

BRAINHUNTER INC.

**Management Discussion and Analysis
For the Year Ending September 30, 2004**

February 14, 2005

Business Overview

Brainhunter is a high value added technology company providing end-to-end recruiting and staffing solutions and services delivered on a web-enabled, scalable, highly robust enabling technology platform. Technology and services are provided on a national scale and in 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 (Annuity Revenue / High Growth) is a primary focus and a very High Growth division representing over 70% of Brainhunter's revenue and over 40% of profits. **2. Permanent Staffing (Transaction fees / Subscriptions)** is an essential service representing less than 5% of revenue and profits driven by Brainhunter's technology platform and an extensive data base of over 1,200,000 million resumes (over 700,000 active) allowing the service to be provided on both a Full Service and Virtual Agency basis. **3. Specialized Job Boards (Posting Fees / Subscriptions / High Growth)** is a technology driven, very High Growth opportunity encompassing over 85 specialized Job Boards, collectively representing over 1,000,000 personnel where each Job Board vertical is characterized by homogenous skill sets. Revenue is less than 10% of consolidated revenues, but is experiencing exponential growth in both revenue and profitability. **4. Technology Sales (Licenses / Services)** is a core essential offering representing less than 5% of Brainhunter's current sales but materially larger in terms of profitability. Brainhunter has Applicant Tracking Systems, Vendor Management Systems and Back Office systems, which are deployed both internally and externally in a modular 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. **5. Professional Services / Solutions Delivery (Project Revenue / Internal Support)** is comprised of approximately 100 highly specialized fully billable technical employees supporting a strong, core, highly profitable solutions business that is an enabler in managing and deploying the Brainhunter Technology Platform which provides the engine driving Brainhunter's high growth Staffing Services and Solutions strategy. This division comprises approximately 10% of Brainhunter's consolidated revenues and over 20% of profits.

Brainhunter's revenue model is a diversified, low-risk annuity model based largely on a variable cost structure and well defined competitive advantages. Brainhunter's Technology Platform and Best Practices are believed to deliver the most cost effective and flexible recruiting and staffing processes and solutions in the marketplace today. Brainhunter has a proven value proposition for Customers that results in lower recruiting costs, providing better quality candidates and better and faster matching of candidates to jobs, translating to increased retention roles, shorter time to hire and increased fill rates contributing to a higher ROI for Brainhunter customers.

THE YEAR IN REVIEW

Acquisitions

Prolink Consulting Inc.

Effective October 1, 2003, the Company acquired 100% of the shares of Prolink Consulting Inc. (“Prolink”), an information technology staffing company. Consideration for the purchase, totaling \$1,857,675, consisted of 550,000 common shares of the Company with a deemed value of \$2 per share, 355,000 common share purchase warrants valued at \$191,974, net cash of \$457,311, and transaction costs of \$108,390. All shares have escrow periods of up to three years tied to management contracts and performance criteria.

Sirius Consulting Group Inc.

Effective November 1, 2003, the Company acquired 100% of the shares of Sirius Consulting Group Inc. (“Sirius”), an information technology staffing company. Consideration for the purchase, totaling \$5,741,818, consisted of a \$1.0M two-year transferable convertible note at an interest rate tied to the 90-day treasury bills rate, exercisable at \$3.00 per common share of the Company, 250,000 common share purchase warrants valued at \$143,231, net cash of \$4,123,739, and transaction costs of \$474,848. The convertible note has quarterly repayment terms over a two-year period.

InBusiness Solutions Inc.

During 2004, the Company acquired all of the remaining common shares of InBusiness Solutions Inc. (“InBusiness”), an information technology staffing and services company. In 2003, the Company had acquired 62.3% of the issued and outstanding shares of InBusiness for \$2,000,000 in cash plus transaction costs of \$37,433. The additional interest was acquired in 2004 for a total cash consideration of \$4,782,855 and transaction costs of \$219,948.

Vision2Hire Solutions Inc (subsequent to year end)

In December, 2005, 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.

Financing

\$10 million Financing

On February 2, 2004 – the company closed a private placement of 5,555,556 common shares at \$1.80 per share for gross proceeds of \$10,000,000.80.

The agents were paid a cash fee equal to 6.0% of the gross proceeds of the financing, except as detailed below. As additional compensation, the agents received compensation

warrants exercisable to acquire an aggregate of 283,335 common shares at a price of \$1.88 per share. These compensation warrants will be exercisable for a period of two years following the closing of the financing.

The Chairman and Chief Executive Officer, and one Director of the Company acquired \$1,500,000 of the financing. The Company has agreed to pay the agents a cash fee of 3% in respect of this portion of the financing. The agents did not receive compensation warrants in respect of such insider subscriptions.

Listing on the Toronto Stock Exchange

On November 14, 2003 the shares of the Company began trading on the Toronto Stock Exchange (TSX). They had previously been trading on the more junior Venture Exchange (TSX-Venture).

Name Change

At the Shareholders' meeting May 12, 2004, the shareholders approved the Company changing its name from TrekLogic Technologies Inc. to Brainhunter Inc. This was effected by Articles of Amendment dated May 20, 2004. Following TSX approval, the Company's shares began trading under the new name and symbol ("BH") on June 22, 2004.

Normal-course Issuer Bid

Under the terms of a Normal-course Issuer Bid, the Company acquired 1,999,600 common shares of the Company in the public markets for a cost of \$2,251,722 including transaction costs for an average cost of \$1.13 per share. Subsequent to the year end the Company purchased a further 29,409 shares for a total cost of \$26,615.15 for an average cost of \$0.91 per share.

Relocation of Head Office

During the year the company consolidated its Toronto operations from three offices to one, moving to its current corporate headquarters at 2 Sheppard Avenue East, Suite 700, Toronto, Ontario in the spring of 2004.

Results of Operations for the year

Revenues

Revenues increased in Fiscal 2004 by \$46,611,855 from \$22,281,605 to \$68,893,460 as a result of the inclusion for a full year of the 2003 acquisitions of Brainhunter.com Ltd., InBusiness Solutions Inc., Advanced Solutions Group, Protec Employment Services Ltd., and the IT contracting business of ThinkPath Inc., as well as the addition of the 2004 acquisitions Prolink Consulting Inc. from October 1, 2004 and Sirius Consulting Group Inc. from November 1, 2004.

Cost of Sales

Cost of Sales increased in an amount commensurate with the increase in Revenues. As a % of Revenues, Cost of Sales increased from 70% to 80% reflecting the change in the weighting of the business. The growth took place in Contract Staffing, 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 large growth in the Contract Staffing segment of the business, the Gross Margins more than doubled from \$6,649,905 in 2003 to \$14,024,322 in 2004. At the same time, due to the shift in type of business the Gross Margins declined to 20% from 30% of Revenue, in line with expected margins from the Contract Staffing business.

Other Staffing Costs and General, Selling and Administrative

The sum of the general overhead costs increased by \$5,415,173 from 2003 to 2004 but declined from 22% to 15% of Revenue reflecting the shift in the mix of businesses.

Earnings before Interest, Taxes and Amortization (EBITDA)

EBITDA more than doubled, increasing by \$1,959,244 from \$1,853,261 to \$3,812,505, due to the growth year on year.

Interest

Interest costs increased by \$173,863 from 2003 to 2004 as a result of financing the increased Working Capital requirements of the increased business. The Interest costs are almost exclusively related to the Company's current line of credit with the Royal Bank.

Amortization

Amortization expense increased by \$915,431 from 2003 to 2004. The increase is due to a full year of amortization in 2004 versus a partial year for 2003 of the Brainhunter software acquired with Brainhunter.com Ltd in 2003, amortization of additional assets such as the new offices for the Company, and a one-time write off of Intangibles acquired with InBusiness Solutions Inc. and relating to now-inactive businesses in an amount of \$391,764.

Income Tax Expense

The Company records a tax expense based on conservative accounting treatment, but the company has sufficient tax losses acquired through subsidiaries to ensure it will not have to pay income taxes for 2003 or 2004.

Non-controlling Interest

The Non-controlling Interest, which was \$59,598 in 2003 and NIL in 2004, represents the minority interest in InBusiness Solutions Inc. The Company acquired 61% of InBusiness in April, 2003 and purchased the remaining shares in 2004.

Net Earnings

The Company is reporting \$1,723,059 of Net Earnings for the year versus \$894,911 for 2003, an increase of \$828,148.

Quarterly Balance Sheet Data

Balance Sheet Information as at the Balance Sheet dates for the previous eight quarters (all amounts in \$,000):

	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	2004	2004	2004	2003	2003	2003	2003	2002
Current Assets	\$15,305	\$16,914	\$15,865	\$14,403	\$10,845	\$7,497	\$2,509	\$2,684
Non-current Assets	21,724	20,468	19,361	15,026	9,894	9,606	1,635	973
Total Assets	\$37,029	\$37,382	\$35,226	\$29,429	\$20,739	\$17,103	\$4,143	\$3,657
Current Liabilities	12,597	12,483	9,420	13,391	6,749	6,551	1,039	877
Non-current Liabilities	849	1,174	1,374	1,634	1,253	2,414	0	0
Non-controlling interest	0	0	10	76	61	194	0	0
Total Liabilities	13,445	13,657	10,803	15,101	8,062	9,159	1,039	877
Shareholder Equity	23,584	23,725	24,423	14,328	12,677	7,944	3,105	2,780
Total Liabilities and Equity	\$37,029	\$37,382	\$35,226	\$29,429	\$20,739	\$17,103	\$4,143	\$3,657

Quarterly Results from Operations

Results from operations for the previous eight quarters on the dates ending (all amounts in \$,000 except for Earnings per Share):

	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	2004	2004	2004	2003	2003	2003	2003	2002
Revenue	\$16,576	\$17,463	\$18,549	\$16,305	\$10,767	\$6,910	\$2,444	\$2,160
Cost of Sales	15,149	13,404	14,187	12,129	8,236	4,788	1,454	1,154
Gross Margin	1,428	4,059	4,362	4,176	2,531	2,123	990	1,006
Other Labour Costs	915	2,512	1,889	2,046	1,326	1,147	378	432
Sales, General and Admin	(186)	829	1,129	1,078	880	308	163	164
Total	<u>729</u>	<u>3,341</u>	<u>3,018</u>	<u>3,124</u>	<u>2,206</u>	<u>1,454</u>	<u>540</u>	<u>596</u>
Earnings before Interest, Taxes and Amortization	699	717	1,344	1,052	325	668	449	410
Interest (net)	154	35	47	91	122	32	0	0
Amortization	765	226	224	206	312	165	15	15
Earnings before Income Tax	(221)	456	1,073	755	(108)	472	434	395
Income Tax	(444)	185	304	295	(232)	184	145	141
Earnings before non-controlling interest	223	271	768	461	124	288	289	254
Non-controlling interest	0	0	16	15	(21)	81	0	0
Net Earnings	<u>\$223</u>	<u>\$271</u>	<u>\$752</u>	<u>\$446</u>	<u>\$145</u>	<u>\$207</u>	<u>\$289</u>	<u>\$254</u>
Earnings per share--basic	\$0.01	\$0.01	\$0.02	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
Earnings per share--fully diluted	\$0.00	\$0.01	\$0.02	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01

Liquidity

Cash and Bank Indebtedness

At September 30, 2004, the Company reported Bank Indebtedness of \$5,920,652 of which the actual draw against the Company's line of credit was \$6,688,000, offset by Cash of \$1,693,208 and outstanding cheques of \$925,860.

The Company's line of credit available was \$7,00,000 at September 30, 2004 but was increased to \$10,000,000 at October 29, 2004. The Company's interest rate is Prime + 1.5%.

Cash provided by Operations was \$865,532, up from cash used in operations of \$(1,411,293) for the year ending September 30, 2003.

Non-cash Working Capital

Non-cash Working Capital declined by \$2,579,425 over Fiscal 2004, largely due to a reduction in accounts payable in the amount of \$1,943,473, the largest component of which related to the Company shortening the period of payment of funds owed to its staffing contractors.

Issue of Common Shares

The Company raised \$11,435,590 during the year on the issue of common shares. The largest component was a \$10,000,000 private placement in February, 2004. The balance was made up of exercise of options and warrants.

Advances to Related Parties

The company advanced a net of \$835,022 to related parties during the year, mostly to acquire shares in the Company where the loans are collateralized by the Company shares.

Repayment of Long-term Obligations

The Company repaid \$1,714,574 of Long Term Debt during the year. The repayments consisted of scheduled repayments of debt arising from acquisitions of \$300,000, the repayment of a debenture on the books of InBusiness Solutions Inc. in the amount of \$986,075 and the repayment of other obligations on the books of subsidiaries acquired in the amount of \$428,499.

Business Acquisitions

The Company spent \$11,119,250 making acquisitions, net of cash acquired, each acquisition being described earlier in this document.

Capital Expenditures

The Company spent \$2,190,482 on Capital Expenditures during 2004, the largest items being \$1,320,407, which was spent enhancing the Brainhunter software, \$508,082 on Computer Hardware and \$361,993 on Leasehold Improvements for the new head office.

Transactions with Related Parties

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

Risk Factors

The Company is subject to a number of risks and uncertainties that could significantly affect the Company's future results of operations and financial condition.

Competition

The Company operates in intensely competitive markets. Market conditions may in the future be such that obtaining good margins becomes a particular challenge.

Failure of a Key Customer

The Company deals only with customers, which, in its opinion can be relied upon to pay for the services rendered. Nevertheless, there is always the possibility that some customer may experience difficulties, which may affect the collection of all of the funds owed to the Company by that customer. This risk is mitigated by the fact that no single customer represents more than 7% of revenues.

Foreign Currency Risk

The Company earns approximately 7% of its revenues in US dollars. A significant shift in the exchange rates could affect the realization of funds receivable.

Legal Proceedings

The company is involved in several pieces of litigation. Management believes that any necessary provisions have been made in the accounts of the Company, but the outcome of the litigation is not certain.

Additional Information

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