Interim Consolidated Financial Statements
(Expressed in U.S. dollars)

SOFTCHOICE CORPORATION

Three-month periods ended March 31, 2011 and 2010
(Unaudited)

SOFTCHOICE CORPORATION

Interim Consolidated Statements of Financial Position
(In thousands of U.S. dollars)
(Unaudited)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Cash	$ 46,096	$ 35,752	$ 18,601
Trade and other receivables (note 10)	238,077	224,168	183,674
Inventory	965	881	766
Deferred costs	8,759	7,082	385
Prepaid expenses and other assets	3,518	2,881	2,036
Total current assets	297,415	270,764	205,462
Restricted cash (note 9)	500	500	500
Long-term accounts receivable	2,410	2,771	-
Property and equipment	5,746	5,748	6,894
Goodwill	11,534	11,383	11,063
Intangible assets	40,005	41,155	47,403
Deferred tax assets	18,932	19,023	18,500
Total non-current assets	79,127	80,580	84,360
Total assets	$ 376,542	$ 351,344	$ 289,822
Liabilities and Shareholders' Equity			
Trade and other payables	$ 239,055	$ 217,888	$ 171,966
Provisions	696	98	73
Loans and borrowings (note 11)	3,958	3,961	3,968
Deferred lease inducements	105	193	85
Deferred revenue	2,128	1,899	1,465
Income taxes payable	1,347	2,320	3,288
Total current liabilities	247,289	226,359	180,845
Deferred lease inducements	320	217	395
Loans and borrowings (note 11)	7,275	8,271	12,253
Total non-current liabilities	7,595	8,488	12,648
Total liabilities	254,884	234,847	193,493
Capital stock (note 12)	26,477	26,016	25,842
Contributed surplus	1,949	2,054	983
Retained earnings	94,729	89,569	69,504
Accumulated other comprehensive loss	(1,497)	(1,142)	–
Total shareholders' equity	121,658	116,497	96,329
Total liabilities and shareholders' equity	$ 376,542	$ 351,344	$ 289,822

Related party transactions (note 14)

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

SOFTCHOICE CORPORATION

Interim Consolidated Statements of Comprehensive Income
(In thousands of U.S. dollars, except per share information)
(Unaudited)

	Three-month periods ended March 31, 2011	Three-month periods ended March 31, 2010
Net sales	$ 249,718	$ 201,561
Cost of sales	205,804	165,113
Gross profit	43,914	36,448
Expenses:		
Selling and marketing (note 4)	26,632	22,949
Administrative (note 4)	10,333	8,881
Other income (note 5)	(78)	(700)
Other expenses (note 6)	-	42
	36,887	31,172
Results from operating activities	7,027	5,276
Finance costs (note 7)	1,047	1,221
Finance income (note 8)	(1,266)	(2,001)
Net finance costs	(219)	(780)
Earnings before income taxes	7,246	6,056
Income tax expense	2,086	1,668
Net earnings for the period	5,160	4,388
Other comprehensive income:		
Foreign currency translation adjustment	(355)	(822)
Total comprehensive income	$ 4,805	$ 3,566
Net earnings per common share:		
Basic (note 13)	$ 0.26	$ 0.22
Diluted (note 13)	$ 0.26	$ 0.22

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

SOFTCHOICE CORPORATION

Interim Consolidated Statements of Changes in Equity
(In thousands of U.S. dollars)
(Unaudited)

Three-month period ended March 31, 2011	Number of shares	Share capital	Contributed surplus	Cumulative translation account	Retained earnings	Total shareholders' equity
Balance, January 1, 2011	19,780,039	$ 26,016	$ 2,054	$ (1,142)	$ 89,569	$ 116,497
Total comprehensive income for the period:						
Profit or loss		–	–	–	5,160	5,160
Other comprehensive income:						
Foreign currency translation adjustment		–	–	(355)	–	(355)
Total comprehensive income for the period		–	–	(355)	5,160	4,805
Transactions with shareholders recorded directly in equity:						
Contributions by and distributions to owners:						
Share-based payment transactions		–	356	–	–	356
Transfer from contributed surplus (note 12)	52,573	461	(461)	–	–	–
		461	(105)	–	–	356
Balance, March 31, 2011	19,832,612	$ 26,477	$ 1,949$	$ (1,497)	$ 94,729	$ 121,658

Three-month period ended March 31, 2010	Number of shares	Share capital	Contributed surplus	Cumulative translation account	Retained earnings	Total shareholders' equity
Balance, January 1, 2010	19,759,189	$ 25,842	$ 983	$ –	$ 69,504	$ 96,329
Total comprehensive income for the period:						
Profit or loss		–	–	–	4,388	4,388
Other comprehensive income:						
Foreign currency translation adjustment		–	–	(822)	–	(822)
Total comprehensive income for the period		–	–	(822)	4,388	3,566
Transactions with shareholders recorded directly in equity:						
Contributions by and distributions to owners:						
Share options exercised (note 12)	19,600	97	–	–	–	97
Share-based payment transactions		–	146	–	–	146
Transfer from contributed surplus (note 12)		62	(62)	–	–	–
		159	84	–	–	243
Balance, March 31, 2010	19,778,789	$ 26,001	$ 1,067	$ (822)	$ 73,892	$ 100,138

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

SOFTCHOICE CORPORATION

Interim Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

	Three-month periods ended March 31, 2011	2010
Cash provided by (used in):		
Operating activities:		
Earnings for the period	$ 5,160	$ 4,388
Adjustments for:		
Depreciation of property and equipment	682	777
Share-based transactions	356	146
Income tax expense	2,086	1,668
Amortization of intangible assets	1,597	1,834
Unrealized foreign currency gain	(950)	(1,509)
Amortization of contract related assets	269	330
Loss on disposal of property and equipment	-	42
	9,200	7,676
Change in non-cash operating working capital (note 16)	6,536	11,442
	15,736	19,118
Interest paid	(522)	(700)
	15,214	18,418
Income tax paid	(2,984)	(3,436)
	12,230	14,982
Financing activities:		
Repayment of loans and borrowings	(1,276)	(1,507)
Proceeds from issuance of common shares	-	97
	(1,276)	(1,410)
Investing activities:		
Purchase of property and equipment	(578)	(259)
Purchase of intangible assets	(474)	(148)
	(1,052)	(407)
Net increase in cash during the period	9,902	13,165
Cash, beginning of period	35,752	18,601
Effect of exchange rate changes on cash	442	479
Cash, end of period	$ 46,096	$ 32,245

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

1. Nature of operations:

Softchoice Corporation (the "Company") was formed on May 15, 2002 pursuant to an amalgamation with Ukraine Enterprise Corporation. The Company was incorporated under the Canada Business Corporations Act. The address of the Company's registered office is 173 Dufferin Street, Suite 200, Toronto, Ontario. The Company is a North American business-to-business direct marketer of information technology (“IT”) hardware, software and services to small, medium and large businesses and public sector institutions.

The Company's United States operations are carried on by a subsidiary ("Softchoice U.S."), a corporation incorporated under the laws of the State of New York. On December 10, 2007, the Company incorporated a wholly owned subsidiary, Softchoice Holdings Corporation ("Holdco"). Holdco is incorporated under the laws of the State of Delaware. The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Company").

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements and in preparing the opening International Financial Reporting Standards (“IFRS”) consolidated statement of financial position at January 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting and using the accounting policies the Company expects to adopt in its consolidated financial statements as at the year ended December 31, 2011. These are the Company’s first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1, First Time Adoption of International Financial Reporting Standards (“IFRS 1”) has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

2. Significant accounting policies (continued):

Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). IFRS differs in certain respects from those prescribed by Canadian GAAP. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 3. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for the periods and at the date of transition under IFRS.

The interim consolidated financial statements were authorized for issue by the Board of Directors on May 9, 2011.

(b) Basis of presentation:

The consolidated financial statements include the accounts of the Company. Intercompany transactions and balances are eliminated on consolidation.

The consolidated financial statements have been prepared mainly under the historical cost convention. Other measurement bases used are described in the applicable notes. The Company's financial year corresponds to the calendar year. The consolidated financial statements are prepared in thousands of U.S. dollars.

Presentation of the unaudited interim consolidated statements of financial position differentiates between current and non-current assets and liabilities. The unaudited interim consolidated statements of income are presented using the functional classification for expenses.

Comparative figures for 2010 have been reclassified to conform to the current period's presentation

2. Significant accounting policies (continued):

(c) Use of estimates and measurement uncertainty:

The preparation of financial statements prepared in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of net sales and expenses throughout the period. Actual results could differ from those estimates. Management must also make estimates and judgments about future results of operations in assessing recoverability of assets and the value of liabilities.

Areas requiring the use of estimates and assumptions that have the most significant effect on the amounts recognized in the interim consolidated financial statements include the determination of the allowance for doubtful accounts and the sales return provision; impairment of goodwill and other intangible assets; valuation allowance for future income tax assets; fair value of stock-based transactions; the determination of relative selling prices for multiple element revenue arrangements; and the anticipated achievement levels under the Company's marketing development fund programs.

(d) Basis of consolidation:

The interim consolidated financial statements of the Company include the accounts of all of its subsidiaries.

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. The financial statements of the subsidiaries are included in the interim consolidated financial statements from the date control commences until the date control ceases. The accounting policies of the subsidiaries have been changed when necessary to align them with the policies adopted by the Company. Intercompany transactions between subsidiaries are eliminated upon consolidation.

2. Significant accounting policies (continued):

(ii) Business combinations:

(a) Acquisitions on or after January 1, 2010:

Goodwill arising on acquisition is recognized as an asset and measured at fair value, being the excess of the consideration transferred over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss. The interest of non-controlling shareholders in the acquiree, if any, is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognized. Transaction costs, other than those associated with the issuance of debt and equity securities that the Company incurs in connection with the business combination, are expensed as incurred.

(b) Acquisitions prior to January 1, 2010:

The Company has elected not to apply IFRS 3, Business Combinations, retrospectively to business combinations prior to the date of transition, January 1, 2010. Accordingly, goodwill arising from business combinations prior to the transition date represents the amount recognized under previous Canadian GAAP.

2. Significant accounting policies (continued):

(e) Foreign currency:

The functional currency of the Company is the Canadian dollar. The Company's reporting currency is the U.S. dollar to allow more direct comparison to peers within North America.

In preparing the interim consolidated financial statements of the Company and its subsidiaries, transactions in currencies other than the respective functional currencies are recorded at the exchange rates at the dates of the transactions. At the date of each consolidated statement of financial position, monetary assets and liabilities are translated using the period-end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. Revenue and expense items are translated at average rates of exchange for the period. Foreign currency differences arising on translation are recognized in earnings.

The assets and liabilities of Softchoice U.S. are translated into Canadian dollars at exchange rates at the reporting date. The income and expenses of Softchoice U.S. are translated into Canadian dollars at average exchange rates. The assets and liabilities of the Company are translated into U.S. dollars at exchange rates at the reporting date. The income and expenses of the Company are translated into U.S. dollars at average exchange rates for the period. Translation adjustments resulting from this process are recognized in other comprehensive income in the cumulative translation adjustment.

2. Significant accounting policies (continued):

(f) Revenue recognition:

The Company generates revenue from the sale of computer hardware, software and maintenance. The Company also generates revenue from providing professional services to end-users, such as data center configuration and the design and development of IT systems. Sales of product in which the Company acts as a principal are presented on a gross basis. As a principal, the Company obtains and validates a customer order, purchases the product from the supplier at a negotiated price, arranges for shipment of the product, collects payment from customers, and processes returns. The Company's product is shipped directly to customers using third-party carriers. Sales of product in which the Company acts as an agent are presented on a net basis.

(i) Hardware:

Revenue from the sale of hardware is recorded when evidence of an arrangement exists, the product is shipped (Freight on Board ("FOB") shipping point) or received by the customer (FOB destination), depending upon the customer arrangement, and collection is reasonably assured.

(ii) Software licenses:

Revenue from the sale of software licenses is recorded when evidence of an arrangement exists, customers acquire the right to use or copy software under license, but not prior to the commencement of the license term, the price is fixed and determinable and collection is reasonably assured.

(iii) Product maintenance:

Revenue on maintenance contracts performed by third party vendors is recognized once the contract date is in effect. As the Company is not the primary obligor for the maintenance contracts performed by third parties, these arrangements do not meet the criteria for gross revenue presentation and, accordingly, are recorded on a net basis.

2. Significant accounting policies (continued):

As the Company enters into contracts with third party service providers or vendors, the Company evaluates whether subsequent sales of such services should be recorded as gross revenue or net revenue. The Company determines whether it acts as a principal in the transaction and assumes the risks and rewards of ownership or if it is simply acting as an agent or broker. Revenue on maintenance contracts performed by internal resources is recognized ratably over the term of the maintenance period.

(iv) Professional services:

Revenue for professional services is recognized based on the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to the actual hours incurred and the budgeted hours needed to complete the project, in order to measure progress on each contract. Revenue and cost estimates are revised periodically based on changes in circumstances. Any losses on contracts are recognized in the period that such losses become known. Revenue from time and materials contracts is recognized as time is incurred by the Company.

The Company estimates the level of anticipated sales returns based on historical experience and records a provision for sales returns. The historical estimate is reviewed throughout the year to ensure it reflects the most relevant data available.

The Company's revenue arrangements may contain multiple elements. These elements may include one or more of the following: hardware, software, maintenance and/or professional services such as installation. For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the relative selling price method based on vendor-specific objective evidence or third-party evidence of selling price, and if both are not available, estimated selling prices are used. The allocated portion of the arrangement which is undelivered is then deferred. In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single arrangement and, therefore, the Company will allocate the corresponding revenue among the various components, as described above.

Deferred revenue includes unearned revenue on sales of professional services to customers where performance is not yet complete and maintenance contracts where the contract start date is not yet in effect.

2. Significant accounting policies (continued):

(g) Cost of sales:

Cost of sales include product costs, direct costs associated with delivering the services, outbound and inbound freight costs and provision for inventory losses. These costs are reduced by rebates and marketing development funds received from vendors, which are recorded as earned based on the contractual arrangements with the vendors.

(h) Marketing development funds:

The Company receives funds from vendors to support the marketing and sale of their products. When these funds represent the reimbursement of a specific, incremental and identifiable cost, these funds are netted against the related costs and excess profits, if any, and recorded as a reduction of cost of sales. When the funds are not related to specific, incremental and identifiable costs, the amounts received are recorded as a reduction of cost of sales. Funds are recorded at the later of the date that the vendor is invoiced, according to the terms of the agreement with the vendor, or when the marketing effort is complete.

(i) Inventory:

Inventories are valued at the lower of cost and net realizable value. Cost is determined using specific identification of individual cost. Inventories comprise spare parts, hardware purchased for resale and goods awaiting configuration for customers.

2. Significant accounting policies (continued):

(j) Deferred costs:

Deferred costs comprise non-transferable intangible inventories, including software licenses, software maintenance and hardware warranties where the start date is not yet in effect.

(k) Property and equipment:

Property and equipment is recorded at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditures that are directly attributable to the acquisition of an asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and are recognized net within other expenses in earnings.

The costs of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The costs associated with the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation is provided on a straight-line basis over the estimated useful life of property and equipment, as this most closely reflects the pattern of consumption of the future economic benefits embodied in the asset. Useful lives are as follows:

Office equipment	3 years
Computer equipment	3 years
Leasehold improvements	Over the term of the related lease

Depreciation methods, useful lives and residual value are reviewed at each financial year end and adjusted if appropriate.

2. Significant accounting policies (continued):

(l) Intangible assets:

(i) Goodwill:

For measurement of goodwill on initial recognition, see note 2(ii)(a).

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Canadian GAAP. Goodwill is measured at cost less accumulated impairment losses.

(ii) Internally generated intangible assets:

Expenditure on research is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The costs of internally generated intangible assets includes all directly attributable costs necessary to create, produce and prepare the intangible asset to be capable of operating in the manner intended by management. Directly attributable costs comprise salaries and other employment costs incurred, on a time apportioned basis, on software development. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. Internally developed, internal-use software is also included in intangible assets and is recorded at cost, which includes materials and direct labour costs.

(iii) Other identifiable intangible assets:

Other identifiable intangible assets include computer software, customer relationships, and contracts acquired by the Company and have finite useful lives. These assets are measured at cost less accumulated amortization and accumulated impairment losses.

2. Significant accounting policies (continued)

(iv) Subsequent expenditure:

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization:

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. Computer software assets are amortized over 3 years, and customer relationships and acquired contracts are amortized over the estimated economic lives of 5 to 10 years.

(m) Impairment:

(i) Financial assets (including receivables):

Financial assets other than those carried at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of an impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset, in which the cash flows can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

2. Significant accounting policies (continued):

The Company maintains an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than the full amount due on its accounts receivable. The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Individual overdue accounts are reviewed, and allowances are recorded to state trade receivables at net realizable value when it is known that they are not collectible in full. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2. Significant accounting policies (continued):

(ii) Non-financial assets:

The Company's non-financial assets, excluding inventories and deferred tax assets, are reviewed for an indication of impairment at each reporting date to determine if there are events or changes in circumstances that indicate the assets might not be recoverable. The Company is required to estimate the recoverable amount of goodwill annually. If an indicator of impairment exists, the asset's recoverable amount is estimated at the same date. An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows from the assets' eventual use and eventual disposition are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A terminal value calculation is included to represent the eventual disposition of the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses, other than those related to goodwill, are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

(n) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

2. Significant accounting policies (continued):

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

(i) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and

(iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there Is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit to be realized.

2. Significant accounting policies (continued):

(o) Earnings per share:

Basic earnings per share are computed by dividing the earnings for the period, attributable to common shareholders of the Company, by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted earnings per share are computed using the treasury stock method whereby the weighted average number of common shares used in the basic earnings per share calculation is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued at the beginning of the period, adjusted for own shares held. Potential common shares represent the common shares issuable upon the exercise of stock options. Potential common shares are excluded from the calculation if their effect is anti-dilutive.

(p) Employee benefits:

(i) Defined contribution plan:

The Company sponsors a 401K plan which is a defined contribution plan under which the Company pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Employees may contribute subject to certain limits based on U.S. federal tax laws. The Company contributes 50% of the employee's contribution up to 3% of the employee's total compensation. The Company's contributions vest 50% after two years but before three years, 75% after three years but before four years, and 100% after four years. Contributions are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Termination benefits:

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

2. Significant accounting policies (continued):

(iii) Short-term employee benefits:

Liabilities for bonuses and profit-sharing are recognized based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision when contractually obliged to do so or where there is a past practice that has created a constructive obligation to make such compensation payments, and the obligation can be estimated reliably.

(iv) Share-based compensation plans:

The Company offers stock-based compensation to key employees and non-executive directors as described below. The Company accounts for the performance stock option plan, which calls for settlement by the issuance of equity instruments, using the fair value method. Under the fair value method, compensation cost attributed to the options to employees is measured at fair value at the grant date and amortized over the vesting period. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Compensation cost is recognized so that each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting. Share-based payment expense relating to cash-settled awards, including share appreciation rights is accrued at the fair value of the liability. Until the liability is settled, the Company re-measures the fair value at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The Company accounts for deferred share units granted to its non-management directors based on the fair value of the equity instruments. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to capital stock.

2. Significant accounting policies (continued):

(q) Provisions:

(i) Legal or constructive obligations:

Provisions are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(ii) Sales returns allowance:

The Company estimates the level of anticipated sales returns based on historical experience and records a provision for sales returns. The historical estimate is reviewed throughout the year to ensure it reflects the most relevant data available.

(iii) Onerous lease contracts:

Onerous lease contracts include contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the contract.

(r) Leases:

Leases are classified as either operating or finance, based on whether the risks and rewards of ownership are transferred to the Company at the inception of the lease.

Operating leases:

Payments made under operating leases, net of any incentives received by the lessor, are recognized in profit or loss on a straight- line basis over the term of the lease. Operating leases are not recognized in the Company's statement of financial position.

2. Significant accounting policies (continued):

(s) Segment reporting:

The Company has one reportable segment in which the assets, operations and employees are located in Canada and the United States.

Segment results that are reported to the chief operating decision maker include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

(t) Finance costs:

Finance costs comprise interest expense on loans and borrowings and amortization of deferred financing costs using the effective interest rate method. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(u) Finance and other income:

Finance income comprises interest income on cash balances, customer finance income, miscellaneous other revenue, and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

2. Significant accounting policies (continued):

(v) Financial instruments:

(i) Non-derivative financial assets:

The Company recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated as fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Company has the following non-derivative financial assets:

(a) Fair value through profit or loss (“FVTPL“):

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if they are held with the intention of generating profits in the near term. These instruments are accounted for at fair value with the change in fair value recognized in earnings during the period. Cash and restricted cash are classified as FVTPL.

(b) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at cost less any transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Trade and other receivables and long-term accounts receivable are classified under this category.

2. Significant accounting policies (continued):

(ii) Non-derivative financial liabilities:

The Company recognizes subordinated liabilities on the date that they are originated. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. A financial liability is derecognized when its contractual obligation is discharged. The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

(iii) Embedded derivatives:

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the statement of earnings and retained earnings as an element of administrative expenses.

The Company did not enter into any derivative financial instrument contracts during the 2011 and 2010 periods. In addition, there were no outstanding derivative financial instruments as at March 31, 2011 and December 31, 2010.

3. Explanation of transition to IFRS:

IFRS 1, First-time Adoption of International Financial Reporting Standards, sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities charged to retained earnings unless certain exemptions are applied. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. The first date at which the Company has applied IFRS is January 1, 2010 (the "Transition Date"). IFRS 1 provides certain optional exemptions for the first time IFRS adopters.

(a) IFRS optional exemptions:

(i) Business combinations:

IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. The Company has elected to apply the requirements of IFRS 3 prospectively from the Transition Date.

(ii) Borrowing costs:

IFRS 1 permits an entity to elect to use the prospective transitional provisions in IAS 23, Borrowing Costs, for prospective application, with an effective date being the later of January 1, 2009 or the IFRS transition date. The Company has elected prospective application as of the Transition Date. Management does not expect this election to have a material impact on the Company.

(iii) Fair value or revaluation as deemed cost:

Under IFRS 1, an entity may elect to measure an item of property, plant and equipment at the date of transition to IFRS at: (a) its fair value and fair value becomes deemed cost for subsequent amortization; or (b) a previous GAAP revaluation before the date of transition to IFRS as deemed cost. The Company has elected to use the Canadian GAAP carrying value as deemed cost on transition to IFRS.

3. Explanation of transition to IFRS (continued):

(b) Reconciliation of Canadian GAAP to IFRS:

Restated financial statements:

As stated in note 2(a), these are the Company's first interim consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the interim consolidated financial statements for the three-month period ended March 31, 2011, the comparative information presented in these interim consolidated financial statements for the three-month period ended March 31, 2010 and year-ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's Transition Date).

In preparing the opening IFRS consolidated statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

(In thousands of U.S. dollars, except per share information)

3. Explanation of transition to IFRS (continued):

Reconciliation of consolidated statement of financial position and equity as of January 1, 2010:

	Notes	Previous Canadian GAAP	IFRS adjustments	IFRS reclassification	IFRS
Assets					
Cash		$ 18,601	$ –	$ –	$ 18,601
Trade and other receivables		183,674	–	–	183,674
Inventories		766	–	–	766
Deferred Costs		385			385
Prepaid and other assets	c	5,127	–	(3,091)	2,036
Future income taxes	d	2,270	–	(2,270)	–
Total current assets		210,823	–	(5,361)	205,462
Restricted cash		500	–	–	500
Property and equipment		6,894	–	–	6,894
Goodwill		11,063	–	–	11,063
Intangible assets	c	44,866	–	2,537	47,403
Deferred tax assets	b, d	16,220	10	2,270	18,500
Total non-current assets		79,543	10	4,807	84,360
		$ 290,366	$ 10	$ (554)	$ 289,822
Liabilities					
Trade and other payables	b, e	$ 172,000	$ 39	$ (73)	$ 171,966
Provisions	e	–	–	73	73
Current portion of deferred lease inducements		85	–	–	85
Current portion of loans and borrowings	c	4,104	–	(136)	3,968
Deferred revenue		1,465	–	–	1,465
Income taxes payable		3,288	–	–	3,288
Total current liabilities		180,942	39	(136)	180,845
Deferred lease inducements		395	–	–	395
Loans and borrowings	c	12,671	–	(418)	12,253
Total non-current liabilities		13,066	–	(418)	12,648
Total liabilities		194,008	39	(554)	193,493
Shareholders' Equity					
Capital stock		25,842	–	–	25,842
Contributed surplus		983	–	–	983
Retained earnings	a, b	64,263	5,241	–	69,504
Accumulated other comprehensive income (loss)	a	5,270	(5,270)	–	–
Total shareholders' equity		96,358	(29)	–	96,329
Total liabilities and shareholders' equity		$ 290,366	$ 10	$ (554)	$ 289,822

(In thousands of U.S. dollars, except per share information)

3. Explanation of transition to IFRS (continued):

Reconciliation of consolidated statement of financial position and equity as of March 31, 2010:

	Notes	Previous Canadian GAAP	IFRS adjustments	IFRS reclassification	IFRS
Assets					
Cash		$ 32,245	$ –	$ –	$ 32,245
Trade and other receivables		223,677	–	–	223,677
Inventories		1,521	–	–	1,521
Deferred costs		1,148	–	–	1,148
Prepaids and other assets	c	5,229	–	(2,859)	2,370
Future income taxes	d	2,537	–	(2,537)	–
Total current assets		266,357	–	(5,396)	260,961
Restricted cash		500	–	–	500
Long-term accounts receivable		167	–	–	167
Deferred costs		318	–	–	318
Property and equipment		6,457	–	–	6,457
Goodwill		11,249	–	–	11,249
Intangible assets	c	43,531	–	2,323	45,854
Deferred tax assets	b, d	16,205	29	2,537	18,771
Total non-current assets		78,427	29	4,860	83,316
		$ 344,784	$ 29	$ (536)	$ 344,277
Liabilities					
Trade and other payables	b, e	$ 224,060	$ 113	$ (81)	$ 224,092
Provisions	e	–	–	81	81
Current portion of deferred lease inducements		85	–	–	85
Current portion of loans and borrowings	c	4,104	–	(140)	3,964
Deferred revenue		2,435	–	–	2,435
Income taxes payable		1,828	–	–	1,828
Total current liabilities		232,512	113	(140)	232,485
Deferred lease inducements		405	–	–	405
Loans and borrowings	c	11,645	–	(396)	11,249
Total non-current liabilities		12,050	–	(396)	11,654
Total liabilities		244,562	113	(536)	244,139
Shareholders' Equity					
Capital stock		26,001	–	–	26,001
Contributed surplus	b	978	89	–	1,067
Retained earnings	a, b	68,795	5,097	–	73,892
Accumulated other comprehensive income (loss)	a	4,448	(5,270)	–	(822)
Total shareholders' equity		100,222	(84)	–	100,138
Total liabilities and shareholders' equity		$ 344,784	$ 29	$ (536)	$ 344,277

(In thousands of U.S. dollars, except per share information)

3. Explanation of transition to IFRS (continued):

Reconciliation of consolidated statement of financial position and equity as of December 31, 2010

	Notes	Previous Canadian GAAP	IFRS adjustments	IFRS reclassification	IFRS
Assets					
Cash		$ 35,752	$ –	$ –	$ 35,752
Trade and other receivables		224,168	–	–	224,168
Inventories		881	–	–	881
Deferred costs		7,082	–	–	7,082
Prepaids and other assets	c	4,706	–	(1,825)	2,881
Future income taxes	d	3,228	–	(3,228)	–
Total current assets		275,817	–	(5,053)	270,764
Restricted cash		500	–	–	500
Long-term accounts receivable		2,771	–	–	2,771
Property and equipment		5,748	–	–	5,748
Goodwill		11,383	–	–	11,383
Intangible assets	c	39,770	–	1,385	41,155
Deferred tax assets	b, d	15,780	15	3,228	19,023
Total non-current assets		75,952	15	4,613	80,580
		$ 351,769	$ 15	$ (440)	$ 351,344
Liabilities					
Trade and other payables	b, e	$ 217,925	$ 61	$ (98)	$ 217,888
Provisions	e	–	–	98	98
Current portion of deferred lease inducements		193	–	–	193
Current portion of loans and borrowings	c	4,104	–	(143)	3,961
Deferred revenue		1,899	–	–	1,899
Income taxes payable		2,320	–	–	2,320
Total current liabilities		226,441	61	(143)	226,359
Deferred lease inducements		217	–	–	217
Loans and borrowings	c	8,568	–	(297)	8,271
Total non-current liabilities		8,785	–	(297)	8,488
Total liabilities		235,226	61	(440)	234,847
Shareholders' Equity					
Capital stock		26,016	–	–	26,016
Contributed surplus	b	1,894	160	–	2,054
Retained earnings	a, b	84,505	5,064	–	89,569
Accumulated other comprehensive income (loss)	a	4,128	(5,270)	–	(1,142)
Total shareholders' equity		116,543	(46)	–	116,497
Total liabilities and shareholders' equity		$ 351,769	$ 15	$ (440)	$ 351,344

(In thousands of U.S. dollars, except per share information)

3. Explanation of transition to IFRS (continued):

Reconciliation of consolidated statement of comprehensive income for the three-month period ended March 31, 2010:

	Notes	Previous Canadian GAAP	IFRS adjustments	IFRS reclassification	IFRS
Net Sales		$ 201,561	$	–	$ 201,561
Cost of sales	h	165,115	–	(2)	165,113
Gross profit		36,446	–	2	36,448
Expenses:					
Selling and marketing	f	–	–	22,949	22,949
Administrative	b,f	–	163	8,718	8,881
Other income	g	–	–	(700)	(700)
Other expenses	g	–	–	42	42
Salaries and benefits	f	21,562	–	(21,562)	–
Selling, general and administrative	f	7,546	–	(7,546)	–
Amortization of property and equipment	f	777	–	(777)	–
Amortization of intangible assets	f	1,834	–	(1,834)	–
		31,719	163	(710)	31,172
Results from operating activities		4,727	(163)	712	5,276
Foreign currency exchange (gain) loss	h	(2,032)	–	2,032	–
Interest expense	i	674	–	(674)	–
Other expense	i	(134)	–	134	–
Finance costs	i	–	–	1,221	1,221
Finance income	j	–	–	(2,001)	(2,001)
Net finance costs		(1,492)	–	712	(780)
Earnings (loss) before income taxes		6,219	(163)	–	6,056
Current		1,923	–	–	1,923
Future (recovery)	b	(236)	(19)	–	(255)
Income tax expense		1,687	(19)	–	1,668
Net earnings (loss) for the year		4,532	(144)	–	4,388
Other comprehensive income:					
Foreign currency translation adjustment		(822)	–	–	(822)
Total comprehensive income (loss)		$ 3,710	$ (144)	$ –	$ 3,566

(In thousands of U.S. dollars, except per share information)

3. Explanation of transition to IFRS (continued):

Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2010:

	Notes	Previous Canadian GAAP	IFRS adjustments	IFRS reclassification	IFRS
Net Sales		$ 884,014	$	–	$ 884,014
Cost of sales	h	719,435	–	68	719,503
Gross profit		164,579	–	(68)	164,511
Expenses:					
Selling and marketing	f	–	–	91,825	91,825
Administrative	b,f	–	182	40,820	41,002
Other income	g	–	–	(763)	(763)
Other expenses	g	–	–	184	184
Salaries and benefits	f	91,783	–	(91,783)	–
Selling, general and administrative	f	31,632	–	(31,632)	–
Amortization of property and equipment	f	2,797	–	(2,797)	–
Amortization of intangible assets	f	6,639	–	(6,639)	–
		132,851	182	(785)	132,248
Results from operating activities		31,728	(182)	717	32,263
Foreign currency exchange (gain) loss	h	(2,987)	–	2,987	–
Interest expense	i	2,545	–	(2,545)	–
Other expense	i	1,365	–	(1,365)	–
Finance costs	i	–	–	4,652	4,652
Finance income	j	–	–	(3,012)	(3,012)
Net finance costs		923	–	717	1,640
Earnings (loss) before income taxes		30,805	(182)	–	30,623
Current		11,040	–	–	11,040
Future (recovery)	b	(477)	(5)	–	(482)
Income tax expense		10,563	(5)	–	10,558
Net earnings (loss) for the year		20,242	(177)	–	20,065
Other comprehensive income:					
Foreign currency translation adjustment		(1,142)	–	–	(1,142)
Total comprehensive income (loss)		$ 19,100	$ (177)	$ –	$ 18,923

3. Explanation of transition to IFRS (continued):

(c) Notes to reconciliations:

The following narrative explains the significant differences between Canadian GAAP and the IFRS policies adopted on transition by the Company:

(i) IFRS adjustments:

(a) Foreign currency translation adjustment:

Opening currency translation adjustment ("CTA") balance:

Retrospective application of IFRS would require the Company to determine cumulative translation differences in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, from the date a subsidiary was acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the Transition Date. The Company has chosen to apply this exemption and has eliminated the cumulative translation difference and adjusted retained earnings by the same amount at the Transition Date, January 1, 2010. The CTA balance as at the Transition Date of $5,270 was recognized as an adjustment to retained earnings.

(b) Share-based payments:

The Company applied IFRS 2, Share-based payments, to awards that were unvested as of January 1, 2010. The effect of prospective application required that the Company account for outstanding cash-settled share-based payment arrangements, specifically the 2009 bridge LTIP and the SARs, by using the fair value to adjust for the related liability. Under previous Canadian GAAP, the liability was recorded by reference to the intrinsic value.

In addition to the impact of the fair value method of accounting on share-based payments, under IFRS, where the grant date occurs after the service period begins, an entity should estimate the grant date fair value of the equity instrument for purposes of recognizing the services received during the period between service commencement date and the grant date.

3. Explanation of transition to IFRS (continued):

In accordance with previous Canadian GAAP, the recognition of compensation expense did not occur prior to the grant date. Therefore, the Company adjusted compensation expense related to the PSO Plan to reflect an earlier service commencement date under IFRS. Deferred tax assets include an adjustment related to the change in treatment of the share-based payments.

(ii) Presentation reclassifications:

(c) Contract related assets:

On transition to IFRS, contract related assets are presented as non-current intangible assets since it is probably that the future economic benefits that are attributable to the asset will flow to the entity. The Company has also netted a portion of its deferred charges against the carrying value of its loans and borrowings. These assets were recorded previously in prepaid and other assets under Canadian GAAP. The related amortization is recorded in finance costs.

(d) Deferred tax classification:

Under IFRS, all deferred tax balances are classified as non-current, regardless of the classification of the underlying assets or liabilities, or the expected reversal date of the temporary difference.

(e) Provisions:

IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), requires separate disclosure of provisions on the face of the statement of financial position. Provisions that will be utilized within one year are classified as current liabilities. Canadian GAAP did not require separate disclosure; therefore upon transition, all provisions were reclassified from trade and other payables.

3. Explanation of transition to IFRS (continued):

(f) Expenses by function:

Previous Canadian GAAP permitted the presentation of comprehensive income using classification based on a mixture of both nature and function. Under IFRS, the hybrid presentation is prohibited. The Company has chosen to aggregate expenses by function as it is believed to provide more relevant and reliable information for users. Accordingly, depreciation and amortization is no longer presented as a separate line item on the statement of income but is included in selling and marketing and administrative expenses.

(g) Other operating income and expenses:

Under IFRS, other operating income and expenses include items which are related to the operation of the business, such as the extinguishment of a liability, sales tax refunds or penalties and gains or losses on the sale of operating assets.

(h) Foreign exchange gain (loss):

Under IFRS, foreign exchange gains and losses arising from investing and financing activities, such as exchange gains and losses on foreign currency borrowings, which are incidental to the Company's principal activities, are included in finance income or costs. Previously, foreign exchange gains and losses were disclosed separately under Canadian GAAP.

(i) Finance costs:

As a result of our transition to IFRS, finance costs are disclosed separately. These costs include interest expense on financial liabilities, accretion of contract related assets, and net foreign exchange losses on financing activities.

(j) Finance income:

Under IFRS, finance income includes net foreign exchange gains on financing activities and interest income on loans and receivables.

(In thousands of U.S. dollars, except per share information)

3. Explanation of transition to IFRS (continued):

(d) Material adjustments to the interim consolidated statements of cash flows:

Consistent with the Company's accounting policy choice under IAS 7, Statement of Cash Flows, interest paid and income taxes paid have moved into the body of the interim consolidated statements of cash flows, whereas they were previously disclosed as supplementary information. There are no other material differences between the interim consolidated statements of cash flows presented under IFRS and the interim consolidated statements of cash flows presented under previous Canadian GAAP.

4. Operating expenses:

The Company presents a functional consolidated statement of comprehensive income in which expenses are aggregated according to the function to which they relate. The Company has identified the major functions as selling and marketing and administrative activities.

			Three-month period ended March 31, 2011			Three-month period ended March 31, 2010
	Selling and marketing expense	Administrative expense	Total	Selling and marketing expense	Administrative expense	Total
Personnel expenses	$ 19,396	$ 6,504	$ 25,900	$ 15,983	$ 5,742	$ 21,725
General and administrative	5,215	3,571	8,786	4,694	2,800	7,494
Depreciation of property and equipment	489	193	682	506	271	777
Amortization of intangible assets	1,532	65	1,597	1,766	68	1,834
	$ 26,632	$ 10,333	$ 36,965	$ 22,949	$ 8,881	$ 31,830

(In thousands of U.S. dollars, except per share information)

5. Other income:

During the three-month periods ended March 31, 2011 and 2010, the Company recorded sales tax refunds associated with the overpayment of state sales tax in the amount of $78 and $7, respectively. During the three-month period ended March 31, 2010, the Company reversed an amount of $693 related to a liability owing to one vendor. The Company assessed that the legal obligation had been extinguished and the Company was no longer liable for this amount.

6. Other expense:

During the three-month periods ended March 31, 2011 and 2010, the Company incurred a loss on the sale of property and equipment in the amount of nil and $42, respectively.

7. Finance costs:

The components of finance costs include interest expense and other financing costs as follows:

	Three-month periods ended March 31,	
	2011	2010
Interest expense on financial liabilities measured at amortized cost:		
Asset-backed loan ("ABL")	$ 239	$ 164
Term debt	444	673
Accretion of contract related assets	357	340
Interest expense on other trade payables	7	44
	$ 1,047	$ 1,221

(In thousands of U.S. dollars, except per share information)

8. Finance income:

The components of finance income include:

	Three-month periods ended March 31, 2011	2010
Net foreign exchange gain on financing activities	$ 1,229	$ 1,978
Interest income on loans and receivables	37	23
	$ 1,266	$ 2,001

9. Cash and restricted cash:

Cash consists of cash on hand and cash balances with major financial institutions. Bank overdrafts are included in bank indebtedness. Restricted cash of $500 as at March 31, 2011 (March 31, 2010 - $500), represents funds held in trust under an escrow agreement related to a non-competition contract with a competitor.

10. Accounts receivable:

Accounts receivable are comprised of the following:

	March 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 215,293	$ 203,779	$ 167,409
Trade receivables due from related parties	184	410	205
Other receivables (i)	22,600	19,979	16,060
	$ 238,077	$ 224,168	$ 183,674
Long-term trade accounts receivables	2,410	2,771	-
	$ 2,410	$ 2,771	$ -

(i) Other receivables include vendor rebate, marketing co-op and commission receivables.

(In thousands of U.S. dollars, except per share information)

11. Loans and borrowings:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost.

Terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Year of maturity
Term-debt	U.S.	16.00%	January 30, 2014

	Face value	Carrying value
March 31, 2011	$ 20,513	$ 11,233
December 31, 2010	20,513	12,232
January 1, 2010	20,513	16,221

12. Capital stock:

Authorized:
Unlimited common shares, no par value.

(a) Deferred share unit plan:

On May 7, 2007, the shareholders approved the implementation of a deferred share unit ("DSU") plan and long-term incentive plan ("LTIP") for directors and key employees, respectively. The Company offers a DSU for non-executive members of the Board of Directors. Each DSU represents the right to receive one common share of the Company when the holder ceases to be a non-executive director of the Company. The cost to the Company of the DSUs granted for the three-month periods ended March 31, 2011 and 2010 was $64 and $57, respectively.

(In thousands of U.S. dollars, except per share information)

12. Capital stock (continued):

A summary of the number of DSUs outstanding is as follows:

	March 31, 2011	March 31, 2010	December 31, 2010
Outstanding, beginning of period	139,202	111,733	111,733
Granted	8,185	8,224	27,469
Exercised	52,573	–	–
Outstanding and exercisable, end of period	94,814	119,957	139,202

(b) 2009 bridge LTIP:

On June 12, 2009, a one-time bridge LTIP for the executives of the Company was approved, consisting of the issuance of phantom share grants and phantom option grants, which are payable in cash.

(i) The phantom shares were granted based on a share price of Cdn. $3.22 per award. As at March 31, 2011, all of the shares were vested and therefore nil shares were outstanding (March 31, 2010 – 152,000, December 31, 2010 – 152,000). The expenses for the three-month periods ended March 31, 2011 and 2010 relating to phantom shares were $nil and $68, respectively.

(ii) The phantom options were granted based on a strike price of Cdn. $3.22 per award. Under IFRS, the value of the phantom options was determined initially and at the end of each reporting period using an option pricing model with any changes in fair value recognized in profit or loss for the period. At settlement, the liability was re-measured in accordance with the plan document, as the difference between the average closing price of the Company's common shares on The Toronto Stock Exchange for the first 10 days after the Company's 2009 annual earnings release, being Cdn. $8.39 and the strike price, resulting in compensation of Cdn. $5.17 per award. As at March 31, 2011, all of the options were vested and therefore nil share options were outstanding (March 31, 2010 – 152,000, December 31, 2010 – 152,000). The expenses for the three-month periods ended March 31, 2011 and 2010 relating to phantom options were $nil and $242, respectively.

12. Capital stock (continued):

(c) Share appreciation rights plan:

In March 2010, the Company approved the share appreciation rights ("SAR") plan (the "SAR Plan") for eligible officers and key employees of the Company. On March 31, 2010, the Company granted 144,000 SAR units at a grant price of Cdn. $9.90. The awards are subject to attaining a threshold price of Cdn. $12.50 following the three-year vesting period in order for any award to be made. The Company accounts for SAR awards as a liability and compensation cost is recorded based on the fair value of the award. The related expenses for the three-month periods ended March 31, 2011 and 2010 were $(7) and nil, respectively.

(d) Performance stock option plan:

On February 11, 2010, the Board of Directors adopted a performance stock option ("PSO") plan (the "PSO Plan") for the executives of the Company. The PSO Plan was approved by the shareholders on May 11, 2010. On March 3, 2010, the Company granted 640,000 PSOs, with an exercise price of $8.39. The fair value of the PSO units was estimated on the date of grant using the Monte Carlo Simulation model yielding a weighted average grant date fair value of $5.36. The related expenses for the three-month periods ended March 31, 2011 and 2010 were $293 and $89, respectively.

(In thousands of U.S. dollars, except per share information)

13. Net earnings per common share:

Weighted average number of shares:

	Three-month periods ended March 31, 2011	2010
Issued, beginning of period	19,780,039	19,759,189
Effect of stock options exercised	3,505	14,590
Weighted average number of shares - basic	19,783,544	19,773,779
Dilutive effect of assumed exercise of stock options	22,929	9,738
Weighted average number of shares - diluted	19,806,473	19,783,517
Net earnings for the period	$ 5,160	$ 4,388
Earnings per share:		
Basic	$ 0.26	$ 0.22
Diluted	0.26	0.22

14. Related party transactions:

As at March 31, 2011 and 2010, included in trade accounts receivable is $184 and $717 (December 31, 2010 - $410), respectively, due from a major shareholder for product sales with payment terms of net 30 days. Total product sales to this shareholder during the three-month periods ended March 31, 2011 and 2010 were $190 and $660, respectively.

In the course of the refinancing that occurred in the first quarter of 2009, a portion of the long-term debt outstanding was purchased by a major shareholder. During the three-month periods ended March 31, 2011 and 2010, the shareholder received principal repayments of $205 and $205, respectively, and interest repayments of $100 and $132, respectively.

(In thousands of U.S. dollars, except per share information)

15. Operating segments:

The Company has one reportable segment in which the assets, operations and employees are located in Canada and United States. Revenue is attributed to customers based on where the products are shipped.

(a) Geographic information:

Geographic segments of revenue are as follows:

	Three-month periods end March 31, 2011	2010
Canada	$ 131,526	$ 101,277
United States	118,192	100,284
	$ 249,718	$ 201,561

Geographic segments of property and equipment are located as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Canada	$ 4,600	$ 4,521	$ 5,170
United States	1,147	1,227	1,724
	$ 5,746	$ 5,748	$ 6,894

Geographic segments of goodwill are as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Canada	$ 6,599	$ 6,448	$ 6,128
United States	4,935	4,935	4,935
	$ 11,534	$ 11,383	$ 11,063

(In thousands of U.S. dollars, except per share information)

15. Operating segments (continued):

Geographic segments of intangible assets are as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Canada	$ 11,637	$ 11,730	$ 13,754
United States	28,368	29,425	33,649
	$ 40,005	$ 41,155	$ 47,403

(b) Economic dependence:

Approximately 32% and 37% of the Company's revenue for the three-month periods ended March 31, 2011 and 2010, respectively, related to products published by one software publisher.

16. Change in non-cash operating working capital:

	Three-month periods ended March 31, 2011	2010
Trade and other receivables	$ (11,205)	$ (37,150)
Inventories	(74)	(729)
Deferred cost	(1,562)	(1,076)
Prepaid expenses and other assets	(555)	(295)
Long-term accounts receivable	361	(167)
Trade and other payables	18,751	49,892
Provisions	598	8
Deferred revenue	217	963
Deferred lease inducements	5	(4)
	$ 6,536	$ 11,442

17. Seasonality

The Company's sales tend to follow a quarterly seasonality pattern that is typical of many companies in the information technology ("IT") industry. In the first quarter of the year sales to the Canadian government tend to be higher as March 31 marks the fiscal year end for the federal government. A significant portion of the Company's revenue is derived from the sale of Microsoft products. Historically, the Company has benefited from the sales and marketing drive that has been generated by Microsoft sales representatives in the second quarter of the year leading up to Microsoft's fiscal year end on June 30. Sales in the third quarter of the year tend to be lower than other quarters due to the general reduction in activity resulting from summer holiday schedules. This slowdown is offset somewhat by the fiscal year end of the U.S. federal government on September 30. In the fourth quarter of the year the Company typically experiences higher sales as many customers complete their IT purchases in advance of their fiscal year end of December 31.