Consolidated Financial Statements

Brainhunter Inc.

September 30, 2005

AUDITORS' REPORT

To the Shareholders of
Brainhunter Inc.

We have audited the consolidated balance sheet of **Brainhunter Inc.** as at September 30, 2005 and the consolidated statement of operations and loss, (deficit) retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2004 and for the year then ended, prior to adjustment for the change in accounting policies and for the restatements described in note 2, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated December 13, 2004. We have audited the adjustments to the 2004 consolidated financial statements as described in note 2 and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Ernst & Young LLP

Toronto, Canada,
January 26, 2006.

Chartered Accountants

Brainhunter Inc.

CONSOLIDATED BALANCE SHEET

As at September 30

	2005 $	2004 $ *[restated - note 2]*
ASSETS		
Current		
Restricted short-term investment *[note 11]*	**125,000**	500,000
Accounts receivable	**16,223,905**	12,957,254
Investment tax credits recoverable *[note 4]*	**250,000**	736,452
Deposits and prepaid expenses	**312,618**	152,661
Future income tax asset *[note 7]*	**523,432**	444,334
Total current assets	**17,434,955**	14,790,701
Restricted short-term investment *[note 11]*	**—**	125,000
Capital assets, net *[note 5]*	**5,701,846**	4,431,653
Investment tax credits recoverable *[note 4]*	**1,094,507**	350,897
Deferred financing costs *[note 15]*	**434,000**	200,000
Intangible assets, net of amortization *[note 8]*	**3,262,222**	3,375,139
Goodwill *[note 8]*	**9,382,402**	9,356,093
Due from related parties *[note 6]*	**282,159**	330,698
Future income tax asset *[note 7]*	**500,496**	2,142,940
	38,092,587	35,103,121
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 10]*	**10,578,481**	5,920,652
Accounts payable and accrued liabilities	**6,364,660**	6,544,760
Current portion of deferred lease inducement	**35,700**	—
Current portion of long-term debt *[note 11]*	**1,046,685**	914,748
Deferred revenue	**575,654**	104,966
Total current liabilities	**18,601,180**	13,485,126
Deferred lease inducement	**294,529**	238,002
Long-term debt *[note 11]*	**760,951**	881,513
Total long-term liabilities	**1,055,480**	1,119,515
Commitments and contingencies *[note 9]*		
Shareholders' equity		
Capital stock *[note 12]*	**20,484,854**	19,481,055
Warrants *[notes 3 and 12]*	**68,945**	—
Contributed surplus *[notes 12 and 13]*	**973,744**	—
Equity component of convertible note obligation *[note 3]*	**53,040**	—
(Deficit) retained earnings	**(3,144,656)**	1,017,425
Total shareholders' equity	**18,435,927**	20,498,480
	38,092,587	35,103,121

See accompanying notes

On behalf of the Board:

Director

Director

Brainhunter Inc.

CONSOLIDATED STATEMENT OF OPERATIONS AND LOSS

Year ended September 30

	2005 $	2004 $ *[restated - note 2]*
Revenue	**76,061,391**	68,893,460
Cost of revenues	**59,984,183**	54,869,138
Gross profit	**16,077,208**	14,024,322
Expenses		
Other staffing costs	**8,244,541**	7,870,672
Selling, general and administrative	**6,883,308**	3,087,312
	15,127,849	10,957,984
Income before interest, amortization and income taxes	**949,359**	3,066,338
Interest expense, net *[note 11]*	**474,620**	425,829
Amortization	**2,012,009**	3,385,655
	2,486,629	3,811,484
Loss before income taxes	**1,537,270**	745,146
Provision for (recovery of) income taxes *[note 7]*	**1,853,488**	(548,326)
Net loss for the year	**3,390,758**	196,820
Loss per share *[note 12[f]]*		
Basic	**$ (0.08)**	—
Diluted	**$ (0.08)**	—

See accompanying notes

Brainhunter Inc.

CONSOLIDATED STATEMENT OF (DEFICIT) RETAINED EARNINGS

Year ended September 30

	2005 $	2004 $ *[restated - note 2]*
Retained earnings, beginning of year		
As previously reported	**2,937,304**	2,547,417
Restatements *[note 2[b] to 2[g]]*	**(1,919,879)**	—
Retained earnings, beginning of year, as restated	**1,017,425**	2,547,417
Change in accounting policy *[note 2[a]]*	**(757,648)**	—
Retained earnings, beginning of year, as adjusted	**259,777**	2,547,417
Net loss for the year	**(3,390,758)**	(196,820)
Shares purchased for cancellation, excess of cost over book value	**(13,675)**	(1,333,172)
(Deficit) retained earnings, end of year	**(3,144,656)**	1,017,425

See accompanying notes

Brainhunter Inc.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended September 30

	2005 $	2004 $
OPERATING ACTIVITIES		
Net loss for the year	**(3,390,758)**	(196,820)
Add (deduct) items not affecting cash		
Future income taxes	**1,850,077**	(588,326)
Investment tax credits	**(295,395)**	(549,656)
Accretion of interest	**55,855**	38,744
Deferral of lease inducement	**92,226**	238,002
Stock-based compensation expense	**243,376**	—
Amortization of capital assets	**899,092**	937,691
Amortization of intangible assets	**1,112,917**	2,447,964
	567,390	2,327,599
Net change in non-cash working capital items *[note 14]*	**(3,692,369)**	(1,507,550)
Cash provided by (used in) operating activities	**(3,124,979)**	820,049
FINANCING ACTIVITIES		
Issuance of common shares *[note 12]*	—	9,254,535
Exercise of common share purchase warrants *[note 12]*	**584,500**	703,717
Exercise of common share options *[note 12]*	**150,670**	40,319
Purchase of common shares *[note 12]*	**(26,615)**	(2,028,414)
Advances from bank credit facility	**3,245,660**	5,108,003
Proceeds from long-term debt	**358,000**	1,000,000
Transfer to restricted short-term investments *[note 11]*	—	(1,000,000)
Repayment of long-term debt *[note 11]*	**(356,000)**	(2,089,574)
Cash provided by financing activities	**3,956,215**	10,988,586
INVESTING ACTIVITIES		
Additions to capital assets	**(2,133,617)**	(2,190,482)
Advances to related parties	**48,539**	112,104
Share purchase loans *[note 12]*	**(104,289)**	(265,000)
Business acquisitions, net of cash acquired *[note 3]*	**(54,038)**	(10,167,091)
Cash used in investing activities	**(2,243,405)**	(12,510,469)
Net decrease in cash during the year	**(1,412,169)**	(701,834)
Cash, beginning of year *[note 10]*	**767,348**	1,469,182
(Bank overdraft) cash, end of year *[note 10]*	**(644,821)**	767,348
Supplemental cash flow information		
Income taxes paid	**36,621**	—
Interest paid	**418,765**	390,849

See accompanying notes

Brainhunter Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"] and include the accounts of Brainhunter Inc. and from the respective dates of acquisition of control, its wholly owned subsidiaries, collectively referred to herein as the "Company". All significant inter-company balances and transactions have been eliminated on consolidation.

[b] Revenue recognition

The Company provides computer and engineer consultant placements to customers based on written agreements. Revenue from contracts that is 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 that is deferred and amortized over the term of the license. Software implementation revenue is recognized in the period the implementation is completed.

The Company's accounting policy complies with the revenue determination requirements set forth in EIC-142, "Revenue Arrangements with Multiple Deliverables", relating to the separation of multiple deliverables into individual accounting units with determinable fair values.

Service revenue on fixed-price contracts is recognized on a percentage of completion basis whereby revenue is recorded at the 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.

[c] 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
Developed software	Straight-line over 5 years
Leasehold improvements	Straight-line over the lease term

[d] Goodwill

Goodwill represents the excess of the purchase consideration paid over the fair value of identifiable net assets of acquired businesses. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statement of operations.

[e] Intangible assets

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

During 2004 the unamortized value of certain intangibles in the accounts was written off, since the subsidiaries that they relate to were inactive. The charge to the consolidated statement of operations and loss was $391,764.

[f] 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. Future tax assets and liabilities are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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.

[g] Deferred lease inducements

Leasehold inducements comprise free rent and leasehold improvement incentives. Leasehold inducements are deferred and amortized to reduce rental expense on a straight-line basis over the term of the related lease.

[h] Research and development

Research and development costs are expensed as incurred unless the development costs meet certain generally accepted accounting criteria in Canada.

[i] Investment tax credits

Investment tax credits relating to qualifying research and development expenditures are recorded as a reduction from the expenditures or assets to which they relate and there is reasonable assurance that the investment tax credits will be realized.

[j] Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year end. Revenue and expense items are translated into Canadian dollars using exchange rates in effect on the transaction dates. Gains and losses from translation activities are included in earnings for the year.

[k] Financial instruments

The fair value of financial instruments approximates their carrying value unless otherwise disclosed in the consolidated financial statements.

[l] Use of estimates and assumptions

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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, providing for the recovery of investment tax credits, and providing for a valuation allowance for future income tax credits and the classification of the current year's benefit expected to be realized, all of which are based on management's best estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on these consolidated financial statements of changes in estimates in future periods could be significant. Actual results could differ from those estimates.

[m]Deferred financing costs

Financing costs relating to long-term debt are deferred and amortized on the straight-line basis over the term of the debt.

[n] Impairment of long-lived assets

The Company reviews long-lived assets such as capital assets and intangible assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment of the carrying value of the assets exist and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value.

[o] Asset retirement obligations

Effective October 1, 2004, the Company adopted the recommendations of CICA Section 3110, "Asset Retirement Obligations" ["CICA 3110"]. Under the new standard the Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset. The adoption of CICA 3110 did not have any impact on the Company's consolidated financial statements.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES AND RESTATEMENTS

[a] Stock-based compensation plan

The Company has a stock-based compensation plan which is described in note 13. Effective October 1, 2004 the Company adopted retroactively, without restatement, the revisions to CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* ["CICA 3870"]. Under this standard, the Company accounts for stock options using the fair value method. Under this method, compensation expense for stock options granted is measured at the fair value at the grant date using the Black-Scholes valuation model and charged to operations over the vesting period of the options granted, with a corresponding credit to contributed surplus. The effect of adopting CICA 3870 increased the contributed surplus and reduced the retained earnings accounts as at October 1, 2004 both by $757,648.

[b] Intangible assets

The Company has determined that the accounting for its acquisitions resulted in not allocating a portion of the acquisitions to identifiable intangibles apart from goodwill in accordance with CICA Handbook Section 1581, *Business Combinations.*

The Company has reviewed the accounting for its acquisitions completed in the years ended September 30, 2003 and 2004, and goodwill has been restated for the recognition of identifiable intangible assets acquired and the resulting future income tax liabilities. As a result, intangible assets totalling $5,431,339 were recorded, with goodwill being reduced by $3,062,807, future income tax assets reduced by $260,706, and future income tax liabilities by $2,107,826, arising from the new intangible assets, were recorded. The intangible assets are amortized on the straight-line basis over their estimated period of benefit, which varies from two to five years, with the result that, for the year ended September 30, 2004, amortization expense was increased by $2,056,200 and related future income tax recoveries of $888,726 were recorded. The tables in note 2[h] summarize the effects of this restatement.

[c] Purchase consideration

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 Consulting Inc. ["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. The tables in note 2[h] summarize the effects of this restatement.

[d] Lease inducement

The Company has reviewed the terms and conditions of its premise leases and the relevant guidance under Canadian GAAP. As a result, the Company recognized a lease inducement of $238,002 for the free-rent period granted on one of these leases and has increased general, selling and administrative expenses by $238,002 for the year ended September 30, 2004. The tables in note 2[h] summarize the effects of this restatement.

[e] Interest expense

The Company has reviewed the terms and conditions of the zero-interest vendor-take-back loans issued as partial purchase consideration in several acquisitions and the relevant guidance under Canadian GAAP. As a result, the Company has reduced the purchase consideration recorded for the acquisitions of Brainhunter.com Ltd. [$97,391] and Protec Employment Services Limited ["Protec"] [$63,591], with the effect of reducing goodwill by these same amounts and long-term debt by $112,488 at September 30, 2004. The Company also recognized an imputed interest expense of $98,281 for the year ended September 30, 2004. The tables in note 2[h] summarize the effects of this restatement.

[f] 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 for the year ended September 30, 2004 pertaining to developed software that had not yet been deployed. The tables in note 2[h] summarize the effects of this restatement.

[g] 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. The tables in note 2[h] summarize the effects of this restatement.

Brainhunter Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

[h] Summary of changes in significant accounting policies and restatements:

CONSOLIDATED STATEMENT OF OPERATIONS AND LOSS, RESTATED

	Year ended September 30, 2004			
	As previously reported $	Restatements $	Note 2	As restated $
Revenue	68,893,460	—		68,893,460
Cost of revenues	54,869,138	—		54,869,138
Gross margin	14,024,322	—		14,024,322
Expenses				
Other staffing costs	7,362,507	508,165	[c] [g]	7,870,672
General, selling and administrative	2,849,310	238,002	[d]	3,087,312
	10,211,817	746,167		10,957,984
Income before interest, amortization and income taxes	3,812,505	(746,167)		3,066,338
Interest expense, net	327,548	98,281	[e]	425,829
Amortization	1,421,498	1,964,157	[b] [f]	3,385,655
	1,749,046	2,062,438		3,811,484
Income (loss) before income taxes	2,063,459	(2,808,605)		(745,146)
Income taxes	340,400	(888,726)	[b]	(548,326)
Net income (loss) for the year	1,723,059	(1,919,879)		(196,820)
Earnings (loss) per share				
Basic	$ 0.04	$ (0.04)		—
Diluted	$ 0.04	$ (0.04)		—

CONSOLIDATED BALANCE SHEET, RESTATED

	As at September 30, 2004				
	As previously reported $	Restatements $	Note 2	Reclassifications $	As restated $
ASSETS					
Current					
Restricted short-term investment	—	—		500,000	500,000
Accounts receivable	12,957,254	—		—	12,957,254
Investment tax credits recoverable	1,245,514	(158,165)	[g]	(350,897)	736,452
Deposits and prepaid expenses	352,661	—		(200,000)	152,661
Future income tax asset	750,000	—		(305,666)	444,334
	15,305,429	(158,165)		(356,563)	14,790,701
Restricted short-term investment	—	—		125,000	125,000
Capital assets	4,339,612	92,041	[f]	—	4,431,653
Investment tax credits recoverable	—	—		350,897	350,897
Deferred financing costs	—	—		200,000	200,000
Intangible assets	—	3,375,139	[b]	—	3,375,139
Goodwill	12,765,783	(3,827,093)	[b] [c] [e]	417,403	9,356,093
Due from related parties	1,277,825	—		(947,127)	330,698
Future income tax asset	3,340,612	(284,239)	[b]	(913,433)	2,142,940
	37,029,261	(802,317)		(1,123,823)	35,103,121
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Bank indebtedness	5,920,652	—		—	5,920,652
Accounts payable and accrued liabilities	6,136,110	—		408,650	6,544,760
Current portion of long-term debt	435,000	—		479,748	914,748
Future income tax liabilities	—	305,666	[b]	(305,666)	—
Deferred revenue	104,966	—		—	104,966
	12,596,728	305,666		582,732	13,485,126
Deferred lease inducement	—	238,002	[d]	—	238,002
Long-term debt	848,749	(112,488)	[e]	145,252	881,513
Future income tax liabilities	—	913,433	[b]	(913,433)	—
	848,749	1,038,947		(768,181)	1,119,515
Shareholders' equity					
Capital stock	20,646,480	(227,051)	[c]	(938,374)	19,481,055
Retained earnings	2,937,304	(1,919,879)	[b] [c] [d] [e[[f] [g]	—	1,017,425
	23,583,784	(2,146,930)		(938,374)	20,498,480
	37,029,261	(802,317)		(1,123,823)	35,103,121

3. BUSINESS ACQUISITIONS

Vision2Hire Solutions Inc. *[note 11]*

100% of the common shares of Vision2Hire Solutions Inc. ["V2H"] were acquired for cash and convertible notes on December 1, 2004. 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 notes. 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 in the Company's accounts commencing December 1, 2004.

The purchase price for the V2H acquisition has been allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as follows:

	$
Working capital deficiency	(257,044)
Capital assets	23,411
Intangible assets - customer relationships	800,000
Future income tax assets	76,310
Goodwill	10,620
	653,297

The purchase price components for the acquisition of V2H are as follows:

	$
Cash consideration	56,217
Liability portion of notes	393,014
Conversion rights on notes	53,040
Transaction costs	151,026
	653,297

The costs of the intangible assets - customer relationships are being amortized on a straight-line basis over 3 years.

Promethean Systems Consultants Inc. *[notes 11 and 12[e]]*

On January 1, 2005, 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 an estimated term of 3 years, risk-free interest rates of 3.06% and 3.28%, and stock volatility of 0.4963 based on a 3-year trading history. In addition, the Company undertook for 3 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 which approximates fair value. 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 in the Company's accounts commencing January 1, 2005.

The purchase price for the Promethean acquisition has been allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as follows:

	$
Working capital deficiency	**(137,266)**
Capital assets	**12,257**
Intangible assets - customer relationships	**170,000**
Intangible assets - existing contracts	**30,000**
Goodwill	**15,689**
Future income tax assets	**227,760**
	318,440

The purchase price components for the acquisition of Promethean are as follows:

	$
Issue of 150,000 common shares at a price of $1.00 per share	**150,000**
Issue of 266,125 shareholder warrants, at fair value	**66,154**
Long-term debt	**49,307**
Transaction costs	**52,979**
	318,440

In accordance with Canadian GAAP, the value of the 150,000 common shares was determined based on the average market price of the Company's common shares for the two trading days prior to the parties' agreement and the two trading days following the agreement.

The costs of the intangible assets are being amortized on a straight-line basis as follows:

Customer relationships	4 years
Existing contracts	6 months

Additionally, as part of the agreements with the shareholders of Promethean, the Company allocated employee retention warrants on May 5, 2005 to purchase 250,000 common shares of the Company. These warrants vest under terms similar to those of the Company's employee stock option plan.

Year ended September 30, 2004

Prolink Consulting Inc.

The Company acquired 100% of the shares of Prolink, an information technology staffing company. Consideration for the purchase, totalling $1,729,603, consisted of 550,000 common shares of the Company with a deemed fair value of $2.00 per share, 200,000 common share purchase warrants valued at $108,154 were granted to vendors and accounted for as a component of the purchase consideration, net cash of $457,311, and transaction costs of $64,138. A total of 155,000 warrants were issued to employees for retention and were accounted for as a compensation expense. All shares have escrow periods of up to three years tied to management contracts and performance criteria. The results of Prolink have been consolidated in the Company's accounts commencing October 1, 2003.

Sirius Consulting Group Inc.

The Company acquired 100% of the shares of Sirius Consulting Group Inc. ["Sirius"], an information technology staffing company. Consideration for the purchase, totalling $5,298,587, consisted of a $1,000,000 two-year transferable convertible note at an interest rate tied to the 90-day treasury bills rate, exercisable at $3.00 per common share of the Company, net cash of $4,123,739, and transaction costs of $174,848. The convertible note has quarterly repayment terms over a two-year period. The results of Sirius have been consolidated in the Company's accounts commencing November 1, 2003.

InBusiness Solutions Inc.

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

Summary of September 30, 2004 acquisitions

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the dates of acquisition:

	Prolink $	Sirius $	InBusiness $	Total $
Working capital	484,767	1,002,875	305,173	1,792,815
Capital assets	67,750	74,146	292,144	434,040
Intangible assets	520,000	1,825,000	931,219	3,276,219
Goodwill	864,950	3,055,756	3,081,586	7,002,292
Long-term debt	(20,040)	—	—	(20,040)
Future income tax asset (liability)	(187,824)	(659,190)	392,681	(454,333)
	1,729,603	5,298,587	5,002,803	12,030,993

The purchase price components for the acquisitions are as follows:

	Prolink $	Sirius $	InBusiness $	Total $
Cash	457,311	4,123,739	4,782,855	9,363,905
Common shares	1,100,000	—	—	1,100,000
Warrants	108,154	—	—	108,154
Convertible note	—	1,000,000	—	1,000,000
Transaction costs	64,138	174,848	219,948	458,934
	1,729,603	5,298,587	5,002,803	12,030,993

4. INVESTMENT TAX CREDITS RECOVERABLE

	2005 $	2004 $
Investment tax credits recoverable	**1,363,127**	1,067,732
Income taxes (payable) recoverable	**(18,620)**	19,617
	1,344,507	1,087,349
Less current portion	**250,000**	736,452
	1,094,507	350,897

5. CAPITAL ASSETS

	2005		2004	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Furniture and office equipment	**1,524,397**	**1,051,077**	1,387,110	908,073
Computer equipment	**3,361,483**	**2,588,757**	2,987,581	2,284,942
Computer software	**925,513**	**815,961**	685,310	634,693
Developed software	**4,777,751**	**1,000,000**	3,320,410	600,000
Leasehold improvements	**976,611**	**408,114**	716,600	237,650
	11,565,755	**5,863,909**	9,097,011	4,665,358
Less accumulated amortization	**5,863,909**		4,665,358	
	5,701,846		4,431,653	

Amortization of capital assets totalled $899,092 [2004 - $937,691] for the year ended September 30, 2005. Included in developed software at September 30, 2005 is $2,777,751 [2004 - $1,320,410] related to internal software projects for which amortization has not yet commenced since the related software has not yet been deployed. Once the software is deployed, the software will be amortized on a straight-line basis over five years.

6. DUE FROM RELATED PARTIES

	2005 $	2004 $
Loans to companies related to the Chairman of the Company, non-interest bearing and with no fixed repayment terms	**267,727**	330,698
Miscellaneous advances	**14,432**	—
	282,159	330,698

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

7. INCOME TAXES *[note 2]*

[a] The provision for (recovery of) income taxes consists of the following:

	2005 $	2004 $
Current	**3,411**	40,000
Future	**1,850,077**	(588,326)
	1,853,488	(548,326)

[b] The provision for (recovery of) income taxes differs from the expense that would be obtained by applying the statutory tax rate to loss before income taxes as a result of the following:

	2005 $	2004 $
Income tax recovery at statutory tax rate	**(555,262)**	(270,115)
Increase (decrease) in income taxes resulting from:		
Permanent differences	**10,734**	12,591
Increase in SR&ED investment tax credits	**(121,144)**	(199,250)
Change in future income tax liability on SR&ED investment tax credits	**74,189**	156,000
Change in valuation allowance	**2,443,609**	(272,183)
Ontario Corporate Minimum Tax	**3,411**	19,408
Other	**(2,049)**	5,223
	1,853,488	(548,326)

[c] Future income tax assets consist of the following temporary differences:

	2005 $	2004 $
Deferred lease inducement	**119,279**	85,966
Share issue costs	**314,256**	505,043
Loss carryforwards	**9,170,233**	7,063,008
Capital assets	**(1,156,946)**	(866,563)
Investment tax credits	**(301,524)**	(227,334)
Intangible assets	**(983,787)**	(1,104,127)
	7,161,511	5,455,993
Less valuation allowance	**(6,137,583)**	(2,868,719)
Less current portion	**(523,432)**	(444,334)
	500,496	2,142,940

[d] Expiry of losses and investment tax credits

As at September 30, 2005, the Company has non-capital losses of approximately $25,626,000 and investment tax credits of approximately $1,663,000 available to reduce future years' income for tax purposes. If not utilized, these losses and investment tax credits will expire as follows:

	Investment tax credits $	Non-capital losses $
	[thousands of dollars]	
2006	—	1,736
2007	—	3,857
2008	—	7,358
2009	—	3,062
2010	—	791
2011	—	2,222
2012	107	6,600
2013	413	—
2014	548	—
2015	595	—
	1,663	25,626

8. GOODWILL AND INTANGIBLE ASSETS *[notes 2 and 3]*

The variations in goodwill are as follows:

	2005 $	2004 $
Balance, beginning of year	**9,356,093**	2,272,984
Additions to purchase consideration for 2003 acquisitions	—	80,817
Goodwill acquired on acquisitions		
Prolink	—	864,950
Sirius	—	3,055,756
InBusiness [minority interest]	—	3,081,586
V2H	**10,620**	—
Promethean	**15,689**	—
Balance, end of year	**9,382,402**	9,356,093

Intangible assets are comprised of the following:

	2005		2004	
	Cost $	**Accumulated amortization** $	**Cost** $	**Accumulated amortization** $
Contracts	**1,176,339**	**1,176,339**	1,146,339	1,104,672
Non-competition agreements	**185,000**	**185,000**	185,000	111,250
Customer relationships	**5,070,000**	**1,807,778**	4,100,000	840,278
Other	**391,764**	**391,764**	391,764	391,764
	6,823,103	**3,560,881**	5,823,103	2,447,964
Less accumulated amortization	**3,560,881**		2,447,964	
	3,262,222		3,375,139	

9. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company has operating leases for its premises, furniture and fixtures and certain computer and communications equipment, as well as certain purchase commitments. The future minimum annual payments for the next five years and thereafter are as follows:

	$ [thousands of dollars]
2006	1,141
2007	823
2008	823
2009	662
2010	662
Thereafter	2,811
	6,922

Contingencies

During the ordinary course of business activities, the Company may be a party to claims and may be contingently liable for litigation. Management believes that adequate provisions have been made in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the financial position or results of operations of the Company.

10. BANK INDEBTEDNESS

	2005 $	**2004** $
(Bank overdraft) cash	**(644,821)**	767,348
Bank operating loan	**(9,933,660)**	(6,688,000)
	(10,578,481)	(5,920,652)

At September 30, 2005, the Company has a revolving demand bank credit facility of $10,000,000, bearing interest at prime plus 1.5%. The credit facility is collateralized by a general security agreement that constitutes a first charge over all the assets of the Company.

During 2005 the terms of the Company's credit facility were amended. In connection with the amendment to the credit facility, the Company agreed to raise no less than $3,000,000 of new capital on or before December 31, 2005. At September 30, 2005, the Company was not in compliance with all of the covenants of the credit facility then in place.

Subsequently, on November 16, 2005, the Company obtained a credit facility from another bank *[note 18[c]]*.

11. LONG-TERM DEBT *[note 2]*

Long-term debt consists of the following:

	2005 $	2004 $
Promissory note, non-interest bearing, payable quarterly at the lesser of 2% of net sales of the Company or $75,000	**161,387**	441,135
Acquisition obligation of the Company to pay $458,382 on March 10, 2006 in common stock of the Company based on the weighted average trading price for previous twenty days or, at the Company's option, in cash, however the holders have the right to refuse a cash offer and elect to accept shares	**444,933**	419,210
Promissory note, non-interest bearing, payable quarterly at $15,000, repaid in 2005	**—**	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	**266,313**	250,916
V2H acquisition convertible note obligation of $446,054, non-interest bearing repayable in equal quarterly principal payments of 1/8 of the principal beginning in the second year after closing, and at the holders' option, convertible into common shares of the Company at a price of $2.00 per share; fair value of conversion rights added to shareholders' equity	**407,748**	—
Subscription received for subsequent convertible term notes financing *[note 18[e]]*	**358,000**	—
Present value of Promethean $49,307 acquisition obligation of 36 interest-only monthly payments of $1,500, discounted at 0.5% per month	**44,255**	—
Sirius acquisition convertible note obligation, bearing interest tied to the 90-day treasury bills rate, repayable in equal quarterly principal payments of $125,000, and at the holders' option, convertible into common shares of the Company at a price of $3.00 per share, fully collateralized by Government of Canada Treasury Bills held by a trust	**125,000**	625,000
	1,807,636	1,796,261
Less current portion	**1,046,685**	914,748
	760,951	881,513

Included in interest expense is $80,574 relating to long-term debt [2004 - $78,276].

12. CAPITAL STOCK

[a] Authorized

Unlimited number of common shares with no par value
Unlimited number of preferred shares with no fixed dividends and no par value
Unlimited number of non-cumulative, non-redeemable, non-retractable, convertible, voting Series A preferred shares with no fixed dividends and no par value

[b] The following tables summarize the capital stock activity:

	Common shares #	Series A preferred shares #	Warrants #	Stock options #
Balance, September 30, 2003	33,971,536	4,614,681	4,176,288	4,382,341
Pursuant to exercise of				
Warrants [i]	2,143,143	—	(2,143,143)	—
Stock options [i]	142,396	—	—	(142,396)
Pursuant to private placements [ii]	5,555,556	—	—	—
Pursuant to the issuance of common stock and warrants on acquisition of				
Prolink *[note 3]*	550,000	—	108,154	—
Pursuant to issue of				
Warrants	—	—	1,080,181	—
Stock options	—	—	—	270,000
Pursuant to expiry of warrants	—	—	(10,002)	—
Pursuant to normal course issuer bid [iii]	(1,999,600)	—	—	—
Balance, September 30, 2004	40,363,031	4,614,681	3,211,478	4,509,945
Pursuant to exercise of				
Warrants [i]	1,201,429	—	(1,201,429)	—
Stock options [i]	538,679	—	—	(538,679)
Pursuant to the issuance of common stock on acquisition of Promethean [iv]	150,000	—	516,125	—
Pursuant to expiry of warrants	—	—	(95,714)	—
Pursuant to normal course issuer bid [iii]	(29,409)	—	—	—
Balance, September 30, 2005	**42,223,730**	**4,614,681**	**2,430,460**	**3,971,266**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

	Capital stock					Contributed surplus
	Common shares $	Common shares pledged as security $	Series A preferred shares $	Total $	Warrants $	Stock options $
Balance, September 30, 2003	7,751,300	(259,105)	2,378,045	9,870,240	—	—
Pursuant to exercise of						
Warrants [i]	703,717	—	—	703,717	—	—
Stock options [i]	40,319	—	—	40,319	—	—
Pursuant to private placements [ii]	9,254,535	—	—	9,254,535	—	—
Pursuant to the issuance of common stock and warrants on acquisition of Prolink *[note 3]*	1,208,154	—	—	1,208,154	—	—
Pursuant to pledging of common shares	—	(688,022)	—	(688,022)	—	—
Pursuant to issuance of stock options	10,564	—	—	10,564	—	—
Pursuant to normal course issuer bid [iii]	(918,452)	—	—	(918,452)	—	—
Balance, September 30, 2004	18,050,137	(947,127)	2,378,045	19,481,055	—	—
Change in accounting policy *[note 2[a]]*	—	—	—	—	—	757,648
Pursuant to exercise of						
Warrants [i]	584,500	—	—	584,500	—	—
Stock options [i]	150,670	—	—	150,670	—	—
Pursuant to the issuance of common stock on acquisition of Promethean [iv]	150,000	—	—	150,000	68,945	—
Pursuant to pledging of common shares [vi]	—	(228,500)	—	(228,500)	—	—
Repayment of share purchase loans [vi]	—	332,789	—	332,789		
Stock-based compensation expense	—	—	—	—	—	243,376
Stock-based compensation expense related to stock options exercised	27,280	—	—	27,280	—	(27,280)
Pursuant to normal course issuer bid [iii]	(12,940)	—	—	(12,940)	—	—
Balance, September 30, 2005	**18,949,647**	**(842,838)**	**2,378,045**	**20,484,854**	**68,945**	**973,744**

[i] During the year ended September 30, 2005, 538,679 stock options [2004 - 142,396] and 1,201,429 warrants [2004 - 2,143,143] were exercised resulting in cash receipts of $150,670 [2004 - $40,319] and $584,500 [2004 - $703,717], respectively.

[ii] In February 2004, the Company completed a private placement of 5,555,556 common shares, priced at $1.80 per common share, for total gross proceeds of $10,000,000 [net proceeds of $9,254,535].

[iii] In May 2004, the Company commenced a normal course issuer bid with the Toronto Stock Exchange to initiate purchases from time to time in accordance with the rules of the Toronto Stock Exchange. During the year ended September 30, 2005, the Company repurchased 29,409 [2004 – 1,999,600] common shares at a cost of $26,615 [2004 - $2,251,624], of which $12,940 [2004 - $918,452] has been charged to capital stock and $13,675 [2004 - $1,333,172] has been credited to deficit.

[iv] Effective January 1, 2005, the Company issued 150,000 common shares and 266,125 share purchase warrants as partial consideration for the acquisition of Promethean *[note 3]*. The Company has reflected an estimated fair value of these warrants of $68,945 using the Black-Scholes option pricing model. The following assumptions were used to estimate the fair value of the share purchase warrants:

Risk-free interest rates	2.80% to 3.28%
Expected warrant life	3 years
Expected dividend yield	Nil
Stock volatility	49.63%

[v] See note 13.

[vi] The Company has advanced funds to key senior employees to acquire shares of the Company. At September 30, 2005, the balance of such loans totalled $842,838 [2004 - $947,127] of which only $200,000 bears interest at 5% per annum to be repaid September 30, 2006. The remaining loans are non-interest bearing with various terms of repayment. The balances at each year end have been recorded as offsetting amounts to capital stock.

At September 30, 2005, the market value of the shares held as collateral for the loans was $1,607,363.

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

[c] Escrowed shares

Shares held in escrow at September 30, 2005 are as follows:

1. 450,000 common shares relating to the Protec acquisition. Released at 300,000 common shares per year, with final release on October 28, 2006.

2. 198,000 common shares relating to the Prolink acquisition. Released at 132,000 common shares per year with final release on January 15, 2007.

[d] Options

During the year the terms of the Company's Stock Option Plans were amended to increase the number of shares reserved for issuance from a total of 5,500,000 shares for its employees and directors to 7,220,000 shares.

The following table summarizes the stock options outstanding and exercisable for the year ended September 30, 2005:

		Options outstanding				Options exercisable on
Price $	**Expiry**	**September 30, 2004** #	**Issued** #	**Exercised** #	**September 30, 2005** #	**September 30, 2005** #
0.20	April, 2005	280,000	—	(280,000)	—	—
0.30	July, 2007	1,347,545	—	(157,413)	**1,190,132**	**772,875**
0.35	February, 2008	412,400	—	(67,933)	**344,467**	**207,000**
0.50	June, 2008	1,000,000	—	—	**1,000,000**	**333,333**
0.71	July, 2008	1,200,000	—	(33,333)	**1,166,667**	**366,667**
1.35	May, 2009	270,000	—	—	**270,000**	**202,500**
		4,509,945	—	(538,679)	**3,971,266**	**1,882,375**

[e] Warrants

The following table summarizes the warrant activity for the year ended September 30, 2005:

Exercise price $	Expiry	Warrants outstanding: September 30, 2004 #	Issued [i] #	Exercised #	Expired #	September 30, 2005 #	Warrants exercisable on September 30, 2005 #
0.35	December, 2004	645,000	—	(625,000)	(20,000)	**—**	**—**
0.50	April, 2005	345,000	—	(345,000)	—	**—**	**—**
0.70	July, 2005	257,143	—	(231,429)	(25,714)	**—**	**—**
0.81	November, 2006	175,000	—	—	—	**175,000**	**175,000**
1.80	September, 2005	50,000	—	—	(50,000)	**—**	**—**
1.85	January, 2007	355,000	—	—	—	**355,000**	**118,333**
1.88	February, 2007	283,335	—	—	—	**283,335**	**283,335**
1.96	January, 2007	250,000	—	—	—	**250,000**	**83,333**
2.09	October, 2006	226,000	—	—	—	**226,000**	**75,333**
2.09	March, 2008	500,000	—	—	—	**500,000**	**500,000**
2.11	November, 2006	125,000	—	—	—	**125,000**	**125,000**
1.00	May, 2009	—	266,125	—	—	**266,125**	**157,422**
1.00	May, 2010	—	250,000	—	—	**250,000**	**—**
		3,211,478	516,125	(1,201,429)	(95,714)	**2,430,460**	**1,517,756**

[i] Issued pursuant to Promethean acquisition *[note 3]*.

[f] Loss per share

The following table details the weighted average number of common shares outstanding for each of the years ended September 30:

	2005 $	2004 $
Basic	**41,484,140**	42,765,432
Diluted	**41,484,140**	42,765,432

As a result of the net loss for the year ended September 30, 2005, the following potentially dilutive securities have not been included in the calculation of diluted loss per share because to do so would have been anti-dilutive:

	$
Stock options and purchase warrants	**2,112,018**
Sirius acquisition convertible note obligation	**145,776**
V2H acquisition convertible note obligation	**199,848**
	2,457,642

13. STOCK-BASED COMPENSATION PLAN

Key valuation assumptions differ for each tranche issued and include estimated terms from 2 to 4 years, risk-free interest rates from 2.45% to 4.00%, and stock volatilities from 0.3000 to 0.5891 based on equivalent-term trading histories. The charge for the year ended September 30, 2005 for stock options was $243,376. The adjustment to the opening balance of retained earnings for the current year was $757,648.

14. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS *[note 2]*

The net change in non-cash operating elements of working capital consists of the following:

	2005 **$**	**2004** **$**
Accounts receivable	**(2,951,164)**	165,581
Investment tax credits recoverable	**(743,610)**	—
Deposits and prepaid expenses	**(156,530)**	103,131
Accounts payable and accrued liabilities	**396,405**	(1,736,112)
Deferred revenue	**(237,470)**	(40,150)
	(3,692,369)	(1,507,550)

15. DEFERRED FINANCING COSTS

The deferred financing costs recorded in 2004 and 2005 are related to the financing package completed on November 16, 2005.

16. 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.

		2005	
	Staffing $	**Solutions** $	**Total** $
Revenue	**70,058,391**	**6,003,000**	**76,061,391**
Income before interest, amortization and income taxes	**789,379**	**159,980**	**949,359**

		2004	
	Staffing $	**Solutions** $	**Total** $
Revenue	61,556,884	7,336,576	68,893,460
Income before interest, amortization and income taxes	1,821,380	1,244,958	3,066,338

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.

The Company's revenue is earned in North America with 9% derived from the United States [2004 - 7%].

All capital assets are attributable to operations located in Canada.

17. FINANCIAL INSTRUMENTS

[a] Fair value

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.

[b] Credit risk

The Company manages its credit risk with respect to accounts receivable primarily by dealing with creditworthy customers. Substantially all of the Company's revenue and the resulting accounts receivable are from large companies and governmental agencies.

[c] 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. In 2005 the Company recorded a $21,893 [2004 - $100,453] foreign exchange loss.

18. SUBSEQUENT EVENTS

[a] 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 included $6,200,000 of cash, a $4,000,000 convertible note, 500,000 common share purchase warrants, and $1,540,000 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 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.

The allocation of the purchase price to identifiable tangible and intangible assets acquired and liabilities assumed has not yet been determined by the Company.

[b] 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 included $12,300,000 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.

The allocation of the purchase price to identifiable tangible and intangible assets acquired and liabilities assumed has not yet been determined by the Company.

[c] 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%, depending on a specific bank covenant ratio, 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 on September 30, 2005.

[d] On November 16, 2005, the Company issued a debenture for $5,000,000, repayable on 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 [described in 18[c] above]. 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%.

[e] Subsequent to the year end, the Company issued convertible 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 [described in note 18[c] above] and the debenture [see 18[d] above]. The notes are convertible at $1.50 of the face value per 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 a year, 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 notes to convert or redeem them.

The Company has not yet determined the allocation of the convertible notes between the liability portion and the equity component.

19. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements.