

**BRAINHUNTER INC.**

**Management Discussion and Analysis  
For the Period Ending  
March 31, 2007**

**May 10, 2007**

## **BASIS OF PRESENTATION**

The Management's Discussion and Analysis, dated May 10, 2007 should be read in conjunction with the interim unaudited consolidated financial statements and the accompanying notes. Additional information relating to Brainhunter Inc. ("Brainhunter") is available on SEDAR.

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

## **FORWARD-LOOKING STATEMENTS**

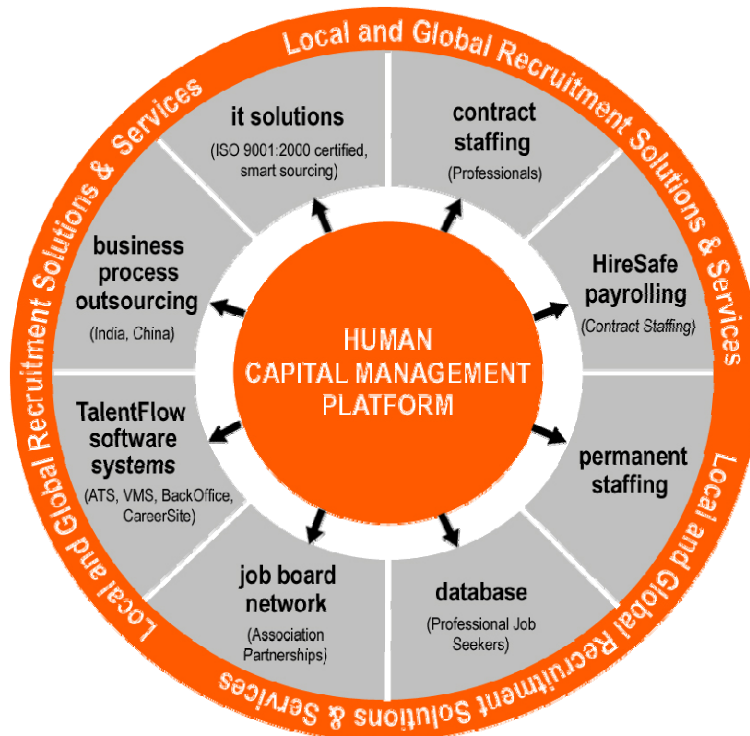
Certain statements in this MD&A may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Brainhunter and its subsidiary entities, or the industry, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in Brainhunter's publicly filed documents (which are available on SEDAR at [www.sedar.com](http://www.sedar.com)) and elsewhere in this document. The risks and uncertainties include: the ability to maintain profitability and manage growth; reliance on and retention of professionals; competition; performance obligations and client satisfaction; fixed price and contingency engagements; collectibility 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), **Technology Sales** (Licenses / Services), **Professional Services / Solutions Delivery** (Project Revenue), **Business Process Outsourcing (“BPO”) Centre** (Annuity Revenue), **Infrastructure Services** (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 customer base includes 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 200 personnel. The Company has delivery capability in Toronto, Ottawa, Maritimes, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian China, a BPO office in Hyderabad, India and delivery capability in select US jurisdictions.

## **REVIEW OF OPERATIONS**

### **Revenues**

Revenues for the March quarter for Fiscal 2007 increased \$15,216,590 or 35.1% versus the March quarter of Fiscal 2006 from \$ 43,335,955 to \$58,552,545, attributable to organic growth in the Staffing and Solutions business. For the six months ending March 31, 2007, revenues increased \$36,085,149 or 46.7% to \$113,282,943, up from \$77,197,794 for the same period in the prior year. The increase in the six month period is attributable to the organic growth in the Staffing and Solutions business and also from the timing of the acquisitions of AJJA and iGate in Q1 of Fiscal 2006.

Brainhunter's Staffing Division accounted for \$109,856,883 or 97.0% of total revenues for the six months ended March 31, 2007 compared to \$75,955,761 or 98.4% for the same period in fiscal 2006, representing an increase of \$33,901,122 or 44.6% increase over the prior year period. The increase is mainly attributable to an increase in the IT and engineering staffing business, mainly in Toronto, as a result of organic growth and being classified as the primary vendor on contract arrangements.

Brainhunter's Solutions Division accounted for \$3,426,060 or 3.0% of total revenues in the first six months of fiscal 2007 compared to \$1,242,032 or 1.6% in the same periods in fiscal 2006, representing an increase of \$2,184,028 or 175.8% increase over the prior year periods. The increase is mainly attributable to a rise in customer's activity on contracts compared to the prior year period 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 six months ended March 31, 2007, 38.9% of revenues related to various Federal Government of Canada agencies and departments, compared to 49.4% in the same periods of the prior year. The overall dollar values of revenue derived from the Federal Government has increased during the six months ended March 31, 2007, to \$44,015,036 compared to \$38,059,696 in the same periods of the prior year. The revenues derived from the Federal Government of Canada are declining as a % of total Company revenues as more revenues are derived from other sectors of the economy.

Management believes that there are trends in North America, which will provide the Company with significant opportunities in 2007 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 2007.

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

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

The overall cost of sales increased \$13,508,354 or 37.3% for the Q2 Fiscal 2007 versus Q2 Fiscal 2006 from \$36,229,227 to \$49,737,581, and on a March YTD basis the cost of sales increased \$31,778,770 or 49.4% from \$64,326,589 in the first six months of fiscal 2006 to \$96,105,359 in the first two quarters of fiscal 2007, an amount commensurate with the increase in revenues. Cost of sales as a percentage of revenues increased from 83.3% in the first 6 months of fiscal 2006 to 84.8% 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 \$94,249,142 or 98.1% of the total cost of sales in the first two quarters of fiscal 2007 compared to \$63,636,697 or 98.9% of the total cost of sales in the same period of the prior year, representing an increase of \$30,612,445 or 48.1% increase over the prior year. The gross margin related to the Staffing Division is \$15,607,741 or 14.2% of related revenues in the six months ended March 31, 2007 compared to \$12,319,065 or 16.2% of related revenue for the same period 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 \$1,856,217 or 1.9% of the total cost of sales in the six months ended March 31, 2007 compared to \$689,892 or 1.1% of the total cost of sales for the same period in the prior year, representing an increase of \$1,166,325 or 169.1% increase over the prior year. The gross margin related to the Solutions Division is \$1,569,843 or 45.8% of related revenues in the first two

quarters of fiscal 2007 compared to \$552,140 or 44.5% of related revenue for the first two quarters of fiscal 2006. The \$1,017,703 or 184.3% increase in gross margin is a result of organic growth in the Solution's Division as a result of new customer relationships and a rise of customer contracts.

Overall, the Company reported gross margins of \$8,814,964 or 15.1% of revenues in the quarter ending March 31, 2007, compared to \$7,106,728 or 16.4% of revenues in the quarter ending March 31, 2006, and on a March YTD basis the gross margin amounted to \$17,177,584 or 15.2% of revenues in the six month period ended March 31<sup>st</sup> 2007, compared to \$12,871,205 or 16.7% for the same periods in the prior year. 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 vendor managed payrolling sales.

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

Overhead expenses showed an increase in the March quarter fiscal 2007 versus the first quarter of fiscal 2006 of \$652,470 from \$6,020,064 to \$6,672,534 representing a 10.8% increase and on a March YTD basis, overhead expenses increased \$1,957,941 from \$11,070,027 to \$13,027,968 representing an increase of 17.7%. As a % of Revenue, overhead expenses were 11.5% in the first six months of fiscal 2007, down from 14.3% in the first six months of fiscal 2006.

Other staffing costs have increased \$828,840 or 20.1% to \$4,947,996 in the quarter ending March 31, 2007, up from \$4,119,156 in the same period in the prior year, and on a March YTD basis, other staffing costs increased \$1,821,739 or 23.8% to \$9,478,729 up from \$7,656,990 in the same period in the prior year. The selling, general and administrative expenses have decreased \$176,370 or -9.3% in the quarter ending March 31, 2007 from \$1,900,908 to \$1,724,538 however on a March YTD basis, the selling, general and administrative expenses have increased \$136,202 or 4.0% to \$3,549,239 in the first six months of fiscal 2007 up from \$3,413,037 in the same periods of the prior year. As a percentage of revenue the selling, general and administrative costs have decreased from 4.4% in the first six months of fiscal 2006 to 3.1% in the first six months of fiscal 2007.

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

As the result of the above, EBITDA is reported as \$2,142,430 for the second quarter of fiscal 2007 versus \$1,086,664 for the same quarter in fiscal 2006. On a YTD basis EBITDA is \$4,149,616 for the first six months of fiscal 2007 versus \$1,801,178 for the same six months of fiscal 2006. EBITDA increased as a percentage of Revenue, from 2.5% in the second quarter fiscal 2006 to 3.7% to the same quarter of Fiscal 2007. In the six month ended March 31<sup>st</sup>, 2007, EBITDA increased as a percentage of Revenue from 2.3% to 3.7% in the six months ended March 31, 2007. As noted previously, the increase is largely due to organic growth in both the Staffing and Solutions business.

## Interest

The interest costs are predominantly related to amounts paid on the Company's term bank facility, the convertible notes, and the debentures. Interest expense is composed of two components; 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.

	Q2, 2007	Q2, 2006	Q2 YTD 2007	Q2 YTD 2006
Interest Expense Cash	\$738,904	\$584,083	\$1,492,329	\$980,225
Interest Expense Non cash	\$325,933	\$447,754	\$638,462	\$648,610

Cash interest costs are increasing over time commensurate with the increase in revenues, being the cost of financing accounts receivable for contract staffing and solutions business.

## Amortization

Amortization expense of capital and intangible assets in Q2 fiscal 2007 is \$465,811 and \$975,335 respectively, an increase of \$184,008 for capital assets mainly due to the amortization of Brainhunter's developed software (\$137,883) and a decrease of \$211,998 for intangible assets, from the same period in the prior year. In the March YTD basis, the amortization expense for capital assets increased \$199,437 to \$737,017 while the amortization expense for intangibles decreased \$15,003 to \$1,950,664. In addition, the Company amortized \$319,408 of deferred financing costs in Q2 fiscal 2007 and \$633,127 for the six months ended March 31<sup>st</sup>, 2007, costs related to obtaining the debt financing necessary to acquire AJJA and iGate in October and November, 2005.

## Loss before Income Tax

Based on all of the above, the Company is reporting a loss before income taxes of \$682,961 for the quarter ending March 31, 2007 compared to a loss of \$1,649,721 for the quarter ending March 31, 2006 and a loss of \$1,301,983 for the six months ended March 31<sup>st</sup>, 2007 versus a loss of \$2,566,316 for the same periods the prior year. As noted previously, the loss is largely the result of amortization expenses of intangible assets from acquisition activities.

## Income Tax Expense

The provision for income taxes differs from the expense that would be obtained by applying the statutory rate to net income before income taxes as a result of such items as, amounts not deductible for tax purposes, future tax assets and liabilities, and the benefit of loss recorded. The Company has sufficient tax losses acquired through acquisitions to reduce the payment of income taxes but is still subject to Provincial capital taxes, corporate minimum taxes, and future tax provisions. The Company has a recovery of \$450,533 in the second quarter of Fiscal 2007 compared to a recovery of \$167,015 for the same quarter in the prior year and on a YTD basis of Fiscal 2007, the Company has a total recovery of \$808,237 versus a recovery of only \$145,534 for the six months ended March 31<sup>st</sup>, 2006.

### **Net Earnings (Loss)**

The Company is reporting a net loss of \$232,428 or \$0.01 per share basic and diluted for the quarter ending March 31<sup>st</sup>, 2007, and a loss of \$493,746 or \$0.01 for the six months ended March 31<sup>st</sup>, 2007 compared to a Net Loss of \$1,482,706 or \$0.04 per share basic and diluted for the quarter ended March 31, 2007 and a net loss of \$2,420,783 or \$0.06 per share basic and diluted for the six months ended March 31<sup>st</sup>, 2006.

## **Liquidity**

### **Cash and Bank Indebtedness**

The Company's term bank facility as of March 31, 2007 was \$22,000,000. The Company's interest rate is prime plus 0.5% to 1.5%, depending on a specific bank covenant ratio. This term bank facility was obtained November 16th, 2005.

Cash provided by Operations for the six months ended March 31, 2007 was \$398,120 while Cash provided by Operations for the six months ended March 31, 2006 was \$1,910,373. This significant change resulted mainly from two factors:

1. the improvement in EBITDA from \$1,801,178 in the six months ending March 31, 2006 to \$4,149,616 in the six months ending March 31, 2007, offset by
2. the increase in cash used to fund the YTD net change in non-cash working capital from \$1,167,136 to \$(2,249,049), which occurred primarily as a result of reducing the Company's accounts payable while increasing accounts receivable to fund the growth in business. It is due to the company's policy of reporting outstanding cheques as a reduction in payables and an increase in term bank facility, as if they had already cleared the bank.

Below is a comparison restatement with outstanding cheques added to payables instead of term bank facility (in \$,000).

	<b>Mar 31/07</b>	<b>Sept 30/06</b>	<b>Change</b>
<b>Amounts due per financial statements</b>			
Accounts payable	\$24,550	\$23,518	\$1,032
Bank indebtedness	\$18,381	\$19,146	(\$765)
OS cheques	<u>\$2,666</u>	<u>\$2,650</u>	<u>\$16</u>
Total	<u>\$21,047</u>	<u>\$21,796</u>	<u>(\$749)</u>
<b>Total payables and bank</b>	<b>\$45,597</b>	<b>\$45,314</b>	<b>\$283</b>
<b>Amounts due restated</b>			
Accounts payable	\$24,550	\$23,518	\$1,032
OS cheques	<u>\$2,666</u>	<u>\$2,650</u>	<u>\$16</u>
Total	<u>\$27,216</u>	<u>\$26,168</u>	<u>\$1,048</u>
Bank term facility	<u>\$18,381</u>	<u>\$19,146</u>	<u>(\$765)</u>
<b>Total payables and bank</b>	<b>\$45,597</b>	<b>\$45,314</b>	<b>\$283</b>

### Obligations by year (\$,000)

			Long Term Debt		Total	
			Operating Leases	Pay in Cash Pay in Shares		
Year ending:	Sept	2007	\$677	\$2,734	\$233	\$3,644
	Sept	2008	\$1,293	\$7,208		\$8,501
	Sept	2009	\$1,124	\$9,377		\$10,501
	Sept	2010	\$943	\$0		\$943
	Sept	2011	\$944	\$0		\$944
	Sept	2012	\$965	\$0		\$965
	Sept	2013	\$967	\$0		\$967
	Sept	2014	\$967	\$0		\$967
	Sept	2015	\$432	\$0		\$432
	Sept	2016	\$253			\$253
		2017	\$21			\$21
	<b>Total</b>		<b>\$8,586</b>	<b>\$19,319</b>	<b>\$233</b>	<b>\$28,138</b>

### **Issue of Common Shares**

The Company did not issue any common shares in the second quarter of Fiscal 2007. No common shares were issued as a result of exercise of options during the second quarter of 2007 compared to raising \$7,932 during the same period from the prior year.

### **Advances to Related Parties and Share Purchase Loans**

The company did not record any repayment to the senior executive during the March quarter of fiscal 2007 compared to recording a repayment of \$11,923 for the same quarter the prior year. In the six months ended March 31, 2007, the company recorded an advance of \$250,000 to a senior executive, compared to an advance of \$25,567 in the six months ended March 31, 2006. This advance is repayable in October, 2008 and pays interest of 8% per annum. In second quarter fiscal 2007, the Company did not advance any monies to individuals to acquire shares in the Company, compared to advancing \$242,000 in the same period in the prior year. The advances to acquire the shares are collateralized by the Company shares. The loans are part of employment contracts for new senior management personnel. They are accounted for as an offset to Share Capital.

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

The Company repaid \$832,171 of long-term debt during the second quarter of 2007, compared to a repayment of \$231,762 in the same quarter of 2006. On a YTD basis, the Company repaid \$1,308,855 of long-term debt during the six months ended March 31, 2007 compared to a repayment of \$384,596 for the same period of the prior year. All of the repayments are scheduled payments on long-term debt.

### **Proceeds from Long-Term Financing**

On February 2, 2007, the Company closed a convertible note financing, raising \$2,586,000. The principal is repayable only at maturity, being February 2, 2009. Interest is payable quarterly at 10% per annum in cash or shares of the Company at the option of the note-holder. The notes are convertible at any time to shares of the Company at a price of \$0.75 per share. Each \$100 note was entitled to 50 common share purchase warrants exercisable at \$0.60 per share until February 2, 2009. Approximately 50% of the financing was subscribed to by Company management and directors.

### **Capital Expenditures**

The Company recorded \$120,110 on Capital Expenditures during the quarter ended March 31, 2007, compared to the \$173,594 spent in the quarter ended March 31, 2006. During the six months ended March 31, 2007, the Company spent \$725,008 compared to the \$550,305 spent in six months ended March 31, 2006. The current expenditures for

the six months ended March 31, 2006 were made primarily in enhancing the Brainhunter software (\$286,295), and in computer hardware and software (\$118,287). and leasehold improvements of (\$249,329) for the Company's new premises in Ottawa. This expenditure is being offset by a leasehold improvement allowance of \$287,057.

## SELECTED QUARTERLY INFORMATION

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

	2007	2006	2005
<b>Revenue</b>	<b>58,553</b>	<b>43,336</b>	<b>19,548</b>
Cost of Sales	49,738	36,229	15,326
Gross Margin	8,815	7,107	4,222
Other operating costs	6,673	6,020	3,351
<b>EBITDA</b>	<b>2,142</b>	<b>1,087</b>	<b>871</b>
Interest - cash	739	584	120
Interest -non cash	326	448	18
Amortization of capital assets	466	282	333
Amortization of intangibles	975	1,187	199
Amortization of deferred financing costs	319	235	0
<b>Earnings (loss) before tax</b>	<b>(683)</b>	<b>(1,649)</b>	<b>201</b>
Income Tax	(451)	(167)	(34)
<b>Net earnings (loss)</b>	<b>(232)</b>	<b>(1,482)</b>	<b>235</b>
Earnings per share basic	(\$0.01)	(\$0.04)	\$0.01
Earnings per share fully diluted	(\$0.01)	(\$0.04)	\$0.00
<b>Total assets</b>	<b>85,194</b>	<b>81,451</b>	<b>41,369</b>
<b>Total long-term financial liabilities</b>	<b>38,836</b>	<b>38,889</b>	<b>1,961</b>

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

	2007	2006	2005
<b>Revenue</b>	<b>113,283</b>	<b>77,198</b>	<b>37,338</b>
Cost of Sales	96,105	64,327	29,143
Gross Margin	17,178	12,871	8,195
Other operating costs	13,028	11,070	6,429
<b>EBITDA</b>	<b>4,150</b>	<b>1,801</b>	<b>1,766</b>
Interest - cash	1,492	980	212
Interest -non cash	638	649	37
Amortization of capital assets	737	538	620

Amortization of intangibles	1,951	1,966	463
Amortization of deferred financing costs	633	235	0
<b>Earnings (loss) before tax</b>	<b>(1,301)</b>	<b>(2,567)</b>	<b>434</b>
Income Tax	(808)	(146)	63
<b>Net earnings (loss)</b>	<b>(493)</b>	<b>(2,421)</b>	<b>371</b>
Earnings per share basic	(\$0.02)	(\$0.06)	\$0.01
Earnings per share fully diluted	(\$0.02)	(\$0.06)	\$0.01

## OTHER

### Financial Instruments and Other Instruments

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

The Company sells primarily to large, well-established customers. The Company is exposed to risk due to fluctuations in the exchange rate of the U.S. dollar. The company is also exposed to risk as its term bank facility interest rate fluctuates with the prime interest rate.

### 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.

### Transactions with Related Parties

No transactions occurred with related parties during the quarter outside the normal course of business and as reported in the financial statements.

### 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 interim quarter ending March 31, 2007, 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 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](http://www.SEDAR.com).