

**BRAINHUNTER INC.**

**(Formerly TrekLogic Technologies Inc)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**for the interim period ended**

**MARCH 31, 2005**

**BRAINHUNTER INC.**  
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

<b>As at</b>	<b>March 31, 2005</b>	<b>September 30, 2004</b>
		<i>(restated note 2)</i>
<b>ASSETS</b>		
<b>Current assets</b>		
Accounts receivable	\$ 15,968,939	\$ 12,957,254
Investment tax credits recoverable (note 4)	726,451	894,617
Deposits and prepaid expenses	630,001	152,661
Future income tax asset (note 7)	750,000	750,000
	<b>18,075,391</b>	<b>14,754,532</b>
<b>Capital assets (note 5)</b>	<b>4,961,781</b>	<b>4,339,612</b>
<b>Investment tax credits recoverable (note 4)</b>	<b>911,466</b>	<b>350,897</b>
<b>Deferred financing costs</b>	<b>200,000</b>	<b>200,000</b>
<b>Intangible assets, net of amortization (note 8)</b>	<b>3,112,222</b>	<b>3,375,139</b>
<b>Goodwill (note 8)</b>	<b>10,275,264</b>	<b>10,199,045</b>
<b>Due from related parties (note 6)</b>	<b>941,385</b>	<b>1,277,825</b>
<b>Future income tax asset (note 7)</b>	<b>2,891,075</b>	<b>2,338,789</b>
	<b>\$ 41,368,584</b>	<b>\$ 36,835,839</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 9)	\$ 8,180,695	\$ 5,920,652
Accounts payable and accruals	6,930,818	6,370,606
Current portion of long-term debt (note 10)	565,757	435,000
Future income tax liabilities	275,000	305,000
Deferred revenue	399,394	104,966
	<b>16,351,664</b>	<b>13,136,224</b>
<b>Deferred lease inducement</b>	<b>348,079</b>	<b>238,003</b>
<b>Long-term debt (note 10)</b>	<b>902,575</b>	<b>701,527</b>
<b>Long-term future income tax liabilities</b>	<b>710,168</b>	<b>914,100</b>
	<b>1,960,822</b>	<b>1,853,630</b>
<b>Commitments and contingencies (note 9)</b>		
<b>Shareholders' equity</b>		
Capital stock (note 12)	21,081,431	20,414,518
Warrants (note 12)	68,945	-
Contributed surplus (notes 12 and 13)	822,418	757,648
Equity component of convertible note obligation (note 3)	53,040	-
Retained earnings	1,030,264	673,819
	<b>23,056,098</b>	<b>21,845,985</b>
	<b>\$ 41,368,584</b>	<b>\$ 36,835,839</b>

The notes constitute an integral part of the consolidated financial statements.

Approved on behalf of the Board:

John McKimm Director

John Gillies Director

**BRAINHUNTER INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS**  
**(UNAUDITED)**

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>March 31,</u> <u>2005</u>	<u>March 31,</u> <u>2004</u>	<u>March 31,</u> <u>2005</u>	<u>March 31,</u> <u>2004</u>
		<i>(restated note 2)</i>		<i>(restated note 2)</i>
<b>Revenue</b>	\$ 19,548,300	\$ 18,548,972	\$ 37,337,568	\$ 34,854,153
<b>Cost of revenues</b>	15,326,468	14,186,916	29,142,984	26,356,407
<b>Gross margin</b>	4,221,832	4,362,056	8,194,584	8,497,746
<b>Expenses</b>				
Other staffing costs	2,225,543	1,889,395	3,992,875	3,990,430
General, selling, and administrative	1,125,197	1,128,768	2,436,151	2,111,420
	3,350,740	3,018,163	6,429,026	6,101,850
<b>Earnings before interest, amortization, income taxes, and non-controlling interest</b>	871,092	1,343,893	1,765,558	2,395,896
<b>Interest expense, net</b>	138,042	65,424	249,238	202,456
<b>Amortization</b>	532,409	652,087	1,083,312	1,657,639
	670,451	717,511	1,332,550	1,860,095
<b>Earnings before income taxes and non-controlling interest</b>	200,641	626,382	433,008	535,801
<b>Income tax (recovery) provision</b>	(33,939)	121,424	62,888	76,140
<b>Earnings before non-controlling interest</b>	234,580	504,958	370,120	459,661
<b>Non-controlling interest</b>	-	16,103	-	31,222
<b>Net income</b>	234,580	488,855	370,120	428,439
<b>Shares purchased for cancellation, excess of cost over book value</b>	-	-	(13,675)	-
<b>Retained earnings, beginning of period</b>	795,684	1,977,645	673,819	2,038,061
<b>Retained earnings, end of period</b>	\$ 1,030,264	\$ 2,466,500	\$ 1,030,264	\$ 2,466,500
<b>Earnings per share</b>				
Basic	\$ 0.005	\$ 0.011	\$ 0.008	\$ 0.010
Diluted	\$ 0.004	\$ 0.009	\$ 0.007	\$ 0.009
<b>Weighted average number of shares outstanding</b>				
Basic	46,267,231	43,837,467	45,661,627	40,865,868
Diluted	52,909,485	51,644,335	52,835,473	48,722,736

The notes constitute an integral part of the consolidated financial statements.

**BRAINHUNTER INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>March 31,</u> <u>2005</u>	<u>March 31,</u> <u>2004</u>	<u>March 31,</u> <u>2005</u>	<u>March 31,</u> <u>2004</u>
		<i>(restated note 2)</i>		<i>(restated note 2)</i>
<b>Cash flows from (used in)</b>				
<b>Operating activities</b>				
Net income	\$ 234,580	\$ 488,855	\$ 370,120	\$ 428,439
Items not affecting cash:				
Income tax (recovery) expense	(33,939)	121,424	62,888	76,140
Non-cash interest expense	18,475	17,958	36,950	64,446
Deferral (drawdown) of lease inducement	(8,925)	-	110,077	-
Non-controlling interest	-	16,103	-	31,222
Amortization	532,409	652,087	1,083,312	1,657,639
	742,600	1,296,427	1,663,347	2,257,886
Changes in non-cash working capital items (note 14)	(2,289,463)	(105,022)	(3,307,851)	(1,214,546)
	(1,546,863)	1,191,405	(1,644,504)	1,043,340
<b>Financing activities</b>				
Issuance of common shares, net of costs	106,293	9,342,358	529,850	10,548,298
Purchase of common shares	-	-	(258,578)	-
Proceeds from long-term debt	-	-	-	1,058,620
Repayment of long-term debt	(75,000)	(1,165,041)	(150,000)	(1,565,639)
	31,293	8,177,317	121,272	10,041,279
<b>Investing activities</b>				
Additions to capital assets	(417,481)	(959,361)	(1,008,497)	(1,096,967)
Advances to related parties	74,651	-	336,440	-
Business acquisitions, net of cash acquired	-	(4,345,060)	(64,755)	(10,487,568)
	(342,830)	(5,304,421)	(736,812)	(11,584,535)
<b>Net change in cash</b>	(1,858,400)	4,064,301	(2,260,043)	(499,916)
<b>Cash – beginning of period</b>	(6,322,295)	(4,675,035)	(5,920,652)	(110,818)
<b>Cash – end of period</b>	\$ (8,180,695)	\$ (610,734)	\$ (8,180,695)	\$ (610,734)
<b>Supplemental disclosure of cash payments</b>				
Income taxes	\$ -	\$ -	\$ -	\$ -
Interest paid	\$ 119,567	\$ 47,466	\$ 212,288	\$ 138,010

The notes constitute an integral part of the consolidated financial statements.

**BRAINHUNTER INC.**  
**(Formerly TrekLogic Technologies Inc.)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE INTERIM PERIOD ENDED MARCH 31, 2005**

**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 Brainhunter Inc. (formerly TrekLogic Technologies Inc.) and from their 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.

These interim financial statements follow the same accounting policies and methods as the September 30, 2004 annual audited financial statements, except as described in note 2. Under Canadian generally accepted accounting principles, additional disclosure is required in annual financial statements and accordingly the unaudited interim period consolidated financials should be read together with the audited annual financial statements.

**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, 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 financial statements of changes in estimates in future periods could be significant. Actual results could differ from those estimates.

## **2. Restatements:**

### **(a) Intangible assets:**

The Company has determined that the accounting for its acquisitions did not allocate a portion of the acquisitions to identifiable intangibles apart from goodwill in accordance with Canadian Institute of Chartered Accountants (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. The tables in note 2(d) summarize the effects of this restatement.

### **(b) 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 has recognized a lease inducement for the free-rent period granted on one of these leases and has restated general, selling, and administrative expense for the third and fourth quarter of 2004 and the first quarter of 2005. The tables in note 2(d) summarize the effects of this restatement.

### **(c) Interest expense:**

The Company has reviewed the terms and conditions of the 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 recognized an imputed, non-cash interest expense and has restated interest expense for 2004 and the first quarter of 2005. The tables in note 2(d) summarize the effects of this restatement.

(d) Summary of changes in accounting policies and restatements:

**Balance sheets**

(000's)

	Fiscal 2004												Q1 Fiscal 2005		
	As Reported				Adjustments				Restated				Reported	Adjust	Restated
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Cash	\$ -	\$ -	\$ 1,477	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,477	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	12,344	13,378	13,314	12,957	-	-	-	-	12,344	13,378	13,314	12,957	13,950	-	13,950
Investment tax credits recoverable	491	694	693	1,246	(351)	(351)	(351)	(351)	140	344	342	895	1,416	(776)	640
Deposits and prepaid expenses	569	792	430	353	-	-	(200)	(200)	569	792	230	153	650	(200)	450
Future income tax asset	1,000	1,000	1,000	750	-	-	-	-	1,000	1,000	1,000	750	750	-	750
<b>Total current assets</b>	<b>14,403</b>	<b>15,865</b>	<b>16,914</b>	<b>15,305</b>	<b>(351)</b>	<b>(351)</b>	<b>(551)</b>	<b>(551)</b>	<b>14,052</b>	<b>15,514</b>	<b>16,363</b>	<b>14,755</b>	<b>16,765</b>	<b>(976)</b>	<b>15,789</b>
Capital assets	3,110	3,646	4,063	4,340	-	-	-	-	3,110	3,646	4,063	4,340	4,621	-	4,621
Investment tax credits recoverable	-	-	-	-	351	351	351	351	351	351	351	351	-	776	776
Deferred financing costs	-	-	-	-	-	-	200	200	-	-	200	200	-	200	200
Intangible assets	-	-	-	-	4,632	4,203	3,775	3,375	4,632	4,203	3,775	3,375	-	3,111	3,111
Goodwill	8,082	11,881	12,572	12,766	(2,274)	(2,274)	(2,567)	(2,567)	5,807	9,607	10,005	10,199	12,766	(2,567)	10,199
Due from related parties	443	443	443	1,278	-	-	-	-	443	443	443	1,278	1,016	-	1,016
Future income tax asset	3,391	3,391	3,391	3,341	(1,294)	(1,294)	(1,002)	(1,002)	2,097	2,097	2,389	2,339	4,065	(1,002)	3,063
<b>Total assets</b>	<b>\$29,429</b>	<b>\$35,226</b>	<b>\$37,382</b>	<b>\$37,029</b>	<b>\$1,063</b>	<b>\$ 635</b>	<b>\$ 207</b>	<b>\$ (193)</b>	<b>\$30,493</b>	<b>\$35,861</b>	<b>\$37,589</b>	<b>\$36,836</b>	<b>\$39,232</b>	<b>\$ (457)</b>	<b>\$38,775</b>
Bank Indebtedness	\$ 4,675	\$ 611	\$ 4,290	\$ 5,921	\$ -	\$ -	\$ -	\$ -	\$ 4,675	\$ 611	\$ 4,290	\$ 5,921	\$ 6,322	\$ -	\$ 6,322
Accounts payable and accruals	6,619	7,638	7,098	6,136	-	-	-	232	6,619	7,638	7,098	6,368	6,414	-	6,414
Current portion of long term debt	2,023	963	935	435	-	-	-	-	2,023	963	935	435	435	-	435
Future income tax liabilities	-	-	-	-	305	305	305	305	305	305	305	305	-	305	305
Deferred revenue	75	209	160	105	-	-	-	-	75	209	160	105	362	-	362
<b>Total current liabilities</b>	<b>13,391</b>	<b>9,420</b>	<b>12,483</b>	<b>12,597</b>	<b>305</b>	<b>305</b>	<b>305</b>	<b>537</b>	<b>13,696</b>	<b>9,725</b>	<b>12,788</b>	<b>13,134</b>	<b>13,533</b>	<b>305</b>	<b>13,838</b>
Deferred lease inducement	-	-	-	-	-	-	119	238	-	-	119	238	-	357	357
Long term debt	1,634	1,374	1,174	849	(199)	(181)	(163)	(145)	1,435	1,193	1,011	704	1,220	(179)	1,041
Long term future income tax liability	-	-	-	-	1,463	1,280	1,097	914	1,463	1,280	1,097	914	-	819	819
<b>Total long term liabilities</b>	<b>1,634</b>	<b>1,374</b>	<b>1,174</b>	<b>849</b>	<b>1,264</b>	<b>1,099</b>	<b>1,053</b>	<b>1,007</b>	<b>2,898</b>	<b>2,473</b>	<b>2,227</b>	<b>1,856</b>	<b>1,220</b>	<b>997</b>	<b>2,216</b>
<b>Non-controlling interest</b>	<b>76</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Capital stock	11,335	20,678	19,678	20,646	-	-	-	(232)	11,335	20,678	19,678	20,415	21,114	811	21,925
Retained earnings	2,993	3,745	4,047	2,937	(506)	(769)	(1,152)	(1,506)	2,487	2,976	2,895	1,431	3,365	(2,569)	796
<b>Total equity</b>	<b>14,328</b>	<b>24,423</b>	<b>23,725</b>	<b>23,584</b>	<b>(506)</b>	<b>(769)</b>	<b>(1,152)</b>	<b>(1,738)</b>	<b>13,822</b>	<b>23,653</b>	<b>22,573</b>	<b>21,846</b>	<b>24,479</b>	<b>(1,759)</b>	<b>22,720</b>
<b>Total liabilities and equity</b>	<b>\$29,429</b>	<b>\$35,226</b>	<b>\$37,382</b>	<b>\$37,029</b>	<b>\$1,063</b>	<b>\$ 635</b>	<b>\$ 207</b>	<b>\$ (193)</b>	<b>\$30,493</b>	<b>\$35,861</b>	<b>\$37,589</b>	<b>\$36,836</b>	<b>\$39,232</b>	<b>\$ (457)</b>	<b>\$38,775</b>

**Income Statements**  
(000's)

	Fiscal 2004															Q1 Fiscal 2005		
	As Reported					Adjustments					Restated					Reported	Adjust	Restated
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year			
<b>Revenue</b>	<b>\$ 16,305</b>	<b>\$ 18,549</b>	<b>\$ 17,463</b>	<b>\$ 16,576</b>	<b>\$ 68,893</b>	<b>\$ -</b>	<b>\$ 16,305</b>	<b>\$ 18,549</b>	<b>\$ 17,463</b>	<b>\$ 16,576</b>	<b>\$ 68,893</b>	<b>\$ 17,789</b>	<b>\$ -</b>	<b>\$ 17,789</b>				
Cost of Sales	12,169	14,187	13,404	15,149	54,909	-	-	-	-	-	12,169	14,187	13,404	15,149	54,909	13,817	-	13,817
<b>Gross Margin</b>	<b>4,136</b>	<b>4,362</b>	<b>4,059</b>	<b>1,428</b>	<b>13,984</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,136</b>	<b>4,362</b>	<b>4,059</b>	<b>1,428</b>	<b>13,984</b>	<b>3,973</b>	<b>-</b>	<b>3,973</b>
Operating Costs	3,084	3,018	3,341	729	10,172	-	-	119	119	238	3,084	3,018	3,460	848	10,410	2,959	119	3,078
<b>EBITDA</b>	<b>1,052</b>	<b>1,344</b>	<b>717</b>	<b>699</b>	<b>3,813</b>	<b>-</b>	<b>-</b>	<b>(119)</b>	<b>(119)</b>	<b>(238)</b>	<b>1,052</b>	<b>1,344</b>	<b>598</b>	<b>580</b>	<b>3,575</b>	<b>1,013</b>	<b>(119)</b>	<b>894</b>
Amortization	206	224	226	765	1,421	800	428	428	400	2,056	1,006	652	655	1,165	3,478	287	264	551
Interest	91	47	35	154	328	46	18	18	18	100	137	65	53	172	428	93	18	111
<b>Inc before Tax</b>	<b>755</b>	<b>1,073</b>	<b>456</b>	<b>(221)</b>	<b>2,063</b>	<b>(846)</b>	<b>(446)</b>	<b>(565)</b>	<b>(537)</b>	<b>(2,395)</b>	<b>(91)</b>	<b>626</b>	<b>(109)</b>	<b>(758)</b>	<b>(331)</b>	<b>634</b>	<b>(401)</b>	<b>232</b>
Income Tax	295	304	185	(444)	340	(340)	(183)	(183)	(183)	(889)	(45)	121	3	(627)	(548)	192	(95)	97
Non-cont interest	15	16	(31)	-	-	-	-	-	-	-	15	16	(31)	-	-	-	-	-
<b>Net Income</b>	<b>\$ 446</b>	<b>\$ 752</b>	<b>\$ 302</b>	<b>\$ 223</b>	<b>\$ 1,723</b>	<b>\$ (506)</b>	<b>\$ (263)</b>	<b>\$ (382)</b>	<b>\$ (354)</b>	<b>\$ (1,506)</b>	<b>\$ (60)</b>	<b>\$ 489</b>	<b>\$ (80)</b>	<b>\$ (131)</b>	<b>\$ 217</b>	<b>\$ 442</b>	<b>\$ (306)</b>	<b>\$ 136</b>
Earnings per share																		
- Basic	0.012	0.017	0.006	0.005	0.040	(0.013)	(0.006)	(0.008)	(0.008)	(0.035)	(0.002)	0.011	(0.002)	(0.003)	0.005	0.010	(0.007)	0.003
- Diluted	0.010	0.015	0.005	0.005	0.035	(0.011)	(0.005)	(0.007)	(0.007)	(0.031)	(0.001)	0.009	(0.002)	(0.003)	0.004	0.008	(0.006)	0.003

**Cash Flow Statements**  
(000's)

	Fiscal 2004															Q1 Fiscal 2005		
	As Reported					Adjustments					Restated					Reported	Adjust	Restated
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year			
<b>Operating activities</b>																		
Net Income	\$ 446	\$ 752	\$ 302	\$ 223	\$ 1,723	\$ (506)	\$ (263)	\$ (382)	\$ (354)	\$ (1,506)	\$ (60)	\$ 489	\$ (80)	\$ (131)	\$ 217	\$ 442	\$ (306)	\$ 136
Adjust for non-cash items																		
Non-controlling interest	15	16	(31)	-	-	-	-	-	-	-	15	16	(31)	-	-	-	-	-
Future income tax recovery	-	-	-	-	-	(340)	(183)	(183)	(183)	(889)	(340)	(183)	(183)	(183)	(889)	-	(95)	(95)
Income tax expense	-	304	185	(189)	300	-	-	-	-	-	-	304	185	(189)	300	192	-	192
Non-cash interest expense	-	-	-	-	-	46	18	18	18	100	46	18	18	18	100	-	18	18
Defer leasehold inducement	-	-	-	-	-	-	-	119	119	238	-	-	119	119	238	-	119	119
Amortization	206	224	226	765	1,421	800	428	428	400	2,056	1,006	652	655	1,165	3,478	287	264	551
Total	667	1,296	682	799	3,445	-	-	-	-	-	667	1,296	682	799	3,445	921	-	921
Net change in non-cash working capital	(538)	(105)	(354)	(1,583)	(2,579)	-	-	-	232	232	(538)	(105)	(354)	(1,351)	(2,347)	(1,266)	(811)	(2,077)
<b>Total</b>	<b>129</b>	<b>1,191</b>	<b>329</b>	<b>(784)</b>	<b>866</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>232</b>	<b>232</b>	<b>129</b>	<b>1,191</b>	<b>329</b>	<b>(552)</b>	<b>1,097</b>	<b>(345)</b>	<b>(811)</b>	<b>(1,156)</b>
<b>Investing Activities</b>																		
Business acquisitions	(6,525)	(4,345)	(660)	411	(11,119)	-	-	-	-	-	(6,525)	(4,345)	(660)	411	(11,119)	(552)	-	(552)
Purchase of capital assets	(33)	(959)	(643)	(555)	(2,190)	-	-	-	-	-	(33)	(959)	(643)	(555)	(2,190)	(591)	-	(591)
Total	(6,557)	(5,304)	(1,303)	(145)	(13,310)	-	-	-	-	-	(6,557)	(5,304)	(1,303)	(145)	(13,310)	(1,143)	-	(1,143)
<b>Financing activities</b>																		
Shares issued	1,206	9,342	(56)	943	11,436	-	-	-	(232)	(232)	1,206	9,342	(56)	711	11,204	481	811	1,291
Purchase of shares	-	-	(944)	(1,308)	(2,252)	-	-	-	-	-	-	-	(944)	(1,308)	(2,252)	(27)	-	(27)
Advances to related parties	-	-	-	(835)	(835)	-	-	-	-	-	-	-	-	(835)	(835)	262	-	262
Proceeds long term obligations	1,059	-	-	(1,059)	-	-	-	-	-	-	1,059	-	-	(1,059)	-	446	-	446
Repay long term obligations	(401)	(1,165)	(228)	79	(1,715)	-	-	-	-	-	(401)	(1,165)	(228)	79	(1,715)	(75)	-	(75)
Total	1,864	8,177	(1,227)	(2,180)	6,634	-	-	-	(232)	(232)	1,864	8,177	(1,227)	(2,412)	6,402	1,087	811	1,897
<b>Increase (decrease) in cash</b>	<b>(4,564)</b>	<b>4,064</b>	<b>(2,202)</b>	<b>(3,108)</b>	<b>(5,810)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,564)</b>	<b>4,064</b>	<b>(2,202)</b>	<b>(3,108)</b>	<b>(5,810)</b>	<b>(402)</b>	<b>-</b>	<b>(402)</b>
Cash net of bank indebtedness																		
Beginning of period	(111)	(4,675)	(611)	(2,813)	(111)						(111)	(4,675)	(611)	(2,813)	(111)	(5,921)		(5,921)
<b>End of period</b>	<b>\$ (4,675)</b>	<b>\$ (611)</b>	<b>\$ (2,813)</b>	<b>\$ (5,921)</b>	<b>\$ (5,921)</b>						<b>\$ (4,675)</b>	<b>\$ (611)</b>	<b>\$ (2,813)</b>	<b>\$ (5,921)</b>	<b>\$ (5,921)</b>	<b>\$ (6,322)</b>		<b>\$ (6,322)</b>

### 3. Acquisitions

#### **Vision2Hire Solutions Inc.**

On November 30, 2004, Vision2Hire Solutions Inc. (“V2H”) was acquired for cash and a zero-interest note payable of \$446,054 convertible for a term of 3 years to Brainhunter shares at an exercise price of \$2.00 per share.

The purchase price components for the acquisition of V2H are:

Cash consideration	\$100,798
Long-term note	393,014
Conversion rights on long-term note	53,040
Transaction costs	<u>65,656</u>
<b>Total</b>	<b><u>\$612,508</u></b>

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	(\$236,060)
Long-term future income tax asset	<u>848,568</u>
<b>Total</b>	<b><u>\$612,508</u></b>

#### **Promethean Systems Consultants Inc.**

Effective January 1, 2005 100% of Promethean Systems Consultants Inc. (“Promethean”) was acquired in exchange for 150,000 shares of the Company and 261,125 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 will be 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. In addition Brainhunter guaranteed bank debt of the former shareholders of Promethean in the amount of \$100,000.

The purchase price components for the acquisition of Promethean are:

Issue of 150,000 shares at a price of \$1.00 per share	\$150,000
Issue of 261,125 shareholder warrants, at fair value	68,945
Long-term debt	49,307
Transaction costs	<u>25,000</u>
<b>Total</b>	<b><u>\$293,252</u></b>

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	(\$110,728)
Capital assets	200,000
Goodwill	76,220
Customer relationships and existing contracts (intangible assets)	200,000
Future income tax liability	<u>(72,240)</u>
<b>Total</b>	<b><u>\$293,252</u></b>

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

Customer relationships	-	6 years
Existing contracts	-	6 months

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

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

	<b>March 31</b>	<b>September 30</b>
	<b><u>2005</u></b>	<b><u>2004</u></b>
Investment tax credits recoverable	\$1,551,466	\$1,225,899
Income taxes recoverable	<u>86,451</u>	<u>19,615</u>
	1,637,917	1,245,514
Less current portion	<u>726,451</u>	<u>894,617</u>
	<b><u>\$911,466</u></b>	<b><u>\$350,897</u></b>

#### 5. Capital assets

	<b>Cost</b>	<b>Accum</b>	<b>Net Book Value</b>	
			<b>March 31</b>	<b>September 30</b>
		<b><u>Amort</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Computer equipment	\$3,333,637	(\$2,486,622)	\$847,015	\$702,639
Furniture and office equipment	1,455,739	(996,755)	458,984	479,037
Leasehold improvements	828,177	(356,375)	471,802	478,950
Computer software	826,255	(742,330)	83,925	50,617
Developed software	<u>4,207,010</u>	<u>(1,106,955)</u>	<u>3,100,055</u>	<u>2,628,369</u>
<b>Totals</b>	<b>\$10,650,818</b>	<b>(\$5,689,037)</b>	<b>\$4,961,781</b>	<b>\$4,339,612</b>

Amortization of the capital assets totalled \$282,675 (2004 - \$223,754) for the current period. Included in Developed software at March 31, 2005 is \$2,070,223 (September 30, 2004 -

\$1,320,407) 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. During the six months ended March 31, 2005, the Company capitalized \$749,816 (March 31, 2004 - \$571,000) related to the development of the software.

## 6. Due from related parties

	<b>March 31, 2005</b>	<b>September 30, 2004</b>
Loans to shareholders, collateralized by pledges of Company Shares	\$685,338	\$947,127
Unsecured loans to related parties	<u>256,047</u>	<u>330,698</u>
	<u>\$941,385</u>	<u>\$1,277,825</u>

\$200,000 of the balance of loans to shareholders bears interest at 5%, accumulated monthly to be repaid in full by March 31, 2005. Subsequent to March 31, 2005 the repayment date has been extended to September 30, 2006.

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

## 7. Future income tax asset (note 2)

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

	<b>March 31, 2005</b>	<b>September 30, 2004</b>
Future income tax assets		
Non-capital tax loss carryforwards	\$ 7,652,289	\$ 6,803,720
Difference between book value and tax basis of capital assets	(876,117)	(876,117)
Share issue costs and other	504,000	504,000
	<u>7,280,172</u>	<u>6,431,603</u>
Valuation allowance for future income tax assets	<u>(3,086,814)</u>	<u>(3,086,814)</u>
Total future income tax assets	<u>4,193,358</u>	<u>3,344,789</u>
Less: Future income tax liabilities		
Investment tax credits	<u>552,283</u>	<u>256,000</u>
Net future income tax assets	<u>\$ 3,641,075</u>	<u>\$ 3,088,789</u>
Presented as:		
Current future income tax asset	\$ 750,000	\$ 750,000
Long-term future income tax asset	<u>2,891,075</u>	<u>2,338,789</u>
	<u>\$ 3,641,075</u>	<u>\$ 3,088,789</u>

The reconciliation of income tax expense computed at the statutory tax rates to the provision for income taxes is as follows:

	For the three months ended		For the six months ended	
	March 31, 2005	March 31, 2004	March 31, 2005	March 31, 2004
Earnings before income taxes	\$ 200,641	\$ 626,382	\$ 433,008	\$ 535,801
Expected Canadian statutory rate	36.12%	36.25%	36.12%	36.25%
Expected income tax provision	\$ 72,472	\$ 227,063	\$ 156,402	\$ 194,228
Effect on income tax rate resulting from:				
Permanent differences	(34,472)	(23,599)	73,692	(64,433)
Benefit of unrecognized tax losses	-	100,901	-	469,191
Current income tax provision	38,000	304,365	230,094	598,986
Future income tax recovery resulting from amortization of intangible assets	(71,939)	(182,941)	(167,206)	(522,846)
Income tax (recovery) provision	\$ (33,939)	\$ 121,424	\$ 62,888	\$ 76,140

## 8. Goodwill and other intangibles (note 2)

	Goodwill	Intangibles	Total
Balance, September 30, 2001	\$ -	\$ -	\$ -
2002 Acquisitions			
Next Millennium	118,131	-	118,131
Xycorp	123,725	396,339	520,064
	241,856	396,339	638,195
Amortization of intangibles		-	-
Balance, September 30, 2002	241,856	396,339	638,195
2003 adjustments to Xycorp acquisition	18,492	-	18,492
2003 Acquisitions			
InBusiness (majority interest)	286,945	2,000,000	2,286,945
InBusiness (Portalsphere intangibles acquired)			
- trademarks, tradenames, patents		756,446	756,446
- accumulated amortization		(364,682)	(364,682)
ASG	14,756	150,000	164,756
Protec	1,328,016	340,000	1,668,016
Thinkpath	151,636	200,000	351,636
	1,799,845	3,081,764	4,881,609
Amortization of intangibles		(433,006)	(433,006)
Balance, September 30, 2003	2,041,701	3,045,097	5,086,798

2004 adjustments to 2003 acquisitions			
ASG	52,381		52,381
Protec	28,437		28,437
2004 Acquisitions			
Prolink	999,446	520,000	1,519,446
Sirius	3,501,359	1,825,000	5,326,359
InBusiness (minority interest)	3,575,721		3,575,721
	8,157,344	2,345,000	10,502,344
Amortization of intangibles		(2,014,958)	(2,014,958)
Balance, September 30, 2004	10,199,045	3,375,139	13,574,184
Amortization of intangibles		(263,750)	(263,750)
Balance, December 31, 2004	10,199,045	3,111,389	13,310,434
Acquisition of Promethean	76,219	200,000	276,219
Amortization of intangibles		(199,167)	(199,167)
Balance, March 31, 2005	10,275,264	3,112,222	13,387,486

## 9. Bank indebtedness

	<b>March 31, <u>2005</u></b>	<b>September 30, <u>2004</u></b>
Cash	\$ 758,585	\$ 1,693,208
Outstanding cheques	(441,280)	(925,860)
Bank operating loan	<u>(8,498,000)</u>	<u>(6,688,000)</u>
<b>Totals</b>	<b><u>\$(8,180,695)</u></b>	<b><u>\$(5,920,652)</u></b>

At March 31, 2005, the Company has a revolving demand bank credit facility of \$10 million, 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.

At March 31, 2005, the Company was not in compliance with all of its covenants of the credit facility in place at the time. Subsequent to March 31, the Royal Bank amended the covenants. In connection with the amendment to the credit facility, the Company has agreed to raise no less than \$3 million of new capital on or before December 31, 2005.

## 10. Long-term debt (note 2)

Long term debt consists of the following:

	<b>March 31, <u>2005</u></b>	<b>September 30, <u>2004</u></b>
Promissory note, non-interest bearing, payable quarterly at the lesser of 2% of net sales of Brainhunter or \$75,000	<b>\$258,293</b>	\$392,510
Brainhunter acquisition note 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.	<b>433,320</b>	420,607
Promissory note, non-interest bearing, payable quarterly at \$15,000, with final payment due June 27, 2004	<b>60,000</b>	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	<b>267,621</b>	263,410
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	<b>375,000</b>	625,000
In accordance with the Sirius purchase agreement, the above noted obligation is fully provided for with funds held in trust. At December 31, 2004, the obligation was fully provided for by Government Treasury bills	<b>(375,000)</b>	(625,000)
Vision2Hire acquisition convertible note obligation, 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 share capital.	<b>399,791</b>	0

Present value of Promethean acquisition obligation of 36 interest-only monthly payments of \$1,500, discounted at 0.5% per month.	<u>49,307</u>	<u>0</u>
	<b>1,468,332</b>	1,136,527
Less current portion	<u>565,757</u>	<u>435,000</u>
	<u><b>\$902,575</b></u>	<u><b>\$701,527</b></u>

## 11. Non-controlling interest

Non-controlling interest was the non-controlling shareholders' interest of 37.7% in InBusiness Solutions Inc. In Fiscal 2004 this interest was purchased.

## 12. 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, 2004:

#### Issued and outstanding

	Common shares #	Series A Preferred shares #	Warrants #	Stock options #	
<b>Balance, September 30, 2004</b>	40,338,032	4,614,681	3,302,908	4,509,945	
Pursuant to exercise of					
Warrants [i]	1,061,250	-	(1,061,250)	-	
Stock options [i]	179,289	-	-	(179,289)	
Pursuant to the issuance of common stock on acquisition of Promethean [ii]	150,000	-	261,125	-	
Pursuant to normal course issuer bid	(29,409)	-	-	-	
<b>Balance, March 31, 2005</b>	<b>41,699,162</b>	<b>4,614,681</b>	<b>2,502,783</b>	<b>4,330,656</b>	

  

	Capital stock				Contributed surplus
	Common shares \$	Series A Preferred shares \$	Total \$	Warrants \$	Stock options \$
<b>Balance, September 30, 2004 [iii]</b>	18,036,476	2,378,045	20,414,521	-	757,648
Pursuant to exercise of					
Warrants [i]	482,666	-	482,666	-	-
Stock options [i]	47,184	-	47,184	-	-
Pursuant to the issuance of common stock on acquisition of Promethean [ii]	150,000	-	150,000	68,945	-
Pursuant to issuance of stock options [iii]	-	-	-	-	64,770
Pursuant to normal course issuer bid	(12,940)	-	(12,940)	-	-
<b>Balance, March 31, 2005</b>	<b>18,703,386</b>	<b>2,378,045</b>	<b>21,081,431</b>	<b>68,945</b>	<b>822,418</b>

[i] During the six-month period ended March 31, 2005, 145,956 options and 1,094,583 warrants were exercised resulting in cash receipts of \$47,184 and \$482,666, respectively.

[ii] Effective January 1, 2005, the Company issued 150,000 common shares and 261,125 share purchase warrants as partial consideration for the acquisition of Promethean Consultants Inc. (see note 3). The Company has reflected an estimated fair value of these options of \$68,945 using the Black-Scholes option pricing model. The following assumptions were used to estimate the fair value of the stock options:

Risk-free rate	2.80% to 3.28%
Expected warrant life	2 – 3 years
Expected dividend yield	Nil
Calculated stock volatility	49.63%

[iii] See note 13.

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

Shares held in escrow at March 31, 2005 are as follows:

- 433,334 common shares relating to the original reverse takeover transaction, will be released July 22, 2005
- 750,000 common shares relating to the Protec acquisition. Released at 300,000 common shares per year, with final release February 2007.
- 264,000 common shares relating to the Prolink acquisition. Released at 132,000 common shares per year with final release at January 15, 2007.

(d) Options

During the period the terms of the Company 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 option activity for the period ending March 31, 2005:

Exercise price \$	Expiry	Options outstanding			Options Exercisable March 31, 2005
		Outstanding September 30, 2004	Issued During Period	Exercised During Period	
		#	#	#	#
0.20	April, 2005	280,000	-	-	280,000
0.30	July, 2007	1,347,545	-	(78,023)	1,269,522
0.35	February, 2008	412,400	-	(67,933)	344,467
0.50	June, 2008	1,000,000	-	-	1,000,000
0.71	July, 2008	1,200,000	-	(33,333)	1,166,667
1.35	May, 2009	270,000	-	-	270,000
0.20 - 1.35		4,509,945	-	(179,289)	4,330,656

(e) Warrants

The following table summarizes the warrant activity for the period ending March 31, 2005:

Exercise price \$	Expiry	Warrants outstanding			Warrants	
		Outstanding September 30, 2004 #	Issued During Period #	Exercised During Period #	Outstanding March 31, 2005 #	Exercisable March 31, 2005 #
0.35	Dec, 2004	736,430	-	(716,250)	20,180	-
0.50	April, 2006	345,000	-	(345,000)	-	-
0.70	July, 2006	257,143	-	-	257,143	257,143
0.81	Oct, 2006	175,000	-	-	175,000	175,000
1.80	Sep, 2006	50,000	-	-	50,000	50,000
1.85	Jan, 2007	355,000	-	-	355,000	286,000
1.88	Feb, 2007	283,335	-	-	283,335	283,335
1.96	Jan, 2007	250,000	-	-	250,000	250,000
2.09	Oct, 2006	226,000	-	-	226,000	226,000
2.09	April, 2007	500,000	-	-	500,000	500,000
2.11	Nov, 2006	125,000	-	-	125,000	125,000
1.00	May, 2010	-	261,125	-	261,125	-
0.35 - 2.11		3,302,908	261,125	(1,061,250)	2,502,783	2,152,478

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

	3 Months ending March 31		6 Months ending March 31	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Weighted average number of shares outstanding:				
Basic	46,267,231	43,837,467	45,661,627	40,865,868
Fully Diluted	52,909,485	51,644,335	52,835,473	48,722,736

### 13. Stock-based compensation plan

Under the transitional provision of revised CICA Handbook Section 3870 *Stock-Based Compensation and other Stock-Based Payments*, the Company has adopted the fair value method of accounting for the stock options granted under its Share Option Plan in the year ended September 30, 2005. The retroactive adoption requires that the Company expense the fair value of stock options granted, modified, or settled during the fiscal year 2005 and subsequent; prior periods are not restated and an adjustment is made to the opening balance of retained earnings of the current period to reflect the cumulative effect of the change on prior periods. The fair value was determined on a basis consistent with that used in the Company's disclosure under the former Section 3870 and reported by the Company annually since October 1, 2002. The fair value of stock options is determined using the Black-Scholes option pricing model. The charge for the six-month period ended March 31, 2005 for stock options was \$64,770. The adjustment to the opening balance of retained earnings of the current period 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:

	For the three months ended		For the six months ended	
	March 31, 2005	March 31, 2004	March 31, 2005	March 31, 2004
Accounts receivable	\$ (1,699,700)	\$ (831,003)	\$ (2,617,882)	\$ (569,115)
Investment tax credits recoverable	(209,658)	(203,734)	(379,658)	90,888
Deposits and prepaid expenses	(120,989)	(223,282)	(403,123)	(627,114)
Accounts payable and accruals	(296,481)	1,019,130	(211,098)	(251,676)
Deferred revenue	37,365	133,867	71,947	142,471
	\$ (2,289,463)	\$ (105,022)	\$ (3,539,814)	\$ (1,214,546)

#### 15. Segmented information

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

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

	Staffing \$	Solutions \$	Total \$
<b>3 months ending March 31, 2005</b>			
Revenue	17,904,756	1,643,544	19,548,300
Earnings before interest, amortization, income taxes and non-controlling interest	641,289	229,803	871,092
<b>3 months ending March 31, 2004</b>			
Revenue	15,767,108	2,781,864	18,548,972
Earnings before interest, amortization, income taxes and non-controlling interest	1,136,312	207,581	1,343,893
<b>6 months ending March 31, 2005</b>			
Revenue	34,025,232	3,312,336	37,337,568
Earnings before interest, amortization, income taxes and non-controlling interest	1,328,629	436,929	1,765,558
<b>6 months ending March 31, 2004</b>			
Revenue	29,628,022	5,226,131	34,854,153
Earnings before interest, amortization, income taxes and non-controlling interest	1,874,059	521,837	2,395,896

The Company's revenues are earned in North America with 9% from the United States (First six months of Fiscal 2004 - 7%).

All capital assets are attributable to operations located in Canada.