BRAINHUNTER INC.

Management Discussion and Analysis
For the Year Ending September 30, 2005

February 8, 2006

BASIS OF PRESENTATION

The Management's Discussion and Analysis, dated February 8, 2006 should be read in conjunction with the audited consolidated financial statements and the accompanying notes. 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"). All dollar amounts are in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

All statements in this MD&A that do not directly and exclusively relate to historical facts constitute "forward-looking statements". These statements are based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to projections of revenues, earnings, segment performance, cash flows, and contract awards. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation and not restricted to the timing and size of new contracts, acquisitions and other corporate developments, the ability to attract and retain qualified individuals, market competition in the rapidly evolving information technology industry, general economic and business conditions, foreign exchanges, and the status or outcome of legal and/or regulatory proceedings.

All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on the Company's behalf are qualified by the cautionary statements in this section. The Company does not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

BUSINESS OVERVIEW

Brainhunter is an ISO 9001:2000 Certified "Technology Driven Professional Services Business". The Company uses its Recruiting and Staffing Technology Platform to provide a competitive advantage in building a Professional Services Practice around the Contract Staffing sector of the economy.

Brainhunter specializes in providing end-to-end recruiting and staffing solutions and services in IT, Engineering, Industrial and Health Care professionals, on a full time and contract basis, along with web enabled software solutions handling all aspects of the recruiting and staffing relationship between customer, contractor and agency, including all back office functions and the outsourcing of specialized business processes. Technology and services are provided to customers throughout Canada, the United States and globally under the brand Brainhunter, and drives a multifaceted revenue stream in seven related practice areas including:

1. **Contract Staffing** (Annuity Revenue) **– High Growth /** Full Service / Administrative
2. **Permanent Staffing** (Transaction Fees / Retainers) **– Strategic Service /** Full Service / Virtual Agency
3. **Specialized Job Boards** (Posting Fees / Subscriptions) **– High Growth /** Traditional Job Posting Model (Customers)/ Reverse Job Posting Model (Job Seekers) / Database Access Model (Customers)
4. **Technology Sales** (Licenses / Services) **– Strategic Service** / Applicant Tracking / System / Vendor Management System / Back Office Systems
5. **Professional Services / Solutions Delivery** (Project Revenue) **– Strategic Servic**e / Brainhunter Technology Platform Development, Support, Customization / Outsourcing
6. **Business Process Outsourcing ("BPO") Centre** (Annuity Revenue) **– High Growth /** 24/7 Recruiting Support / Sales and Customer Support / 24/7 Telemarketing / Joint Venture Outsourcing of Specialized Business Processes / Including Software Development
7. **Infrastructure Services** (Annuity Revenue) **– High Growth** / Back Office Administration / Receivables Factoring / Recruiting Support

Brainhunter's Technology Platform and Best practices are believed to deliver the most cost effective, flexible and customizable recruiting and staffing solutions and processes in the marketplace today. The Platform is deployed internally and is sold externally in a modular capacity or as a fully integrated end-to-end solution on an ASP Model to customers in conjunction with Brainhunter's extensive Job Board Technology and Job Seeker Database capability (over 1.2 million resumes). It is supported by the Company's Professional Services division, which employs approximately 50 highly specialized, fully billable technical staff, operating on a highly profitable outsourcing business model.

Brainhunter is a publicly traded company with a senior listing on the Toronto Stock Exchange. Brainhunter deploys over 1,200 Contractors / Consultants with an internal staff of over 200 personnel. The Company has delivery capability in Toronto, Ottawa, Maritimes, Montréal, Calgary, Edmonton, Vancouver, activities in Dalian China and a BPO office in Hyderabad, India.

THE YEAR TO DATE IN REVIEW

Overview

After making 10 acquisitions in 3 years, the Company has been focusing on:

- consolidating the businesses, including offices, accounting systems, personnel, etc.;
- phasing out those sections of the acquired businesses, which are deemed “non-core” to the major lines of business;
- investing in and expanding the sales, recruiting and technology infrastructure for the core businesses; and
- investing in executive management and systems infrastructure to manage the next stage of acquisition growth.

In the *Contract Staffing* sector, the focus has been on enhancing our preferred supplier arrangements with large users of IT or Engineering contract services. During the year, our preferred supplier arrangements increased to over 60, expanding the Company’s coverage in Quebec and Alberta.

The company has successfully launched its Business Process Outsourcing (“BPO”) centre in India. The centre is now fully operational and has signed 15 new supplier agreements in the USA and 12 in India. In addition, the BPO operation has several Recruiting Process Outsourcing proposals for major clients in the pipeline. The BPO Centre provides recruiting support for Brainhunter’s Canadian and U.S. Staffing activities and marketing support for Brainhunter’s North American Job Board business.

Brainhunter has launched a separate Permanent Staffing Group. The group has added over 36 major Fortune 1,000 clients to the Company’s base of business, has grown to 6 people and has enjoyed growing profitability almost from its creation.

Brainhunter has made a significant investment in its operational infrastructure through the development of a comprehensive and robust Back Office System, along with significant enhancements to the Applicant Tracking and Vendor Management applications. The Back Office System will dramatically improve internal efficiencies and allow Brainhunter to service customers better. More importantly, the Back Office System provides Brainhunter with a major competitive advantage in positioning the Company as a Master Vendor providing the operational infrastructure that manages the Contract Staffing Business processes in the relationship between Agency, Customer and Job Seekers

Brainhunter has completed its marketing and branding realignment, brand rationalization and unified corporate identity program enterprise-wide across the 10 acquired entities. In addition, the Company has implemented a brand awareness advertising campaign that will carry on into early Fiscal 2006 throughout key geographic areas in Canada

In the *Specialized Job Boards* sector, significant progress was made. Brainhunter now operates 106 specialized Job Boards, up from 65 at the beginning of the year. An arrangement was finalized with one of the largest Diversity groups in Canada, which will add significantly to Brainhunter's Diversity Hiring initiatives. Progress was also made on sales and marketing initiatives with the launch of Passport, which allows customers to significantly improve access to the complete range of Brainhunter specialized job boards. Sales are now tracking close to $2.0 million per annum for job postings alone, up from approximately $1.0 million the year before.

In the *Technology Sales* sector, Vision2Hire was acquired (see below), expanding Brainhunter's installed base of applicant tracking systems ("ATS") to over 100 customers on a national basis. Additionally, the development program for the ATS, Vendor Management Systems and Back Office Systems was substantially completed. The platform has been implemented internally and is now being marketed to the Brainhunter customer base on both a modular individual application basis and as a total integrated personnel procurement system.

In the *Professional Services / Solutions Delivery* sector, a small acquisition, Promethean Systems Consultants Inc. (see below) was completed, which will, in addition to other benefits, add senior sales skills to the sector and broaden Brainhunter's specialty practice area to include a very strong Microsoft practice. Additionally, operations have been expanded to include close alliances in China, which allows Brainhunter to launch a very competitively priced "Smart Sourcing" model.

Acquisitions

Vision2Hire Solutions

100% of the common shares of Vision2Hire Solutions Inc. ("V2H") were acquired for cash and convertible notes. The convertible notes have a nominal value of $446,054, pay no interest over their three-year term, and are to be repaid $55,757 quarterly beginning February 11, 2006. The notes are convertible over their term to common shares of the Company at an exercise price of $2.00 per share. In accordance with CICA 3860, the convertible notes are to be separated into two components: a financial liability to make future payments and an equity instrument that is effectively a call option granting the holder the right, for a specified period of time, to convert into common shares of the Company. The Company has calculated the fair value of the financial liability component of the convertible notes to be $393,014 by discounting the quarterly payments using an effective interest rate of 6% per annum. This discount on the convertible notes is being charged to interest expense over the term of the loan. The carrying amount of the equity instrument, $53,040, was determined by deducting the fair value of the financial liability from the amount of the convertible notes as a whole. The results of V2H have been consolidated commencing December 1, 2004

Promethean System Consultants Inc

Promethean Systems Consultants Inc. ("Promethean") was acquired in exchange for 150,000 shares of the Company and 266,125 share purchase warrants of the Company exercisable at a price of $1.00 per share for a period of 4 years. Of the warrants issued, 157,422 were released from escrow in September, 2005, and the remaining 108,703 will be released at a rate of 1/3 per year, beginning May, 2006. The fair value of the warrants was estimated using the Black-Scholes option pricing model. Key valuation assumptions include estimated terms of 2 and 3 years, risk-free interest rates of 3.06% and 3.28%, and stock volatility of .4963 based on a 3-year trading history. In addition, the Company undertook for three years to make $1,500 monthly interest payments on bank debt of the former shareholders of Promethean, as well as guaranteeing that bank debt up to an amount of $100,000. The monthly interest payments have been recorded as a long-term debt with a fair value of $49,307, representing the present value of the payments calculated using a discount rate of 6% per annum. The results of Promethean have been consolidated commencing January 1, 2005.

AJJA Information Technology Consultants Inc. (subsequent to year end)
On October 11, 2005 the Company completed the purchase of 100% of the shares of AJJA Information Technology Consultants Inc. ("AJJA"), an information technology staffing company. Consideration includes $6.2 million of cash, a $4 million convertible note, 500,000 common share purchase warrants, and $1.54 million of vendor-take-back loans. Beginning December 31, 2006, the convertible note will pay quarterly principal plus interest payments at a rate tied to 90-day Canadian Treasury Bills, and is convertible at any time at $1.00 per common share of the Company. The warrants are exercisable at $1.00 per Company common share for a period of 36 months, and are released annually from escrow in equal amounts over the same period. Results of AJJA will be included in the consolidated financial statements of the Company effective October 11, 2005.

iGate Mastech Ltd. (subsequent to year end)
On November 16, 2005 the Company completed the purchase of 100% of the shares of iGate Mastech Ltd. ("iGate"), an information technology staffing company. Consideration includes $12.3 million of cash and a $500,000 2-year deferred-payment promissory note, paying quarterly interest only payments at a rate tied to 90-day Canadian Treasury Bills. Results of iGate will be included in the consolidated financial statements of the Company effective November 16, 2005.

Normal-course Issuer Bid
In October, 2004, under the terms of a Normal-course Issuer Bid, the Company acquired 29,409 common shares of the Company in the public markets for a cost of $26,615 including transaction costs for an average cost of $0.91 per share. With the acquisition of these shares, this Normal-course Issuer Bid has been completed.

Business Process Outsourcing
In February, 2005 the company opened a Business Process Outsourcing ("BPO") office in Hyderabad, India. As noted previously, the primary task, initially, was to support North American recruiting and staffing activities. The focus has now been expanded to include global customers with operations in the local Indian market and to provide total outsourcing personnel procurement solutions for select North American customers. The division has now reached the point where the business in the local market is covering costs.

Financing

On November 16, 2005 the Company obtained a revolving demand credit facility of $20,000,000 from a Schedule "A" bank, with a term of two years, bearing interest at prime plus 0.5% to 1.5%, collateralized by a general security agreement that constitutes a first charge over all the assets of the Company. A portion of the proceeds was used to retire the $10,000,000 facility in place at September 30, 2005.

On November 16, 2005 the Company issued a debenture of $5,000,000, repayable December 15, 2008, paying interest only during the term on a quarterly basis at 12% per annum. The debenture is collateralized by a floating charge on all assets, subordinated only to the general security agreement held by the Company's bank. The lender was issued 1,000,000 common share purchase warrants of the Company, exercisable at $1.00 per common share at any time, with total return to the lender guaranteed at 15%.

Subsequent to the year end the Company issued convertible term notes of $7,856,000 with a term of three years, paying interest only during the term at 8% per annum. The notes are collateralized by a floating charge on the Company's assets, subordinated to the security of the Company's bank and the debenture. The notes are convertible at $1.50 of face value per Company common share at any time, and were accompanied by 500 common share purchase warrants of the Company per $1,000 face value, exercisable at $1.00 per common share at any time. After 12 months, should the Company's common shares trade above a weighted average trading price of $2.00 over 20 days, the Company retains the option to require holders of these convertible term notes to convert or redeem them.

SELECTED ANNUAL INFORMATION

For the period ending September 30th ($,000 except earnings per share)

	2005	**2004**	**2003**
Revenue	**$76,061**	**$68,893**	**$22,282**
Cost of sales	59,984	54,869	15,632
Gross margin	**16,077**	**14,024**	**6,650**
Other operating costs	15,128	10,958	4,857
EBITDA	**950**	**3,066**	**1,793**
Interest	475	426	154
Amortization	2,012	3,386	506
Earnings before tax	**(1,537)**	**(745)**	**1,133**
Income tax	1,853	(548)	239
Net earnings (loss)	**(3,391)**	**(197)**	**894**
Earnings per share-basic	($0.08)	$0.00	$0.03
Earnings per share-fully diluted	($0.08)	$0.00	$0.03
Total assets	**$38,093**	**$35,102**	**$20,739**
Total long-term financial liabilities	**$1,055**	**$1,120**	**$1,253**

REVIEW OF OPERATIONS

Revenues

Revenues for the Fiscal year ending September 30, 2005 increased $7,167,931 or 10.4%, to $76,061,391 in the current year, up from $68,893,460 in the prior year. The increase is attributable to the inclusion of a full year of the 2004 acquisition of Sirius Consulting Group Inc., the addition of the 2005 acquisitions, Vision2Hire Solutions Inc. and Promethean Systems Consultants Inc., and an increase in the Staffing business offset by a decline in the Solutions business.

Brainhunter's Staffing Division accounted for $70.06 million or 92.1% of total revenues compared to $61.56 million or 89.4% in 2004, representing an increase of $8.48 million or 13.7% increase over the prior year. As noted above, the increase is mainly attributable to; the inclusion of a full year of the 2004 Ottawa based acquisition of Sirius Consulting Group Inc. (approximately $1.53 million), the revenue relating to the 2005 acquisition of Promethean ($1.4 million) and V2H ($340,000), an $8.4 million increase, mainly in the Toronto IT staffing market, as a result of organic growth and being classified as the primary vendor on contract arrangements, offset by a decrease of approximately $3.6 million in engineering staffing and is attributable equally to a decline in engineering contracts and a strategic withdrawal from low margin industrial staffing business.

Brainhunter's Solutions Division accounted for $6.00 million or 7.9% of total revenues compared to $7.33 million or 10.6% in 2004, representing a decrease of $1.32 million or 17.9% decrease over the prior year. The decrease is mainly attributable to a $1 million decline in a customer's activity on contracts compared to the prior year. The customer represents 80% of the solutions business, however, is less then 8% of the total revenue of the Company.

A significant portion of the Company's revenue is derived from the Federal Government of Canada. During the year, 43% of revenues related to various Federal Government of Canada agencies and departments, compared to 45% in the prior year. The acquisition of AJJA and iGate subsequent to year-end is expected to increase the revenue for 2006 with the Federal Government of Canada's agencies and departments to a percentage of revenues consistent with the current year.

Management believes that there are trends in North America, which will provide the Company with significant opportunities in 2006 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 coupled with the two acquisitions of iGate and Ajja, closed subsequent to year-end will significantly drive our revenue and profitability growth in 2006.

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

The overall Cost of sales increased $5,115,045 or 9.3% from $54,869,138 in 2004 to $59,984,183 in 2005, an amount commensurate with the increase in revenues. Cost of sales as a % of revenues, decreased from 79.6% to 78.9% on a year-over-year basis reflecting the evolution in the mix of the business. The increase took place with the addition of the 2005 acquisitions, which has combined industry cost of sales norms in the 55-60% range and in Contract Staffing, which has industry cost of sales norms in the 78-82% range.

Cost of sales in the Company's Staffing Division accounted for $56.4 million or 95.6% of the total cost of sales in the current year compared to $51.56 million or 94% in 2004, representing an increase of $4.84 million or 13.7% increase over the prior year. The gross margin related to the Staffing Division was $13.2 million or 18.8% of related revenues in 2005, compared to $10.2 million or 16.4% of related revenue in the prior year. The increase in growth margin is due to higher gross margins being achieved on new or renewed contracts, a focus on higher gross margin business, and the 2005 acquisitions gross margin in the 40-45% range which lifted the overall Staffing division's gross margin by 1%.

Cost of sales in the Company's Solution Division accounted for $3.1 million or 5.7% of the total cost of sales in 2005 compared to $3.4 million or 5.2% in 2004, representing a decrease of $0.3 million or a 9% decrease over the prior year. The gross margin related to the Solutions Division was $2.9 million or 48.1% of related revenues in 2005, compared to $3.9 million or 53.2% of related revenue in the prior year. The $1 million decrease in gross margin is consistent with the decline in revenue from the prior year and as a result of a significant portion of the cost of sales being attributable to a fixed employee base.

Overall, the Company reported gross margins of $16,077,208 or 21.1% of revenues in 2005 compared to $14,024,322 or 20.4% of revenues in 2004. 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. The Company anticipates the overall gross margin in 2006 to decline slightly to the 19.5%-20% range as a result of the Staffing Division acquisitions of Ajja and iGate completed subsequent to year end. Staffing Division gross margins are typically less then Solutions Division gross margins, and with Staffing Divisions revenues increasingly substantially with these acquisitions, the consolidated gross margins are expected to decline marginally.

Overhead expenses ("Other Staffing Costs" and "General, Selling and Administrative")
Overhead expenses showed an increase in Fiscal 2005 versus Fiscal 2004 of $4,169,865, from $10,957,849 to $15,127,538 representing a 38.1% increase. As a % of Revenue, overhead expenses were 19.9%, up from 15.9% the previous year.

The largest increases in the Overhead costs for Fiscal 2005 are as follows:
- insurance fees increased from approximately $150,000 to $236,000;
- marketing and branding costs increased from $255,000 to $745,000;
- real estate costs increased from $662,000 to $1,223,000;
- management, consulting, accounting and legal fees related to the previously-announced proposed Limited Partnership acquisition strategy increased from $788,029 to $2,827,287; and
- travel and entertainment costs increased from $160,000 to $359,000.

Additionally, the Company recorded in excess of $300,000 of reorganization expenses, including severance costs incurred where Brainhunter made certain management changes that better positioned the Company to handle the growth from acquisitions. The largest increase was related to management, consulting, accounting and legal fees related to infrastructure and personnel costs required to prepare Brainhunter for the growth strategy in Fiscal 2006, the first transaction closing in October and the second closing in November 2005 together which approximately doubled sales.

In total, excluding legal fees and brand development costs, Brainhunter has increased its annual fixed costs in excess of $3,000,000. These costs have been added primarily to ensure the infrastructure is in place to better manage the growth from organic and acquisition initiatives. Upon achieving targeted revenue levels through acquisitions and organic growth, Brainhunter management's anticipates the targeted level of Overhead costs is in the range of 12%-14% of Revenue, down from the 19.3% experienced in fiscal 2005.

Earnings before Interest, Taxes and Amortization (EBITDA)
As a result of the above, EBITDA is reported as $949,359 for Fiscal 2005 versus $3,066,338 for Fiscal 2004. EBITDA declined as a % of Revenue, from 4.5% in the year ending September, 2004 to 1.3% in year ending September, 2005. As noted previously, the decline is largely due to the increase in selling, general and administrative expenses from 4.5% of sales to 9% of sales. The Ajja and iGate acquisitions are expected to restore EBITDA to previous levels.

Interest
Interest costs slightly increased by $48,791 from 2004 to 2005 as a result of financing the increased Working Capital requirements of the increased business. Interest costs are increasing over time commensurate with the increase in Revenues, being the cost of financing accounts receivable for contract staffing and solutions business. Interest has remained constant at less than 1% of revenue through Fiscal 2004 and Fiscal 2005 YTD.

The interest costs are predominantly related to the Company's current line of credit with the Royal Bank, but also includes imputed interest on non-interest bearing vendor take-back debt on certain acquisitions. The imputed interest changes are approximately $55,855 for Fiscal 2005 compared to $38,744 for Fiscal 2004. Please see discussion of Imputed Interest expense elsewhere in this document.

Amortization
Amortization expense decreased by $1,373,646, from $3,385,655 in Fiscal 2004 to $2,012,009 in Fiscal 2005. The largest portion of Amortization expense is the amortization of Intangible Assets. The decrease is mainly due to one-time write off's in 2004 of Intangibles, including acquired Intangibles with InBusiness Solutions Inc. and relating to now-inactive businesses in an amount of approximately $400,000. Please see discussion of changes regarding Intangible Assets elsewhere in this document.

Earnings before Income Tax
Based on all of the above, the Company is reporting a loss before income taxes of $1,537,270 for Fiscal 2005 versus a loss of $745,146 for Fiscal 2004. As noted previously, the loss is largely the result of amortization expenses of intangible assets from acquisition activities.

Income Tax Expense
The provision for income taxes differs from the expense that would be obtained by applying the statutory rate to net income before income taxes as a result of such items as, amounts not deductible for taxes purposes, future tax assets and liabilities, and the benefit of loss recorded. The Company has sufficient tax losses acquired through acquisitions to eliminate the payment of income taxes for Fiscal 2005 but is still subject to Provincial capital taxes and corporate minimum taxes. As a result the Company is recording a provision for $3,411 in taxes currently payable arising from capital taxes and corporate minimum taxes.

The bulk of the Company's provision for income taxes of $1,853,488 consists of a provision for future income taxes of $1,850,077 based largely on timing differences resulting from the capitalization of software development costs and intangible expenses.

Net Earnings
The Company is reporting a Net Loss of $3,390,758 or $0.08 per share basic and diluted for the year compared to a Net Loss of $196,820 or $0.00 per share basic and diluted in 2004.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table provides summary financial data for our last eight quarters:

(Expressed in thousands of dollars, except per share amounts)	Quarter ended			
	Sep 30 2005	Jun 30 2005	Mar 31 2005	Dec 31 2004
Revenue	$18,707	$ 20,017	$ 19,548	$ 17,789
Net income (loss)	($3,516)	($246)	$235	$136
Net income (loss) per share - Basic	($0.08)	($0.01)	$0.01	$0.00
- Diluted	($0.08)	($0.01)	$0.01	$0.00
	Sep 30 2004	Jun 30 2004	Mar 31 2004	Dec 31 2003
Revenue	$16,576	$ 17,463	$ 18,549	$ 16,305
Net income (loss)	($546)	($80)	$489	($60)
Net income (loss) per share - Basic	($0.01)	($0.00)	$0.01	($0.00)
- Diluted	($0.01)	($0.00)	$0.01	($0.00)

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.

The Company recognizes revenue as work is performed and revenue and profitability are negatively impacted as a result of statutory holidays and vacation periods. Typically, the Company's first and fourth quarter indicate reduced revenue and profitability levels as a result of the Christmas season and summer vacation period. The second quarter's revenue and profitability are normally positively impacted due to the Federal Government of Canada's March 31st year-end as consultants are fully utilized and additional consultants are engaged to finalize the work.

Liquidity

Cash and Bank Indebtedness

At September 30, 2005, the Company reported Bank Indebtedness of $10,578,481, consisting of the actual draw against the Company's line of credit of $9,933,660 plus the net of outstanding cheques offset by cash on hand of $350,570. This compares to the Company reported Bank Indebtedness of $5,920,652 at September 30, 2004 consisting of the actual draw against the Company's line of credit was $6,688,000, reduced by the net of cash and outstanding cheques of $767,348.

The Company's line of credit as at September 30, 2005 was $10,000,000, increased from $7,000,000 on October 29, 2004. The Company's interest rate is Prime + 1.5%. During 2005 the terms of the Company's credit facility were amended. In connection with an amendment to the credit facility, the Company agreed to raise no less than $3 million of new capital on or before December 31, 2005.

Subsequent to year end, the Company obtained a credit facility of $20 million from Toronto Dominion Bank.

Cash used in Operations for the year was $3,124,979, versus Cash from Operations of $820,052 for Fiscal Year 2004. This trend mainly reflects the Net Loss in the current year of $3,390,758 versus the Net Loss of $196,820 in Fiscal Year 2004, and the net change in non-cash working capital which decreased from $(1,507,550) in Fiscal Year 2004 to $(3,692,369) in Fiscal Year 2005, a decrease of $2,184,819. The largest component was an increase in accounts receivable, due to growth in revenues and accommodations to certain clients equaling payment terms.

Issue of Common Shares

The Company raised $584,500 during the 2005 fiscal year on the exercise of common share purchase warrants compared to $703,717 during Fiscal 2004 and $150,670 on the exercise of common share options compared to $40,319 in Fiscal 2004. No issues of shares through placements were effected in Fiscal 2005 compared to $9,254,535 in Fiscal 2004 arising from a $10,000,000 private placement in February, 2004, net of costs.

Purchase of common Shares

Under the terms of a Normal-course Issuer Bid, the company acquired 29,409 shares at a total cost of $26,615 in October, 2004. Of that amount, $12,940 is recorded as a reduction in Share Capital and $13,675 is recorded as a reduction in Retained Earnings. This compares to $2,028,414 spent in fiscal 2004, of which $918,452 is recorded as a reduction in Share Capital and $1,333,172 is recorded as a reduction in Retained Earnings.

Advances to Related Parties and Share Purchase Loans

The company recorded a net repayment of $48,539 for Notes Due from Related Parties during the year, compared to $112,104 in the prior year. In Fiscal 2005 the company advanced $228,500 to individuals to acquire shares in the Company, compared to $688,022 in Fiscal 2004. The advances to acquire shares are collateralized by the Company shares. The loans are part of employment contracts for new senior management personnel. They are accounted for as an offset to Share Capital.

Long-term Obligations

The Company repaid $356,000 of Long Term Debt during the year compared to a repayment of $2,089,574 in Fiscal Year 2004. During the year the company received $358,000 as funds against a Convertible Financing completed in Fiscal 2006, proceeds of which were used to fund working capital.

Business Acquisitions

The Company reported cash outlay of $54,038, net of cash acquired, to acquire Vision2Hire and Promethean in the first half of the year. This compares to the outlay of $10,167,091 recorded for Fiscal 2004 when the Company was completed the acquisitions of InBusiness Solutions Inc., Sirius Consulting and Prolink Consulting.

Capital Expenditures

The Company spent $2,133,617 on Capital Expenditures during 2005, the largest items being approximately $1,500,000 which was spent enhancing the Brainhunter software, $175,000 on Computer Hardware and $190,000 on Leasehold Improvements for the expansion of the new head office.

Share-based Compensation Plan

Under the transitional provision of revised CICA Handbook Section 3870 *Stock-Based Compensation and other Stock-Based Payments,* the Company has adopted the fair value method of accounting for the stock options granted under its Share Option Plan in the year ended September 30, 2005. The retroactive adoption requires that the Company expense the fair value of stock options granted, modified, or settled during the fiscal year 2005 and subsequent; prior periods are not restated and an adjustment is made to the opening balance of retained earnings of the current period to reflect the cumulative effect of the change on prior periods. The fair value was determined on a basis consistent with that used in the Company's disclosure under the former Section 3870 and reported by the Company annually since October 1, 2002. The fair value of stock options is determined using the Black-Scholes option pricing model. The charge for the year ended September 30, 2005 for share-based compensation was $243,376. The adjustment to the opening balance of retained earnings of the current year was $757,648.

EBITDA

Management defines EBITDA as earnings before amortization, interest and taxes. The Company's method of calculating EBITDA may not be comparable to similar measures presented by other companies.

Obligations by year ($,000)

				Long Term Debt		Total
			Operating Leases	Pay in Cash	Pay in Shares	
Year ending:	Sept	2006	$1,141	$622	$444	$2,207
	Sept	2007	$823	$316		$1,139
	Sept	2008	$823	$67		$890
	Sept	2009	$662	$358		$1,020
	Sept	2010	$662	$0		$662
	Sept	2011	$662	$0		$662
	Sept	2012	$662	$0		$662
	Sept	2013	$662	$0		$662
	Sept	2014	$662	$0		$662
	Sept	2015	$165	$0		$165
	Total		**$6,922**	**$1,363**	**$444**	**$8,729**

REVIEW OF ACCOUNTING POLICIES AND RESULTING RESTATEMENT

Background

Ernst & Young LLP ("Ernst & Young") were appointed as auditors of Brainhunter for Fiscal 2005 on March 31, 2005 at the annual shareholders' meeting. Ernst & Young's first assignment under the terms of its engagement was to review the financial statements of Brainhunter for the period ending March 31, 2005, being the second quarter of Fiscal 2005. In the context of the review, Ernst & Young advised Brainhunter to review certain of its accounting policies, specifically:

- accounting for Goodwill, and consideration of the possibility that some of the Goodwill should have been allocated to Intangible Assets;
- accounting for the rent-free period of Brainhunter's corporate head office lease; and
- recording of imputed interest costs on interest-free debt which Brainhunter issued in the form of Vendor Take-backs on the above mentioned acquisitions
- accounting for the issue of employee-retention warrants in the context of completing acquisitions
- accounting for Investment Tax Credits
- accounting for the amortizing of internally-developed software.

Brainhunter has completed its review of the above and determined that certain restatements are warranted.

Accounting for Goodwill and Intangible Expenses

Brainhunter had made acquisitions which resulted in $12.8 million in Goodwill on the Balance Sheet as at September 30, 2004, approximately $10.1 million of which was recorded in Fiscal 2004.

For the Fiscal years ending September 2003 and 2004, the Company, in the context of its annual audit, reviewed the accounting for its acquisitions and determined at that time that the portion of the purchase price in excess of tangible assets was properly allocated to Goodwill and to Future Income Tax Assets, where the acquired companies had losses for Income Tax Purposes which could be utilized. No amounts were assigned to intangible assets such as customer contracts, customer lists, etc. and accordingly, the tax effect on any such allocations was not considered.

Brainhunter had not allocated a portion of the Goodwill to Intangible Assets as Brainhunter had determined that, in general, the tests were not met for inclusion in the suggested categories of Intangible Assets, namely Contracts and Customer Relationships. In general, it was felt that the contracts and customer relationships acquired were not firm enough to meet the criteria. Although they were ongoing relationships and the experience had been a high renewal rate, the contracts could be cancelled by the client without penalty with notice of between 10 to 30 days, depending on the client.

In the context of all major financial relationships, including banking relationships not giving any credit for goodwill and deducting it in their financial analyses of the Company, Brainhunter has allocated a portion of Goodwill to Intangible Assets.

As a result of conducting the review, and specifically the review and analysis of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1581, Brainhunter has allocated $5.4 million of $12.8 million of Goodwill to Intangible Assets as follows:

- Customer Relationships $4.1 million
- Contracts 1.1 million
- Non-compete agreements .2 million

The allocation of $5.4 million of Goodwill to Intangible Assets above creates an offsetting tax effect whereby Goodwill is increased by an amount of $2.1 million (the $5.4 million allocated to Goodwill at the current tax rate of 38%) and a Future Income Tax Liability is created in the same amount. This Future Income Tax Liability will, in the normal course, be drawn down as an offset and at the same rate as the Intangible Assets are amortized. For clarification, the creation of the Future Income Tax Liability is for accounting purposes only, and being effectively a notional liability only, has no impact on actual taxes payable.

The net immediate effect is to reduce Goodwill from $12.8 million to $7.4 million and then immediately increase it to $9.5 million.

As well, Brainhunter has recorded a charge for Amortization of the above-noted Intangible Assets for the year ended September 30, 2004 of $2.1 million, which, together with offsetting Income Tax adjustments of $0.9 million has resulted in a net adjustment to Net Income of $1.2 million for the year. This adjustment has no impact on EBITDA or cash flow but it does reduce reported Net Income after taxes.

Brainhunter has made this adjustment by restating its opening balance sheet for Fiscal 2005 and the comparative income statement and cash flow for the year ended September 30, 2004, including the impact on each quarter, as the quarterly financial statements are issued throughout Fiscal 2005.

Accounting for Lease Inducement (Free-Rent)
Brainhunter executed a lease in February, 2004 for the period April 1, 2004 to December 31, 2014, i.e. 10 years and 9 months. The nine months April 1, 2004 to December 31, 2004 were free of all rent cost, including basic rent and additional rent (taxes, operating costs, etc.). Part of the nine months was to allow time for the construction of leasehold improvements, including extensive air-conditioning for the server room. Brainhunter personnel moved into the premises over the period from June to September, from four different locations.

The Company did not account for a rent expense in the new premises in the period April, 2004 to September, 2004 because:

- the space was free of cost
- although technically the lease was executed as of April 1, 2004, Brainhunter was not able to occupy the space until the leaseholds had been completed. The major leasehold improvement was the installation of a dedicated roof-top air conditioning unit for the server room. Brainhunter regarded a portion of the free rent period as the construction period which normally precedes the start of a lease, and could have structured the lease documents to delay the actual start date of the lease until the end of the construction period. This would have reduced the amount of the restated rent expense.
- Brainhunter personnel did not occupy the space from the beginning, moving in stages from June 1 to September 20
- Brainhunter was still paying rent on other premises that could not be sublet, and recording rent would result in abnormal overhead expenses.

As a result of conducting its review, and specifically of CICA EIC 21 “Accounting for Lease Inducements by the Lessee” Brainhunter has taken the total of the rent expected to be paid over the 10 years (i.e. 120 months) from January 1, 2005 to December 31, 2014 and divided that total over the 129 months from April 1, 2004 to December 31, 2014 and will expense it over that 129 month period. The result is a rent expense for the period April to September, 2004 of $238,000 for the 6 month period, with reductions in rent expense of approximately $3,000 per month in later months of the lease term. This treatment that averages the rent expense, applies only to the new leased premises and does not apply to the four other premises in Toronto.

This accounting treatment for rent expense has no impact on actual cash flow, but from an accounting perspective it reduces EBITDA and Net Income.

Imputed Interest on Interest-Free debt

Brainhunter's standard consideration for each acquisition was a combination of cash, shares, options and (where appropriate) non interest-bearing notes (essentially Vendor take-backs). This last component was to ensure the Company had some opportunity for claw-back if the representations made by the Vendors turned out to be inaccurate or overstated. The first such debt instrument was issued March, 2003. Brainhunter had not recorded an expense for imputed interest as the amount owed was not viewed by management in the same light as funds borrowed but viewed simply as a portion of the purchase price of the acquisition that was delayed by agreement with the vendors. Additionally, the Vendor Take Back had convertible features.

As a result of conducting its review, and specifically of CICA Handbook Section 3855 "Financial Instruments—Recognition and Measurements", specifically Paragraph 55 "Initial Measurement of Financial Assets and Financial Liabilities", Brainhunter has discounted the non-interest bearing notes for accounting purposes and recorded an expense for the interest imputed on those notes. The cumulative imputed interest expense to the end of Fiscal 2004 is $100k. The Imputed Interest calculation was made at an average current borrowing rate of 6% against those Vendor Take-Backs which had no interest component. Vendor Take-backs with interest terms averaging in the 2% to 4% range were not part of the calculation.

Accounting for Purchase of Acquisitions

The Company has reviewed the accounting for certain of its acquisitions and the relevant guidance under Canadian GAAP. As a result, the Company has excluded from the purchase consideration the common share purchase warrants issued to the employees of Prolink ($83,820) and Sirius ($143,231) and other staffing costs ($350,000) allocated to these acquisitions. The effect of this restatement was to reduce goodwill by $577,051 and increase other staffing costs by $350,000 for the year ended September 30, 2004.

Investment Tax Credits

The company has reviewed its accounting for investment tax credits. As a result, the Company has reduced its investment tax credits recoverable by $158,165 at September 30, 2004 and increased other staffing costs for the year then ended by the same amount

Developed Software

The Company has reviewed its policy on the amortization of internally developed software and the relevant guidance under Canadian GAAP. As a result, the Company has reversed that portion of amortization ($92,043) charged in the year ended September 30, 2004 pertaining to developed software that had not yet been deployed

Summary of Changes

The changes made to Fiscal 2004 are to decrease EBITDA by $746,167, and Net Earnings by $1,919,879 however, there is no impact on actual cash flow from any of the changes. Please see Consolidated Financial Statements for charts setting out the changes.

OTHER

Transactions with Related Parties

The Company as a matter of policy does not transact its normal business with entities controlled by executives, insiders or related parties. The Company has made loans to certain senior executives to acquire shares in the Company as part of their employment agreements.

Legal Proceedings

The company is involved in several pieces of litigation. Management believes the litigations are without merit and that the provisions, which have already been made by the Company, are sufficient to offset any uncertainties.

Financial Instruments and Other Instruments

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

The Company sells primarily to large, well-established customers. The Company is exposed to risk due to fluctuations in the exchange rate of the U.S. dollar. In 2005 the Company recorded a $21,893 (2004 - $100,453) foreign exchange loss.

Additional Information

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