**CONSOLIDATED FINANCIAL STATEMENTS**

# TREKLOGIC TECHNOLOGIES INC.

**Year Ended September 30, 2003**

# TREKLOGIC TECHNOLOGIES INC.

## CONSOLIDATED FINANCIAL STATEMENTS

## YEAR ENDED SEPTEMBER 30, 2003

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## AUDITORS' REPORT

To the shareholders of
**TrekLogic Technologies Inc.**

We have audited the consolidated balance sheets of **TREKLOGIC TECHNOLOGIES INC.** as at September 30, 2003 and 2002 and the consolidated statements of earnings and retained earnings and cash flows for the years 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 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, 2003 and 2002 and the results of its operations and the change in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Clancy & Company LLP"

Toronto, Ontario
December 19, 2003
(except notes 18(c) and (d)
dated February 4, 2004)

Chartered Accountants

## TREKLOGIC TECHNOLOGIES INC.

### CONSOLIDATED BALANCE SHEET

| As at September 30, | | 2003 | | 2002 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | **$** | **-** | $ | 408,268 |
| Accounts receivable | | **8,851,358** | | 2,145,378 |
| Investment tax credits recoverable, net of taxes payable (note 3) | | **785,296** | | 246,074 |
| Deposits and prepaid expenses | | **208,161** | | 65,745 |
| Future income tax asset (note 6) | | **1,000,000** | | 356,000 |
| | | **10,844,815** | | 3,221,465 |
| **Capital assets (note 4)** | | **3,178,864** | | 133,482 |
| **Due from related parties (note 5)** | | **442,803** | | 247,737 |
| **Future income tax asset (note 6)** | | **3,391,012** | | 75,000 |
| **Goodwill and other intangibles (note 7)** | | **2,881,643** | | 514,470 |
| | **$** | **20,739,137** | $ | 4,192,154 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Bank indebtedness (note 8) | **$** | **110,818** | $ | - |
| Accounts payable and accruals | | **4,826,076** | | 1,714,604 |
| Current portion of long-term debt (note 9) | | **1,745,425** | | - |
| Deferred revenue | | **66,396** | | 57,719 |
| | | **6,748,715** | | 1,772,323 |
| **Long-term debt (note 9)** | | **1,252,898** | | - |
| **Non-controlling interest (note 10)** | | **60,761** | | - |
| **Commitments and contingencies (note 14)** | | | | |
| **Shareholders' equity** | | | | |
| Capital stock (note 11) | | **10,129,346** | | 767,325 |
| Retained earnings | | **2,547,417** | | 1,652,506 |
| | | **12,676,763** | | 2,419,831 |
| | **$** | **20,739,137** | $ | 4,192,154 |

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

(signed) "John McKimm" Director

(signed) "Bhaktraj Singh" Director

## TREKLOGIC TECHNOLOGIES INC.

### CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

| For the year ended September 30, | 2003 | 2002 |
|---|---|---|
| **Revenue** | **$ 22,281,605** | $ 6,480,742 |
| **Cost of revenues (note 12)** | **15,631,700** | 3,146,542 |
| **Gross margin** | **6,649,905** | 3,334,200 |
| **Expenses** | | |
| Other labour costs (note 12) | **3,239,117** | 1,131,534 |
| General and administrative | **1,442,698** | 426,486 |
| Loss (gain) on foreign exchange | **114,829** | (3,196) |
| | **4,796,644** | 1,554,824 |
| **Earnings before interest, amortization, income taxes and non-controlling interest** | **1,853,261** | 1,779,376 |
| **Interest on long-term debt** | **43,348** | - |
| **Other interest expense, net** | **110,337** | 25,754 |
| **Amortization** | **506,067** | 48,653 |
| **Earnings before income taxes and non-controlling interest** | **1,193,509** | 1,704,969 |
| **Income taxes (note 6)** | **239,000** | 629,000 |
| **Earnings before non-controlling interest** | **954,509** | 1,075,969 |
| **Non-controlling interest (note 10)** | **59,598** | - |
| **Net earnings** | **894,911** | 1,075,969 |
| **Retained earnings, beginning of the year** | **1,652,506** | 576,537 |
| **Retained earnings, end of the year** | **$ 2,547,417** | $ 1,652,506 |
| **Earnings per share** | | |
| Basic | **$ 0.03** | $ 0.06 |
| Diluted | **$ 0.03** | $ 0.06 |

The accompanying notes are an integral part of these consolidated financial statements.

## TREKLOGIC TECHNOLOGIES INC.

### CONSOLIDATED STATEMENT OF CASH FLOWS

| For the year ended September 30, | 2003 | 2002 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating activities** | | |
| Net earnings | **$ 894,911** | $ 1,075,969 |
| Adjustments for items not affecting cash: | | |
| Amortization | **506,067** | 48,653 |
| Future income taxes | **234,000** | 359,000 |
| Non-controlling interest | **59,598** | - |
| | **1,694,576** | 1,483,622 |
| Net change in non-cash working capital items (note 13) | **(3,105,869)** | (1,425,809) |
| | **(1,411,293)** | 57,813 |
| **Financing activities** | | |
| Issuance of common shares | **6,983,976** | 287,500 |
| Issuance of series A preferred shares | **2,378,045** | - |
| Advances to related parties | **(218,566)** | (8,083) |
| Repayments by related parties | **22,041** | - |
| Proceeds from long-term obligations | **1,838,555** | - |
| Repayment of long-term obligations | **(428,570)** | - |
| | **10,575,481** | 279,417 |
| **Investment activities** | | |
| Business acquisitions, net of cash acquired and bank indebtedness assumed | **(9,597,959)** | (91,445) |
| Purchase of capital assets | **(85,315)** | (56,724) |
| | **(9,683,274)** | (148,169) |
| **Increase (decrease) in cash** | **(519,086)** | 189,061 |
| **Cash - beginning of year** | **408,268** | 219,207 |
| **Cash (bank indebtedness) - end of year** | **$ (110,818)** | $ 408,268 |

The accompanying notes are an integral part of these consolidated financial statements.

### 1. Summary of significant accounting policies

**Basis of presentation**

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

**Revenue recognition**

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

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

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

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

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

**Business combinations and goodwill**

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

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

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

### Intangibles

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

### Capital assets

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

| | | |
|---|---|---|
| Furniture and office equipment | - | 20% declining balance |
| Computer equipment | - | 30% declining balance |
| Computer software | - | 100% declining balance |
| Leasehold improvements | - | Straight-line over the lease term |
| Developed software | - | The greater of: a) the ratio that current revenues earn relative to the future gross revenues, and b) the straight-line method over 5 years. |

### Income taxes

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

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

### Stock-based compensation plan

The Company has adopted the new recommendations of the CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, which requires that a fair value-based method of accounting be applied to all stock-based payments. This recommendation allows the Company to continue its existing policy of treating all other employee and director stock options as capital transactions (the settlement method), but requires pro forma disclosure of net income and per share information as if the Company has accounted for these stock options under the fair value method (note 11(f)). No restatement of prior periods is required as a result of the adoption of the new recommendations.

### Foreign currency translation

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

### Estimates and assumptions

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

### Research and development

Research and development costs are expensed as incurred.

### Investment tax credits

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

### Financial instruments and foreign exchange risk

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

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

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

## 2. Acquisitions

**The following business acquisitions occurred during the year:**

### Brainhunter.com Ltd.

Effective March 31, 2003, the Company acquired all of the issued and outstanding shares of Brainhunter.com Ltd. ("Brainhunter"), a web-enabled end-to-end recruitment technology platform. Consideration for the purchase, totalling $4,083,831, consisted of 2,186,110 Series A preferred shares of the Company valued at $1,093,055, three-year vendor-take-back notes totalling $1,298,749 of which $840,367 is paid in cash as a percentage of revenue over time and $458,382 is paid in Company common shares at the prevailing market price at maturity, net cash of $1,643,527, and transaction costs of $48,500.

### InBusiness Solutions Inc.

Effective May 1, 2003, the Company acquired 62.3% of the issued and outstanding shares of InBusiness Solutions Inc. ("InBusiness"), an information technology solutions and services company listed on the TSX Venture exchange. Consideration for the purchase consisted of $2,000,000 in cash plus transaction costs of $37,433. The Company intends to acquire the remaining shares of InBusiness and has offered to purchase these shares at $0.15 each. Because the Company acquired control of InBusiness, the InBusiness acquisition has been accounted for in accordance with the purchase method of accounting.

### Advanced Solutions Group Inc.

Effective June 30, 2003, the Company acquired all of the issued and outstanding shares of Advanced Solutions Group Inc. ("Advanced"), an information technology solutions company. Consideration for the purchase, totalling $254,269, consisted of 100,000 common shares of the Company valued at $135,000, 50,000 common share purchase warrants of the Company valued at $5,865, net cash of $82,608, and transaction costs of $30,796.

### ProTec Employment Services Limited

Effective July 31, 2003, the Company acquired all of the issued and outstanding shares of ProTec Employment Services Limited, operating as "ProTec Global Staffing ("ProTec"), an engineering and industrial staffing company. Consideration for the purchase, totalling $1,570,293, consisted of 1,000,000 common shares of the Company valued at $1,200,000, a promissory note for $300,000, 101,000 common share purchase warrants of the Company valued at $48,055 and transaction costs of $22,238. Additionally, a contingent consideration may be incurred of up to $500,000 in cash and additional warrants based on certain income benchmarks, through September 30, 2007.

### Other acquisition

On June 27, 2003, the Company acquired the information technology ("IT") assets of Thinkpath Inc. ("Thinkpath"). These assets include the ongoing business of contract IT staff and the use of the Thinkpath brand in Canada for IT staffing. The assets were acquired for $200,000 cash, a promissory note for $60,000, and transaction costs of $19,136.

The purchase price components for the 2003 transactions were as follows:

| | Brainhunter<br>$ | InBusiness<br>$ | ProTec<br>$ | Advanced and Other<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| Cash consideration | 1,643,527 | 2,000,000 | - | 282,608 | 3,926,135 |
| Share consideration | 1,093,055 | - | 1,248,055 | 140,865 | 2,481,975 |
| Promissory notes | 1,298,749 | - | 300,000 | 60,000 | 1,658,749 |
| Transaction costs | 48,500 | 37,433 | 22,238 | 49,932 | 158,103 |
| Purchase prices | 4,083,831 | 2,037,433 | 1,570,293 | 533,405 | 8,224,962 |

The purchase prices for the 2003 transactions have been allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as follows:

| | Brainhunter $ | InBusiness $ | ProTec $ | Advanced and Other $ | Total $ |
|---|---|---|---|---|---|
| Working capital (deficiency) | (106,544) | (1,842,285) | (140,083) | 131,099 | (1,957,813) |
| Capital assets | 445,968 | 1,232,915 | 162,167 | 16,848 | 1,857,898 |
| Developed software | 2,000,000 | - | - | - | 2,000,000 |
| Future income tax asset (liability) | 1,744,407 | 2,452,205 | - | (2,600) | 4,194,012 |
| Long-term debt | - | - | (37,483) | (1,459) | (38,942) |
| Non-controlling interest | - | 288 | - | - | 288 |
| Net identifiable assets (liabilities) acquired | 4,083,831 | 1,843,123 | (15,399) | 143,888 | 6,055,443 |
| Total purchase price | 4,083,831 | 2,037,433 | 1,570,293 | 533,405 | 8,224,962 |
| Goodwill | - | 194,310 | 1,585,692 | 389,517 | 2,169,519 |

The estimate of fair value for developed software relating to the Brainhunter purchase was determined by management using traditional valuation approaches.

The operating results relating to these acquisitions have been included in the consolidated financial statements from the acquisition dates.

**The following occurred during the year ending September 30, 2002:**

**Amalgamation and reverse takeover**

On October 1, 2001, TrekLogic Inc. amalgamated with Stepping Solutions Inc., a private Ontario corporation, and the successor corporation being called TrekLogic Inc. The amalgamation is being accounted for as a purchase with TrekLogic Inc. as the purchaser. The net assets of TrekLogic Inc. were included in the amalgamated balance sheet at book values, and the deemed acquisition of Stepping Solutions Inc. recorded at fair market values. The assigned values of Stepping Solutions Inc. on the date of acquisition were as follows:

| | |
|---|---|
| Current assets | $ 323,470 |
| Loans to related parties | 190,018 |
| Capital assets | 4,409 |
| Investments | 1 |
| Liabilities | (194,085) |
| | $ 323,813 |

On June 21, 2002, Red Lantern Corporation, an Alberta company whose shares trade on the TSX Venture Exchange, was continued into Ontario and concurrently changed its name to TrekLogic Technologies Inc.

On June 25, 2002, TrekLogic Technologies Inc. completed a share exchange agreement with the shareholders of TrekLogic Inc. Under the terms of the transaction agreement, TrekLogic Technologies Inc. exchanged 18,036,398 common shares for 100% of the issued and outstanding shares of TrekLogic Inc. As a result, TrekLogic Technologies Inc. obtained control over TrekLogic Inc. A further 75,000 common shares were issued to a third party in partial payment for services relating to the transaction.

Legally, TrekLogic Technologies Inc. is the parent of TrekLogic Inc., but as a result of the share exchange, control of the combined companies passed to the shareholders of TrekLogic Inc., which for accounting purposes is deemed to be the acquirer.

For financial reporting purposes, this share exchange is considered to be a reverse takeover and TrekLogic Technologies Inc. is considered to be a continuation of TrekLogic Inc.

The net assets of TrekLogic Inc. were included in the balance sheet at book values, and the deemed acquisition of TrekLogic Technologies Inc. recorded at fair market values. The assigned values of TrekLogic Technologies Inc. on the date of acquisition were as follows:

| | |
|---|---|
| Current assets | $ 96,849 |
| Loans to related parties | 158,600 |
| Liabilities | (99,447) |
| | $ 156,002 |

**Xycorp Inc.**

Effective June 30, 2002, the Company acquired all of the outstanding shares of Xycorp Inc. ("Xycorp"), an Ontario private corporation that places computer consultants on a contract or full-time basis. The purchase price has been allocated to the assets and liabilities based on their estimated fair values at the acquisition date as follows:

| | |
|---|---|
| Purchase price | $ 71,000 |

Assigned values:

| | |
|---|---|
| Future income tax asset | $ 375,000 |
| Other current assets | 888,504 |
| Capital assets | 50,664 |
| Goodwill | 396,339 |
| Liabilities | (1,639,507) |
| | $ 71,000 |

Additionally, contingent consideration of up to $229,000 in cash will become payable should certain profitability benchmarks be achieved.

## 3. Investment tax credits recoverable, net of taxes payable

At September 30, 2003, the Company has available investment tax credits of $943,724 that have been recognized in the accounts. $446,792 of these credits relate to September 30, 2002 and have been approved for refund subsequent to the year end. The balance reflected at the balance sheet dates are also summarized as follows:

| | **2003** | 2002 |
|---|---|---|
| Investment tax credits recoverable | **$ 943,724** | $ 526,338 |
| Income taxes payable | **(158,428)** | (280,264) |
| Investment tax credits recoverable, net of taxes payable | **$ 785,296** | $ 246,074 |

## 4. Capital assets

| | Cost | Accumulated Amortization | Net Book Value 2003 | Net Book Value 2002 |
|---|---|---|---|---|
| **Computer equipment** | **$ 2,518,147** | **$ 1,818,087** | **$ 700,060** | $ 67,566 |
| **Furniture and office equipment** | **1,089,177** | **676,197** | **412,980** | 30,256 |
| **Leasehold improvements** | **354,607** | **161,855** | **192,752** | 19,016 |
| **Computer software** | **548,461** | **475,389** | **73,072** | 16,644 |
| **Developed software** | **2,000,000** | **200,000** | **1,800,000** | - |
| | **$ 6,510,392** | **$ 3,331,528** | **$3,178,864** | $ 133,482 |

## 5. Due from related parties

| | 2003 | 2002 |
|---|---|---|
| **Loans to shareholders, collateralized by pledges of Company shares** | **$ 259,105** | $ 82,605 |
| **Unsecured loans to related parties** | **183,698** | 165,132 |
| | **$ 442,803** | $ 247,737 |

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

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

## 6. Future income tax asset

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

| | 2003 | 2002 |
|---|---|---|
| Future income tax assets | | |
| Non-capital loss carryforwards | $ 6,807,073 | $ 475,880 |
| Difference between book value and tax basis of capital assets | (234,064) | 74,984 |
| Share issue costs and other | 225,600 | - |
| | 6,798,609 | 550,864 |
| Valuation allowance for future income tax assets | (2,307,597) | (17,947) |
| Total future income tax assets | 4,491,012 | 532,917 |
| Less: Future income tax liabilities | | |
| Investment tax credits | 100,000 | 101,917 |
| Net future income tax assets | $ 4,391,012 | $ 431,000 |
| Presented as: | | |
| Current future income tax asset | $ 1,000,000 | $ 356,000 |
| Long-term future income tax asset | 3,391,012 | 75,000 |
| | $ 4,391,012 | $ 431,000 |

The provision for income tax is as follows:

| | 2003 | 2002 |
|---|---|---|
| Current income tax expense | **$ 5,000** | $ 578,000 |
| Future income tax expense | **234,000** | 51,000 |
| | **$ 239,000** | $ 629,000 |

The following table reconciles the difference between the income taxes that would result from the combined Federal and Ontario Provincial statutory tax rates being applied to pre-tax income and the income taxes actually provided for in the accounts:

| | 2003 | 2002 |
|---|---|---|
| Earnings before income taxes and non-controlling interest | **$ 1,193,509** | $ 1,704,969 |
| Current tax provision at the combined Federal and Provincial statutory tax rate of 37.6% (2002 - 39.1%) | **448,759** | 666,984 |
| Increase (decrease) resulting from: | | |
| Temporary differences | **(167,939)** | (48,737) |
| Permanent differences | **108,187** | (25,660) |
| Benefit of unrecognized tax losses | **(355,920)** | - |
| Other | **(28,087)** | (14,587) |
| | **$ 5,000** | $ 578,000 |

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

| | | |
|---|---|---|
| 2004 | - | $ 331,000 |
| 2005 | - | 525,000 |
| 2006 | - | 2,485,000 |
| 2007 | - | 6,012,000 |
| 2008 | - | 4,275,000 |
| 2009 | - | 3,651,000 |
| 2010 | - | 815,000 |
| | | $ 18,094,000 |

## 7. Goodwill and other intangibles

Goodwill and other intangibles are summarized as follows:

| | Goodwill | Intangibles | Total |
|---|---|---|---|
| Balance, beginning of year | $ 514,470 | $ - | $ 514,470 |
| Acquisitions (note 2) | 2,169,519 | - | 2,169,519 |
| InBusiness, trademarks, tradenames and patented technology | - | 756,446 | 756,646 |
| Less, accumulated amortization | - | (364,682) | (364,682) |
| Less, elimination on consolidation | (194,310) | - | (194,310) |
| | $ 2,489,679 | $ 391,764 | $ 2,881,643 |

## 8. Bank indebtedness

| | 2003 | 2002 |
|---|---|---|
| Cash | $ 2,357,677 | $ 663,304 |
| Outstanding cheques | (888,495) | (255,036) |
| Bank operating loan | (1,580,000) | - |
| | $ (110,818) | $ 408,268 |

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

At September 30, 2003 the credit facility was $4,000,000, subsequent to year end the Company has increased their credit facility to $7,000,000. Related to their bank facility certain financial covenants are to be maintained that have been met.

## 9. Long-term debt

Long-term debt consists of the following:

| | |
|---|---|
| Promissory note, non-interest bearing, payable quarterly at the lesser of 2% of net sales of Brainhunter or $75,000 | $ 765,367 |
| Brainhunter acquisition obligation payable March 10, 2006 in common stock of the Company based on the weighted average trading price for previous twenty days or in cash, however the holders have the right to refuse a cash offer and elect to accept shares | 458,382 |
| Promissory note, non-interest bearing, payable quarterly at $15,000, with final payment due June 27, 2004 | 60,000 |
| Obligation to parties related to the ProTec acquisition, repaid subsequent to year end | 276,848 |
| Promissory note, non-interest bearing, payable yearly beginning October 2004, at the greater of $75,000 or a formula based on ProTec's income | 300,000 |

| | |
|---|---|
| InBusiness convertible debenture, bearing interest at 6% calculated monthly with repayment at $6,000 per month, subsequent to year end this debenture was converted in anticipation of the offer to purchase, by the Company, the remaining InBusiness shares (note 18(d)) | **986,075** |
| Bank term loan, at prime plus .75%, repayable in equal monthly principal payments of $4,167 | **79,153** |
| Acquisition obligation, non-interest bearing, with monthly payments of $12,083 | **72,498** |
| | **2,998,323** |
| Less current portion | **1,745,425** |
| | **$ 1,252,898** |

The promissory notes were issued to assist in financing the Brainhunter, ProTec and Thinkpath acquisitions.

Anticipated long-term debt payment obligations are as follows:

| | | |
|---|---|---|
| 2004 | - | $ 1,745,425 |
| 2005 | - | 404,149 |
| 2006 | - | 698,749 |
| 2007 | - | 75,000 |
| 2008 | - | 75,000 |
| | | $ 2,998,323 |

## 10. Non-controlling interest

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

Subsequent to year end the majority of this interest has been purchased (note 18(d)).

## 11. Capital stock

(a) Authorized

Unlimited number of common shares
Unlimited number of preferred shares
Unlimited number of non-cumulative, non-redeemable, non-retractable, convertible, voting Series A Preferred Shares

(b) The following tables summarize the capital stock activity since September 30, 2001:

| | Common shares | |
|---|---|---|
| | **Number of shares** | **Amount** |
| Share capital of TrekLogic Inc. at September 30, 2001 | 999 | $ 10 |
| Shares issued in split, October 1, 2001 | 7,991,001 | - |
| Share capital after split, October 1, 2001 | 7,992,000 | 10 |
| Acquisition and amalgamation with Stepping Solutions Inc., October 1, 2001 | 2,617,654 | 323,813 |
| | 10,609,654 | 323,823 |
| Reverse takeover of TrekLogic Technologies Inc., June 25, 2002 | | |
| TrekLogic Inc. shares surrendered | (10,609,654) | - |
| TrekLogic Technologies Inc. shares issued to former TrekLogic Inc. shareholders and others | 18,111,398 | 156,002 |
| Publicly held shares of TrekLogic Technologies Inc. at June 25, 2002 | 2,800,000 | - |
| Balance at September 30, 2002, before undernoted | 20,911,398 | 479,825 |
| Proceeds received prior to 2003 private placement | - | 287,500 |
| Balance at September 30, 2002 | 20,911,398 | 767,325 |
| Shares issued by private placements, net of issue costs | 11,515,214 | 5,415,521 |
| Shares issued and fair value of warrants pursuant to ProTec acquisition | 1,000,000 | 1,248,055 |
| Shares issued and fair value of warrants pursuant to Advanced acquisition | 100,000 | 140,865 |
| Warrants exercised | 444,925 | 179,535 |
| | 33,971,537 | $ 7,751,301 |

| | Series A Preferred Shares | |
|---|---|---|
| | **Number of shares** | **Amount** |
| Shares issued pursuant to Brainhunter acquisition | 2,186,110 | $ 1,093,055 |
| Shares issued by private placements, net of issue costs | 2,428,571 | 1,284,990 |
| Balance at September 30, 2003 | 4,614,681 | $ 2,378,045 |
| Total capital stock | 38,586,218 | $10,129,346 |

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

(c) Escrowed shares

Of the 2,800,000 common shares of TrekLogic Technologies Inc. outstanding prior to the completion of the reverse takeover transaction, 866,667 are held in escrow. The shares will be released from escrow in equal amounts on July 22, 2004 and July 22, 2005.

Additionally, 9,291,403 common shares, relating to the July 2003 private placement and the Protec and Advanced acquisitions, were placed in escrow. These shares will be released by the end of February 2004.

(d) Options

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

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

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

The following table summarizes the stock option activity for 2002 and 2003:

| | Number of shares | 2003 Range | Weighted average price | Number of shares | 2002 Range | Weighted average price |
|---|---|---|---|---|---|---|
| Outstanding- opening | 1,769,940 | $0.20-0.34 | $ 0.28 | 280,000 | $ 0.20 | $ 0.20 |
| Granted | 2,612,400 | 0.35-0.71 | 0.57 | 1,489,940 | 0.30 | 0.30 |
| Outstanding- ending | 4,382,340 | $0.35-0.71 | $ 0.45 | 1,769,940 | $0.20-0.30 | $ 0.28 |
| Exercisable- end of year | 770,166 | $0.20-0.30 | $ 0.26 | 184,800 | $ 0.20 | $ 0.20 |

The following table presents the exercise price and remaining life of the outstanding options as at September 30, 2003:

| Options outstanding | | | Options exercisable |
|---|---|---|---|
| **Exercise price** | **Number** | **Remaining life (years)** | **Number** |
| $ 0.20 | 280,000 | 1.25 | 280,000 |
| 0.30 | 1,489,940 | 3.83 | 490,166 |
| 0.35 | 412,400 | 4.42 | - |
| 0.50 | 1,000,000 | 4.75 | - |
| 0.71 | 1,200,000 | 4.79 | - |
| | 4,382,340 | | 770,166 |

(e) Warrants

The following table summarizes the warrant activity for 2002 and 2003:

| | Warrants | 2003 Range | Weighted average price | Warrants | 2002 Range | Weighted average price |
|---|---|---|---|---|---|---|
| Outstanding-opening | 1,799,996 | $ 0.30 | $ 0.30 | - | $ - | $ - |
| Granted | 2,912,643 | 0.35-2.09 | 0.88 | 1,799,996 | 0.30 | 0.30 |
| Exercised | 444,925 | 0.30-0.50 | 0.37 | - | - | - |
| Outstanding-ending | 4,267,714 | $0.30-2.09 | $ 0.68 | 1,799,996 | $ 0.30 | $ 0.30 |
| Exercisable-end of year | 2,884,625 | $0.30-0.50 | $ 0.36 | 593,397 | $ 0.30 | $ 0.30 |

The following table presents the exercise price and remaining life of the outstanding warrants as at September 30, 2003:

| Warrants outstanding | | | Warrants exercisable |
|---|---|---|---|
| **Exercise price** | **Number** | **Remaining life (years)** | **Number** |
| $ 0.30 | 1,670,895 | 1.75 | 1,268,695 |
| 0.35 | 1,040,930 | 2.16 | 1,015,930 |
| 0.50 | 472,746 | 2.50 | 600,000 |
| 0.70 | 307,143 | 2.75 | - |
| 1.80 | 50,000 | 3.00 | - |
| 2.09 | 726,000 | 3.00 | - |
| | 4,267,714 | | 2,884,625 |

(f) Pro forma stock-option disclosure:

For companies electing not to adopt the fair value measurement for stock-based compensation, CICA Handbook Section 3870 requires the disclosure of pro forma net income and net income per share information. A summary of the pro forma disclosure of the impact on the consolidated statements of earnings is presented as follows:

| | |
|---|---|
| Net earnings, as reported | $ 894,911 |
| Compensation expense related to fair value of stock options | (509,357) |
| Pro forma earnings | $ 385,554 |
| Pro forma earnings per share: | |
| Basic and diluted | $ 0.01 |

The fair value of each option has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions used: dividend yield of 0%, expected volatility of 30%, risk-free rates of return of from 2.85% to 4.15% and expected life of the options of from two to four years. The pro forma effect of options granted prior to October 1, 2002 has not been included.

The Company has assumed no forfeiture rate, as adjustments for actual forfeitures are made in the year they occur. The weighted average grant date fair value of options issued in the year ended September 30, 2003 was $0.33.

(g) Supplemental information on weighted average number of shares outstanding.

| | | |
|---|---|---|
| Weighted average number of shares outstanding | | |
| Basic | **27,833,970** | 18,855,449 |
| Diluted | **31,390,277** | 18,897,151 |

**12. Research and development expenses**

Some of the Company's expenses qualify for research and development investment tax credits from Federal and Provincial tax authorities. Those credits which are expected to be received with reasonable certainty are accounted for as reductions in the related expenses, as follows:

| | **2003** | 2002 |
|---|---|---|
| Costs of revenues | **$ 16,050,619** | $ 3,530,542 |
| Anticipated recovery from investment tax credits | **(418,919)** | (384,000) |
| Costs of services, net | **$ 15,631,700** | $ 3,146,542 |
| Other staffing costs | **$ 3,263,498** | $ 1,189,534 |
| Anticipated recovery from investment tax credits | **(24,381)** | (58,000) |
| Other labour costs, net | **$ 3,239,117** | $ 1,131,534 |

## 13. Net change in non-cash working capital items

The net changes in non-cash working capital items are as follows:

| | **2003** | 2002 |
|---|---|---|
| Accounts receivable | **$ (1,126,138)** | $ (716,008) |
| Investment tax credits, net of taxes payable | **(493,664)** | 107,787 |
| Current assets of discontinued operations | **135,970** | - |
| Deposits and prepaid expenses | **145,796** | (43,360) |
| Accounts payable and accruals | **(1,242,109)** | (331,447) |
| Deferred revenue | **(525,724)** | 7,219 |
| Bonuses payable | **-** | (450,000) |
| | **$ (3,105,869)** | $ (1,425,809) |

## 14. Commitments and contingencies

The Company is committed to premise lease payments as follows:

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

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

## 15. Economic relationship

During the year, two customers comprised 32% (70% - 2002) of total revenue. These customers consist of two publicly traded multi-billion dollar computer companies.

The Company contracts with many divisions and departments within these entities, which generally have independent budgets and decision making and their own established business relationships with the Company.

Management believes that there is no material financial risk in maintaining an extensive economic relationship with these customers.

## 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.

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.

| **September 30, 2003** | **Staffing** | **Solutions** | **Total** |
|---|---|---|---|
| Revenue | $ 15,732,092 | $ 6,549,513 | $ 22,281,605 |
| Earnings before interest, amortization, income taxes and non-controlling interest | $ 688,066 | $ 1,165,195 | $ 1,853,261 |
| **September 30, 2002** | **Staffing** | **Solutions** | **Total** |
| Revenue | $ 1,710,723 | $ 4,770,019 | $ 6,480,742 |
| Earnings before interest, amortization, income taxes and non-controlling interest | $ 33,507 | $ 1,745,869 | $ 1,779,376 |

The Company's revenues are earned in North America with 21% from the United States (2002 - 53%).

All capital assets are attributable to operations located in Canada.

### 17. Subsequent events

(a) The Company completed the purchase of 100% of the shares of Prolink Consulting Inc. ("Prolink"), an information technology staffing company. Consideration includes 550,000 common shares of the Company with a deemed value of $2 per share, 355,000 common share purchase warrants priced at $1.85 and vesting over a three-year period and a cash amount, to be determined, based on working capital. All shares have escrow periods up to three years tied to management contracts and performance criteria. Results of Prolink will be included in the consolidated financial statements of the Company effective October 1, 2003.

(b) The Company completed the purchase of 100% of the shares of Sirius Consulting Group Inc. ("Sirius"), an information technology staffing company. Consideration includes $3.0M of cash and a $1.0M two-year transferable convertible note at an interest rate tied to 90-day treasury bills, exercisable at $3.00 per common share of the Company. The convertible note has quarterly repayment terms over a two-year period. Additionally, the Company issued 250,000 common share purchase warrants with an exercise price of $1.96 vesting over three periods and a cash amount, to be determined, based on working capital. Results of Sirius will be included in the consolidated financial statements of the Company effective November 1, 2003.

(c) On February 3, 2004, the Company completed a private placement of 5,555,556 common shares at $1.80 per share for gross proceeds of $10.0M. In connection with this private placement, the Company issued compensation warrants exercisable to acquire an aggregate of 283,335 common shares at $1.88. The Company's Chairman and Chief Executive Officer and one Director acquired $1.5M of the financing.

(d) The Company has offered to purchase all the issued and outstanding common shares of InBusiness so as to take the Company's ownership interest to 100% from 62.3%. The cost to purchase the remaining shares, after the related debt is converted, is anticipated to be $4.8M.

### 18. Comparatives

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