

**BRAINHUNTER INC.**

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

**July 30, 2008**

## **BASIS OF PRESENTATION**

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

The Company's 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**

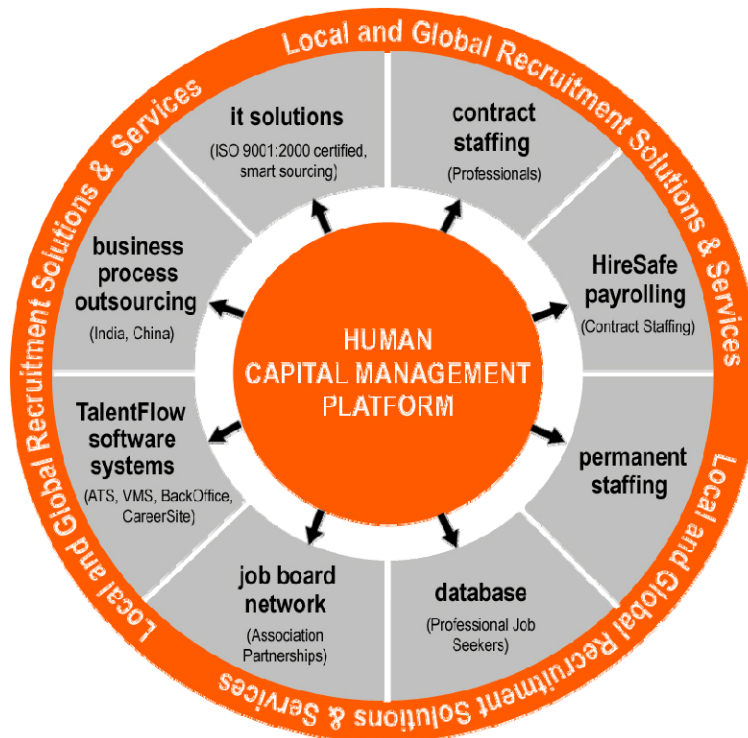
Certain statements in this MD&A may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Brainhunter and its subsidiary entities, or the industry, to be materially different 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; 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’s has over 2,000 clients

including 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 1,800 Contractors / Consultants with an internal staff of over 280 personnel. The Company has delivery capability across Canada including Toronto, Ottawa, Maritimes, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian China, a BPO office in Hyderabad, India and delivery capability in select US jurisdictions and the UK.

## **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 licence 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 on March 3, 2008 the amount of \$7,500 less closing adjustments of \$8 for a net consideration of \$7,492. Further, pursuant to the Agreements, the Company received on April 4, 2008 the amount of \$2,000 for completion of technology migration to Workopolis.

Pursuant to the Agreements the remaining \$500 of the Consideration are paid to the Company at the rate of \$125 per quarter, as agreed quarterly transition milestones are achieved. In May 2008, the Company received \$125 for achieving the 1st milestone. Total consideration received to date is \$9,625.

For Q3 of Fiscal 2008, the Company is recognizing a gain on the disposition of the CareerSite Business of \$1,625, being the proceeds received during the quarter less a reserve of \$500 for anticipated transaction and transition costs. No provision is being recorded for income tax expense as the gain on disposition is shielded from income tax by losses carried forward from previous periods.

The Company's results of operations related to discontinued operations for the 3 months ended June 30, 2008 and 2007 are shown below.

(\$000's)	<b>Three Months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Results of Operations</b>		
Revenues	-	896
Costs and expenses	-	489
	-	407
Sales and marketing	-	163
General & administrative	-	35
Income before gain on disposition	-	209
Gain on disposition	1,625	-
Income before income taxes	1,625	209
Income tax expense	-	-
Net income	1,625	209

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 is also negotiating an arrangement with an association of newspapers in South America to provide the technology for job boards for the members of the association.

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

### **Revenues**

Revenues for the three months ending June 30, 2008 increased \$5,334 or 9.6% versus the three months ending June 30, 2007 from \$55,679 to \$61,013. For the nine months ending June 30, 2008, revenues increased \$13,340 or 8.0% to \$180,661, up from \$167,321 for the same period in the prior year. 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 \$173,744 or 96.2% of total revenues for the nine months ended June 30, 2008 compared to \$162,204 or 96.9% for the same period in fiscal 2007, representing an increase of \$11,540 or 7.1% 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 \$6,917 or 3.8% of total revenues in the first nine months of fiscal 2008 compared to \$5,117 or 3.1% in the same period in fiscal 2007, representing an increase of \$1,800 or 35.2% over the prior year period. The increase is mainly attributable to a rise in customer's 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 the nine months ending June 30, 2008, 32.7% of revenues related to

various Federal Government of Canada agencies and departments, compared to 38.2% of revenues from the prior year. The overall dollar values of revenues derived from the Federal Government has decreased during the nine months ended June 30, 2008 to \$59,010 compared to \$64,923 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 \$4,933 or 10.4% from \$47,553 in Q3 fiscal 2007 to \$52,486 in Q3 fiscal 2008. For the nine months ending June 30, 2008, the cost of sales increased \$11,765 or 8.2% from \$142,848 in the first three quarters of fiscal 2007 to \$154,613 in the first three quarters of fiscal 2008, an amount commensurate with the increase in revenues. Cost of sales as a percentage of revenues slightly increased from 85.4% in the first nine months of fiscal 2007 to 85.6% in the same periods 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 \$150,383 or 97.3% of the total cost of sales in the first three quarters of fiscal 2008 compared to \$140,057 or 98.0% of the total cost of sales in the first three quarters of fiscal 2007, representing an increase of \$10,326 or 7.4% increase over the prior year. The gross margin related to the Staffing Division is \$23,360 or 13.4% of related revenues in the nine months ended June 30, 2008 compared to \$22,147 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 \$4,230 or 2.7% of the total cost of sales in the nine months ended June 30, 2008 compared to \$2,791 or 2.0% of the total cost of sales in same period in the prior year, representing an increase of \$1,439 or 51.6% increase over the prior year. The gross margin related to the Solutions Division is \$2,687 or 38.9% of related revenues in the first three quarters of fiscal 2008 compared to \$2,326 or 45.5% of related revenue for the same period in fiscal 2007. The \$361 or 15.5% 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 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 \$8,527 or 14.0% of revenues in the quarter ending June 30, 2008, compared to \$8,126 or 14.6% of revenues in the quarter ending June 30, 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 \$852 or 18.7% to \$5,399 in Q3 fiscal 2008, up from \$4,547 in the same period in the prior year. For the nine months ended June 30, 2008, other staffing costs have increased from \$13,727 in fiscal 2007 to \$16,749 in fiscal 2008, representing an increase of \$3,022 or 22.0%. The major components of the increase in Q3 2008 are:

- Sales staff salaries increased by \$475. 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 \$377. This was the addition of new staff was hired during the period to meet the increased business needs.

Selling, general and administrative expenses have increased \$132 or 7.5% in Q3 fiscal 2008 from \$1,761 to \$1,893. As a percentage of revenue, the selling, general and administrative costs have remained constant at 3.1% of revenue in Q3 fiscal 2008 versus 3.2% in Q3 fiscal 2007. For the nine months ended June 30, 2008, Selling, general and administrative expenses have increased from \$5,303 in fiscal 2007 to \$8,263 in fiscal 2008, representing an increase of \$2,960 or 55.8%. The components of the increase are summarized below, the majority of which were non-recurring costs that occurred in Q2 fiscal 2008:

- costs and reserves for current and potential litigation settlements (\$1,041, non-recurring costs recorded in Q2 fiscal 2008)
- general provision for uncollectible receivables (\$300, non-recurring costs recorded in Q2 fiscal 2008), giving consideration to a possible down-turn in the economy over the next few quarters
- reserves for employee loans to acquire shares, where the value of the shares as loan collateral has declined as a result of the decline the price of the Company's shares (\$250, non-recurring costs recorded in Q2 fiscal 2008)
- write off of investments in a start-up business (\$108, non-recurring costs recorded in Q2 fiscal 2008)
- amounts spent on the review of Internal Controls pursuant to National Instrument 52-109 (\$395)
- rent for additional office spaces in Toronto, Calgary and UK (\$290)
- Front Office and Back Office development cost (\$154). These costs were capitalized in fiscal 2007 while expensed in fiscal 2008

### **Earnings before interest, taxes and amortization (EBITDA)**

As a result of the above, EBITDA is reported as \$1,235 for Q3 fiscal 2008 versus \$1,818 for Q3 fiscal 2007. On a YTD basis, EBITDA is \$1,036 for the nine months of fiscal 2008 versus \$5,443 for the same nine months of fiscal 2007.

### **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.

(\$000's)	<b>Q3 2008</b>	<b>Q3 2007</b>	<b>Q3 YTD 2008</b>	<b>Q3 YTD 2007</b>
Interest Expense Cash	737	735	2,586	2,228
Interest Expense Non Cash	131	337	876	975

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 capital and intangible assets in Q3 fiscal 2008 is \$476 and \$790 respectively, an increase of \$6 for capital assets and a decrease of \$185 for amortization of intangible assets from the same period of the prior year. For the nine months ending

June 30, 2008, the amortization expense for capital assets increased \$227 to \$1,434 while the amortization for intangible assets decreased \$528 to \$2,398.

In addition, the Company amortized Deferred Financing Cost of \$364 for Q3 2007 and \$997 for the first nine months of fiscal 2007. No amount has been amortized in fiscal 2008. This is because the Company has adopted the new recommendations of the CICA Handbook Section 1530: Comprehensive Income; Section 3251: Equity; Section 3855: Financial Instruments – Recognition and Measurement; and Section 3865: Hedging. Pursuant to these new accounting policies, transaction costs relating to obtaining bank and other debt financing are netted against the carrying value of the related debt and amortized into accreted interest expenses, whereas in the past those costs were deferred and amortized over the term of the related financing.

### **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 nil recovery in Q3 fiscal 2008 compared to a recovery of \$409 in Q3 fiscal 2007, and a recovery of \$221 for the nine months ended June 30, 2008 versus \$1,217 for the nine months ended June 30, 2007.

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

The Company is reporting for Q3 fiscal 2008 a net loss of \$1,048 or \$0.02 per share from Continued Operations, offset by a gain of \$1,625 or \$0.04 per share basic and diluted from Discontinued Operations, compared to a net loss of \$654 or \$0.02 per share from Continued Operations, offset by earnings of \$209 or \$0.01 per share from Discontinued Operations for Q3 fiscal 2007, and a net earning of \$2,464 for the nine months ended June 30, 2008, versus a net loss of \$939 for the nine months ended June 30, 2007.

## SELECTED QUARTERLY INFORMATION

For the Three Months ended June 30th (\$,000 except earning per share)

	2008	2007	2006
<b>Revenue</b>	<b>61,013</b>	<b>55,679</b>	<b>41,433</b>
Cost of Sales	52,486	47,553	34,385
Gross Margin	8,527	8,126	7,048
Other operating costs	7,292	6,307	7,750
<b>EBITDA</b>	<b>1,235</b>	<b>1,819</b>	<b>(702)</b>
Interest - cash	737	736	640
Interest - non cash	131	337	287
Amortization of capital assets	476	470	256
Amortization of intangibles	790	975	1,187
Amortization of deferred financing costs	-	364	272
<b>Earnings (loss) before tax</b>	<b>(899)</b>	<b>(1,063)</b>	<b>(3,344)</b>
Income Tax	-	(409)	(721)
<b>Earnings (loss) from continuing operations</b>	<b>(899)</b>	<b>(654)</b>	<b>(2,623)</b>
Income from discontinued operations	-	209	161
Gain from disposal of discontinued operations	1,625	-	-
<b>Net earnings (loss)</b>	<b>726</b>	<b>(445)</b>	<b>(2,462)</b>
Earnings per share Continued operations - Basic and Diluted	(\$0.02)	(\$0.02)	(\$0.06)
Earnings per share Discontinued operations - Basic	\$0.04	\$ 0.01	\$ -
Earnings per share Discontinued operations - Diluted	\$0.04	\$ -	\$ -
<b>Total assets</b>	<b>78,393</b>	<b>84,214</b>	<b>79,805</b>
<b>Total long-term financial liabilities</b>	<b>33,965</b>	<b>41,108</b>	<b>37,335</b>

For the Nine Months ended June 30th (\$,000 except earning per share)

	2008	2007	2006
<b>Revenue</b>	<b>180,661</b>	<b>167,322</b>	<b>117,556</b>
Cost of Sales	154,613	142,848	98,125
Gross Margin	26,048	24,474	19,431
Other operating costs	25,012	19,031	18,549
<b>EBITDA</b>	<b>1,036</b>	<b>5,443</b>	<b>882</b>
Interest - cash	2,586	2,228	1,620
Interest - non cash	876	975	936
Amortization of capital assets	1,434	1,207	793
Amortization of intangibles	2,397	2,926	3,153
Amortization of deferred financing costs	-	997	508
<b>Earnings (loss) before tax</b>	<b>(6,257)</b>	<b>(2,890)</b>	<b>(6,128)</b>
Income Tax	(221)	(1,217)	(867)
<b>Earnings (loss) from continuing operations</b>	<b>(6,036)</b>	<b>(1,673)</b>	<b>(5,261)</b>
Income from discontinued operations	32	734	378
Gain from disposal of discontinued operations	8,617	-	-
<b>Net earnings (loss)</b>	<b>2,613</b>	<b>(939)</b>	<b>(4,883)</b>
Earnings per share Continued operations - Basic and Diluted	(\$0.14)	(\$0.04)	(\$0.13)
Earnings per share Discontinued operations - Basic	\$0.20	\$ 0.02	\$ 0.01
Earnings per share Discontinued operations - Diluted	\$0.20	\$ 0.02	\$ -

The Company's quarterly 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.

## 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. To that end, the Company relies on cash generated from operations, and has a term credit facility with a Schedule "A" bank.

### Term Credit Facility

The Company has a revolving demand term credit facility from a Schedule "A" bank, initiated November 14, 2005, which facility is collateralized by a general security agreement that constitutes a first charge over all the assets of the Company. The facility bears interest at prime plus 0.5% to 1.5%, depending on a specific bank covenant ratio. The original amount of the facility was \$20,000 with a maturity date of November 14, 2007.

On September 22, 2006, the demand term credit facility was increased from \$20,000 to \$22,000 on substantially the same terms.

On May 14, 2007, the demand term credit facility was increased from \$22,000 to \$26,000 on substantially the same terms, except for covenant amendments, and the term was extended to October 15, 2008.

On December 14, 2007, the demand credit facility was increased until January 14, 2008 by \$4,000 from \$26,000 to \$30,000. This temporary increase was subsequently extended to February 29, 2008. At June 30, 2008, the facility limit stands at \$26,000.

At September 30, 2007, and during the current fiscal year the Company has been in breach of bank covenants relating to specific financial ratios tied to EBITDA. The bank waived the covenant requirement at September 30, 2007 and December 31, 2007.

The CareerSite transaction closed in February, 2008, resulting in the injection of \$9.625 million in cash, \$7.5 million in March, 2008, \$2.0 million in April, 2008 and \$125 thousand in May, 2008, substantially reducing the Company's credit requirements. At June 30, 2008, the balance outstanding of the term credit facility was 66% of bankable trade accounts receivable and 47% of total trade accounts receivable.

The Company is engaged in continuing discussions with the bank and other financing institutions to determine the most appropriate covenants and financing structure that best suits the company's business opportunities on a go forward basis.

### **Cash from Operations**

The Company generated \$2,130 cash from continued operating activities for the nine months ending June 30, 2008 while generating \$2 for the same nine months ending June 30, 2007.

For the nine months ending June 30, 2008, non-cash working capital increased \$3,797. The improvement in non-cash working capital was mainly due to the reduction in Accounts Receivable of \$3,091 and the increase in Accounts Payable of \$782, but offset by the increased Prepaids and Deposits of \$60 and decrease in Deferred Revenue of \$116.

### Obligations by year (\$000's)

		Long Term Debt			Total
		Operating Leases	Pay in Cash	Pay in Shares	
Year ending:	2008	\$457	\$199	\$200	\$856
	2009	\$1,659	\$15,318	-	\$16,976
	2010	\$1,467	\$312	-	\$1,779
	2011	\$1,459	-	-	\$1,459
	2012	\$1,480	-	-	\$1,480
	2013	\$1,459	-	-	\$1,459
	2014	\$1,345	-	-	\$1,345
	2015	\$526	-	-	\$526
	2016	\$253	-	-	\$253
	2017	\$21	-	-	\$21
		<b>\$10,126</b>	<b>\$15,828</b>	<b>\$200</b>	<b>\$26,154</b>

### Advances to Related Parties and Share Purchase Loans

As at June 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. No new advances were made to Related Parties in Q3 2008.

### Repayment of Long-term Obligations

The Company repaid \$785 of long-term debt during Q3 fiscal 2008, compared to a repayment of \$1,045 in the same quarter of 2007. On a YTD basis, the Company repaid \$2,986 of long-term debt during the nine months ended June 30, 2008 compared to a repayment of \$2,354 for the same period of the prior year. All of the repayments were scheduled payments of long-term debt.

### Capital Expenditures

The Company recorded \$123 of Capital Expenditures during Q3 fiscal 2008, compared to \$39 for same period in fiscal 2007. During the nine months ended June 30, 2008, the Company spent \$658 compared to \$764 spent in the nine months ended June 30, 2007. The current expenditures were made primarily in computer hardware and software (\$76), Furniture & Office Equipment (\$20) and leasehold improvements of (\$27) for the Company's new premises in Toronto.

## **EBITDA**

Management defines EBITDA as earnings before amortization, interest and taxes. 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 June 30, 2008, the Company had purchased for cancellation 691,000 Common Shares for an aggregate purchase price of \$288, of which \$298 has been charged to capital stock and \$10 to contributed surplus. The NCIB will expire on April 3, 2009.

### **Conversion of Preferred Share**

In June 2008, 3,931,193 Series A Preferred Shares were converted to 3,931,193 Common Shares. The Series A Preferred Shares may be converted at the discretion of the holder at any time into one Common Share for each Preferred Share held and are voting.

### **Exercise of Options**

The Company granted 100,000 stock options in December 2007 and 275,000 stock options in March 2008. The weighted average fair value was \$0.13 and \$0.20, 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 options were exercised in Q3 fiscal 2008, 1,000,000 options and 500,000 warrants expired during the period.

## **OTHER**

### **Changes in Accounting Policies**

Effective fiscal 2008, the Company adopted Canadian Institute of Chartered Accountants Handbook (“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 process for managing capital. These new standards had no impact on the classification and valuation of the Company’s consolidated financial statements for the quarter ended June 30, 2008.

### **Future Changes in Significant Accounting Policies**

The CICA has issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Section 1000, Financial Statement Concepts, was amended to provide consistency with this new standard. Section 1400 was also amended to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. The new and amended standards will be effective for the Company’s 2009 fiscal year. The Company is currently assessing the impact of these standards on its 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.

### **Financial Instruments and Risk Management**

Upon adoption of 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 three-month period ended June 30, 2008.

The fair values of the Company's current assets and current 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**

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, well-established companies and governmental agencies. A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the period ended June 30, 2008, 30% of revenues related to various Federal Government of Canada agencies and departments [2007 – 37%]. At period end, the accounts receivable from all Federal Government of Canada were 29% of the Company's total accounts receivable [2007 - 31%].

The following table sets out details of the age of accounts receivable that are outstanding and related allowance for doubtful accounts. The Company considers \$31 to be impaired:

	<b>June 30, 2008</b>
	<b>\$</b>
Accrued but not invoiced trade receivables	2,295
Invoiced receivables within normal payment terms	37,438
Invoiced receivables past normal payment terms but not impaired	1,091
Invoiced receivables impaired	31
Miscellaneous receivables	812
Allowance for doubtful accounts	(313)
<b>Total Accounts Receivable, net</b>	<b>41,354</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. In the three month period ending June 30, 2008 the Company recorded a foreign exchange loss of \$13 [2007 - \$118 gain]. 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 three and nine month ended June 30, 2008 of approximately +/- \$63 and +/- \$161, respectively.

## **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 June 30, 2008, the total bank facility outstanding was \$18,086 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 three and nine month ended June 30, 2008 of approximately +/- \$45 and +/- \$136, respectively.

## **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 the Company's consolidated financial statements for the quarter ended June 30, 2008. The company is currently negotiating term financing facilities intended to repay these liabilities as they mature.

## **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 June 30, 2008, total managed capital was \$49,398 [September 30, 2007 - \$55,538], comprised of shareholders' equity of \$15,284 [September 30, 2007 - \$13,065], term bank facility of \$18,086 [September 30, 2007 - \$24,484] and interest-bearing debt of \$16,028 [September 30, 2007 - \$17,989].

## **Transactions with Related Parties**

Other than as described above, no transactions were executed or contemplated between the Company and Related Parties during the period ended June 30, 2008.

## **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 ending June 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.

## **Additional Information**

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