

**BRAINHUNTER INC.**

**Management Discussion and Analysis  
For the Period Ended  
September 30, 2008**

**April 3, 2009**

## **BASIS OF PRESENTATION**

The Management's Discussion and Analysis, dated April 3, 2009 should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the period ended September 30, 2008. Additional information relating to Brainhunter Inc. ("Brainhunter") is available on SEDAR.

The Company's audited 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**

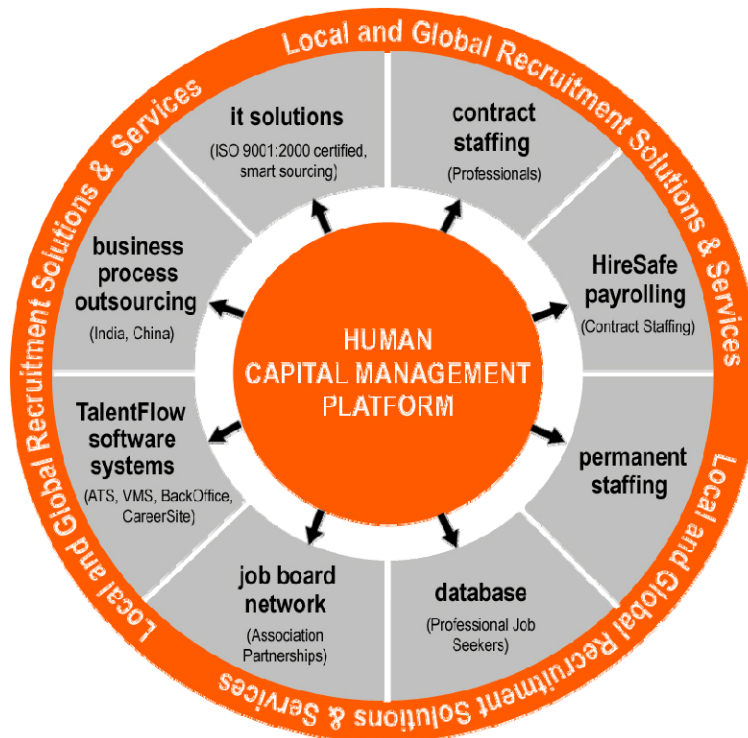
Certain statements in this MD&A may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Brainhunter and its subsidiary entities, or the industry, to be materially different 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; collectability of accounts receivable; general state of the economy; possible acquisitions; possible future litigation; interest rate fluctuations; insurance limits; legislative and regulatory changes; revenue and cash flow volatility; operating risks; residential market risk; protection of intellectual property; appraisal mandates; restrictions on growth. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Although the forward-looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, Brainhunter cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A, and, except in accordance with applicable law, Brainhunter assumes no obligations to update or revise them to reflect new events or circumstances. Additionally, Brainhunter undertakes no obligation to comment on analyses, expectations or statements made by third parties in respect of Brainhunter, its financial or operating results, or its securities.

## BUSINESS OVERVIEW

Brainhunter is an ISO 9001:2000 Certified “**Technology Driven Staffing Procurement Services and Solutions**” company. Brainhunter’s business is focused on using the Brainhunter Human Capital Management Platform to provide fully integrated end-to-end recruiting and staffing services and solutions in the following market sectors: Information Technology, Engineering, Industrial and Health Care.

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

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



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

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

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange (**TSX:BH**). Brainhunter deploys over 1,600 Contractors / Consultants with an internal staff of over 220 personnel. The Company has delivery capability across Canada including Toronto, Ottawa, Maritimes, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian China, an office in Hyderabad, India and delivery capability in select US jurisdictions and the UK.

## **STRATEGIC ALTERNATIVES**

The Company has engaged a global corporate finance advisory firm to advise on strategic alternatives which may include taking the public company Brainhunter private, and/or financing that will enable the Company to take advantage of both acquisition and organic growth opportunities in the market place.

## **GOING CONCERN**

This Management Discussion and Analysis has been prepared on a going concern basis, which assumes that the future operations will allow for the realization of assets and discharge of liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company has incurred losses from continuing operations over the past several years and as at September 30, 2008 had a working capital deficiency. The Company was in breach of its financial covenants in its \$26 million Term Facility Agreement ("Term Facility") with its bank as at September 30, 2008. The Term Facility expired October 15, 2008, but the bank has agreed to extend the Term Facility to September 30, 2009 subject to a Standstill Agreement ("Agreement") executed April 3, 2009 as described in Note 17 of the financial statements. In addition, as of April 3, 2009, the Company continues to negotiate with its convertible lenders in order to refinance \$7,726 due December 2008 and \$2,465 due February 2009. The Company is committed to pursuing a course of action leading to a privatization of the Company or a refinancing resulting in the bank and other debtholders being repaid. The Company's ability to continue as a going concern is dependent upon the Company's ability to retain the ongoing support of its bank and execute the privatization or refinancing and generate profitable operations. The outcome of these matters is uncertain.

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

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

## **DIVESTITURES**

### **Sale of Brainhunter's North American Careersite Business (in \$000's)**

On February 6, 2008, the Company executed several agreements ("Agreements") to sell various components which comprised its North American Careersite Business ("Business") to Workopolis for a total consideration of \$10,000 cash ("Consideration") payable on meeting certain transition milestones specific to each agreement. The Business consisted of the existing client activity and a perpetual license to use the Brainhunter Careersite technology in Canada and the United States. As part of the agreements, also executed were a non-compete agreement, a one-year technology support agreement and a transition services agreement. In addition, the Company entered into a software development agreement with Workopolis for separate consideration.

Pursuant to the Agreements, the Company received in March, 2008 the amount of \$7,500 less closing adjustments of \$7 for a net consideration of \$7,493. Further, pursuant to the Agreements, the Company received in April 4, 2008 the amount of \$2,000 for completion of the transition service.

Pursuant to the Agreements, the remaining \$500 of the Consideration is being paid to the Company at the rate of \$125 per quarter, as agreed quarterly transition milestones are achieved. As of September 30, 2008, the Company received \$250 for achieving the 1st and 2nd milestones.

In fiscal 2008, the Company is recognizing a gain on the disposition of the Careersite Business of \$9,459 being the proceeds received during the year less expenses.

The Company's results of operations related to discontinued operations for the year ended September 30, 2008 and 2007 are shown below.

(\$000's)	2008 \$	2007 \$
Revenue	1,088	3,251
Costs and expenses	586	1,773
	502	1,478
Sales and marketing	409	633
General and administrative	65	63
Income before gain on disposition	28	782
Gain on disposition	9,459	—
Income before income taxes	9,487	782
Income tax expense	1,547	—
<b>Results of Discontinued Operations</b>	<b>7,940</b>	<b>782</b>

Although the Company has exited the market in Canada and the USA for its Careersite Business, the Company is continuing to expand the Careersite Business in other parts of the world. The company has opened an office in London, England and has begun signing agreements with professional associations to provide the technology to power the association's job boards in the same manner as was done in North America. The Company has also negotiated an arrangement with an association of newspapers in South America to provide the technology for job boards for the members of the association.

## GOODWILL VALUATION

In accordance with Canadian generally accepted accounting principles ("Canadian GAAP") section 3062, "Goodwill and Other Intangible Assets", as at June 30, 2008, the Company performed its annual goodwill impairment test as one reporting unit.

The impairment test for goodwill is a two-step process. Step one consists of a comparison of the fair value of a reporting unit with its carrying amount, including the goodwill allocated to the reporting unit. Measurement of the fair value of a reporting unit is based on a fair value measure.

We determined the fair value of the Company by multiplying the closing price of the shares as of June 30, 2008 with total shares outstanding. The results indicated that the estimated fair value of the Company was less than its carrying value and as such we performed step two of the impairment test for the Company.

If the carrying amount of the reporting unit exceeds its fair value, step two requires the fair value of the reporting unit be allocated to the underlying assets and liabilities of that reporting unit, whether or not previously recognized, resulting in an implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss equal to the excess is recorded in net gain or loss.

The Company determined the carrying value of goodwill by utilizing a combination of valuation techniques including the expected present value of future cash flows approach. Such valuations involve significant assumptions regarding future operating performance. As a result, the Company estimated the step two goodwill impairment by determining the implied fair value of goodwill in the same manner as if it had acquired the Company as of the date of the step one assessment. As part of this process, the Company engaged an independent valuator to assist in determining the extent of the impairment charge.

The impairment test identified the fair market value of intangible assets to be \$28.8 million compared to its carrying value of \$7.7 million. The identified intangible assets include customer intangible, software intangible and trade mark intangible. According to Canadian GAAP, the excess of fair market value over carrying value is not subject to write up. Step two of the impairment test concluded that the carrying value of the Company exceeded its fair value, and as a result, the Company recorded an impairment charge of \$13,662.

**Summary of Impairment Calculations (\$000's)**

Fair market value of issued share capital based on closing market price June 30, 2008	14,780
Debt outstanding at June 30, 2008	<u>33,965</u>
Enterprise value of company	<u>48,745</u> (A)
Valuation of assets as at June 30, 2008	
Tangible assets (net)	21,726
Intangible assets	28,800
Future income tax liability	<u>(8,352)</u>
Total	<u>42,174</u> (B)
Residual available for Goodwill ((A) minus (B))	<u>6,571</u>

The goodwill impairment charge is non-cash in nature and does not affect the Company's liquidity, cash flows from operating activities, and will not have an impact on future operations.

**RESTATEMENT OF QUARTERLY RESULTS**

Based on further review and analysis related to the following, the Company is providing the following restatement of quarterly earnings during fiscal 2008:

**1. Reclassification of discontinued operations**

In fiscal 2008, the Company sold its Careersite Business to Workopolis. The Company recognized gains on the disposition when cash proceeds were received. According to EIC 142 – Revenue Arrangements, as there were 2 units of accounting in the agreement, the timing of revenue recognition for a given unit of accounting will depend on the nature of

that unit of accounting and whether the general conditions for revenue recognition have been met. As a result, the results from discontinued operations was overstated by \$6,992 in Q2 and \$835 in Q4, whereas understated \$7,827 in Q3. As a result, net earnings per share for discontinued operations in Q3 increased from \$0.04 to \$0.19.

## 2. Goodwill impairment charge

In accordance with Canadian generally accepted accounting principles ("Canadian GAAP") section 3062, "Goodwill and Other Intangible Assets", as at June 30, 2008, the Company performed its annual goodwill impairment test as one reporting unit. The goodwill impairment charge of \$13,662 was not recorded in the Company's previously filed consolidated financial statements for the period ended June 30, 2008 as the goodwill impairment test was not finalized until March 2009. This adjustment did not affect income before interest, amortization and income taxes, but increased net loss for the period by this amount and reduced goodwill on the balance sheet to \$6,571. Net loss per share for continuing operations in Q3 increased from \$0.02 to \$0.35.

	Quarter ended		
	Sep 30 2008 (Fourth Quarter)	June 30 2008 (Third Quarter)	Mar 31 2008 (Second Quarter)
Net loss from continuing operations - as reported	(14,198)	(899)	(4,144)
Results of discontinued operations (net of tax)- as reported	(750)	1,625	7,024
Net profit (loss) for the period - as reported	(14,948)	726	2,880
Goodwill impairment	13,662	(13,662)	—
Results of discontinued operations	(835)	7,827	(6,992)
Income tax expense	1,547	(1,547)	—
Net loss from continuing operations - restated	(536)	(14,561)	(4,144)
Results of discontinued operations (net of tax) - restated	(38)	7,905	32
Net profit (loss) for the period - restated	(574)	(6,656)	(4,112)
Earnings (loss) per share - as reported			
Continuing Operations - Basic and Diluted	(0.33)	(0.02)	(0.09)
Discontinued Operations - Basic	(0.02)	0.04	0.16
Discontinued Operations - Diluted	(0.02)	0.04	0.14
Earnings (loss) per share - restated			
Continuing Operations - Basic and Diluted	(0.01)	(0.35)	(0.09)
Discontinued Operations - Basic	—	0.19	0.00
Discontinued Operations - Diluted	—	0.19	0.00

	<b>Quarter ended</b>	
	<b>June 30 2008 (Third Quarter)</b>	<b>Mar 31 2008 (Second Quarter)</b>
Accounts receivable - as reported	41,354	44,742
Accounts payable and accrued liabilities- as reported	24,641	25,079
Goodwill - as reported	20,233	20,233
Deferred revenue - as reported	484	368
Deficit - as reported	(9,224)	(9,950)
<b>Adjustments related to discontinued operations and goodwill:</b>		
Accounts receivable	125	—
Accounts payable and accrued liabilities	837	(501)
Goodwill	(13,662)	—
Deferred revenue	—	7,493
Deficit	(14,374)	(6,992)
Accounts receivable - restated	41,479	44,742
Accounts payable and accrued liabilities- restated	25,478	24,578
Goodwill - restated	6,571	20,233
Deferred revenue - restated	484	7,861
Deficit - restated	(23,598)	(16,942)

## **REVIEW OF FISCAL 2008 OPERATIONS (in \$000's)**

### **Revenues**

Revenues for the fiscal year ended September 30, 2008 increased \$12,713 or 5.7% versus fiscal 2007 from \$221,313 to \$234,026. The increase is attributable to organic growth across all sectors of the business, offset by the reduction due to sale of the Careersite business.

Brainhunter's Staffing Division accounted for \$224,660 or 96.0% of total revenues for fiscal 2008 compared to \$214,259 or 96.8% for the same period in fiscal 2007, representing an increase of \$10,401 or 4.9% increase over the prior year period. The increase is mainly attributable to an increase in the IT and Engineering contract staffing business, as a result of organic growth initiatives.

Brainhunter's Solutions Division accounted for \$9,366 or 4.0% of total revenues in fiscal 2008 compared to \$7,054 or 3.2% in the same period in fiscal 2007, representing an increase of \$2,312 or 32.8% over the prior year period. The increase is mainly attributable to a rise in customer activity on existing contracts and a growth in new customer relationships.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During fiscal 2008, 31.1% of revenues related to various Federal Government of Canada agencies and departments, compared to 37.2% of revenues from the prior year. The overall dollar values of revenues derived from the Federal Government has decreased during fiscal 2008 to \$73,279 compared to \$83,050 in the same period prior year. The revenues derived from the Federal Government of Canada are declining as a percentage of total Company revenues as more revenues are derived from other sectors of the business.

Management believes that there are long-term trends in North America, which will provide the Company with significant opportunities to profitably expand the business of the Company:

- The continuing trend by primary IT users to "outsource" IT development projects to Solutions providers like Brainhunter to avoid having a large IT infrastructure
- The continuing trend by large scale Information Technology users and Systems Integrators to use IT contractors for projects in lieu of using permanent employees

Management believes that these trends will significantly drive our revenue and profitability growth in the long term.

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

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

The overall cost of sales increased \$11,830 or 6.3% from \$188,731 in fiscal 2007 to \$200,561 in fiscal 2008, an amount commensurate with the increase in revenues. Cost of sales as a percentage of revenues slightly increased from 85.3% in fiscal 2007 to 85.7% in fiscal 2008, on a period-over-period basis reflecting the evolution in the mix of the business which include significant vendor managed payrolling sales for several Tier-1 customer relationships. This business has lower margins than traditional full-service contract staffing sales because no recruiting function is required.

Cost of sales in the Company's Staffing Division accounted for \$194,785 or 97.1% of the total cost of sales in fiscal 2008 compared to \$184,874 or 98.0% of the total cost of sales in fiscal 2007, representing an increase of \$9,911 or 5.4% increase over the prior year. The gross margin related to the Staffing Division is \$29,875 or 13.3% of related revenues in 2008 compared to \$29,385 or 13.7% of related revenue for the same periods in the prior year. The decrease in gross margin percentage is a result of the vendor managed payrolling sales, as noted above, which have lower margins than the traditional full-service contract staffing sales.

Cost of sales in the Company's Solution Division accounted for \$5,776 or 2.9% of the total cost of sales in fiscal 2008 compared to \$3,857 or 2.0% of the total cost of sales in the prior year, representing an increase of \$1,919 or 49.8% increase over the prior year. The gross margin related to the Solutions Division is \$3,590 or 38.3% of related revenues in fiscal 2008 compared to \$3,197 or 45.3% of related revenue in fiscal 2007. The increase in sales is a result of organic growth in the Solution's Division as a result of new customer relationships and a rise in customer contracts. The decline in gross margin percentages is the result of utilizing more contractors, versus employees, in delivering services.

Overall, the Company reported gross margins of \$33,465 or 14.3% of revenues in fiscal 2008, compared to \$32,582 or 14.7% of revenues fiscal 2007. The gross margin % fluctuates as it is dependent on the level of revenue generated from each division, and changes due to demands and competition in the market place, and as noted above, it has been impacted by the increase in vendor managed payrolling revenues, which have lower gross margin percentage.

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

Other staffing costs have increased \$2,721 or 14.6% to \$21,336 in fiscal 2008, up from \$18,615 in the prior year. The major components of the increase in fiscal 2008 are:

- Sales staff salaries increased by \$2,132. This was deemed necessary by management to properly service the new tier one relationships which the company has obtained. It is expected that additional revenues and margins will flow from the addition of these personnel.
- Finance, IT, HR salaries and management fees increased by \$589, due to the addition of new staff during the fiscal year to meet the increased business needs.

Selling, general and administrative expenses have increased \$2,643 or 37.9% in fiscal 2008 from \$6,982 to \$9,625. The components of the increase are summarized below:

- costs and reserves for current and potential litigation settlements (\$1,041 non-recurring costs recorded in Q2 fiscal 2008)
- amounts spent on the review of Internal Controls pursuant to National Instrument 52-109 (\$515)
- rent for additional office spaces in Toronto, Calgary and UK (\$483)
- Front Office and Back Office development cost (\$300). These costs were capitalized in fiscal 2007 while expensed in fiscal 2008
- increased audit fee for additional work related to sale of careersite (\$158)
- write off of investments in a start-up business (\$108, non-recurring costs recorded in Q2 fiscal 2008)

As a percentage of revenue, total selling, general and administrative costs have increased to 4.1% of revenue in fiscal 2008 versus 3.2% in fiscal 2007.

## **Earnings before internal costs related to the sale of discontinued operations, impairment of goodwill, amortization, interest and taxes (EBITDA)**

As a result of the above, EBITDA is reported as \$2,504 for fiscal 2008 versus \$6,985 for fiscal 2007. EBITDA decreased as percentage of revenue, from 3.2% in 2007 to 1.1% for fiscal 2008.

### **Internal costs related to the sale of discontinued operations**

The Company incurred \$710 of costs directly related to the sale of discontinued operations. These costs are primarily expenses related to work relating to the sale of careersite.

### **Impairment of goodwill**

The Company completed step one of the goodwill impairment test during the third quarter of 2008. In performing the goodwill assessment, it used current market capitalization, discounted cash flows, and other factors as the best evidence of fair value. After completing step one, the Company determined that goodwill was potentially impaired since the estimated fair value of the Company was less than the carrying value. As a result, the Company estimated the step two goodwill impairment by determining the implied fair value of good will in the same manner as if it had acquired the Company as of the date of the step one assessment.

As at September 30, 2008, the Company completed step two of the goodwill impairment test and concluded that goodwill was impaired by \$13,662. As part of this process, the Company engaged an independent valuator to assist in determining the extent of the impairment charge. See “Goodwill Valuation” section.

### **Interest**

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

	<b>2008</b>	<b>2007</b>
Interest expense	3,368	3,003
Interest expense Accreted	1,591	1,474
Interest actually paid in cash	2,872	2,780

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

### **Amortization**

Amortization of property, plant and equipment and intangible assets in fiscal 2008 is \$739 and \$4,403 respectively, an increase of \$21 for property, plant and equipment and a decrease of \$517 for amortization of intangible assets in the prior year.

### **Income Tax Expense**

The provision for income taxes differs from the expense that would be obtained by applying the statutory rate to net income before income taxes as a result of such items as, amounts not deductible for tax purposes, future tax assets and liabilities, and the benefit of losses recorded. The Company has sufficient tax losses acquired through acquisitions to reduce the payment of income taxes but is still subject to corporate minimum taxes, and future tax provisions. The Company has recorded a recovery of \$1,694 for fiscal 2008 versus \$3 for fiscal 2007.

### **Net Loss**

The Company is reporting for a net loss of \$12,335 or \$0.48 per share from Continued Operations, offset by a gain of \$7,940 or \$0.18 per share basic and diluted from Discontinued Operations in fiscal 2008, compared to a net loss of \$3,733 or \$0.09 per share from Continued Operations, offset by earnings of \$782 or \$0.02 per share from Discontinued Operations in fiscal 2007.

## **REVIEW OF FOURTH QUARTER 2008 OPERATIONS (in \$000's)**

During the three months ended September 30, 2008, consolidated revenue increased 0.7% to \$54,102 in 2008 compared to \$53,705 in the corresponding period in 2007. The increase is attributable to organic growth across all sectors of the business, offset by the reduction due to sale of the Careersite business, as discussed in this MD&A.

Consolidated fourth quarter EBITDA grew 12.1% year-over-year to \$1,509 in 2008 compared to \$1,346 in the corresponding period of 2007. The increase was attributed to the increase in sales and elimination of all non-essential spending.

The Company recorded a net loss from continuing operations of \$536 for the three months ended September 30, 2008, or basic and diluted loss per share of \$0.01, compared to a net loss of \$2,258 or basic and diluted loss per share of \$0.05 in the corresponding period of 2007.

## SELECTED YEARLY INFORMATION

For the years ended September 30th (\$,000 except earning per share)		
	2008	2007
<b>Revenue</b>	<b>234,026</b>	<b>221,313</b>
Cost of Sales	200,561	188,731
Gross Margin	33,465	32,582
Other operating costs	30,961	25,597
<b>Earnings before the following:</b>	<b>2,504</b>	<b>6,985</b>
Internal costs related to the sale of discontinued operations	710	—
Impairment of goodwill	13,662	—
Write-off of capital assets	—	120
Transaction costs	—	114
Interest - cash	3,368	3,003
Interest - non cash	1,591	1,474
Amortization of capital assets	739	718
Amortization of intangibles	4,403	4,920
Other	—	372
<b>Loss before tax</b>	<b>(21,969)</b>	<b>(3,736)</b>
Income Tax	(1,694)	(3)
<b>Net loss from continuing operations</b>	<b>(20,275)</b>	<b>(3,733)</b>
Income from discontinued operations	28	782
Gain from disposal of discontinued operations	9,459	—
Income tax expense	1,547	—
<b>Results from discontinued operations</b>	<b>7,940</b>	<b>782</b>
<b>Net loss</b>	<b>(12,335)</b>	<b>(2,951)</b>
Earnings per share Continued operations - Basic and diluted	\$ 0.48	\$ (0.09)
Earnings per share Discontinued operations - Basic and diluted	\$ 0.18	\$ 0.02

The Company's yearly results fluctuate based on a number of factors. Operations are driven by the timing of contracts, business renewals, acquisitions, reorganizations, and are subject to some quarterly seasonality due to the timing of the Federal Government of Canada's year-end, vacation periods and statutory holidays.

## SELECTED QUARTERLY INFORMATION

	<b>Quarter ended</b>			
	<b>Sep 30 2008</b>	<b>June 30 2008</b>	<b>Mar 31 2008</b>	<b>Dec 31 2007</b>
Revenue	54,102	61,013	60,518	58,393
Income before write off of capital assets, transaction costs, interest, amortization and other	1,509	1,235	(1,500)	1,260
Net loss from continuing operations	(536)	(14,561)	(4,144)	(1,034)
Net profit from discontinued operations	(38)	7,905	32	41
Net loss for the period	(574)	(6,656)	(4,112)	(993)
Earnings (loss) per share				
Continuing Operations - Basic and Diluted	(0.01)	(0.35)	(0.09)	(0.02)
Discontinued Operations - Basic	0.00	0.19	0.00	0.00
Discontinued Operations - Diluted	0.00	0.19	0.00	0.00

	<b>Quarter ended</b>			
	<b>Sep 30 2007</b>	<b>June 30 2007</b>	<b>Mar 31 2007</b>	<b>Dec 31 2006</b>
Revenue	53,705	55,679	57,904	54,025
Income before write off of capital assets, transaction costs, interest, amortization and other	1,346	1,818	1,972	1,849
Net loss from continuing operations	(2,258)	(654)	(402)	(419)
Net profit from discontinued operations	245	209	170	158
Net loss for the period	(2,013)	(445)	(232)	(261)
Earnings (loss) per share				
Continuing Operations - Basic and Diluted	(0.05)	(0.02)	(0.01)	(0.01)
Discontinued Operations - Basic	0.01	—	—	—
Discontinued Operations - Diluted	0.01	—	—	—

The comparative quarterly financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

## **LIQUIDITY AND CAPITAL RESOURCES**

As described in the Financial Statements and later in this section of the MD&A, the Company has extended an existing financing bank financing arrangement to September 30, 2009, under the terms of a Standstill agreement and has executed a similar agreement with its debenture holder. The Company is dependent on the support of its bank to maintain sufficient liquidity to execute its plans in an orderly fashion.

### **Summary of Cash Flow**

#### ***Cash Provided by (Used in) Operating Activities***

The Company used \$1,761 cash from continued operating activities for the year ended September 30, 2008 while it generated \$3,651 for the year ended September 30, 2007. This significant change was mainly due to the net loss of \$20,275 during the year, for the reasons as described in “Review of Operations” above.

The improvement in the Accounts Receivable collection process generated \$8,441 non-cash working capital for the year ended September 30, 2008. This was partially offset by the decrease in Accounts Payable. Total increase in non-cash working capital of \$6,414 was used to meet cash required in continued operations.

#### ***Cash Provided by (Used in) Financing Activities***

The Company used \$12,938 cash in financing activities for the year ended September 30, 2008 while provided \$2,124 for the same period in the prior year. The cash flow in fiscal year 2008 reflected repayments of term bank credit facility and long term debt of \$9,075 and \$3,097 respectively.

#### ***Cash Used in Investing Activities***

Cash used in investing activities was \$1,160 for the year ended September 30, 2008 compared with cash usage of \$1,898 for the same period in the prior year. Total cash used in property, plant and equipment expenditures were \$970, including \$470 leasehold improvement additions, of which \$245 was non-cash for the Company’s new premises in Toronto, computer hardware and software \$663, and furniture and fixtures \$82. During fiscal year 2008, the Company paid \$135 contingent considerations to the vendors of Prolink and Protec. The terms of these acquisitions included a guaranteed minimum value of the share consideration of \$2.00 and \$1.20 per share respectively over defined periods as the shares were released from escrow.

#### ***Cash Provided by Discontinued Operations***

The Careersite transaction closed in February, 2008, resulting in the injection of \$9.75 million in cash, \$7.5 million in March, 2008, \$2.0 million in April, 2008 and \$125 thousand in both May and September, 2008, substantially reducing the Company’s credit

requirements. The company also incurred \$291 transaction costs related to the sales of discontinued operations, and used \$42 in operating activities of discontinued operations, resulting in a net cash proceed of \$9,445.

***Future Use of Liquidity***

The nature of the Company’s business requires it to have access to cash to fund the payments to contractors until the related invoices to the Company’s clients can be collected. The Company’s principal requirements for cash during 2008-2009 are primarily expected to consist of funding for operations and the following financing and investment items:

- repayment of term bank credit facility of \$15,409
- repayment of long-term debt of \$16,075
- property, plant and equipment expenditure of \$343, mainly for computer hardware and software

**Contractual Obligations by year (\$000’s)**

		Operating Leases	Long Term Debt		Total
			Pay in Cash	Pay in Shares	
Year ending:	2009	1,574	15,944	200	17,718
	2010	1,467	339	—	1,806
	2011	1,459	—	—	1,459
	2012	1,480	—	—	1,480
	2013	1,459	—	—	1,459
	2014	1,345	—	—	1,345
	2015	526	—	—	526
	Thereafter	274	—	—	274
		9,584	16,283	200	26,067

**Financing Resources**

***Term Credit Facility***

On September 30, 2008 the Company had a revolving demand credit facility of \$26 million from a Schedule "A" bank, which matured October 15, 2008, bearing interest at prime plus 0.5% to 2.0%, depending on a specific bank covenant ratio, and which was collateralized by a general security agreement that constituted a first charge over all the assets of the Company. On September 30, 2008 the Company was in breach of certain bank covenants relating to financial ratios. The term bank credit facility has been classified as current.

### ***Subsequent Financing Arrangement re the Term Credit Facility***

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

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

### **Debenture**

A debenture, as described in Note 7[a] of the Financial Statements with a carrying value of \$5,368 as at September 30, 2008, matured on December 15, 2008. On April 3, 2009, an agreement was executed whereby the debenture, including accrued interest, was extended to September 30, 2009, with an interest rate of 15% per annum payable monthly based on certain financial ratios plus 3% per annum payable at the end of the term. The other terms are similar to the Agreement as described in Note 7[a] of the Financial Statements.

### **Term Notes**

At April 3, 2009, the Company is in the process of issuing \$11 million in Term Notes, subordinated to the term bank credit facility and the debenture. The Term Notes are expected to be issued with a term of January 31, 2010, paying 15% per annum interest payable monthly based on certain financial ratios and carrying 5.5 million share purchase warrants, exercisable to December 31, 2010 at a price of \$0.20 per share. The term notes are expected to be redeemable with no penalty at any time by the Company on 60 days notice. These Term Notes will replace Convertible term notes in place at September 30, 2008 as described in Note 7 of the Financial Statements at carrying values of \$7.726 million and \$2.465 million.

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

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

As at September 30, 2008, the Company recorded a total of \$853 advanced to Related Parties, of which \$410 was an advance to the Chairman of the Company to purchase convertible notes of the Company from other non-related note-holders. The loan bears interest at 8% per annum, is secured by the convertible notes, and is repayable on the maturity dates of the convertible notes, being November 15, 2008. The Chairman holds the convertible notes on the same terms as other holders of the convertible notes. The term of the loan has been extended to coincide with the Term Notes as described above.

## **EBITDA**

Management defines EBITDA as earnings before costs to complete sale of discontinued operations, impairment of goodwill, write off of capital assets, transaction costs, amortization, interest, taxes and other. The Company's method of recording EBITDA may not be comparable to similar measures presented by other companies.

## **CAPITAL TRANSACTIONS**

### **Normal Course Issuer Bid**

In April, 2008, the Company commenced a Normal Course Issuer Bid (NCIB) to purchase for cancellation up to 2,197,921 of its Common Shares, approximately 5% of the Common Shares issued and outstanding as of March 31, 2008. As at September 30, 2008, the Company had purchased for cancellation 1,034,000 Common Shares for an aggregate purchase price of \$392, of which \$448 has been charged to capital stock and \$56 to contributed surplus. The NCIB will expire on April 3, 2009.

### **Conversion of Preferred Shares**

In June 2008, 3,931,193 Series A Preferred Shares were converted to 3,931,193 Common Shares. In August 2008, 428,571 Series A preferred shares were converted to 428,571 common shares.

### **Exercise of Options and Warrants**

The Company granted 100,000 stock options in December 2007, 275,000 stock options in March 2008 and 250,000 stock options in July 2008. The weighted average fair value was \$0.13, \$0.20 and zero respectively. The following assumptions were used in arriving at the fair value of the options using Black-Scholes option pricing model:

Risk-free interest rates:	3.0%-3.69%
Expected life of Option:	5 years
Stock volatility:	46.78%-46.82%

Expected dividend yield: Nil

While no warrants were exercised, 50,000 options were exercised in fiscal 2008, raising \$36 cash for the period. In addition, 1,315,000 warrants and 2,658,134 options expired during the period.

## **OTHER**

### **Changes in Accounting Policies**

Effective fiscal 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535 “Capital Disclosure”, Section 3862 “Financial Instruments – Disclosure” and Section 3863 “Financial Instruments – Presentation”. The adoption of the new standards resulted in additional disclosure with regard to financial instruments and the Company’s objectives, policies and processes for managing capital. These new standards had no impact on the classification and valuation of the Company’s consolidated financial statements for the year ended September 30, 2008.

### **Recently issued accounting pronouncements**

#### ***General Standards on Financial Statement Presentation***

CICA Handbook Section 1400 “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess an entity’s ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The changes are effective for the Company for interim and annual financial statements beginning on October 1, 2008.

#### ***Goodwill and Intangible Assets***

CICA Handbook Section 3064 “Goodwill and Intangible Assets”, which replaces CICA Handbook Section 3062 “Goodwill and Intangible Assets”, and Section 3450 “Research and Development Costs”, establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be recognized in the financial statements under certain circumstances. This standard is effective for the Company for interim and annual financial statements beginning on October 1, 2008. The Company has not yet determined the impact of the adoption of this change on these consolidated financial statements.

#### ***International Financial Reporting Standards (“IFRS”)***

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS,

replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. While the Company has begun evaluating this new framework and assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### ***Business Combinations***

In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations," effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of the adoption of this pronouncement on its consolidated financial statements, the impact will be limited to any future acquisitions beginning in fiscal 2011.

In January 2009, the CICA issued the new handbook Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-Controlling Interests," effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of the adoption of these pronouncements on its consolidated financial statements in fiscal 2011 in connection with its conversion to IFRS.

### ***Fair Value of Financial Assets and Financial Liabilities***

In January 2009, the CICA issued the Emerging Issues Committee (EIC) Abstract EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities," effective for interim and annual financial statements ending on or after January 20, 2009. Earlier adoption of this abstract is permitted. EIC-173 provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, "Financial Instruments—Recognition and Measurement." It states that an entity's

own credit and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 should be applied retrospectively, without restatement of prior periods, to all financial assets and liabilities measured at fair value. The Company will adopt this abstract during the second quarter of the 2009 fiscal year. The Company is currently considering the impact of adopting EIC-173 on its consolidated financial statements and cannot reasonably estimate its effect at this time.

## **Financial Instruments and Risk Management**

Upon adoption of CICA Handbook Section 3855, the Company designated its accounts receivable as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, debt and the term bank facility are classified as other financial liabilities and measured at amortized cost.

The Company had no financial instruments classified as available-for-sale, held-for-trading or held-to-maturity during the year ended September 30, 2008.

The fair values of the Company's current assets and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature.

The fair values of the Company's current assets and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The fair market value of long-term debt approximates carrying value based on the Company's current borrowing rates for similar types of borrowing arrangements.

## **Credit risk**

Credit risk arises from exposure to clients, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counter party credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counter parties, taking into account their financial position, past experience and other factors. The Company manages its credit risk with respect to accounts receivable primarily by dealing with credit worthy customers. Substantially all of the Company's revenue and the resulting accounts receivable are from large companies and governmental agencies.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the year, 31.1% [2007 - 37.2%] of revenue related to various Federal Government of Canada agencies and departments.

At year end, the accounts receivable from all Federal Government of Canada were 25.6% of the Company's total accounts receivable [2007 – 31.0%].

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

	2008
	\$
Accrued but not invoiced trade receivables	1,945
Invoiced receivables within normal payment terms	32,343
Invoiced receivables past normal payment terms but not impaired	1,058
General receivables	838
Allowance for doubtful accounts	(308)
<b>Total accounts receivable, net</b>	<b>35,876</b>

### **Foreign currency rate risk**

The Company is exposed to risk due to fluctuations in the exchange rate of the U.S. dollar in relation to the Canadian dollar. The objective of the Company's foreign exchange risk management is to minimize potential adverse effect on the Company's financial statements. During the year, the Company recorded a \$23[2007 - \$203] foreign exchange loss. Increase in the value of the Canadian dollar can reduce net earnings and declines can result in increased earnings, a +/- 5% change in the key foreign currencies would, everything else being equal, have had the following effect on the Company's reported net loss for the year ended September 30, 2008 of approximately +/- \$200.

### **Interest rate risk**

The objective of the Company's interest rate management is to minimize the volatility of the Company's earnings. The Company is exposed to interest rate risk in the event of fluctuation of the Canadian dollar prime rate on the term bank facility.

At September 30, 2008, the total bank facility outstanding was \$15,409 which is subject to movements in floating interest rates. A +/- 1% change in interest rates would, everything else being equal, have an effect on the Company's net loss for the year ended September 30, 2008 of approximately +/- \$154.

### **Liquidity Risk**

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point of time. The nature of the Company's business requires it to have access to cash to fund the payments to contractors until the related invoices to the Company's clients can be collected. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining relationships with Schedule "A" banks and through the availability of funding from committed credit facilities.

The contractual maturities of the Company's financial liabilities and term bank facilities were presented in notes 7 and 8 of the Financial Statements. The majority of the financial liabilities were restructured subsequent to the balance sheet date.

## **Management of Capital**

The Company defines capital that it manages as the aggregate of its shareholders' equity, term bank facility and interest-bearing debt. The Company's objectives when managing capital are to create an optimal capital structure that safeguards the Company's ability to continue as a going concern while providing optimal returns for shareholders.

As at September 30, 2008, total managed capital was \$32,240 [2007 - \$55,538], comprised of shareholders' equity of \$348 [2007 - \$13,065], term bank facility of \$15,409 [2007 - \$24,484] and interest-bearing debt of \$16,483 [2007 - \$17,989].

## **Transactions with Related Parties**

Related party transactions consist of loans to companies related to the Chairman of the Company which are non-interest bearing and with no fixed repayment terms. The Company also made loans to the Chairman and President of the Company, collateralized by convertible term notes issued by the Company with 8% interest and a maturity date of the convertible note.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

## **Internal Control Over Financial Reporting**

During the most recent period ended September 30, 2008, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **Legal Proceedings**

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

## **Comparative Consolidated Financial Statements**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

## **Additional Information**

Additional information about the Company may be obtained on SEDAR at [www.SEDAR.com](http://www.SEDAR.com).