

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS
AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE
OR ARRANGEMENT OF BRAINHUNTER INC.,
BRAINHUNTER CANADA INC., BRAINHUNTER
(OTTAWA) INC., PROTEC EMPLOYMENT SERVICES
LTD., TREKLOGIC INC.

APPLICANTS

FOURTH REPORT OF THE MONITOR
DATED JANUARY 27, 2010

INTRODUCTION

1. By Order of this Honourable Court dated December 2, 2009 (the “**Initial Order**”), Brainhunter Inc. (the “**Company**”), Brainhunter Canada Inc., Brainhunter (Ottawa) Inc., Protec Employment Services Ltd., and TrekLogic Inc. (collectively, the “**Applicants**” or “**Brainhunter**”), obtained protection from their creditors pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The CCAA proceeding with respect to the Applicants is referred to herein as the “**CCAA Proceeding**”.
2. Pursuant to the Initial Order, Deloitte & Touche Inc. (“**Deloitte**”) was appointed monitor of the Applicants as part of the CCAA Proceeding (the “**Monitor**”). Pursuant to the Initial Order, all proceedings against the Applicants were stayed until December 31, 2009, or such later date as this Court may order. A copy of the Initial Order is attached as Exhibit “A”.
3. By Order dated December 11, 2009 (the “**Bid Process Order**”), this Honourable Court approved the Agreement of Purchase and Sale dated December 1, 2009 (the “**Stalking**”).

Horse APA”) between the Applicants as Vendors and TalentPoint Inc., 2223945 Ontario Limited, 2223947 Ontario Limited and 2223956 Ontario Limited as purchasers (together, the “**Stalking Horse Purchasers**”) and Raj Singh pursuant to which the Stalking Horse Purchasers shall purchase substantially all of the assets of the Vendors. Pursuant to the Bid Process Order, the Stalking Horse APA was approved as a stalking horse bid under the sale process and auction procedures (the “**Bid Process**”) attached as Schedule “A” to the Bid Process Order. A copy of the Bid Process Order is attached as Exhibit “**B**”. A copy of the Monitor’s First Report to the Court (without exhibits) filed in connection with the Applicants’ motion to approve the Bid Process is attached as Exhibit “**C**”.

4. Pursuant to the Bid Process Order, the Stay Period, as defined in paragraph 14 of the Initial Order, was extended until February 8, 2010 to permit the Applicants to carry out the Bid Process.
5. Pursuant to the Order of this Honourable Court dated December 11, 2009, the Initial Order was amended (as amended, “**First Amended and Restated Initial Order**”) to address, among other things, the scope of the Directors’ Indemnity referenced in paragraph 20 of the Initial Order, a reduction in the KERP payable to Mr. Singh, the scope of the Contractor’s Charge referenced in paragraph 46 of the Initial Order and the creation of a charge in favour of the ad-hoc committee of noteholders in respect of reasonable legal costs and reasonable costs of any financial advisor retained by the committee. A copy of the First Amended and Restated Initial Order is attached as Exhibit “**D**”.
6. By Order of this Honourable Court dated January 12, 2010 (“**Bid Deadline Extension Order**”), the deadline date to submit an offer to purchase the Applicants’ Assets or sponsor a plan of arrangement pursuant to the Bid Process was extended from January 13, 2010 until 5:00 p.m. (Eastern Time) on Monday, January 18, 2010.
7. By Order of this Honourable Court dated January 22, 2010 (“**Auction Rules Order**”), the auction rules and procedures (“**Auction Rules**”) attached as an exhibit to the Monitor’s Third Report to the Court dated January 21, 2010 (“Third Report”) were amended on the terms described therein and, in consideration of the closing date under

the Stalking Horse APA being extended from February 5, 2010 until February 17, 2010, the terms of the Agreement between Zylog Systems (Canada) Ltd. and Zylog Systems (India) Limited (together, “**Zylog**”), the Stalking Horse Purchasers and Raj Singh were approved. Raj Singh is the principal of the Stalking Horse Purchasers and the President and CEO of the Company. A copy of the Auction Rules Order is attached as Exhibit “**E**”.

8. The Orders in this proceeding, together with related Court documents, the Pre-Filing Report of Deloitte in its capacity as Proposed Monitor of the Applicants dated December 1, 2009, all subsequent reports of the Monitor to the Court and the Notice to Creditors dated December 2, 2009 have been posted on the Monitor’s website at www.deloitte.com/ca/brainhunter (the “**Monitor’s Website**”). The Monitor has also established a toll free number at 1-877-770-4554 for creditors and other interested parties to call with questions or concerns regarding the CCAA Proceeding.
9. The purpose of this report (the “**Fourth Report**”) is to provide this Honourable Court with the following information regarding the Monitor’s motion for approval of its activities as set out in the Fourth Report, the Applicants’ Motion for approval of the Zylog APA (as defined below) and an extension of the Stay Period:
 - (a) Background on the Applicants’ business;
 - (b) Overview of the Bid Process and events subsequent to the Monitor’s Third Report to the Court dated January 21, 2010;
 - (c) Summary of the Zylog APA;
 - (d) Assessment of the dollar value of the Zylog APA;
 - (e) Assessment of the ability of Zylog to close the Zylog APA;
 - (f) The factors to be considered by this Honourable Court in connection with the Zylog APA and Bid Process pursuant to subsections 36(3) and (4) of the *CCAA*; and

- (g) The Monitor's conclusions and recommendations with respect to the relief sought by the Applicants concerning the Zylog APA and extension of the Stay Period.
10. Unless otherwise provided, capitalized terms not otherwise defined in this Fourth Report are as defined in the First Report, the Amended and Restated Initial Order, the Bid Process or the Zylog APA.
11. In preparing the Fourth Report and making the comments contained herein, Deloitte has been provided with and relied upon unaudited financial information, the Applicants' books and records, the financial information prepared by the Applicants and their advisors, and discussions with management of the Applicants. Deloitte has not audited, reviewed, or otherwise attempted to verify the accuracy or completeness of the information and, accordingly, Deloitte expresses no opinion or other form of assurance on the information contained in the Fourth Report. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook has not been performed. Future oriented financial information referred to or relied upon in the Fourth Report is based on management's assumptions regarding future events and conditions that are not ascertainable. Accordingly, actual results achieved will vary from this information, and the variations may be material.
12. Unless otherwise stated, all dollar amounts contained in the Fourth Report are expressed in Canadian dollars.

BACKGROUND

13. The Company is a Toronto-based corporation listed on the Toronto Stock Exchange with the ticker "BH." Brainhunter operates predominately in Toronto and Ottawa, Ontario, with limited affiliated operations in Hyderabad, India.
14. Brainhunter provides temporary staffing and related services, primarily in respect of information technology ("IT") and engineering jobs, to a wide variety of industries. The largest sector served by Brainhunter is the public sector.
15. The secured debt of the Company includes the following:

(a) DIP Facility

- (i) As approved pursuant to the Initial Order, TD Bank is providing interim financing (the “**DIP Facility**”) to Brainhunter during the course of the CCAA Proceeding.
- (ii) The DIP Facility is a revolving credit facility with a maximum total commitment of \$7.0 million and will expire on February 28, 2010. The total amount to be drawn under the DIP Facility is subject to certain working capital ratios being maintained.

(b) TD Facility

- (i) The Company has borrowed approximately \$18.0 million under a senior revolving term facility from TD Bank (the “**TD Facility**”) pursuant to a credit agreement dated September 22, 2006. The Company has granted security to TD Bank upon all of the Company’s assets, property and undertaking. Each of the Applicants other than the Company has guaranteed the obligations of the Company to the Bank and granted security to the Bank upon all of such Applicant’s assets, property and undertaking.
- (ii) In connection with the DIP Facility, the TD Facility was capped on December 2, 2009.

(c) Roynat Debt

- (i) Pursuant to a debenture dated November 14, 2005 (the “**Debenture**”), Roynat advanced to the Company the principal amount of \$5 million (the “**Roynat Debt**”). The Roynat Debt was due to be repaid on December 15, 2008.
- (ii) The Roynat Debt was subsequently amended to capitalize interest accrued. Approximately \$6.2 million remains outstanding with respect to the Debenture. The Company has granted security to Roynat upon all of the

Company's assets, property and undertaking. Each of the Applicants other than the Company has guaranteed the obligations of the Company to the Bank and granted security to the Bank upon all of such Applicant's assets, property and undertaking.

(d) Subordinated Promissory Notes

- (i) Brainhunter issued two tranches of secured subordinated promissory notes bearing interest at 8% and 10% respectively. Brainhunter issued approximately \$7.9 million of convertible promissory notes bearing interest at 8% per annum (the "8% Notes") pursuant to an offering which closed in stages on October 15, November 14 and December 14, 2005 and approximately \$2.6 million of convertible promissory notes bearing interest at 10% per annum (the "10% Notes") pursuant to an offering which closed February 2, 2007.
- (ii) Brainhunter delivered a General Security Agreement to the holders of each of the Original 8% Notes and the Original 10% Notes. The holders of the 8% Notes are parties to a pari passu agreement which provides that each of the 8% Notes ranks equally in priority in respect of Brainhunter's present and after acquired personal property, notwithstanding the date of any promissory note or advance of a loan from any one of the holders of the 8% Notes. The holders of the 10% Notes are parties to a similar pari passu agreement. The 8% Notes and the 10% Notes as well as the pari passu agreements and security delivered to the holders of such Notes, were subsequently amended in April 2009 pursuant to separate amending agreements affecting the 8% Notes and the 10% Notes.
- (iii) No interest or principal was due to be paid in respect of the 10% Notes; however, interest in the total amount of \$64,000 was paid in error to April 30, 2007, and certain other individuals were selectively paid \$179,000 in interest from time to time during 2007, 2008 and 2009.

INDEPENDENT ASSESSMENT OF SECURITY

16. Counsel to the Monitor, ThorntonGroutFinnigan LLP (“TGF”), has reviewed the security granted to TD Bank and Roynat by each of the Applicants. TGF has advised the Monitor that, subject to the assumptions and qualifications contained in its written opinion, each of the Bank and Roynat has a valid and enforceable security interest in all of the personal property, assets and undertaking of the Applicants (other than Crown debts to which the *Financial Administration Act*, R.S.C. 1985, c. F-11, as amended (“FAA”) applies) located within the Province of Ontario and referenced in each such party’s security agreements and in respect of which registrations have been made against the Applicants by each of TD Bank and Roynat in accordance with the provisions of the *Personal Property Security Act* (Ontario).
17. TGF has also reviewed the security granted to the holders of the 8% Notes and 10% Notes by Brainhunter as amended pursuant to the April 2009 amending agreements. TGF has advised the Monitor that, subject to the assumptions and qualifications contained in its written opinion, the foregoing security creates a valid and enforceable security interest in all of the personal property, assets and undertaking of Brainhunter located within the Province of Ontario and referenced in such security agreements and in respect of which registrations have been made against Brainhunter by the secured parties referenced therein in accordance with the provisions of the *Personal Property Security Act* (Ontario).
18. Although the Noteholders only hold security upon the assets of Brainhunter, given the significant amount of intercompany indebtedness owing by the Applicants other than Brainhunter to Brainhunter itself, approximately 97.3% of the unsecured claims against the Applicants are indirectly held by the Noteholders pursuant to their secured claims against Brainhunter. Attached as Exhibit “F” is a copy of the Monitor’s analysis of the unsecured claims against each of the Applicants.

STATUS OF BID PROCESS

19. As noted above, pursuant to the Bid Process Order, the Stalking Horse APA was approved and the Applicants were authorized to carry out the marketing and sale process described in the Bid Process, all with a view to holding the Auction for the Applicants' Assets on January 25, 2010.
20. Following the issuance of the Bid Process Order, the following steps were taken to carry out its terms:
 - (a) E&Y continued with its earlier mandate to assist with the divestiture of the Applicants' Assets, with oversight from the Monitor. In addition to the over 100 parties contacted by E&Y prior to the issuance of the Initial Order, E&Y contacted or was approached by an additional 62 parties following issuance of the Initial Order, including 25 parties previously approached prior to the Initial Order. Of those parties contacted after the date of the Initial Order, 31 parties signed a confidentiality Agreement (hereafter, "**Interested Parties**") and were provided access to an electronic data room, enabling those Interested Parties to conduct due diligence;
 - (b) E&Y, the Monitor and Breakwall coordinated due diligence efforts by responding to Bid Process inquiries, facilitating requests for additional documents, participating on calls with various Interested Parties and coordinating meetings between Interested Parties and the Applicants as requested;
 - (c) E&Y and the Monitor continued to populate the electronic data room following issuance of the Bid Process Order. In addition, E&Y, Breakwall and the Monitor communicated with major customers following issuance of the Initial Order regarding the transition of their business to a successor and facilitated calls between these customers and Interested Parties as requested. Letters of support were requested by the Monitor from customers and posted as available in the electronic data room.

21. As noted above, pursuant to the Bid Deadline Extension Order, the deadline date to submit an offer to purchase the Applicants' Assets or sponsor a plan of arrangement pursuant to the Bid Process was extended from January 13, 2010 until 5:00 p.m. (Eastern Time) on Monday, January 18, 2010.
22. Following issuance of the Bid Deadline Extension Order, both E&Y and the Monitor continued to receive and respond to due diligence requests from Interested Parties. E&Y continued to populate the electronic data room maintained as part of the Bid Process, which contained detailed information regarding the Applicants' Assets to permit Interested Parties to conduct their due diligence via secure web access.
23. Notwithstanding that numerous Interested Parties carried out due diligence in respect of the Applicants' Assets, only Zylog submitted an offer ("**Zylog Offer**") to purchase the Applicants' Assets prior to the extended Bid Deadline.
24. The Zylog Offer contained certain conditions which, in the Monitor's view, would negatively impact the Monitor's consideration of the Zylog Offer as a Qualified Bid. The Monitor, in consultation with the Applicants, addressed its concerns with Zylog. Zylog advised the Monitor that it would not be in a position to resolve the issues identified by the Monitor prior to 5:00 p.m. on January 21, 2010, being the time by which the Monitor was required to determine if a bid is a Qualified Bid under the Bid Process. Accordingly, the Monitor sought and obtained the consent of Mr. Singh as the principal of the Stalking Horse Purchasers to extend the deadline date by which the Monitor was required to determine if a bid is a Qualified Bid to 5:00 p.m. (Eastern Time) on January 22, 2010.
25. The Monitor was also advised that certain of the 8% Notes and 10% Notes issued by Brainhunter might be tendered as partial consideration for the purchase price payable under a bid by Zylog at the Auction. As described in the Third Report, the Monitor sought the advice and direction of this Honourable Court regarding the proper method of valuing any Notes which might be tendered as non-cash consideration under a bid at the Auction. In accordance with the Auction Rules Order, the Auction Rules as prepared by the Monitor and attached to the Third Report were revised to provide that the Monitor would accept at the Auction the tender of a Note and collectively the Notes as the

equivalent of tendering the like amount of cash and ascribe the full face value to any Note tendered by Zylog in partial satisfaction of the purchase price under any offer it might make at the Auction. A copy of the Auction Rules, revised in accordance with the Auction Rules Order, is attached as Exhibit "G".

26. In accordance with the Bid Process, as amended by the Bid Deadline Extension Order, the Monitor accepted the Zylog Offer as a Qualified Bid prior to the 5:00 p.m. deadline on January 22, 2010. The Stalking Horse Purchasers and Zylog confirmed to the Monitor that day that they would participate in the Auction as required under the Bid Process. Accordingly, the Monitor confirmed to each such party that the Auction would proceed on Monday, January 25, 2010.

THE AUCTION

27. Although the Auction was scheduled to commence at 11:00 a.m. on January 25, 2010, the Monitor adjourned the start of the Auction to finalize certain additional amendments to the Zylog Offer requested by the Monitor and the Applicants and to resolve certain outstanding issues primarily related to vesting of the Assets. These issues were resolved to the satisfaction of the Applicants, the Monitor and Zylog and addressed via side letter.
28. Also prior to commencement of the Auction, the Monitor reviewed an executed version of the Lock-Up Agreement governing the 8% Notes and the 10% Notes. Prior to the commencement of the Auction, all of the Noteholders (other than Mr. Singh and Ms. Kalicharran, whose Notes were dealt with pursuant to the Auction Rules Order) executed the Lock-Up Agreement. Also prior to commencement of the Auction, the Monitor sought and obtained confirmation from the Stalking Horse Purchasers that additional funding was available to the Stalking Horse Purchasers for the purpose of submitting an improved bid at the Auction.
29. The Auction commenced at approximately 1:35 p.m. on January 25, 2010. In accordance with the Bid Process, counsel to the Monitor confirmed that the Monitor had determined that the Zylog Offer was the superior bid, equivalent in value to the purchase price payable under the Stalking Horse APA, plus the Break Fee of \$700,000 payable to the

Stalking Horse Purchasers as required by the Bid Process, plus \$150,000 in additional cash consideration. A copy of the Zylog Offer, as tabled at the Auction (hereafter, “**Zylog APA**”) is attached as Exhibit “**H**”.

30. Accordingly, the Monitor confirmed that, in order for the Stalking Horse Purchasers to submit a Revised Bid, that is, a bid superior to the Zylog APA, the Stalking Horse Purchasers would be required to offer consideration with a value at least \$50,000 greater than the consideration payable under the Zylog APA, less the amount of the Break Fee. Following tabling of the Zylog APA as the superior bid, Mr. Singh on behalf of the Stalking Horse Purchasers confirmed that the Stalking Horse Purchasers would not submit a Revised Bid. Accordingly, the Monitor declared the Zylog APA to be the winning bid (the “Accepted Bid” under the Bid Process), the Stalking Horse APA to be the Back-Up Bid and declared the Auction concluded.

ZYLOG APA

31. The key terms of the Zylog APA are summarized below and are provided for informational purposes only. Reference should be made directly to the Zylog APA for a complete understanding of its terms.
32. The parties under the Zylog APA are the Applicants, Vision2Hire Solutions Inc., a corporation incorporated under the laws of Canada (“**Vision2Hire**”) and Brainhunter Recruiting (India) Private Limited, a corporation incorporated under the laws of India (“**BH India**”) as vendors (together, the “Vendors”) and Zylog as purchasers.
33. Vision2Hire and BH India are not parties to the CCAA proceeding. The Monitor has only limited information regarding the financial position of BH India. Attached as Exhibit “**I**” is the unaudited internally prepared balance sheet for BH India as at December 31, 2009. The Monitor understands that legal title to the shares of BH India is held by the director of operations of BH India and one other employee of BH India for and on behalf of the Company in accordance with the trust agreement attached as Exhibit “**J**”.

34. Vision2Hire is a wholly owned subsidiary of Brainhunter. The Monitor also has limited information regarding Vision2Hire. Attached as Exhibit “K” is a *Personal Property Security Act* (Ontario) enquiry response certificate in respect of Vision2Hire certified by the Ontario Ministry of Government Services as at January 25, 2010, which discloses that there are no PPSA Registrations against Vision2Hire. Also attached as Exhibit “L” are clear execution searches in respect of Vision2Hire conducted in Peel Region and Toronto. Management of the Company has advised the Monitor that Vision2Hire does not have any creditors, other than deferred revenue of approximately five hundred dollars (\$500). Attached as Exhibit “M” is the internally prepared unaudited balance sheet for Vision2Hire as at December 31, 2009.
35. Assets. Substantially all of the Assets of the Applicants are being sold to Zylog, including the following (collectively, the “**Purchased Assets**”):
- (i) all cash and cash equivalents of the Vendors as of the Closing to the extent same has not been netted against amounts owing to the TD Bank;
 - (ii) Accounts Receivable of the Vendors, other than in connection with any Contractor Agreements not assumed by Zylog (“**Excluded Contractor Agreements**”);
 - (iii) Equipment (including all associated warranties);
 - (iv) Equipment Leases;
 - (v) all Inventory;
 - (vi) Goodwill;
 - (vii) all Customer Contracts;
 - (viii) all Contractor Agreements, except Excluded Contractor Agreements;
 - (ix) all Books and Records, except in connection with the Excluded Contractor Agreements, if any;
 - (x) Fixed Assets;
 - (xi) Specified Contract Rights;
 - (xii) Intellectual Property and Intellectual Property Rights, including that owned by Vision2Hire;

- (xiii) Prepaid Expenses and Deposits, other than in connection with the Excluded Contractor Agreements, if any;
- (xiv) Real Property Leases;
- (xv) all Permits and Licences;
- (xvi) all of the assets of BH India; and
- (xvii) Work in Progress.

36. Excluded Assets. The Purchased Assets acquired by Zylog exclude:

- (a) The Amending Agreements dated April 1, 2009 entered into among Brainhunter and the holders of the 8% Notes and the 10% Notes, and all documents contemplated in such Amending Agreements;
- (b) Excluded Contractor Agreements;
- (c) Certain Real Property Leases specified in Schedule 2 for premises in Montreal, Calgary and Toronto;
- (d) the shares of Brainhunter U.K. Limited, Brainhunter.com Inc., Balanced Brain Initiatives Inc., Siolink Solutions Inc. and BH India, as well as the shares of any of the Applicants not referred to above;
- (e) an equipment lease between CBSC Capital Inc. and Brainhunter Inc. and a vehicle lease between DCFS Canada Corp. and Mercedes Benz Financial and Brainhunter; and
- (f) the corporate records of the Vendors.

37. Purchase Price. The aggregate consideration payable by the Purchasers to the Vendors for the sale of the Purchased Assets consists of cash and non-cash consideration as follows:

Cash

- (a) \$250,000 on account of any costs or expenses incurred by the Vendors after the closing in connection with the CCAA proceeding or any winding-up of the Applicants pursuant to the *Bankruptcy and Insolvency Act* (Canada);
- (b) payment to TD Bank of (i) all amounts owing for principal, interest and costs due and owing pursuant to its credit agreement or security; and (ii) for the amount outstanding under the DIP Facility up to \$7,000,000;
- (c) payment to Roynat Capital Inc. of amounts owing for principal, interest and costs due and owing pursuant to its credit agreement or security;
- (d) satisfaction of the amount secured by the KERP Charge up to a maximum of \$180,000;
- (e) satisfaction of the amounts secured by the Administration Charge up to a maximum of \$1,000,000; and
- (f) the balance of the cash portion of the purchase price (being \$150,000 and \$700,000 for the Break Fee payable to the Stalking Horse Purchasers).

Non-Cash

- (a) the assumption by the Purchasers on the Closing Date of the Assumed Liabilities, which consist of the following:
 - (i) all liabilities accruing from the use of the Purchased Assets from and after the Closing Date;
 - (ii) all liabilities owing by the Vendors to Contractors with respect to Customer Contracts relating to the Purchased Assets, that is, contracts between the Vendors and a client of a Vendor pursuant to which a Contractor on behalf of the applicable Vendor provides services to such client;

- (iii) all of the Vendor's liabilities with respect to any equipment leases related to the equipment forming part of the Purchased Assets;
 - (b) the assumption of Directors' and Officers' obligations subject to the Directors' Indemnity in the Initial Order, to a maximum of \$1,700,000.
- 38. Deposit. Zylog has delivered deposits totalling \$1,025,779 (together, the "**Deposit**") which funds are held in trust by the Monitor. If the Closing takes place, the Deposit and all interest accrued thereon shall be credited against the Purchase Price. If the Closing does not occur as a result of a breach by Zylog of certain conditions set out in the Zylog APA, \$1,000,000 of the Deposit and all interest accrued thereon shall be forfeited to the Vendors.
- 39. Closing Date. The Zylog APA contemplates a closing date of February 17, 2010, or such other date as agreed to by both the Vendors and the Purchasers. In accordance with the Auction Rules Order, the Closing Date may not be extended past February 17, 2010.
- 40. Sale Free and Clear. Except as otherwise agreed by the parties, the Purchased Assets are to be sold on an "as is, where is" basis and are to be transferred by the Vendors free and clear of all security interests, liens, claims and other interests, other than those expressly assumed by the Purchasers or otherwise expressly permitted under the Zylog APA.
- 41. Employees. At least five (5) Business Days prior to the Closing Date, Zylog will offer to employ all or substantially all of the Vendors' current employees with such employment commencing as of the Closing Date. The employment offers will be for employment on terms and conditions that are comparable in the aggregate to the base salary, wages and benefit eligibility provided to each employee by the Vendors as of the Closing Date. However, equity or equity-based compensation, retention bonuses and plans and eligibility to participate in any defined benefit pension plan and retiree medical plan are expressly excluded from the forgoing comparison. For the purpose of this comparison, the level of long-term disability benefit eligibility provided by the Vendors to an employee who is on long-term disability as of the Closing Date will be deemed equal to the long-term disability benefits that could be purchased by Zylog at a cost comparable to

the amount the applicable Vendor pays for such long-term disability benefits coverage provided to such employee. The Vendors are required to terminate prior to the Closing Date all employees who are not offered employment by Zylog.

42. Conditions to Closing. The respective obligation of the parties to the Zylog APA to close the sale is subject to the satisfaction of the following mutual condition:
 - (a) on or before the Closing, the Court shall grant the Vesting Order and no appeal or motion to set aside the Vesting Order shall be outstanding.
43. The obligation of Zylog and the Vendors to close the sale is otherwise subject to the satisfaction of standard closing conditions.
44. Termination Rights. The Zylog APA may be terminated prior to closing in a number of instances, including:
 - (a) by mutual consent; and
 - (b) if the conditions to closing as contained in the Zylog APA are not satisfied.

ASSESSMENT OF THE ZYLOG APA

45. The estimated value of the Zylog APA as at February 12, 2010 is attached as Exhibit "N".
46. Prior to accepting the Zylog Offer as a Qualified Bid, the Monitor reviewed and satisfied itself with Zylog's ability to close the transaction contemplated by the Zylog Offer. Zylog has provided documentary support to the Monitor to demonstrate that it has the existing financial capability to fund the purchase price under the Zylog APA.

COMPLIANCE WITH SUBSECTIONS 36(3) AND (4) OF THE CCAA

47. Section 36 of the CCAA provides that a debtor company under CCAA protection may not sell or otherwise dispose of its assets outside the ordinary course of business unless authorized to do so by a Court. The factors to be considered by the Court in granting such authorization are set out in subsection 36(3) of the CCAA. Subsection 36(4) of the

CCAA sets out additional factors to be considered by the Court if the proposed sale involves a person related to the debtor company.

48. The Monitor has considered the various factors set out in CCAA subsection 36(3) in connection with the approval of the Zylog APA and in connection with approval of the Stalking Horse APA as the Back-Up Bid.

36(3)(a) whether the process leading to the proposed sale or disposition was reasonable in the circumstances

49. The Monitor believes that the process leading to the proposed sale to Zylog was reasonable in the circumstances for the following reasons:

- (a) Prior to this CCAA proceeding, E&Y undertook an extensive four-month sales process, beginning in April 2009, which did not result in any satisfactory offers for the Applicant's Assets. Four parties submitted conditional letters of intent, only one of which was for the entire business. The estimated purchase price under that letter of intent after taking into account various conditions and updated results is calculated to be less than the purchase price payable under the Zylog APA;
- (b) Prior to this CCAA proceeding, the Company did explore refinancing options in addition to seeking purchasers for the Applicants' Assets. Breakwall approached approximately 20 asset-based lenders to assess whether the TD Facility could be refinanced. As a result of discussions and negotiations with these asset-based lenders, Breakwall and the Company concluded that refinancing all of the TD Facility was not feasible due to the Applicants' financial situation and the fact that the Company was already in default of its existing lending arrangements;
- (c) Only one party, Morrison Financial, offered to provide any form of financing to the Company. However, Morrison Financial was only prepared to refinance the accounts receivables subject to the FAA. Since the proposed financing from Morrison Financial was not sufficient to permanently repay TD Bank or Roynat, the Company considered a restructuring whereby the Applicants would sell only

certain of their assets, and together with financing to be provided by Morrison Financial, partially reduce the Company's indebtedness to TD Bank. However, this approach would not have resolved the Company's liquidity issues given the pending maturity of the Roynat debt on September 30, 2009 and the maturity of the Notes in January 2010. Furthermore, TD Bank was not prepared to agree to a restructuring whereby proceeds of collateral subject to its security would be utilized to repay Roynat or the Noteholders in priority to TD Bank;

- (d) The Zylog APA was obtained in accordance with the Bid Process and the Bid Process was specifically approved by the Court;
- (e) the Monitor is satisfied that the Applicants, with the assistance of E&Y, the Monitor, and Breakwall have complied with the terms of the Bid Process. As noted in paragraphs 20-23 above, the opportunity to acquire the Applicants' Assets was exposed to a significant number of arm's-length third parties following issuance of the Bid Process Order. In the Monitor's view, the time provided to the Interested Parties to carry out due diligence and formulate an offer to purchase the Applicants' Assets was reasonable given that the going concern value of the Applicants' Assets could only be preserved by carrying out the Bid Process as quickly as possible. Accordingly, in the Monitor's view, the process leading to the proposed sale to Zylog (or to the Stalking Horse Purchasers as the Back-Up Bidder) was reasonable in the circumstances.

36(3)(b) whether the Monitor approved the process leading to the proposed sale or disposition

- 50. Prior to the Monitor's appointment pursuant to the Initial Order, Deloitte in its capacity as the proposed Monitor in the CCAA proceeding was consulted and participated in developing the Bid Process. As set out in the First Report, following its appointment the Monitor approved the Bid Process on the basis that a sale process utilizing a stalking horse bid as well as an auction would provide stability to the Applicants' business while the Bid Process was conducted and maximize value for the stakeholders of the Applicants.

36(3)(c) whether the Monitor filed with the Court a report stating that in their opinion, the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy

51. As set out in the Monitor's First Report, the Monitor believes that a sale of the Applicants' assets, whether pursuant to the Zylog APA or to the Stalking Horse Purchasers as the Back-Up Bidder, will be more beneficial to the Applicants' stakeholders than a sale in the context of a bankruptcy of the Applicants for the following reasons:

- (a) the continued operation of the Applicants' business and therefore its value is dependent upon the continued supply of services to its clients and the continued availability of Contractors and employees to provide those services. If the Applicants were to become bankrupt and their business interrupted, there is a significant risk that clients would resource their business elsewhere and Contractors and employees of the Applicant would seek alternative engagements or employment. This would eliminate the value inherent in the Applicants' business as a going concern to the prejudice of all stakeholders;
- (b) the Applicants' business is a service business, requiring minimal capital assets. As such, the value of the business will be higher as a going concern than if it is liquidated. It is unlikely that a liquidation of the Applicants' Assets would generate sufficient proceeds to repay the DIP Facility and the TD Facility, with the result that there would be no surplus proceeds to repay any of the remaining secured and unsecured claims against the Applicants; and
- (c) the sale of the Applicants' business as a going concern preserves a significant number of jobs and will result in little or no disruption to the Applicants' employees, Contractors and customers.

36(3)(d) the extent to which the creditors were consulted

52. TD Bank and Roynat supported the Stalking Horse APA and the Bid Process. Prior to the motion to approve the Bid Process, the ad-hoc committee of Noteholders raised certain concerns regarding the Bid Process as well as the Stalking Horse APA. The ad

hoc committee of Noteholders also served a Notice of Motion dated December 7, 2009, raising certain issues related to the Initial Order. The ad hoc committee of Noteholders, the Applicants, the Stalking Horse Purchasers and Mr. Singh resolved the Noteholders' concerns and, as part of that resolution, certain amendments to the Initial Order are reflected in the First Amended and Restated Initial Order. Ultimately, the ad hoc committee of Noteholders consented to the terms of the Bid Process Order. Thereafter, the Monitor had frequent communication with counsel to the ad hoc committee of Noteholders regarding the Bid Process. As the Monitor understands, all of the Noteholders support the Zylog APA.

53. Also during the course of this proceeding, the Monitor has delivered weekly reports to TD Bank as DIP Lender regarding the Applicants' financial position and compliance with the Applicants' cash flow statement.

36(3)(e) the effects of the proposed sale or disposition on the creditors and other interested parties

54. In addition to continuation of the Applicants' business as a going concern, the proposed sale under the Zylog APA is expected to have the following impact on the Applicants' creditors and other interested parties:
- (a) Zylog shall pay \$250,000 to the Vendors on account of any costs or expenses incurred post-closing in connection with the CCAA proceeding or any winding-up of the Applicants pursuant to the *Bankruptcy and Insolvency Act* (Canada);
 - (b) TD Bank will be paid all amounts owing to it under the TD Facility as well as amounts due and owing under the DIP Facility;
 - (c) Roynat will be paid all amounts due and owing to it under the Roynat Debt;
 - (d) Zylog will assume the obligations of the Applicants to those Contractors providing services under Contractor Agreements assumed by Zylog;
 - (e) Zylog will assume all liabilities accruing from the use of the Purchased Assets from and after the Closing Date;

- (f) the employment of substantially all of the Applicants' employees will continue;
- (g) the directors and officers who are the beneficiaries of the Directors' Charge granted pursuant to the Initial Order will be indemnified against liabilities otherwise secured by the Directors' Charge to the maximum amount of \$1.7 million or such lesser amount as may be actually outstanding as at the Closing Date during the period commencing on the date of the Initial Order and ending on the Closing Date. This indemnity does not apply if the directors and officers are insured, unless the insurer fails to provide coverage; and
- (h) although the Bid Process produced an offer that is superior to the Stalking Horse APA, there will be no distribution of funds to the Noteholders or the unsecured creditors of the Applicants from the proceeds of sale under the Zylog APA. Nevertheless, all of the Noteholders except Mr. Singh and Ms. Kalicharran (whose Notes were dealt with pursuant to the Auction Rules Order) chose to become parties to the Lock Up Agreement with Zylog prior to the Auction and, as the Monitor understands, are satisfied with and support the terms of the Zylog APA. The \$150,000 increase under the Zylog APA over and above the purchase price payable under the Stalking Horse APA is subject to the Noteholders' Advisor Charge in the same amount created pursuant to the First Amended and Restated Initial Order.

36(3)(f) whether the consideration to be received for the Assets is reasonable and fair, taking into account their market value

55. The Monitor believes that the consideration to be received for the assets under the Zylog APA (and, if applicable, pursuant to the Stalking Horse APA as the Back-Up Bid) is reasonable and fair for the following reasons:
- (a) the Zylog APA was identified as the highest and best offer for the Assets of the Applicants pursuant to the Court-approved Bid Process;

- (b) the consideration payable under the Zylog APA is superior to the consideration payable under the Stalking Horse APA, which was specifically approved as part of the Bid Process;
- (c) the consideration payable under both the Zylog APA and the Stalking Horse APA exceeds the estimated purchase price (after taking into account various conditions and updated results) under the letter of intent which represented the highest offer received by E&Y during its sale process. This letter of intent represented the best indication of fair market value for the Applicants' Assets prior to commencement of the Bid Process as it was received from an arm's-length third party as part of an extensive sale process undertaken by E&Y.

COMPLIANCE WITH CCAA SUBSECTION 36(4)

56. Given that Mr. Singh is related to the Applicants within the meaning of CCAA subsection 36(4), the Monitor has also considered the following factors in connection with approval of the Stalking Horse APA as the Back-Up Bid:

- (a) if good faith efforts were made to sell or otherwise dispose of the assets to persons who are not related to the Company; and
- (b) if the consideration to be received is superior to the consideration that would be received under any other offer made in accordance with the process leading to the proposed sale or disposition.

57. The Applicants made good faith efforts to sell or otherwise dispose of their assets to persons not related to the Company pursuant to the extensive marketing process conducted by E&Y as well as pursuant to the Bid Process. Those good faith efforts have resulted in an agreement to sell the Applicants' Assets to a party which is not related to the Applicants. As noted by the Monitor in the First Report, E&Y's mandate commenced prior to Mr. Singh becoming the CEO of the Company. It was not unreasonable for the Company to approach only Mr. Singh to become the potential stalking horse bidder given that, as a public company, the Company required that the stalking horse sale process

remain confidential and given that no superior offers were identified through the E&Y process.

58. For the purpose of CCAA subsection 36(4)(b), the consideration received under the Stalking Horse APA is not superior to that payable under the Zylog APA. However, if the Zylog APA does not close, the consideration payable under the Stalking Horse APA would be the highest consideration offered in connection with the purchase of the Applicants' Assets, since such offer would be the only existing offer at that time. Also, as noted above, the consideration payable under the Stalking Horse APA is superior to the consideration referenced under the letter of intent received by E&Y during the sale process described above.
59. In the Monitor's view, the Bid Process was the best method to identify the highest and best bid for the Applicants' Assets, recognizing that the going concern value of the Applicants' Assets could only be preserved by carrying out the Bid Process as quickly as possible. The Bid Process provided arm's-length third parties the opportunity to make their own assessment as to the relative value of the Applicants' Assets and determine if the Applicants' Assets are worth more than the consideration payable under the Stalking Horse APA. The Applicants have complied with the terms of the Bid Process and, notwithstanding that the Assets were exposed to a significant number of Interested Parties, only one bid was received to purchase the Assets by the extended Bid Deadline. In the Monitor's view, the Bid Process was an appropriate and fair method in the circumstances of determining the fair market value of the Applicants' Assets.
60. In the Monitor's view, the Bid Process has been carried out in compliance with CCAA Section 36 and, accordingly, the Monitor recommends approval of the Zylog APA, vesting of the Purchased Assets as described therein on the terms of the draft approval and vesting order and approval of the Stalking Horse APA as the Back-Up Bid.

STAY EXTENSION

61. The Applicants have also requested the Court to approve an extension of the Stay Period from February 8, 2010 to March 1, 2010. The basis for this request is to allow for closing

of the Zylog APA or, in the event the Zylog APA does not close in accordance with its terms by February 17, 2010, to close the Stalking Horse APA as the Back-up Bid. The Company's cash-flow statement previously filed in this proceeding indicates that the DIP Facility will be sufficient to fund the business to closing of either the Zylog APA by February 17, 2010 or the Stalking Horse APA by February 25, 2010. As noted above, the maturity date under the DIP Facility is February 28, 2010. As such the Monitor supports the Applicants' request that the Stay Period be extended to March 1, 2010.

[signature page follows]

All of which is respectfully submitted at Toronto, Ontario this 27th day of January 2010.

DELOITTE & TOUCHE INC.
in its capacity as Monitor
of Brainhunter Inc. and the other Applicants

Per: P. Casey
Paul M. Casey, CA, CIRP
Senior Vice-President