

Brainhunter Inc. (TSX: BH) – Sells North American Job Board Business to Workopolis For A Favorable Price

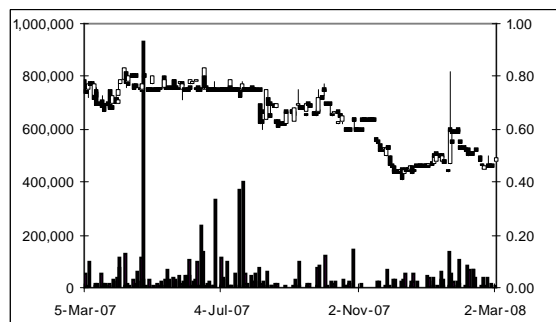
Sector/Industry: Technology / Staffing

www.brainhunter.com

Market Data (as of March 3, 2008)

Current Price	C\$0.495
Fair Value	C\$1.45 (↓)
Rating*	BUY
Risk*	3 (Average)
52 Week Range	C\$0.41 -C\$0.83
Shares O/S	48,127,116
Market Cap	C\$23.82 mm
Current Yield	N/A
P/E	N/A
P/B	1.96
YoY Return	-34%
YoY TSE	5.3%

*see back of report for rating and risk definitions



FY2007 and Q1-2008 Highlights

- In January 2008, the company announced they signed an agreement with Workopolis to sell their job board business in North America in an all-cash deal for \$10 million. We believe the deal came at a favorable price for Brainhunter, as our valuation of the deal was about \$7.71 million. The purchase price reflects a premium of \$2.29 million, or \$0.05 per share.
- Cash received from Workopolis will allow the company to lower its debt and focus more on developing its job board business in Europe.
- Revenues in FY2007, and Q1-2008, grew by 34.9% YOY and 8%, respectively. Although revenues in FY2007 were below expectations, gross margins and indirect expenses as a percentage of sales were in line with estimates, which is highly encouraging. The company posted EBITDA of \$7.62 million in FY2007, which reflected a CAGR of 68.1% since FY2001.
- Brainhunter intends to focus on organic growth and improving gross margins in FY2008.
- Our fair value estimate dropped as we lowered our short-term revenue and EBITDA forecasts.

Financial Summary (YE Sept 30)

(C\$)	2004	2005	2006	2007	2008E	2009E
Revenue	68,893,460	76,061,391	166,503,522	224,564,757	243,871,233	268,258,356
EBITDA	3,066,338	949,670	3,045,696	7,624,083	7,714,705	11,050,143
Net Income	(196,820)	(3,390,758)	(4,700,372)	(2,950,607)	6,665,824	2,169,956
EPS	-	(0.08)	(0.11)	(0.07)	0.14	0.04
Cash	-	-	-	-	204,341	145
Debt	7,716,913	12,386,117	39,753,994	42,472,737	31,044,591	23,961,372
Assets	35,103,121	38,092,587	83,707,987	83,780,271	81,833,607	82,905,976
ROE	-0.96%	-18.39%	-28.35%	-22.58%	31.87%	8.16%

Brainhunter Inc. is one of the leading providers of Human Capital Management (HMC) solutions, services and software in North America. Its end-to-end web based technology platform gives it the capability to offer a full range of services relating to staffing procurement for organizations. Brainhunter primarily provides IT staffing, and also Engineering and Healthcare staffing, on a full-time and contract basis to about 2,000 organizations worldwide. Within 6 years, the company's revenues increased from \$2.78 million in FY2001, to \$224.56 million in FY2007.

***Sells North
American Job
Board business
to Workopolis***

In January 2008, Brainhunter announced they signed an agreement with Workopolis, Canada's leading internet recruiting and job search solutions provider, to sell their Canadian and U.S. Job Board business in a \$10 million all-cash deal. According to the agreement, payments will be made over the next 12 months. It is anticipated that Brainhunter will receive 90% of the price by March 2008.

In addition to its job site (www.brainhunter.com), Brainhunter's job board technology platform helps create and manage highly specialized job boards. The job board technology platform allows multi-posting, resume management, candidate communication, screening, background checks, online training, and other benefits. Brainhunter offers its job board technology on a private label basis to over 100 specialized job boards, including professional associations in Accounting, Finance, Technology, Engineering, Healthcare, and others. Brainhunter generates revenues from this solution from job posting fees and subscriptions. Revenues from job boards accounted for about 1.3% of total revenues, or \$3 million, in FY2007. Gross margins for this business are typically around 35% - 45%.

Based on the purchase price of \$10 million, we estimate, Brainhunter's job board business in North America received a price to sales (P/S) of 3.33. Considering that Monster's (NYSE: MNST) P/S is 2.57 (Monster owns one of the leading job boards in North America), we believe Brainhunter received a favorable price for its job board business in North America. Applying Monster's P/S of 2.57, we estimate that Brainhunter's job board business in North America should be valued at \$7.71 million. Therefore, the deal with Workopolis reflects a premium of \$2.29 million, or \$0.05 per share.

Brainhunter decided to sell its job board business in North America due to the following reasons:

1. The Job Board business is a highly competitive business with several big players trying to increase their market share. Increasing market share involves a significant outlay of capital, especially for advertising. Considering that the job board business is not Brainhunter's core business, we believe, it was a good move by the company to sell its business to a company like Workopolis, whose core business is job boards.
2. Brainhunter is in need of capital to reduce its debt. At the end of FY2007, and Q1-2008, the company was in breach of a bank covenant. This deal allows Brainhunter to significantly bring down their debt levels.
3. The deal also allows Brainhunter to focus more on penetrating deeper into the European job board market.

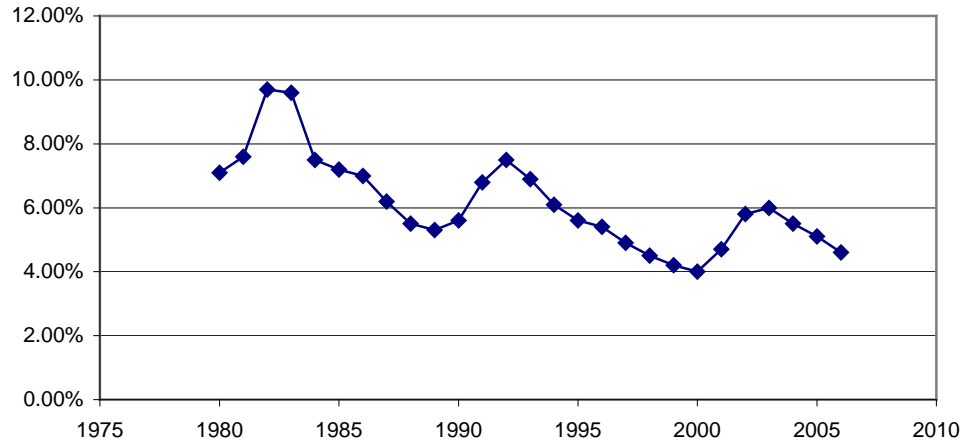
***Industry
Overview***

Staffing Industry Outlook: Positive Outlook for Canadian IT Staffing Industry

According to Statistics Canada, the unemployment rate in Canada in November 2007 was 5.9%. The U.S. Department of Labor reported a 5.0% unemployment rate in December 2007. We believe that the low Canadian unemployment rate, implying high competition for labor, will support the staffing industry going forward, as organizations seek workers via staffing agencies. However, the unemployment rate in the U.S. is up 0.5% since May 2007. The U.S. unemployment is still at historical lows (as shown in chart below), which is good for the

staffing industry during times of slower economic growth. However, as the U.S. economy is slowly moving into a recession, we expect the unemployment rate to increase, which could adversely impact the U.S. staffing industry. The IMF (International Monetary Fund) forecasts U.S. real GDP growth rate of 1.9% in 2008, which is at a historically low level.

US Historical Unemployment Rate (1980 - 2006)



Source: Research and Analysis Unit, Indiana Dept. of Workforce Development
(From Northern Indiana DataPlus website <http://www.nidataplus.com/>)

Canadian Staffing Industry: The IT world Canada's 2007 IT job market and salary survey states that Canada is currently facing a workforce crisis as baby boomers retire and as fewer people enter the work force. The survey shows that, according to the Canada Labor and Business Centre, labor force growth will fall below 1% between 2005 and 2009, and below 0.5% by 2015.

IT spending remains strong. According to Computer Economics (from InfoEdge website), median IT operational budgets grew by 5.0% in 2007, compared to 4.1% in 2006, and 2.5% in 2005. Computer Economics forecasts a growth rate of 5.0% in 2008. Computer Economics also identifies that computer hardware spending in 2007 will drop to 39% of total IT capital budgets (from 45% in the previous year), as software spending increases from 40% to 42% YOY.

Canadian IT Skills Demand: According to the findings of IT world Canada's 2007 IT job market and salary survey, IT staffing levels grew by 12% in 2007, and the demand for IT services remained strong in 2007, with 61% of responding companies expecting to hire new staff. The survey showed that the demand for experienced staff and mature skills is strong, resulting in competition among companies for qualified IT staff. The survey expects 68% of the new hires to be experienced IT professionals, 19% as fresh university/college graduates and 14% from other technical programs. The survey also showed that total compensation in the IT industry was up 4.1% YOY in 2007, as in-demand IT skills become harder to find. This compares to 2% growth in Statistics Canada's Consumer Price Index.

The survey also finds that the confidence level of IT professionals has increased, as 44% of

the 58% of respondents who feel secure about their job, are actively looking for a new one, and thus, retention planning should be a priority for companies.

UK IT Skills Demand: According to a ComputerWeekly.com article, dated 15 May 2007, job vacancies for permanent IT professionals has boomed as workers with high-end technical and management skills are needed by employers to manage outsourcing contracts. The article states, according to SSL research, demand for management positions increased by about 20% over the three months to April 2007, with strong rising vacancies for system development managers, operations managers and communications managers.

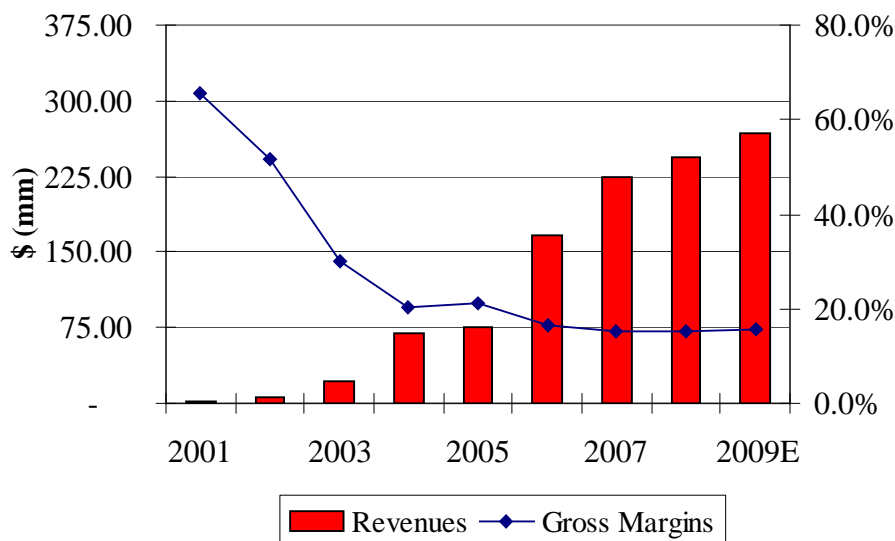
Conclusion: Brainhunter offers staffing services primarily to the IT sector (about 90% of total staffing). All the statistics and forecasts we looked at above indicate that conditions are highly favorable for staffing agencies like Brainhunter, that primarily focus on the IT industry. Despite the uncertainties around the U.S. staffing industry due to a possible worsening of the US economy, we believe the long-term outlook for the Canadian and European Staffing Industry stands positive for the company's growth in the long run.

Revenues fell below expectations in Q4-07 and Q1-08, but gross margins were in line with estimates

Brainhunter posted 15.8% YOY revenue growth in Q4-2007, as revenues increased from \$47.25 million to \$54.71 million. For FY2007, revenues increased YOY from \$166.50 million to \$224.56 million, an increase of 34.9%. However, we were slightly disappointed, as we were expecting revenues in FY2007 to be \$231 million. In Q1-2008, the company posted an 8% YOY increase in revenues, as revenues increased from \$54.73 million to \$59.13 million.

Gross margins in FY2007, and Q1-2008, were 15.2% (down from 16.6% in FY2006 and 15.3% in Q1-2007), which were in line with estimates. The chart below shows the company's revenues and gross margins since FY2001, along with our revised forecasts. We have lowered our revenues forecasts for FY2008, and FY2009, and our gross margins forecasts for FY2009, for reasons to be discussed later in this report.

Revenues and Gross Margins



Revenues in FY2007 and Q1-2008 came entirely from organic growth.

- In FY2007, the company's staffing division accounted for \$217.51 mm (96.9% of total), while the solutions division accounted for \$7.05 million (3.1% of total) of revenues. Both segments experienced solid YOY growth rates of 35.1% and 29.1%, respectively.
- In Q1-2008, the staffing division posted YOY revenue growth of 7.5% (an increase from \$52.84 million to \$56.81 million), while the solutions division posted 22.8% YOY revenue growth (from \$1.89 million to \$2.32 million).

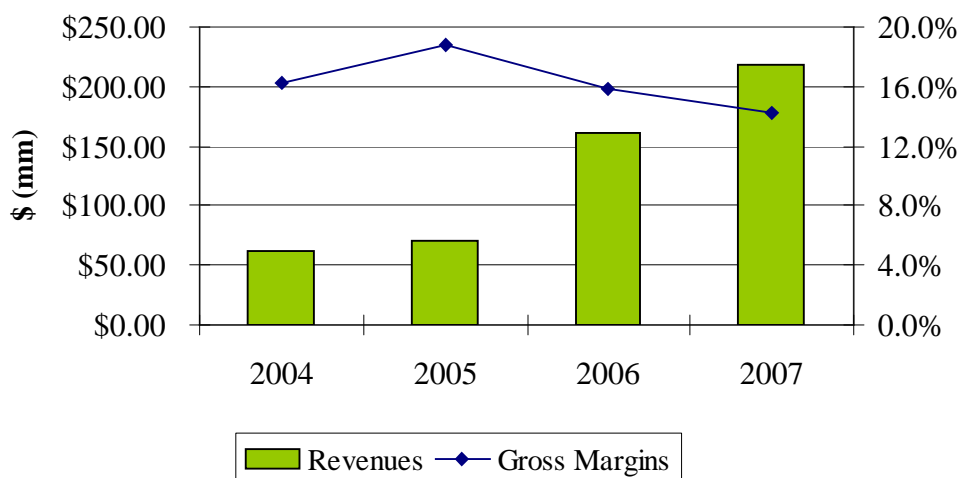
The Federal Government of Canada continues to be the company's number one client, accounting for 37.2%, and 32.6%, of total revenues in FY2007 (down from 45.8% in FY2006) and Q1-2008, respectively. Details of the company's segmented results follow.

**Staffing
Division – Solid
growth in
revenues, but
gross margins
continued to
drop**

In FY2007, staffing revenues grew from \$161.04 million to \$217.51 million, reflecting YOY growth of 35.1%. Of the \$217.51 million in revenues, \$211.56 million came from contract staffing (94.2% of total revenues), the rest came from solutions directly attributed to the company's technology platform. Staffing revenues increased by 7.5% in Q1-2008, to \$56.81 million.

As mentioned earlier, the revenue increase was primarily attributed to organic growth in the IT and engineering staffing business, and a significant increase in primary supplier arrangements. The chart below shows the performance of the staffing division since FY2004.

Staffing Business (Revenues and Gross Margins)



Gross margins in FY2007, and Q1-2008, were 14.2% (in line with estimate) versus 15.8% in FY2006. Gross margins dropped YOY primarily because the company had significant vendor managed (VMS) payrolling sales for several Tier-1 customer relationships in FY2007, whose gross margins are typically less than half that of traditional full-service contract staffing sales (16-17%). Our discussions with management indicated that VMS sales in FY2007 were \$46.5 million, or 20.7% of total revenues.

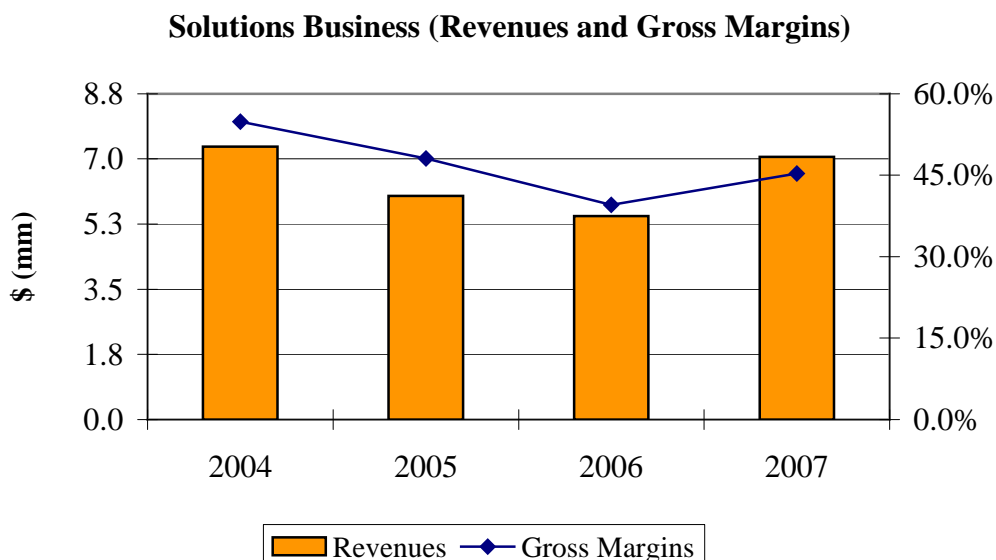
Gross margins are lower for VMS payrolling services because unlike full-margin business, VMS sales involve no recruiting. VMS sales typically include collection of information on hours worked, pay rates, deductions, and other payroll-related data from clients and use that information to generate paychecks, payroll reports, and tax filings. As Brainhunter increases its Tier – 1-customer relationships, the company will be required to provide more VMS services to its clients. Although gross margins are low, Brainhunter has a strategic advantage in providing VMS services, as it allows them to get information on other vendors (staffing agencies) and attain a better understanding of the business of their clients. Such information, we believe, will help Brainhunter to improve relationships with their clients and convert their VMS sales to full-service contract sales.

We discussed with management on how they intend to increase gross margins going forward. In addition to increasing solutions sales (which typically have gross margins of about 45% – 55%), the company will focus on increasing sales from full-margin business. We have maintained our gross margin estimate for the staffing division at 14.2%. Our valuation models assume gross margins of the staffing division will gradually increase to 16% in the long-term.

Solutions Business – Increasing Revenues

In FY2007, Solutions revenues increased from \$5.46 million to \$7.05 million (an increase of 29.1% YOY). In Q1-2008, revenues increased by 22.8% YOY to \$2.32 million. Revenues increased primarily due to a rise in customer activity on contracts and a growth in new customer relationships, which also led to an improvement in gross margins from 39.6% to 45.3% in FY2007. Gross margins, however, dropped YOY in Q1-2008, from 48% to 40.2%, but were well above gross margins of 31.5% in Q1-2006. We believe gross margins dropped in Q1-2008 because the company now has larger annuity based contracts that have lower gross margins. We have maintained our gross margins forecast for FY2008 at 40%.

The chart below shows the performance of the staffing division since FY2004.



Considering that revenues and gross margins had dropped YOY in both FY2005, and FY2006, we see the growth in revenues and gross margins in FY2007 as a very positive sign

for the company's long-term prospects, especially because growth in the company's solutions business is very important for increasing the company's overall gross margins going forward.

Revenues and Gross Margins Forecasts

Our discussions with management indicated that they would be focusing on organic growth in FY2008. Previously, our models had assumed that the company would complete one acquisition a year in FY2008 and FY2009. We have lowered our revenue forecasts for FY2008, and FY2009, because we now assume that the company will not pursue any acquisitions in FY2008, and FY2009, offset by an increase in our organic growth rate estimates. Our revised revenue forecasts for FY2008 and FY2009 are \$243.87 million (down from \$274.79 million) and \$268.26 million (down from \$313.53 million). Our revised estimates also account for the lost sales from the company's job board business in North America. We have maintained our gross margins forecasts for FY2008 at 15.2%, but lowered our forecasts to 15.7% in FY2009 (down from 17.5%).

All other margins improved YOY

The table below shows the company's margins since FY2006.

Margins	2006	2007	2007-Q1	2008-Q1	2008E	2009E
Gross Margin	16.6%	15.2%	15.3%	15.2%	15.2%	15.7%
EBITDA Margin	1.8%	3.4%	3.7%	2.2%	3.2%	4.3%
EBIT Margin	-1.5%	0.9%	0.8%	0.0%	1.0%	2.4%
EBT Margin	-3.7%	-1.1%	-1.1%	-2.0%	-0.6%	1.2%
Net Margin	-2.8%	-1.3%	-0.5%	-1.7%	-0.4%	1.2%
Expenses	2006	2007	2007-Q1	2008-Q1	2008E	2009E
SG&A / Revenues	4.2%	3.1%	3.3%	4.0%	3.5%	3.1%
Other Staffing Costs / Revenues	10.6%	8.6%	8.3%	9.0%	8.5%	8.3%

Although gross margins dropped YOY in FY2007, all other margins improved YOY as total indirect expenses as a percentage of sales dropped from 14.8% to 11.7% of sales. However, all margins dropped YOY in Q1-2008, as total indirect costs as a percentage of sales increased from 11.6% to 13%.

EBITDA – In FY2007, the company posted EBITDA of \$7.62 million (slightly lower compared to our estimate of \$8 million) versus \$3.04 million, an increase of 150.3% YOY. If one adds back transaction costs, and the increase in stock-based compensation (non-cash costs), EBITDA would have been \$7.94 million, which is almost inline with our estimate of \$8 million. **Considering that EBITDA in FY2001 was only \$0.34 million, FY2007 EBITDA reflects a CAGR of 68.1% in the past six years.** EBITDA margins improved YOY from 1.8% to 3.40% (our estimate was 3.46%), as total indirect costs (which includes staffing costs and SG&A expenses - selling, general and administrative) as percentage of sales dropped from 14.8% to 11.7%. Total indirect costs as a percentage of sales dropped as staffing costs dropped from 10.6% to 8.6% of sales, and as SG&A expenses dropped from 4.2% to 3.1% of sales. In addition to improving gross margins, reducing indirect costs as a percentage of sales is very important for Brainhunter, and therefore, we believe the drop in costs in FY2007 is a positive development.

In Q1-2008, Brainhunter posted EBITDA of \$1.30 million (down from \$2 million in Q1-2007), a decrease of 35.2% YOY. Although gross margin dropped only slightly (from 15.3% to 15.2%), EBITDA margins dropped by a much higher margin, from 3.7% to 2.2%.

EBITDA margins dropped as total indirect expenses as a percentage of sales increased YOY from 11.6% to 13%. Total indirect costs increased from \$6.36 million to \$7.68 million due to an increase in salaries and sales commissions (which accounted for 0.7% of sales), and non-recurring costs (0.4% of sales). Also, the company started recording system development costs as expenses in the income statement, instead of capitalizing the costs, in Q1-2008. These costs accounted for 0.3% of sales. As a result, we have raised our estimate of total indirect costs as a percentage of sales from 11.7% to 12%.

Net Loss

After deducting interest expenses of \$3.00 million and non-cash expenses of \$7.11 million (\$5.6 million on amortization, and \$1.47 million on accreted interest expense), the company posted a net loss of \$2.95 million (EPS: -\$0.07) in FY2007, versus \$4.70 million (EPS: -\$0.11) in FY2006. Our estimate for FY2007 (net loss of \$1.82 million; EPS: -\$0.04) was lower as we had expected the company to record an income tax recovery of \$0.92 million (actual recovery was only \$2,884).

In Q1-2008, the company posted a net loss of \$0.99 million (EPS: -\$0.02) versus \$0.26 million (EPS: -\$0.01) in Q1-2007.

Since we do not know the book value of the job board business, we are not in a position at this time to precisely determine how much gain on assets the company will record from the sale of its job board business. In our models, we have made an assumption that the company will record 75% of the acquisition price (\$7.5 million) as a gain on sale of assets. As a result, we now estimate that the company will report a net profit in FY2008.

Our revised estimates for FY2008, and FY2009, are net profits of \$6.67million - EPS: \$0.14 (previous estimate was a net loss of \$1.18 million – EPS: -\$0.02) and \$2.17 million - EPS: \$0.04 (previous estimate was a net income of \$4.43 million – EPS: \$0.09), respectively.

Cash Flows

Cash flows from operations (CFO):

- In FY2007, higher EBITDA resulted in higher cash flow from operations. CFO increased YOY from \$0.43 million to \$4.43 million (our estimate was \$4.83 million). However, the company had to spend \$4.66 million on working capital. Therefore, net cash flow from operations ended up at (\$0.23 million). About \$4.86 million was tied up in accounts receivables, which resulted in higher investment in working capital YOY.
- In Q1-2008, lower EBITDA resulted in lower CFO. CFO decreased YOY from \$1.19 million to \$0.39 million. However, working capital investment dropped YOY from \$4.74 to \$3.02 million. Therefore, total cash outlays on operations dropped from \$3.55 million in Q1-2007, to \$2.62 million in Q1-2008.

For investing activities in FY2007, Brainhunter spent \$1.30 million on software, computer hardware and software, and leasehold improvements for the company's new premises in Ottawa, Calgary and Toronto. Brainhunter intends to spend \$1.5 million in FY2008. The company spent \$0.38 million on investing activities in Q1-2008.

The company repaid \$3.10 million of long-term debt in FY2007, and raised \$2.59 million through a convertible note financing.

Cash required to fund operating and investing activities, and repay long-term debt in FY07, was also funded by an additional \$2.69 million from credit facilities, and \$0.22 million from the exercise of options. In Q1-2008, GVG raised an additional \$4.41 million from its credit facility to repay long-term debt, and fund their operating and investing activities.

Cash and Liquidity Position

At the end of Q1-2008, the company's cash and working capital position was nil and \$10.53 million, respectively. The table below shows the company's cash and liquidity position.

Liquidity Analysis	2004	2005	2006	2007	2008-Q1
Current Ratio	1.10	0.94	1.46	1.67	1.28
Working Capital	1,305,575	(1,166,225)	13,047,310	18,744,127	10,532,948
Debt/Capital	22.0%	32.5%	47.5%	50.7%	54.1%
Interest Coverage Ratio	(0.7)	(2.2)	(0.7)	0.4	0.00
Activity Analysis	2004	2005	2006	2007	2008-Q1
Days Accounts Receivable	69	78	87	72	-
Days Accounts Payable	44	39	69	46	-

Debt to capital at the end of Q1-2008 was 54.1% (up from 50.7% at the end of FY2007). Debt levels increased as the company withdrew more capital from their credit facility than they repaid debt. In our previous report, we had discussed the company's plans to pursue private equity financing. Management informed us that they have decided to put this initiative on hold.

At the end of FY2007, and Q1-2008, the company was in breach of a bank covenant. Although the company was in accordance with the D/E covenant, they were in violation of the fixed cost coverage covenant. The company's fixed cost coverage was 1.23 at the end of FY2007, versus the required ratio of 1.25. However, the lending bank waived the covenant requirements and temporarily increased the credit facility to \$30 million (from \$26 mm) until January 2008, and \$28 million until the end of February 2008, when the facility was reverted to \$26 mm. We expect BH to use most of the funds received from Workopolis to lower its debt. Brainhunter has requested the bank increase the credit facility, extend the term beyond its current term date of October 15, 2008, and to amend the ratio covenants.

By using the cash received from Workopolis to pay down debt, we believe, the debt to capital of the company can be reduced from 54.1% at the end of Q1-2008, to 37.9% at the end of FY2008.

Stock Options and Warrants

At the end of December 2007, the company had 3.98 million stock options outstanding (0.32 million are "in the money" – assuming none of the outstanding options were exercised since the end of December 2007) with exercise prices ranging between \$0.35 and \$1.00, and maturity periods between February 2008 and December 2012. The company also had 8.64 million warrants outstanding (none of them are currently "in the money") with exercise prices ranging between \$0.60 and \$2.09, and expiry dates between March 2008 and May 2010.

Valuation

Our revised Discounted Cash Flow (DCF) valuation on the company dropped, as we reduced our short-term revenue forecasts, from \$1.80 per share to \$1.65 per share.

DCF Valuation - Brainhunter Inc.								
(C\$)								
	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal
FFO	5,016,578	8,040,621	9,469,708	10,735,631	13,805,661	19,869,071	22,278,853	29,952,367
WC Investment	(1,793,226)	(2,437,150)	(3,594,486)	(3,994,941)	(3,989,860)	(4,980,474)	(4,483,967)	(3,560,511)
CFO	3,223,352	5,603,471	5,875,221	6,740,690	9,815,801	14,888,598	17,794,886	26,391,855
CAPEX	(1,500,000)	(1,500,000)	(11,500,000)	(11,500,000)	(11,500,000)	(11,500,000)	(11,500,000)	(1,500,000)
FCF	1,723,352	4,103,471	(5,624,779)	(4,759,310)	(1,684,199)	3,388,598	6,294,886	24,891,855
PV	1,575,277	3,327,451	(4,046,160)	(3,037,099)	(953,423)	1,701,725	2,804,366	114,021,328
Discount Rate	12.7%							
Growth Rate	3.0%							
Net Present Value	115,393,465							
Debt	45,798,781							
Cash	9,724,158							
Total Value	79,318,842							
No. of Shares (dil)	48,209,717							
Fair value per share	\$1.65							

Calculation of Weighted Average Cost of Capital (WACC)	
Cost of Equity*	14.9%
Cost of Debt	10.9%
Debt / Capital (long-term avg)	28.4%
Equity / Capital (long-term avg)	71.6%
Tax	33.6%
WACC	12.73%

* Average cost of equity of the healthcare industry (Yahoo Finance)

In order for investors to get a perspective on how our valuation depends on the company's ability to pursue future acquisitions, we performed a sensitivity analysis which showed that our DCF valuation would drop to \$1.34 per share if we assume the company does not pursue any acquisitions going forward, and revenues grow organically at 5% per annum during 2010 and 2015, and 3% thereafter.

The table below shows our revised relative valuation on the company.

Comparables Analysis					
	Market Cap (in US\$ mm)	P/S	P/B	P/EBITDA	Business
1 Workstream Inc	\$38	1.3	0.8	n.a	Staffing Solutions
2 Taleo Corp	\$468	3.7	4.9	n.a	Staffing Solutions
3 Kenexa Corp	\$467	2.6	1.7	12.1	Staffing Solutions
4 Calian Technologies Ltd	\$99	0.5	2.0	6.7	Staffing
5 Robert Half International Inc	\$4,239	0.9	4.3	7.7	Staffing
6 Manpower Inc	\$4,620	0.2	1.7	5.0	Staffing
7 Randstad Holding	\$4,427	0.3	2.9	4.8	Staffing
8 Adecco SA	\$9,591	0.3	2.2	5.5	Staffing
9 CDI Corp	\$504	0.4	1.5	8.9	Staffing / Solutions
10 MPS Group Inc.	\$1,073	0.49	1.1	7.0	Staffing / Solutions
11 Monster Worldwide Inc.	\$3,273	2.42	2.9	12.5	Job Boards
12 Brainhunter Inc.	\$24	0.1	2.0	3.1	Staffing/Solutions/Job Boards
Average	\$2,402	1.1	2.4	7.8	
Fair Value		\$2.31	\$0.60	\$1.25	

* Valuation based on P/S was based on the average P/S ratio of the Staffing Industry

As shown in the table, Brainhunter continues to be undervalued based on all three valuation metrics – P/S, P/EBITDA and P/B. The company is currently trading at a P/S of 0.1 (the average P/S of its peers is 1.1), P/EBITDA of 3.1 (versus the average ratio of 7.8), and a P/B

of 2.0 (versus the average ratio of 2.4).

Note that we have started valuing the company based on its P/S in this report. P/S ratios of pure staffing companies are significantly lower than staffing solutions companies. Even though, we believe, Brainhunter can achieve a higher P/S than pure staffing companies (because the company is also in the staffing solutions business), for conservatism, we have valued the company based on the average P/S of staffing companies, which is 0.5.

Our average relative valuation dropped from \$1.70 per share to \$1.38 per share, as we lowered our revenue and EBITDA forecasts for FY2008, and due to a significant drop in average valuation metrics. Since our previous report in August 2007, the average P/S dropped from 1.8 to 1.1, the average P/B dropped from 4.1 to 2.4, and the average P/EBITDA dropped from 12.2 to 7.8. We believe the primary reason why these valuation metrics dropped in the past six months is the slowdown in the U.S. economy.

Rating

Valuation Summary: Our average valuation on the company dropped from \$1.73 per share to \$1.45 per share.

Valuation Summary	
DCF Valuation	\$1.65
Valuation based on P/B	\$0.60
Valuation based on P/S	\$2.31
Valuation based on P/EBITDA	\$1.25
Average	\$1.45

In FY2008, the company will focus on organic growth, improving gross margins and lower debt levels. Based on our revised valuation models, and analysis of the latest results, we reiterate our BUY rating, but lower our fair value estimate on the company from \$1.73 per share to \$1.45 per share.

Risks

Downturn in the Staffing Industry: Brainhunter's organic growth is heavily dependent on the health of the staffing industry, which depends on several macro-economic factors. A downturn in the industry will put downward pressure on BH's organic growth, but will improve the opportunity for acquisitions.

Competition: The HCM solutions and services industry is a highly competitive industry. If Brainhunter is not able to advance its technology and differentiate its services from competitors going forward, the company might not meet our forecasts.

Growth through acquisitions: Our models predict that Brainhunter will continue to grow largely through acquisitions, but with steady organic growth. The quality of its acquisitions is an important parameter that could affect results.

Financings: If cash flows from operations do not meet our expectations going forward, we expect that the company will be forced to raise more capital through debt or equity to fund acquisitions, which will lead to an increase in the debt to capital ratio or stock dilution.

We continue to rate the shares Risk: 3 (Average).

Appendix

Brainhunter Inc.- Income Statement						
(in C\$)	2004	2005	2006	2007	2008E	2009E
Revenues	68,893,460	76,061,391	166,503,522	224,564,757	243,871,233	268,258,356
COGS	54,869,138	59,984,183	138,830,406	190,504,320	206,891,980	226,224,372
Gross Margin	14,024,322	16,077,208	27,673,116	34,060,437	36,979,253	42,033,984
Expenses						
Other Staffing Costs	7,870,672	9,702,382	17,611,170	19,248,137	20,729,055	22,131,314
Selling, General and Administrative	3,087,312	5,425,156	7,016,250	7,044,397	8,535,493	8,852,526
Annual revaluation of interest guarantee				30,036		
Transaction costs				113,784		
	10,957,984	15,127,538	24,627,420	26,436,354	29,264,548	30,983,840
EBITDA	3,066,338	949,670	3,045,696	7,624,083	7,714,705	11,050,143
Amortization of Capital Assets		899,403	1,074,318	1,736,791	1,056,652	878,254
Amortization of Intangibles		1,112,917	3,614,336	3,901,336	3,901,336	3,901,336
Amortization (new acquisitions)					-	-
Amortization of Deferred Financing Costs		-	916,991		-	-
Amortization - Total	3,385,655	2,012,320	5,605,645	5,638,127	4,957,988	4,779,590
EBIT	(319,317)	(1,062,650)	(2,559,949)	1,985,956	2,756,717	6,270,554
Interest Expense - Cash		418,765	2,484,580	3,003,503	2,810,564	2,102,876
Interest Expense - Accreted		55,855	1,117,631	1,474,368	1,202,442	899,672
Interest Expenses - Total	425,829	474,620	3,602,211	4,477,871	4,013,006	3,002,547
EBT	(745,146)	(1,537,270)	(6,162,160)	(2,491,915)	(1,256,289)	3,268,006
Unusual Items						
Write off of capital assets				(120,000)		
Write off of costs on previous acquisition				(341,576)		
Gain on sale of assets					7,500,000	
Taxes	(548,326)	1,853,488	(1,461,788)	(2,884)	(422,113)	1,098,050
Non-Controlling Interest						
Income/Loss	(196,820)	(3,390,758)	(4,700,372)	(2,950,607)	6,665,824	2,169,956
Earnings/Loss per Share	-	(0.08)	(0.11)	(0.07)	0.14	0.04

Brainhunter Inc.- Balance Sheet						
(in C\$)						
	2004	2005	2006	2007	2008E	2009E
Assets						
Current						
Cash	-	-	-	-	204,341	145
Restricted Short-Term Investments	500,000	125,000	125,000	-	-	-
Accounts Receivables	12,957,254	16,223,905	39,596,147	44,545,035	48,374,699	53,212,169
Investment Tax Credits Recoverable	736,452	250,000	-	-	-	-
Deposits and Prepaid Expenses	152,661	312,618	762,314	558,275	606,272	666,899
Future Income Tax Asset	444,334	523,432	939,664	1,419,557	1,419,557	1,419,557
	14,790,701	17,434,955	41,423,125	46,522,867	50,604,869	55,298,770
Capital Assets						
Other assets	4,431,653	5,701,846	6,755,710	6,136,648	4,009,318	4,557,455
Restricted Short-Term Investments	125,000	-	-	524,801	524,801	524,801
Investment Tax Credits Recoverable	350,897	1,094,507	1,373,122	1,373,122	1,373,122	1,373,122
Deferred Financing Costs	200,000	434,000	1,285,194	-	-	-
Intangible Assets, Net of Amortization	3,375,139	3,262,222	12,447,886	8,546,550	4,645,214	743,878
New Business Acquisitions	-	-	-	-	-	-
Goodwill	9,356,093	9,382,402	20,232,800	20,232,800	20,232,800	20,232,800
Future Income Tax Asset	2,142,940	500,496	-	-	-	-
Due From Related Parties	330,698	282,159	190,150	443,483	443,483	175,150
	35,103,121	38,092,587	83,707,987	83,780,271	81,833,607	82,905,976
Liabilities and Shareholders' Equity						
Current						
Bank Indebtness	5,920,652	10,578,481	-	-	-	-
Accounts Payables and Accrued Liabilities	6,544,760	6,364,660	23,518,477	23,958,904	26,019,909	28,451,260
Current Portion of Deferred Lease Inducement	-	35,700	39,490	68,380	102,995	102,995
Current Portion of Provision for Lease Restructuring	-	-	261,756	249,158	249,158	249,158
Current Portion of Long-Term Debt	914,748	1,046,685	4,139,378	3,229,774	14,683,000	75,954
Deferred Revenue	104,966	575,654	416,714	272,524	295,954	325,549
	13,485,126	18,601,180	28,375,815	27,778,740	41,351,016	29,204,916
Deferred Lease Inducement	238,002	294,529	325,153	538,397	533,104	559,494
Provision for Lease Restructuring	-	-	377,312	140,748	79,182	79,182
Long-Term Debt	881,513	760,951	13,818,884	14,758,954	877,582	1,401,409
Term Bank Facility	-	-	21,795,732	24,484,009	15,484,009	22,484,009
Long-Term Future Income Tax Liabilities	-	-	2,437,234	3,013,908	2,591,795	2,591,795
Total Long-Term Liabilities	1,119,515	1,055,480	38,754,315	42,936,016	19,565,672	27,115,889
Shareholders' Equity						
Capital Stock	19,481,055	20,484,854	20,309,153	20,018,959	20,018,959	23,025,959
Warrants	-	68,945	1,423,498	1,531,325	2,142,088	2,142,088
Contributed Surplus	-	973,744	1,082,508	1,401,586	1,575,589	1,766,993
Equity Component of Convertible Note Obligation	-	53,040	1,607,726	1,951,285	2,352,099	2,651,989
Deficit	1,017,425	(3,144,656)	(7,845,028)	(11,837,640)	(5,171,816)	(3,001,860)
	20,498,480	18,435,927	16,577,857	13,065,515	20,916,920	26,585,170
Total Liabilities & S.E	35,103,121	38,092,587	83,707,987	83,780,271	81,833,607	82,905,976

Brainhunter Inc.- Statement of Cash Flows						
(in C\$)						
	2004	2005	2006	2007	2008E	2009E
Cash Flows from Operating Activities						
Profit/Loss for the Period	(196,820)	(3,390,758)	(4,700,372)	(2,950,607)	6,665,824	2,169,956
Items not Involving Cash:						
Future Income Taxes	(588,326)	1,850,077	(1,461,788)	48,301	(422,113)	-
Investment Tax Credit	(549,656)	(295,395)	-	-	-	-
Amortization	3,623,657	1,976,308	5,357,744	5,313,251	4,825,744	4,705,980
Accretion of Interest	38,744	55,855	1,117,631	1,474,368	1,202,442	899,672
Non-cash leasehold inducement				78,871	70,678	73,610
Changes in fair value of derivative				30,036		
Write off of capital assets				120,000		
Non-cash leasehold inducement					(7,500,000)	
Gain on sale of assets						
Stock-Based Compensation	-	243,376	118,801	319,078	174,003	191,404
	2,327,599	439,463	432,016	4,433,298	5,016,578	8,040,621
Changes in Non-Cash Working Capital Items:						
Accounts Receivable				(4,864,276)	(3,829,664)	(4,837,470)
Deposits and Prepaid Expenses				52,694	(47,997)	(60,627)
Increase in shortterm investments					-	-
Accounts Payables and Accrued Liabilities				296,817	2,061,005	2,431,351
Deferred Revenue				(144,190)	23,430	29,595
Changes in Non-Cash Working Capital Items:	(1,507,550)	(3,258,369)	(1,368,611)	(4,658,955)	(1,793,226)	(2,437,150)
	820,049	(2,818,906)	(936,595)	(225,657)	3,223,352	5,603,471
Cash Flows from Financing Activities						
Issuance of Common Shares	9,254,535					3,007,000
Exercise of Common Share Options and Warrants	744,036	735,170	66,299	220,200	610,763	-
Bank Indebtness			(9,933,660)			
Issue of Shares on Repurchase of Debt						
Increase in Deferred Financing Costs		(434,000)	(1,696,151)			
Increase in Lease Inducement		127,927	73,905	217,365	100,000	100,000
Advances to/from Related Parties	112,104	48,539	92,009	(253,333)		268,333
Purchase of Common Shares	(2,028,414)	(26,615)				
Share Purchase Loans	(265,000)	(104,289)	(242,000)	(235,620)		
Transfer to Restricted Short-Term Investments	(1,000,000)	-	-			
Proceeds from Bank Credit Facility	5,108,003	3,245,660	21,795,732	2,688,277	(9,000,000)	7,000,000
Proceeds from Long-Term Debt	(1,089,574)	2,000	11,910,896	(513,147)	(3,229,774)	(14,683,000)
Cash Flows from Financing Activities	10,835,690	3,594,392	22,067,030	2,123,742	(11,519,011)	(4,307,667)
Cash Flows from Investing Activities						
Proceeds from restricted short-term investments				125,000		
Additions to Capital Assets	(2,190,482)	(2,133,617)	(1,699,252)	(1,300,729)	(1,500,000)	(1,500,000)
Increase in other assets				(373,456)		
Contingent payments relating to prior-years' acquisitions				(348,900)		
Increase in Long-Term Investment						
Sale of Business Units					10,000,000	
Business Acquisitions, Net of Cash Acquired	(10,167,091)	(54,038)	(18,786,362)		-	-
	(12,357,573)	(2,187,655)	(20,485,614)	(1,898,085)	8,500,000	(1,500,000)
Increase in Cash	(701,834)	(1,412,169)	644,821	-	204,341	(204,196)
Cash, Beginning of Period	1,469,182	767,348	(644,821)	-	-	204,341
Cash, End of Period	767,348	(644,821)	-	-	204,341	145

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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