

TREKLOGIC TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

for the QUARTER ended DECEMBER 31, 2003

TREKLOGIC TECHNOLOGIES INC. CONSOLIDATED BALANCE SHEET

	Dec 31, 2003	Sept 30, 2003
Cash	\$0	\$0
Accounts Receivable	12,343,734	8,851,358
Income Taxes Recoverable (Note 3)	490,674	785,296
Prepays and deposits	568,965	208,161
Future Income Tax Asset (Note 4)	<u>1,000,000</u>	<u>1,000,000</u>
Total Current Assets	<u>14,403,373</u>	<u>10,844,815</u>
Capital Assets (net of depreciation) (Note 5)	3,110,452	3,178,864
Goodwill and Intangibles (Note 6)	8,081,643	2,881,643
Notes Receivable from Related Parties (Note 7)	442,803	442,803
Future Income Tax Asset (Note 4)	<u>3,391,012</u>	<u>3,391,012</u>
Total Non-current assets	<u>15,025,910</u>	<u>9,894,322</u>
Total Assets	<u>\$29,429,283</u>	<u>\$20,739,137</u>
Bank Indebtedness (net of cash on hand) (Note 8)	\$4,675,035	\$110,818
Accounts payable and accrued liabilities	6,618,620	4,826,076
Current Portion of Long Term Debt (Note 9)	2,022,596	1,745,425
Deferred Revenue	<u>75,000</u>	<u>66,396</u>
Total Current Liabilities	<u>13,391,251</u>	<u>6,748,715</u>
Long Term Obligations (Note 9)	<u>1,633,749</u>	<u>1,252,898</u>
Non-Controlling Interests (Note 10)	<u>75,880</u>	<u>60,761</u>
Common Shares (Note 11)	11,335,286	10,129,346
Retained Earnings	<u>2,993,117</u>	<u>2,547,417</u>
Total Equity	<u>14,328,403</u>	<u>12,676,763</u>
Total Liabilities and Equity	<u>\$29,429,283</u>	<u>\$20,739,137</u>

TREKLOGIC TECHNOLOGIES INC.

CONSOLIDATED INCOME STATEMENT

	3 months ended Dec 31	
	2003	2002
Revenue		
Services	\$2,245,496	\$931,863
Product sales	198,771	52,575
Staffing	<u>13,860,914</u>	<u>1,175,253</u>
Total Revenue	<u>16,305,181</u>	<u>2,159,691</u>
Cost of revenues	<u>12,129,491</u>	<u>1,153,628</u>
Gross margin	<u>4,175,690</u>	<u>1,006,063</u>
Other staffing costs	2,046,035	431,859
General, selling and administrative	<u>942,653</u>	<u>164,136</u>
Total Expenses	<u>2,988,688</u>	<u>595,995</u>
Earnings from Operations	<u>1,187,002</u>	<u>410,068</u>
Integration Costs	<u>135,000</u>	<u>0</u>
Earnings before Interest, Taxes and Amortization	<u>1,052,002</u>	<u>410,068</u>
Interest (net)	90,543	0
Amortization	<u>206,018</u>	<u>14,916</u>
Total Interest and Amortization	<u>296,561</u>	<u>14,916</u>
Income before income taxes	<u>755,441</u>	<u>395,152</u>
Income taxes	<u>294,622</u>	<u>141,369</u>
Net income for the period	<u>460,819</u>	<u>253,783</u>
Non-controlling Interests	<u>15,119</u>	<u>0</u>
Income attributable to common shares	<u>445,700</u>	<u>253,783</u>
Retained earnings, start of period	<u>2,547,417</u>	<u>1,652,506</u>
Retained earnings, end of period	<u>\$2,993,117</u>	<u>\$1,906,289</u>
Earnings per share--basic	\$0.012	\$0.012
Earnings per share--diluted	\$0.010	\$0.010
Average number of shares--basic	38,586,218	20,911,398
Average number of shares--diluted	47,341,777	24,431,334

TREKLOGIC TECHNOLOGIES INC.

CONSOLIDATED STATEMENT of CASH FLOWS

	3 months ended Dec 31	
	2003	2002
Cash provided by:		
Operating Activities		
Net Income	\$445,700	\$253,785
Adjustments for items not affecting cash:		
Non-controlling interest	15,119	0
Amortization	<u>206,018</u>	<u>14,916</u>
	666,837	268,701
Net change in non-cash operating working capital (Note 12)	<u>(537,731)</u>	<u>(163,774)</u>
	<u>129,106</u>	<u>104,927</u>
Investing Activities		
Business Acquisitions	(6,524,571)	0
Advances to Related Parties	0	1,531
Purchase of Capital assets	<u>(32,714)</u>	<u>(18,438)</u>
	<u>(6,557,285)</u>	<u>(16,907)</u>
Financing activities		
Funds received for private placement	0	106,823
Shares Issued	1,205,940	0
Proceeds from long term obligations	1,058,620	0
Repayment of long term obligations	(400,598)	0
Advances to related parties	<u>0</u>	<u>0</u>
	<u>1,863,962</u>	<u>106,823</u>
Increase (decrease) in cash	(4,564,217)	194,843
Cash (Bank Indebtedness) beginning of period	<u>(110,818)</u>	<u>408,268</u>
Cash (Bank Indebtedness) end of period	<u>(\$4,675,035)</u>	<u>\$603,111</u>

TREKLOGIC TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

For the Quarter Ending December 31, 2003

1. Summary of significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of TrekLogic Technologies Inc. and from their respective dates of acquisition of control, its wholly owned subsidiaries, collectively referred to herein as the "Company". The Company's 62.3% interest of InBusiness Solutions Inc. over which the Company has effective control is consolidated. All significant intercompany balances and transactions have been eliminated on consolidation.

Subsidiary companies:

- 100% owned companies:
 - TrekLogic Inc.
 - Xycorp Inc.
 - Brainhunter.com Ltd. ("Brainhunter")
 - Advanced Solutions Group Inc. ("Advanced")
 - Protec Employment Services Limited ("Protec")
 - Prolink Consulting Inc. ("Prolink")
 - Sirius Consulting Group Inc. ("Sirius")

- 62.3% owned company
 - InBusiness Solutions Inc. ("InBusiness")

Revenue recognition

The Company provides computer and engineer consultant placements to customers based on written agreements. Revenue from contracts that are earned over a period of time is recognized monthly when clients are billed for hours worked at agreed rates. Other one-time fees earned for individual placements are recognized in the month the individual commences the new job.

The Company enters into written contracts with customers to complete specific software consulting projects. Customer billings are prepared monthly based on hours worked and agreed rates, at which time revenue is recognized. To a significantly lesser degree certain other contracts are fixed-price, for which revenue is recognized monthly using the percentage of completion basis, based on management estimates.

The Company markets third-party software for which customers are billed upon delivery. The Company also supplies consulting and training services related to the software, for which revenue is recognized when these services are provided.

The Company earns revenue from software licenses for in-house developed software and implementation fees, that is deferred and amortized over the term of the license. Software implementation revenue is recognized in the period the implementation is completed.

Service revenue on fixed price contracts is recognized on a percentage-of-completion basis whereby revenue is recorded at estimated net realizable value of work completed to date. Estimated losses on contracts in progress are recognized when known. Deferred revenue represents amounts billed in advance of satisfying the related service.

Business combinations and goodwill

The Company follows the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1581, Business Combinations, and Handbook Section 3062, Goodwill and other intangible assets. These standards require that all business combinations be accounted for using the purchase method. Additionally goodwill, an asset with an indefinite life, is no longer amortized, but is tested for impairment on an annual basis.

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired or liabilities assumed.

The Company assesses the carrying value of goodwill for future recoverability on an ongoing basis. Goodwill is written down for any impairment in value that is not considered temporary.

Intangibles

Intangible assets, comprising trademarks, tradenames, internet domain addresses, patented technology and customer contracts and related relationships are being amortized on a straight-line basis over their estimated period of benefit which varies from two to five years.

Capital assets

Capital assets are recorded at cost, less related investment tax credits. Amortization is provided for over the estimated useful lives of the related assets at the following annual rates and methods:

Furniture and office equipment	20% declining balance
Computer equipment	30% declining balance
Computer software	100% declining balance
Leasehold improvements	Straight-line over the lease term
Developed software	The greater of: a) the ratio that current revenues earn relative to the future gross revenues, and b) the straight-line method

over 5 years.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement values and tax value of assets and liabilities and for the benefit of tax losses that are carried forward to offset future years' current taxes payable if they are likely to be realized.

The Company establishes a valuation allowance against future income tax assets if, based upon available information, it is more likely than not that some of or all of the future income tax assets may not be realized.

Stock-based compensation plan

The Company has adopted the new recommendations of the CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, which requires that a fair value-based method of accounting be applied to all stock-based payments. This recommendation allows the Company to continue its existing policy of treating all other employee and director stock options as capital transactions (the settlement method), but requires pro forma disclosure of net income and per share information as if the Company has accounted for these stock options under the fair value method. No restatement of prior periods is required as a result of the adoption of the new recommendations.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year end. Items in the statement of income and retained earnings are translated into Canadian dollars using exchange rates in effect on the transaction dates. Gains and losses from translation are included in earnings for the current year.

Estimates and assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the allowance for potentially uncollectible accounts receivable, accrued liabilities, the length of product cycles and the related useful life of capital assets, and providing for the recovery of investment tax credits, all of which are based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on financial statements of changes in estimates in future periods could be significant. Actual results could differ from those estimates.

Research and development

Research and development costs are expensed as incurred.

Investment tax credits

Investment tax credits relating to qualifying research and development expenditures are recorded as a reduction of expenses when the related costs are incurred and there is reasonable assurance that the credits will be realized.

Financial instruments and foreign exchange risk

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

The Company sells primarily to large, well-established customers.

The Company is exposed to risk due to fluctuations in the exchange rate of the U.S. dollar.

2. Acquisitions

The following business acquisitions occurred during the quarter:

- (a) Effective October 1, 2003, the Company acquired 100% of the shares of Prolink Consulting Inc. ("Prolink"), an information technology staffing company. Consideration includes 550,000 common shares of the Company with a deemed value of \$2 per share, 355,000 common share purchase warrants priced at \$1.85 and vesting over a three-year period and a cash amount, to be determined, based on working capital. All shares have escrow periods up to three years tied to management contracts and performance criteria. Results of Prolink are included in the consolidated financial statements of the Company as of the effective date.
- (b) Effective November 1, 2003, the Company acquired 100% of the shares of Sirius Consulting Group Inc. ("Sirius"), an information technology staffing company. Consideration includes \$3.0M of cash and a \$1.0M two-year transferable convertible note at an interest rate tied to 90-day treasury bills, exercisable at \$3.00 per common share of the Company. The convertible note has quarterly repayment terms over a two-year period. Additionally, the Company issued 250,000 common share purchase warrants with an exercise price of \$1.96 vesting over three years and a cash amount, to be determined, based on working capital. Results of Sirius are included in the consolidated financial statements of the Company as of the effective date.

3. Income Taxes recoverable, net of taxes payable

Investment tax credits recoverable	\$943,724
Income tax expense for year ending September 30	<u>(158,428)</u>
Balance September 30, 2003	785,296
Income tax expense for the Quarter ending December 31	<u>(294,622)</u>
Balance December 31, 2003	<u>\$490,674</u>

4. Future income tax asset

The future income tax asset is comprised of and summarized as follows:

Future income tax assets	
Non-capital loss carryforwards	\$6,807,073
Difference between book value and tax basis of capital assets	(234,064)
Share issue costs and other	<u>225,600</u>
	6,798,609
Valuation allowance for future income tax assets	<u>(2,307,597)</u>
Total future income tax assets	4,491,012
Less: Future income tax liabilities	
Investment tax credits	<u>100,000</u>
Net future income tax assets	<u>\$4,391,012</u>

Presented as:

Current future income tax asset	\$1,000,000
Long-term future income tax asset	<u>3,391,012</u>
	<u>\$4,391,012</u>

The Company and its subsidiaries have approximately \$18,094,000 of Federal and Provincial losses available to deduct against future taxable income. These losses expire as follows:

2004	\$331,000
2005	525,000
2006	2,485,000
2007	6,012,000
2008	4,275,000
2009	3,651,000
2010	<u>815,000</u>
	<u>\$18,094,000</u>

5. **Capital assets**

	Cost	Accum Dep'n	Net Book Value	
			Dec 31	Sep 30
			2003	2003
Computer equipment	\$2,761,068	\$2,029,702	\$731,366	\$700,060
Furniture and office equipment	1,175,025	744,952	430,073	412,980
Leasehold improvements	369,187	188,250	180,937	192,752
Computer software	617,733	549,657	68,075	73,072
Developed software	2,029,410	329,410	1,700,000	1,800,000
Total	\$6,952,423	\$3,841,970	\$3,110,452	\$3,178,864

6. **Goodwill and other intangibles**

Goodwill and other intangibles are summarized as follows:

	Goodwill	Intangibles	Total
Balance September 30, 2003	\$2,489,879	\$391,764	\$2,881,643
Acquisition of Prolink	1,150,000	0	1,150,000
Acquisition of Sirius	<u>4,050,000</u>	<u>0</u>	<u>4,050,000</u>
Balance December 31, 2003	\$7,689,879	\$391,764	\$8,081,643

7. **Notes Receivable from related parties**

	Dec 31 <u>2003</u>	Sep 30 <u>2003</u>
Loans to shareholders, collateralized by pledges of Company shares	\$259,105	\$259,105
Unsecured loans to related parties	<u>183,698</u>	<u>183,698</u>
	<u>\$442,803</u>	<u>\$442,803</u>

\$200,000 of the balance of loans to shareholders bears interest at 5%, accumulated monthly to be repaid in full by March 31, 2005.

The balance of amounts due from related parties are non-interest bearing with no stated terms of repayment.

8. Bank indebtedness

	Dec 31	Sep 30
	2003	2003
Cash on hand, net of outstanding cheques	\$2,248,563	\$1,469,182
Operating Loan	<u>(6,923,598)</u>	<u>(1,580,000)</u>
Bank Indebtedness (net of Cash)	(\$4,675,035)	(\$110,818)

Bank indebtedness consists of cash, a bank operating facility and outstanding cheques. The bank operating facility bears interest at prime plus 1.5% and is collateralized by a general security agreement that constitutes a first charge on all assets of the Company.

The operating loan was substantially reduced by the proceeds of the \$10.0 million private placement finalized February 2, 2004.

At September 30, 2003 the credit facility was \$4,000,000. In anticipation of the acquisitions of ProLink and Sirius the Company increased its credit facility to \$7,000,000, finalized on January 16, 2004.

9. Long-term debt

Long-term debt consists of the following:

Promissory note, incurred to acquire Brainhunter, non-interest bearing, payable quarterly at the lesser of 2% of net sales of TrekLogic or \$75,000	\$690,367
Brainhunter acquisition obligation payable March 10, 2006 in common stock of the Company based on the weighted average trading price for previous twenty days or in cash, however the holders have the right to refuse a cash offer and elect to accept shares	458,382
Promissory note, incurred to acquire the IT assets of Thinkpath Inc., non-interest bearing, payable quarterly at \$15,000, with final payment due June 27, 2004	60,000
Promissory note, non-interest bearing, payable yearly beginning October 2004, at the greater of \$75,000 or a formula based on ProTec's income	300,000

InBusiness convertible debenture, bearing interest at 6% calculated monthly. This debenture was converted subsequent to December 31, 2003 in anticipation of the acquisition of the outstanding shares of InBusiness by the Company	986,075
Bank term loan, at prime plus .75%, repayable in equal monthly principal payments of \$4,167	66,652
Acquisition obligation, non-interest bearing, with monthly payments of \$12,083	36,249
Prolink equipment loan	30,060
Prolink equipment loan. This was paid off January 2004	28,560
Convertible Debenture issued to acquire Sirius	<u>1,000,000</u>
	3,656,345
Less current portion	<u>2,022,596</u>
	<u>\$1,633,749</u>

Anticipated long-term debt re-payment and conversion obligations are as follows:

Period ending Sep 2004 (includes conversion of \$986,075 InBusiness convertible debenture)	\$1,778,447
Year ending Sep 2005	904,149
Year ending Sep 2006	823,749
Year ending Sep 2007	75,000
Year ending Sep 2008	<u>75,000</u>
Total	\$3,656,345

10. Non-controlling interest

Non-controlling interest is the non-controlling shareholders interest of 37.7% in InBusiness.

Subsequent to December 31, the majority of this interest has been purchased.

11. Capital stock

- (a) Authorized
 Unlimited number of common shares
 Unlimited number of preferred shares
 Unlimited number of non-cumulative, non-redeemable, non-retractable, convertible, voting Series A Preferred Shares
- (b) The following tables summarize the capital stock activity since September 30, 2003:

	Shares		\$
Common Shares			
Balance September 30, 2003	33,971,537		\$7,751,301
Shares Issued on Exercise of Options and Warrants	248,186		105,940
Shares Issued on Acquisition of ProLink	<u>550,000</u>		<u>1,100,000</u>
Balance December 31, 2003	34,769,723		8,957,241
Series 'A' Preferred Shares			
Balance Sep 30, 2003 and Dec 31, 2003	<u>4,614,861</u>		<u>2,378,045</u>
Total December 31, 2003	<u>39,384,584</u>		<u>\$11,335,286</u>

The Series A preferred shares are convertible at the discretion of the holder at any time into one common share for each preference share held, and are voting.

- (c) Escrowed shares

Certain shares are held in escrow following issuance for varying lengths of time due to normal regulatory procedures or due to agreements between the Company and those to whom the shares are issued.

	Released	Escrowed	Total
Balance September 30, 2003	23,732,217	10,239,320	33,971,537
December Quarter Activity			
Exercises of Options and Warrants	248,186	0	248,186
Released from escrow	4,285,714	(4,285,714)	0
Acquisition of ProLink	<u>0</u>	<u>550,000</u>	<u>550,000</u>
Balance December 31, 2003	28,266,117	6,503,606	34,769,723

Expected dates of release from escrow:

2004	January	4,086,939
	February	100,000
	May	550,000
	July	433,334
	August	150,000
2005	February	150,000
	July	433,333
	August	150,000
2006	February	150,000
	August	150,000
2007	February	150,000
	Total	6,503,606

(d) Options

On January 27, 2000, the Company established a stock option plan for its original directors and officers, reserving for issuance 280,000 shares. The options vested August 23, 2000 and expire August 22, 2005 at a price of \$0.20 per common share. To date, no options have been exercised.

During 2002, the Company established a stock option plan for its employees and directors, exercisable at \$0.30 per share, expiring on July 22, 2007. Under the terms of the plan the Company reserved for issuance 2,091,141 shares. Director shares vest 25% immediately on issue, 25% six months from date of issue, 25% twelve months from date of issue and 25% eighteen months from date of issue. Employee options can be exercised as to 1/3 after one year and a further 1/3 after years two and three.

During 2003, the Company amended the stock option plan for its employees and directors. Under the terms of the plan the Company reserved for issuance a total of 4,182,279 shares.

The following table summarizes the stock option activity for the quarter ending December 31, 2003:

Exercise price	Term of Options	Options Outstanding			Exercisable Dec 31/03
		Out-standing Sep 30/03	Exercised During Quarter	Out-standing Dec 31/03	
\$0.20	April, 2005	280,000	0	280,000	280,000
\$0.30	July, 2007	1,489,940	(6,000)	1,483,940	771,700
\$0.35	Feb, 2008	412,400	0	412,400	0
\$0.50	June, 2008	1,000,000	0	1,000,000	0
\$0.71	July, 2008	1,200,000	0	1,200,000	0
		4,382,340	(6,000)	4,376,340	1,051,700

(e) Warrants

The following table summarizes the warrant activity for the quarter ending December 31, 2003:

Exercise price	Term of Warrants	Warrants Outstanding				Exercisable Dec 31/03
		Outstanding Sep 30/03	Issued During Quarter	Exercised During Quarter	Outstanding Dec 31/03	
\$0.30	Sep, 2004	1,670,895	0	(17,121)	1,653,774	1,653,774
\$0.35	Dec, 2004	1,040,930	0	(152,319)	888,611	771,700
\$0.50	April, 2006	472,746	0	(22,746)	450,000	450,000
\$0.70	July, 2006	307,143	0	(50,000)	257,143	257,143
\$1.80	Sep, 2006	50,000	0	0	50,000	0
\$2.09	Oct, 2006	226,000	0	0	226,000	0
\$2.09	April, 2007	500,000	0	0	500,000	0
\$0.81	Oct, 2006	0	175,000	0	175,000	0
\$2.11	Nov, 2006	0	125,000	0	125,000	0
\$1.85	Jan, 2007	0	355,000	0	355,000	0
\$1.96	Jan, 2007	0	250,000	0	250,000	0
		4,267,714	905,000	(242,186)	4,930,528	3,132,617

12. Net change in non-cash working capital items

The net changes in non-cash working capital items, after removing the effects of the acquisitions of Prolink and Sirius are as follows:

Accounts Receivable	\$465,622
Income Taxes Recoverable	294,622
Prepays and deposits	(312,944)
Future Income tax asset	0
Accounts Payable	(1,270,806)
Current Portion of Long Term Debt	277,171
Deferred Revenue	8,604
Net	(\$537,731)

13. Commitments and contingencies

The Company is committed to premise lease payments as follows:

2004	-	\$	494,312
2005	-		477,119
2006	-		144,000

InBusiness Solutions Inc. has been the subject of legal claims with respect to certain acquisition activities. A counter claim has been filed with respect to one of the claims. Management does not believe they will incur any liability and accordingly, no provision has been made in these financial statements other than for legal costs.

14. Segmented information

The Company operates in two reportable segments, namely “Staffing” and “Solutions”. Staffing involves the placement of computer and engineering personnel generally under the supervision of the customer, whereas Solutions involves the implementation of solutions that meet a customer’s specific business needs.

The Company evaluates performance and allocates resources based on earnings before income taxes. The Company does not segregate assets between Staffing and Solutions. The accounting policies of the segments are the same as those described in Note 1.

	Staffing	Solutions	Total
Revenue	\$13,860,914	\$2,444,268	\$16,305,182
Earnings before interest, amortization, income taxes and non-controlling interest	\$737,747	\$314,255	\$1,052,002

The Company's revenues are earned in North America with 7% from the United States, the balance from Canada.

All capital assets are attributable to operations located in Canada.

15. Subsequent events

- (a) On February 2, 2004, the Company completed a private placement of 5,555,556 common shares at \$1.80 per share for gross proceeds of \$10.0M. In connection with this private placement, the Company issued compensation warrants exercisable to acquire an aggregate of 283,335 common shares at \$1.88. Insiders acquired approximately \$3.7M of the financing.
- (b) The Company has offered to purchase all the issued and outstanding common shares of InBusiness so as to take the Company's ownership interest to 100% from 62.3%. The cost to purchase the remaining shares, after the related debt is converted, is anticipated to be \$4.8M.

16. Comparatives

Certain comparative figures on the consolidated statement of earnings and retained earnings have been changed to be consistent with the current quarter's presentation.