of cost
- although technically the lease was executed as of April 1, 2004, Brainhunter was not able to occupy the space until the leaseholds had been completed. The major leasehold improvement was the installation of a dedicated roof-top air

conditioning unit for the server room. Brainhunter regarded a portion of the free rent period as the construction period which normally precedes the start of a lease, and could have structured the lease documents to delay the actual start date of the lease until the end of the construction period. This would have reduced the amount of the restated rent expense.

- Brainhunter personnel did not occupy the space from the beginning, moving in stages from June 1 to September 20
- Brainhunter was still paying rent on other premises that could not be sublet, and recording rent would result in abnormal overhead expenses.

As a result of conducting its review, and specifically of CICA EIC 21 "Accounting for Lease Inducements by the Lessee" Brainhunter has taken the total of the rent expected to be paid over the 10 years (i.e. 120 months) from January 1, 2005 to December 31, 2014 and divided that total over the 129 months from April 1, 2004 to December 31, 2014 and will expense it over that 129 month period. The result is a rent expense for the period April to September, 2004 of approximately $240k for the 6 month period, with reductions in rent expense of approximately $3k per month in later months of the lease term. This treatment that averages the rent expense applies only to the new leased premises and did not apply to the four other premises in Toronto.

This accounting treatment for rent expense has no impact on actual cash flow, but from an accounting perspective it reduces EBITDA and Net Income.

Imputed Interest on Interest-Free debt

Brainhunter's standard consideration for each acquisition was a combination of cash, shares, options and (where appropriate) non interest-bearing notes (essentially Vendor take-backs). This last component was to ensure the Company had some opportunity for claw-back if the representations made by the Vendors turned out to be inaccurate or overstated. The first such debt instrument was issued March, 2003. Brainhunter had not recorded an expense for imputed interest as the amount owed was not viewed by management in the same light as funds borrowed but viewed simply as a portion of the purchase price of the acquisition that was delayed by agreement with the vendors. Additionally, the Vendor Take Back had convertible features.

As a result of conducting its review, and specifically of CICA Handbook Section 3855 "Financial Instruments—Recognition and Measurements", specifically Paragraph 55 "Initial Measurement of Financial Assets and Financial Liabilities", Brainhunter has discounted the non-interest bearing notes for accounting purposes and recorded an expense for the interest imputed on those notes. The cumulative imputed interest expense to the end of Fiscal 2004 is $100k. The Imputed Interest calculation was made at an average current borrowing rate of 6% against those Vendor Take-Backs which had no interest component. Vendor Take-backs with interest terms averaging in the 2% to 4% range were not part of the calculation.

Reporting Changes to Shareholders

Brainhunter is reporting the above changes to the shareholders by:

- issuing the March, 2005 quarter financial statements:
  - with the opening balance sheet (at September 30, 2004) restated for the changes referred to above;
  - with the 3 and 6 month comparable periods for the 2004 income statement and cash flows restated to include the changes for rent, amortization, and imputed interest expenses, along with offsetting tax adjustments;
  - including detailed notes to the financial statements fully describing the changes
- issuing a Management Discussion and Analysis ("MDA") which fully describes the changes including a full description of the background and nature of the changes, and the changes to the income statements and balance sheets and cash flows by quarter;
- including the press release and MDA on the Brainhunter website; and
- the Fiscal 2004 amounts will be restated as part of the audited Fiscal 2005 Financial Statements.

Summary of Changes
The changes made to Fiscal 2004 are to decrease EBITDA by $238k, and Net Earnings by $1.5m. The changes made to Fiscal 2005 Q1 are to decrease EBITDA by $119k and to decrease Net Earnings by $306k, however, there is no impact on actual cash flow from any of the changes. Please see following pages for charts setting out the changes.

Effects of Accounting Adjustments on Fiscal 2004 and Q1 Fiscal 2005 Balance Sheets ($,000)

	Fiscal 2004												Q1 Fiscal 2005		
	As Reported				Adjustments				Restated				Reported	Adjust	Restated
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Cash	$ -	$ -	$ 1,477	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,477	$ -	$ -	$ -	$ -
Accounts Receivable	12,344	13,378	13,314	12,957	-	-	-	-	12,344	13,378	13,314	12,957	13,950	-	13,950
Investment tax credits recoverable	491	694	693	1,246	(351)	(351)	(351)	(351)	140	344	342	895	1,416	(776)	640
Deposits and prepaid expenses	569	792	430	353	-	-	(200)	(200)	569	792	230	153	650	(200)	450
Future income tax asset	1,000	1,000	1,000	750	-	-	-	-	1,000	1,000	1,000	750	750	-	750
Total current assets	**14,403**	**15,865**	**16,914**	**15,305**	**(351)**	**(351)**	**(551)**	**(551)**	**14,052**	**15,514**	**16,363**	**14,755**	**16,765**	**(976)**	**15,789**
Capital assets	3,110	3,646	4,063	4,340	-	-	-	-	3,110	3,646	4,063	4,340	4,621	-	4,621
Investment tax credits recoverable	-	-	-	-	351	351	351	351	351	351	351	351	-	776	776
Deferred financing costs	-	-	-	-	-	-	200	200	-	-	200	200	-	200	200
Intangible assets	-	-	-	-	4,632	4,203	3,775	3,375	4,632	4,203	3,775	3,375	-	3,111	3,111
Goodwill	8,082	11,881	12,572	12,766	(2,274)	(2,274)	(2,567)	(2,567)	5,807	9,607	10,005	10,199	12,766	(2,567)	10,199
Due from related parties	443	443	443	1,278	-	-	-	-	443	443	443	1,278	1,016	-	1,016
Future income tax asset	3,391	3,391	3,391	3,341	(1,294)	(1,294)	(1,002)	(1,002)	2,097	2,097	2,389	2,339	4,065	(1,002)	3,063
Total assets	**$29,429**	**$35,226**	**$37,382**	**$37,029**	**$1,063**	**$ 635**	**$ 207**	**$ (193)**	**$30,493**	**$35,861**	**$37,589**	**$36,836**	**$39,232**	**$ (457)**	**$38,775**
Bank Indebtedness	$ 4,675	$ 611	$ 4,290	$ 5,921	$ -	$ -	$ -	$ -	$ 4,675	$ 611	$ 4,290	$ 5,921	$ 6,322	$ -	$ 6,322
Accounts payable and accruals	6,619	7,638	7,098	6,136	-	-	-	232	6,619	7,638	7,098	6,368	6,414	-	6,414
Current portion of long term debt	2,023	963	935	435	-	-	-	-	2,023	963	935	435	435	-	435
Future income tax liabilities	-	-	-	-	305	305	305	305	305	305	305	305	-	305	305
Deferred revenue	75	209	160	105	-	-	-	-	75	209	160	105	362	-	362
Total current liabilities	**13,391**	**9,420**	**12,483**	**12,597**	**305**	**305**	**305**	**537**	**13,696**	**9,725**	**12,788**	**13,134**	**13,533**	**305**	**13,838**
Deferred lease inducement	-	-	-	-	-	-	119	238	-	-	119	238	-	357	357
Long term debt	1,634	1,374	1,174	849	(199)	(181)	(163)	(145)	1,435	1,193	1,011	704	1,220	(179)	1,041
Long term future income tax liability	-	-	-	-	1,463	1,280	1,097	914	1,463	1,280	1,097	914	-	819	819
Total long term liabilities	**1,634**	**1,374**	**1,174**	**849**	**1,264**	**1,099**	**1,053**	**1,007**	**2,898**	**2,473**	**2,227**	**1,856**	**1,220**	**997**	**2,216**
Non-controlling interest	**76**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**76**	**10**	**-**	**-**	**-**	**-**	**-**
Capital stock	11,335	20,678	19,678	20,646	-	-	-	(232)	11,335	20,678	19,678	20,415	21,114	811	21,925
Retained earnings	2,993	3,745	4,047	2,937	(506)	(769)	(1,152)	(1,506)	2,487	2,976	2,895	1,431	3,365	(2,569)	796
Total equity	**14,328**	**24,423**	**23,725**	**23,584**	**(506)**	**(769)**	**(1,152)**	**(1,738)**	**13,822**	**23,653**	**22,573**	**21,846**	**24,479**	**(1,759)**	**22,720**
Total liabilities and equity	**$29,429**	**$35,226**	**$37,382**	**$37,029**	**$1,063**	**$ 635**	**$ 207**	**$ (193)**	**$30,493**	**$35,861**	**$37,589**	**$36,836**	**$39,232**	**$ (457)**	**$38,775**

Effects of Accounting Changes on Fiscal 2004 and Q1 Fiscal 2005 Income Statement ($,000)

	Fiscal 2004															Q1 Fiscal 2005		
	As Reported					Adjustments					Restated					Reported	Adjust	Restated
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year			
Revenue	**$ 16,305**	**$ 18,549**	**$ 17,463**	**$ 16,576**	**$ 68,893**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 16,305**	**$ 18,549**	**$ 17,463**	**$ 16,576**	**$ 68,893**	**$ 17,789**	**$ -**	**$ 17,789**
Cost of Sales	12,129	14,187	13,404	15,149	54,869	-	-	-	-	-	12,129	14,187	13,404	15,149	54,869	13,817	-	13,817
Gross Margin	**4,176**	**4,362**	**4,059**	**1,428**	**14,024**	**-**	**-**	**-**	**-**	**-**	**4,176**	**4,362**	**4,059**	**1,428**	**14,024**	**3,973**	**-**	**3,973**
Operating Costs	3,124	3,018	3,341	729	10,212	-	-	119	119	238	3,124	3,018	3,460	848	10,450	2,959	119	3,078
EBITDA	**1,052**	**1,344**	**717**	**699**	**3,813**	**-**	**-**	**(119)**	**(119)**	**(238)**	**1,052**	**1,344**	**598**	**580**	**3,575**	**1,013**	**(119)**	**894**
Amortization	206	224	226	765	1,421	800	428	428	400	2,056	1,006	652	655	1,165	3,478	287	264	551
Interest	91	47	35	154	328	46	18	18	18	100	137	65	53	172	428	93	18	111
Inc before Tax	**755**	**1,073**	**456**	**(221)**	**2,063**	**(846)**	**(446)**	**(565)**	**(537)**	**(2,395)**	**(91)**	**626**	**(109)**	**(758)**	**(331)**	**634**	**(401)**	**232**
Income Tax	295	304	185	(444)	340	(340)	(183)	(183)	(183)	(889)	(45)	121	3	(627)	(548)	192	(95)	97
Non-cont interest	15	16	(31)	-	-	-	-	-	-	-	15	16	(31)	-	-	-	-	-
Net Income	**$ 446**	**$ 752**	**$ 302**	**$ 223**	**$ 1,723**	**$ (506)**	**$ (263)**	**$ (382)**	**$ (354)**	**$ (1,506)**	**$ (60)**	**$ 489**	**$ (80)**	**$ (131)**	**$ 217**	**$ 442**	**$ (306)**	**$ 136**
Earnings per share																		
- Basic	0.012	0.017	0.006	0.005	0.040	(0.013)	(0.006)	(0.008)	(0.008)	(0.035)	(0.002)	0.011	(0.002)	(0.003)	0.005	0.010	(0.007)	0.003
- Diluted	0.010	0.015	0.005	0.005	0.035	(0.011)	(0.005)	(0.007)	(0.007)	(0.031)	(0.001)	0.009	(0.002)	(0.003)	0.004	0.008	(0.006)	0.003

Effects of Accounting Changes on Fiscal 2004 and Fiscal 2005 Q1 Cash Flow Statement ($,000)

	Fiscal 2004															Q1 Fiscal 2005		
	As Reported					Adjustments					Restated							
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Reported	Adjust	Restated
Operating activities																		
Net Income	$ 446	$ 752	$ 302	$ 223	$ 1,723	$ (506)	$ (263)	$ (382)	$ (354)	$ (1,506)	$ (60)	$ 489	$ (80)	$ (131)	$ 217	$ 442	$ (306)	$ 136
Adjust for non-cash items																		
Non-controlling interest	15	16	(31)	-	-	-	-	-	-	-	15	16	(31)	-	-	-	-	-
Future income tax recovery	-	-	-	-	-	(340)	(183)	(183)	(183)	(889)	(340)	(183)	(183)	(183)	(889)	-	(95)	(95)
Income tax expense	-	304	185	(189)	300	-	-	-	-	-	-	304	185	(189)	300	192	-	192
Non-cash interest expense	-	-	-	-	-	46	18	18	18	100	46	18	18	18	100	-	18	18
Defer leasehold inducement	-	-	-	-	-	-	-	119	119	238	-	-	119	119	238	-	119	119
Amortization	206	224	226	765	1,421	800	428	428	400	2,056	1,006	652	655	1,165	3,478	287	264	551
Total	667	1,296	682	799	3,445	-	-	-	-	-	667	1,296	682	799	3,445	921	-	921
Net change in non-cash working capital	(538)	(105)	(354)	(1,583)	(2,579)	-	-	-	232	232	(538)	(105)	(354)	(1,351)	(2,347)	(1,266)	(811)	(2,077)
Total	**129**	**1,191**	**329**	**(784)**	**866**	**-**	**-**	**-**	**232**	**232**	**129**	**1,191**	**329**	**(552)**	**1,097**	**(345)**	**(811)**	**(1,156)**
Investing Activities																		
Business acquisitions	(6,525)	(4,345)	(660)	411	(11,119)	-	-	-	-	-	(6,525)	(4,345)	(660)	411	(11,119)	(552)	-	(552)
Purchase of capital assets	(33)	(959)	(643)	(555)	(2,190)	-	-	-	-	-	(33)	(959)	(643)	(555)	(2,190)	(591)	-	(591)
Total	(6,557)	(5,304)	(1,303)	(145)	(13,310)	-	-	-	-	-	(6,557)	(5,304)	(1,303)	(145)	(13,310)	(1,143)	-	(1,143)
Financing activities																		
Shares issued	1,206	9,342	(56)	943	11,436	-	-	-	(232)	(232)	1,206	9,342	(56)	711	11,204	481	811	1,291
Purchase of shares	-	-	(944)	(1,308)	(2,252)	-	-	-	-	-	-	-	(944)	(1,308)	(2,252)	(27)	-	(27)
Advances to related parties	-	-	-	(835)	(835)	-	-	-	-	-	-	-	-	(835)	(835)	262	-	262
Proceeds long term obligations	1,059	-	-	(1,059)	-	-	-	-	-	-	1,059	-	-	(1,059)	-	446	-	446
Repay long term obligations	(401)	(1,165)	(228)	79	(1,715)	-	-	-	-	-	(401)	(1,165)	(228)	79	(1,715)	(75)	-	(75)
Total	1,864	8,177	(1,227)	(2,180)	6,634	-	-	-	(232)	(232)	1,864	8,177	(1,227)	(2,412)	6,402	1,087	811	1,897
Increase (decrease) in cash	**(4,564)**	**4,064**	**(2,202)**	**(3,108)**	**(5,810)**	**-**	**-**	**-**	**-**	**-**	**(4,564)**	**4,064**	**(2,202)**	**(3,108)**	**(5,810)**	**(402)**	**-**	**(402)**
Cash net of bank indebtedness																		
Beginning of period	(111)	(4,675)	(611)	(2,813)	(111)						(111)	(4,675)	(611)	(2,813)	(111)	(5,921)		(5,921)
End of period	**$ (4,675)**	**$ (611)**	**$ (2,813)**	**$ (5,921)**	**$ (5,921)**						**$ (4,675)**	**$ (611)**	**$ (2,813)**	**$ (5,921)**	**$ (5,921)**	**$ (6,322)**		**$ (6,322)**

THE YEAR TO DATE IN REVIEW

Overview

After making 13 acquisitions in 2 years, the Company has been focusing on:

- consolidating the businesses;
- phasing out those sections of the acquired businesses, which are deemed “non-core” to the major lines of business; and
- investing in and expanding the core businesses.

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 the quarter, our preferred supplier arrangements increased from 35 to 37.

In the *Specialized Job Boards* sector, significant progress was made. Brainhunter now operates 95 specialized Job Boards, up from 65 at the beginning of the quarter. An arrangement was finalized with one of the largest Diversity groups in Canada, which will add significantly to Brainhunter’s Diversity Hiring initiatives. Progress was also made on sales and marketing initiatives with the launch of Passport, which allows customers to significantly improve access to the complete range of Brainhunter specialized job boards.

In the *Technology Sales* sector, Vision2Hire was acquired (see below), expanding Brainhunter’s installed base of applicant tracking systems (“ATS”) to over 100 customers on a national basis. Additionally, the development program for the ATS, Vendor Management Systems and Back Office Systems was substantially completed. The platform has been implemented internally and is now being marketed to the Brainhunter customer base.

In the *Professional Services / Solutions Delivery* sector, a small acquisition, Promethean Systems Consultants Inc. (see below) was completed, which will, in addition to other benefits, add senior sales skills to the sector and broaden Brainhunter’s specialty practice area to include a very strong Microsoft practice.

Acquisitions

Vision2Hire Solutions

As of November 30, 2004, Vision2Hire Solutions Inc (“V2H”) was acquired for cash and a zero-interest note payable of $446,054 convertible for a term of 3 years to Brainhunter shares at an exercise price of $2.00 per share. One senior technical sales executive joined Brainhunter as a result of the acquisition and all technology and sales support has been taken over by Brainhunter.

Promethean System Consultants Inc

As of January 1, 2005, Promethean System Consultants Inc. (“Promethean”) was acquired in exchange for the issue of 150,000 common shares of Brainhunter, the issue of 511,125 share purchase warrants exercisable at $1.00 per share and a guarantee of certain bank debt in the amount of $100,000. Promethean was acquired to expand the range of solutions services offered and to consolidate existing opportunities in the Contract Staffing sector.

Normal-course Issuer Bid

In October, 2004, Under the terms of a Normal-course Issuer Bid, the Company acquired 29,409 common shares of the Company in the public markets for a cost of $26,615 including transaction costs for an average cost of $0.91 per share. With the acquisition of these shares, this Normal-course Issuer Bid has been completed.

Business Process Outsourcing

In February, 2005 the company opened a Business Process Outsourcing (“BPO”) office in Hyderabad, India. Its initial task is to provide recruiting services for the company’s growing USA IT Contract Staffing initiative.

Review of Operations

Revenues

In the March quarter Fiscal 2005 revenues increased $999,328 or 5% versus the March quarter Fiscal 2004 from $18,548,972 to $19,548,300, and on a March YTD basis increased by $2,483,415 or 7% from $34,854,153 to $37,337,568. The increase for the March quarter is a result of inclusion of the acquisitions Vision2Hire Solutions Inc. ($43k), and Promethean Systems Consultants Inc. ($590k) as well as an increase in existing Staffing business of $400k, brought about through various sales initiatives. The increase for the 6 month period consisted primarily of the acquisition revenues mentioned above as well as an increase in Staffing business of $1,300k, and Solutions business of $500k.

Cost of Sales

Cost of Sales increased in an amount commensurate with the increase in Revenues and as a % of Revenues, due to a shift in the mix of business from higher-margin Solutions revenue, to lower-margin annuity Contract Staffing and Consulting business. As a % of Revenues, Cost of Sales increased from 76% to 78% on a March YTD basis reflecting the evolution in the mix of the business. The growth took place in Contract Staffing and Consulting, which has industry Cost of Sales norms in the 80% range as opposed to Information Technology Solutions, which has higher Gross Margins.

Gross Margins

As discussed above, due to the shift in the mix of business from higher margin solutions business to lower margin contract business, the Gross Margin declined as a % of Revenues and in absolute terms. Gross Margin declined from $4,362,056 in the quarter ending March 31, 2004 to $4,221,832 in the quarter ending March 31, 2005, and declined from $8,497,746 in the 6 months ending March 31, 2004 to $8,194,584 in the 6 months ending March 31. 2005.

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

Overhead expenses showed an increase in the March quarter 2005 versus March quarter 2004 of $332,577, from $3,018,163 to $3,350,740 and an increase for the 6 months ending March 31 of $327,176 from $6,101,850 in Fiscal 2004 to $6,429,026 in Fiscal 2005. As a % of Revenue, overhead expenses have remained relatively constant, increasing from 16% of Revenue in the quarter ending March 31, 2004 to 17% of revenue in the quarter ending March 31, 2005, but declining from 18% of Revenue March YTD Fiscal 2004 to 17% of Revenue March YTD Fiscal 2005. A portion of the increase was taken up by a one-time charge of $50k to cover some doubtful accounts. In addition, the YTD overhead costs include lease costs of approximately $130k for excess office space assumed with acquisitions which has now been terminated by March or been significantly reduced by sublet agreements.

Earnings before Interest, Taxes and Amortization (EBITDA)

As a result of the above, EBITDA is reported as $871,092 for the Fiscal 2005 March quarter versus $1,343,893 for Fiscal 2004 March quarter. On a YTD basis EBITDA is $1,765,558 for the 6 months ending March, 2005 versus $2,395,895 for the six months ending March, 2004. Due to the above, EBITDA declined as a % of Revenue, from 7% in the quarter and YTD ending March 31, 2004 to 5% in the quarter and YTD ending March 31, 2005.

Interest

Interest costs are increasing over time commensurate with the increase in Revenues, being the cost of financing the costs of contract staffing and solutions work until the receivables are collected. Interest has remained constant as less than 1% of revenue through Fiscal 2004 and Fiscal 2005 YTD.

The interest costs are predominantly related to the Company's current line of credit with the Royal Bank, but also include imputed interest on non-interest bearing vendor take-back debt on certain acquisitions. The imputed interest amount is approximately $18k for the quarter ending March 31, 2005 and $36k for the 6 months ending March 31, 2005 compared with $18k for the quarter ending March 31, 2004 and $64k for the 6 months ending March 31, 2004. Please see discussion of Imputed Interest expense earlier in this document.

Amortization

Amortization expense declined from $652,087 in the March quarter Fiscal 2004 to $532,409 in the March quarter Fiscal 2005 and from $1,657,639 the 6 months ending March 31, 2004 to $1,083,312 for the 6 months ending March 31, 2005. The largest portion of Amortization expense is the amortization of Intangible Assets. Please see discussion of changes regarding Intangible Assets earlier in this document

Earnings before Income Tax
Based on all of the above, the Company is reporting EBT of $200,641 for the quarter ending March 31, 2005 versus $626,382 for the quarter ending March 31, 2004, and $433,008 for the 6 months ending March 31, 2005 and $535,801 for the 6 months ending March 31, 2004.

Income Tax Expense
The company has sufficient tax losses acquired through acquisitions to ensure it will not have to pay income taxes for Fiscal 2005.

Non-controlling Interest
The Non-controlling Interest, which was for the March quarter $16,103 in 2004 and NIL in 2005 and for the six months ending March 31, $31,222 in Fiscal 2004 and NIL in Fiscal 2005, represents the minority interest in InBusiness Solutions Inc. The Company acquired 61% of InBusiness in April, 2003 and purchased the remaining shares in the period December, 2003 to March, 2004.

Net Earnings
Based on all of the above, the Company is reporting Net Earnings of $234,580 for the quarter ending March 31, 2005 versus $488,855 for the quarter ending March 31, 2004, and $370,120 for the 6 months ending March 31, 2005 versus $428,439 for the 6 months ending March 31, 2004.

Liquidity

Cash and Bank Indebtedness
At March 31, 2005, the Company reported Bank Indebtedness of $8,180,695. This number consisted of the actual draw against the Company's line of credit of $8,498,000 plus outstanding cheques of $441,280, offset by Cash on hand of $758,585.

The Company's line of credit as at September 30, 2004 was $7,000,000 but was increased to $10,000,000 on October 29, 2004. The Company's interest rate is Prime + 1.5%.

At March 31, 2005, the Company was not in compliance with all of its covenants of the credit facility in place at the time. Subsequent to March 31, the Royal Bank amended the covenants. In connection with the amendment to the credit facility, the Company has agreed to raise no less than $3 million of new capital on or before December 31, 2005.

Cash from Operations for the quarter ending March 31, 2005, was $(1,546,863), versus $1,191,405 for the quarter ending March 31, 2004, and for the YTD March 31, 2005 was $(1,644,504) versus $1,043,430 for the YTD March 31, 2004 period. This trend reflects the growth in accounts receivable and improved payroll terms for our contract-based personnel.

The net change in non-cash working capital was a decrease of $2,289,463 over the March quarter and $3,307,851 over the 6 month period ending March 31. The largest component was an increase in accounts receivable, due to growth in revenues and accommodations to certain clients in terms of payment terms ($1,700k for the March quarter and $2,618 for the 6 month period).

Obligations by year ($,000)

			Operating Leases	Long Term Debt	Total
Year ending:	April	2006	$977	$1,055	$2,032
	April	2007	$722	$316	$1,038
	April	2008	$667	$206	$873
	April	2009	$667	$0	$667
	April	2010	$667	$0	$667
	April	2011	$667	$0	$667
	April	2012	$667	$0	$667
	April	2013	$667	$0	$667
	April	2014	$667	$0	$667
	April	2015	$496	$0	$496
	Total		**$6,864**	**$1,576**	**$8,440**

Issue of Common Shares
The Company raised $106,293 during the quarter on the issue of common shares due to the exercise of options and warrants. This compares to the Fiscal 2004 March quarter when a Private Placement with net proceeds of $9,342,358 was effected.

Purchase of common Shares
Under the terms of a Normal-course Issuer Bid, the company acquired 29,409 shares at a total cost of $26,615 in October, 2004, being reported as part of the March, 2005 YTD numbers. Of that amount, $12,940 is recorded as a reduction in Share Capital and $13,675 is recorded as a reduction in Retained Earnings.

Notes Due from Related Parties
The company received a net repayment of $336,440 against Notes Due from Related Parties during the March YTD period, including $74,651 during the Fiscal 2005 March quarter. The Notes Due from Related Parties are advances mostly to acquire shares in the Company where the loans are collateralized by the Company shares. The loans are part of employment contracts for new senior management personnel.

Proceeds from long-term debt
The proceeds result from the issue of convertible promissory notes as part of the purchase of Vision2 Hire Solutions Inc. which occurred in the quarter ending December 31, 2004 (discussed above).

Repayment of Long-term Obligations

The Company repaid $75,000 of Long Term Debt during the quarter, being a scheduled repayment of debt arising from acquisitions. The company in fact repays a further $125,000 of Long Term Debt each quarter, but as the funds for this payment are made from a treasury bill which the company has set aside to pay the funds, and which is recorded as an offset to Long Term Debt, there is no net effect on cash in the period.

Business Acquisitions

The Company reported a cost of $64,755, net of cash acquired, to acquire Vision2Hire Solutions Inc. in the December quarter and $NIL for the acquisition of Promethean Systems Consultants Inc. in the March quarter for a total of $64,755 for the Fiscal 2005 March YTD. This compares to the $10,487,568 recorded for Fiscal 2004 March YTD whereby the Company was completing the acquisitions of InBusiness Solutions Inc., Sirius Consulting and Prolink Consulting.

Capital Expenditures

The Company spent $417,481 on Capital Expenditures during the March quarter, the largest items being $359,147, which was spent enhancing the Brainhunter software. The Company has intentions of spending $500k to $700k on capital expenditures in the last half of the fiscal year, primarily on developing the Brainhunter software. These expenditures will be paid out of working capital.

Stock-based compensation plan

Under the transitional provision of revised CICA Handbook Section 3870 *Stock-Based Compensation and other Stock-Based Payments*, the Company has adopted the fair value method of accounting for the stock options granted under its Share Option Plan in the year ended September 30, 2005. The retroactive adoption requires that the Company expense the fair value of stock options granted, modified, or settled during the fiscal year 2005 and subsequent. Prior periods are not restated and an adjustment is made to the opening balance of retained earnings of the current period to reflect the cumulative effect of the change on prior periods. The fair value was determined on a basis consistent with that used in the Company's disclosure under the former Section 3870 and reported by the Company annually since October 1, 2002. The fair value of stock options is determined using the Black-Scholes option pricing model. The charge for the six-month period ended March 31, 2005 for stock options was $64,770. The adjustment to the opening balance of retained earnings of the current period was $757,648.

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.

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			
	Mar 31 2005	Dec 31 2004	Sep 30 2004	Jun 30 2004
Revenue	$ 19,548	$ 17,789	$ 16,576	$ 17,463
Net income (loss)	$ 235	$ 136	$ (131)	$ (80)
Net income (loss) per share - Basic	$ 0.005	$ 0.003	$ (0.003)	$ (0.002)
- Diluted	$ 0.006	$ 0.003	$ (0.003)	$ (0.002)
	Mar 31 2004	Dec 31 2003	Sep 30 2003	Jun 30 2003
Revenue	$ 18,549	$ 16,305	$ 10,767	$ 6,910
Net income (loss)	$ 489	$ (60)	$ 145	$ 207
Net income (loss) per share - Basic	$ 0.011	$ (0.002)	$ 0.005	$ 0.009
- Diluted	$ 0.009	$ (0.001)	$ 0.005	$ 0.008

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.

Additional Information

Additional information about the Company may be obtained on SEDAR at www.SEDAR.com.