

Management's Discussion and Analysis

August 10, 2010

This document has been prepared to help investors understand the financial performance of the Company in the broader context of the Company's strategic direction, the risks and opportunities as understood by management and the key metrics that are relevant to the Company's performance. Management has prepared this document in conjunction with its broader responsibilities for the accuracy and reliability of the financial statements, as well as the development and maintenance of appropriate information systems and internal controls to ensure that the financial information is complete and reliable. The audit committee of the Board of Directors, consisting solely of independent directors, has reviewed this document and all other publicly reported financial information for integrity, usefulness, reliability and consistency.

This document and the related financial statements can also be viewed on the Company's website at www.softchoice.com and at www.sedar.com. The Company's Annual Information Form is also available on these websites.

Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements based on management's current expectations. Management bases its expectations on current market conditions and forecasts published by experts, on knowledge of observed industry trends and on internal intentions based on developed business plans or budgets. The words "expect," "intend," "anticipate" and similar expressions generally identify forward-looking statements. These forward-looking statements entail various risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Certain of these risks are described in the Annual Information Form. They include risks related to economic conditions, bad debts, access to credit and access to capital; risks related to debt financing; exchange rate risk; and the risk of credit card fraud. The Company also faces risks related to the information technology (IT) distribution channel such as dependence on Microsoft, reliance on financial incentives, dependence upon distributors, the inability to respond to changes in the manner of IT distribution, technical innovation, competition, the risk of IT product defects and the risk of providing technology solutions offerings. There are additional risks relating to the management of the business, including the inability to successfully execute strategies; customer attrition; productivity; compliance with U.S. federal government procurement processes; sales model risks; hiring, training and retention of personnel; variability of quarterly operating results; information systems; damage to Softchoice's computer systems; and dependence upon management. These risks are described in full in the Annual Information Form.

Use of Non-GAAP Terms

In our financial reporting, we refer to Imputed Revenue, EBITDA, and Adjusted Earnings, all of which are non-GAAP terms. These terms do not have standardized meaning under GAAP and therefore it is unlikely they will be comparable to similar measures used by other companies.

Imputed Revenue

Imputed Revenue is defined as the price paid by the customer to Microsoft for Enterprise Agreements (EAs) that are transacted through Softchoice sales representatives; see "Microsoft and Softchoice". Total Revenue, including Imputed Revenue, is defined as Imputed Revenue, plus reported revenue, less any agency fees included in reported revenue. Microsoft pays Softchoice an agency fee or commission for EA sales, and therefore Softchoice does not reflect the Imputed Revenue in the revenue line for these transactions but records only the agency fees earned within revenue.

Imputed Revenue allows for better comparability between fiscal periods since an increase in the product mix of EAs would make it appear that Softchoice is selling fewer products, when that would not be the case. The use of Imputed Revenue also aids in comparison with our competitors. This measure is not likely to be used by our competitors in the industry because Softchoice sells a greater portion of EA licenses than our competitors. We believe that an EA often provides a more cost-effective solution for our customers, particularly in the small and medium business (SMB) market.

The table below shows Total Revenue, including Imputed Revenue, for the second quarter compared to the same period of the prior year.

(In thousands of U.S. dollars) Unaudited	Three months ended June 30,		% Change
	2010	2009	
Reported revenue	\$ 311,212	\$ 279,272	11.4%
Agency fees	(16,953)	(15,290)	10.9%
Imputed revenue*	276,151	275,084	0.4%
Total revenue, including imputed revenue	\$ 570,410	\$ 539,066	5.8%

(In thousands of U.S. dollars) Unaudited	Six months ended June 30,		% Change
	2010	2009	
Reported revenue	\$ 593,956	\$ 497,631	19.3%
Agency fees	(25,977)	(25,079)	3.6%
Imputed revenue*	453,031	412,609	9.8%
Total revenue, including imputed revenue	\$ 1,021,010	\$ 885,161	15.3%

* Agency fees are included in Imputed Revenue

EBITDA

EBITDA is defined as operating income plus amortization of property and equipment and amortization of intangible assets. EBITDA, as defined in our loan agreements, is used by the Company's bankers in establishing and measuring certain financial covenants. In addition, valuation metrics in our industry are based on multiples of EBITDA, and therefore we use this measurement when evaluating potential

acquisition targets. We use our EBITDA results to compare our own valuation multiples to those of our competitors in order to evaluate how we might improve share price performance. We believe that our shareholders and potential investors use EBITDA in making investment decisions about the Company and measuring our operating results compared to others in our industry and other potential investments.

(In thousands of U.S. dollars) Unaudited	Three months ended June 30,		% Change
	2010	2009	
Operating income	\$ 14,148	\$ 12,918	9.5%
Amortization of property and equipment	664	707	-6.1%
Amortization of intangible assets	1,585	2,011	-21.2%
EBITDA	\$ 16,397	\$ 15,636	4.9%

(In thousands of U.S. dollars) Unaudited	Six months ended June 30,		% Change
	2010	2009	
Operating income	\$ 18,874	\$ 12,519	50.8%
Amortization of property and equipment	1,441	1,427	1.0%
Amortization of intangible assets	3,420	3,953	-13.4%
EBITDA	\$ 23,735	\$ 17,899	32.6%

Adjusted Earnings

Adjusted Earnings eliminates the after-tax impact related to any foreign exchange (gain) /loss on the cash, intercompany debt and external debt denominated in a currency other than the Company's functional currency.

(In thousands of U.S. dollars except per share amounts) Unaudited	Three months ended June 30,		% Change
	2010	2009	
Net earnings	\$ 6,388	\$ 12,642	-49%
Foreign exchange (gain) loss, net of income tax	2,074	(4,539)	-146%
Adjusted Net Earnings	\$ 8,462	\$ 8,103	4.4%
Adjusted Net Earnings per share	\$ 0.43	\$ 0.46	-6.5%

(In thousands of U.S. dollars except per share amounts) Unaudited	Six months ended June 30,		% Change
	2010	2009	
Net earnings	\$ 10,920	\$ 10,253	6.5%
Foreign exchange (gain) loss, net of income tax	422	(3,148)	-113.4%
Adjusted Net Earnings	\$ 11,342	\$ 7,105	59.6%
Adjusted Net Earnings per share	\$ 0.57	\$ 0.40	42.5%

In order to segregate underlying business performance from the impact of currency changes, various sections of this document refer to the impact of currency on financial results.

Net earnings for the second quarter were \$6.4 million compared to net earnings of \$12.6 million reported for the same period of the prior year. The decrease in net earnings is largely attributable to a change in our foreign exchange that impacted our U.S. dollar denominated debt.

Adjusted Earnings for the second quarter were \$8.5 million compared to Adjusted Earnings of \$8.1 million reported for the same period of the prior year. Adjusted Earnings per share (basic and diluted) is \$0.43 per share compared to Adjusted Earnings of \$0.46 per share for the same period of the prior year. In prior years, the Company hedged against foreign exchange exposure to reduce volatility in its earnings. The Company decided not to hedge this exposure in 2010 but will separately disclose the foreign exchange impact. The hedging process is expensive, and management has decided not to spend cash on mitigating a foreign exchange exposure where the result is unrealized and does not affect cash provided by operating activities. This decision could increase the volatility in the reported earnings stream and affect reported earnings per share performance.

Second Quarter Highlights

- Total revenue for the quarter was \$311.2 million, reflecting an increase of 11 percent from revenue of \$279.3 million reported in the second quarter of the prior year. Eliminating the impact of foreign exchange, revenue increased by six percent during the second quarter compared to the same period of the prior year. Total Revenue, including Imputed Revenue, for the quarter was \$570.4 million, an increase of almost six percent versus the same quarter of the prior year.
- Gross profit for the quarter was \$47.1 million reflecting an increase of 14 percent compared to the same quarter of the prior year. Eliminating the impact of foreign exchange during the second quarter, gross profit grew by nine percent versus the same period of the prior year.
- Second quarter operating expenses (excluding amortization of property and equipment and amortization of intangible assets) increased by 20 percent. Eliminating the impact of foreign exchange during the second quarter, operating expenses grew by 13 percent compared to the same quarter of the prior year.
- EBITDA increased by five percent for the quarter to \$16.4 million compared to the same quarter of the prior year.
- Operating income was \$14.1 million for the quarter compared to \$12.9 million reported for the same quarter of the prior year.
- Adjusted net earnings for the quarter were \$8.5 million compared to adjusted net earnings of \$8.1 million in the same period of the prior year. Adjusted earnings per share was \$0.43 per share, compared to \$0.46 in the same quarter of the prior year.

- Total debt of the Company was \$14.7 million at the end of the second quarter, and the Company had \$45 million in cash on hand. Cash provided by operating activities was \$14.7 million during the second quarter of 2010.

Management Comments[†]

International Data Corporation (IDC) recently announced their second quarter estimates for world-wide PC shipments. These results indicate that shipments were up 22.4 percent worldwide. Previously IDC predicted that PC units were expected to increase 24 percent year-over-year in 2010. IDC indicated that the factors contributing to the growth in PC sales include an aging commercial installed base and a proliferation of low-cost media-centric PCs. In the U.S. PC shipments rose 12.6 percent with sales of HP leading this growth with sales up 14.2 percent this quarter.

Forrester Research is also expecting a rebound in 2010 and recently revised estimates for IT spending in the United States forecasted to grow nine percent to \$564 billion, rebounding from an eight percent decline in the prior year. Forrester also predicts that Canada will achieve the highest IT spending growth this year, estimated to increase by 16.2%. Forrester predicts that the IT industry is entering a new six- to seven-year cycle of growth, fueled by new technologies such as advanced business analytics, service-oriented architecture, server and storage virtualization, cloud computing and unified communications.

A recent survey published by KPMG supports the optimism noted above. Results from KPMG's 2010 Technology Industry Survey suggest that the majority of technology executives surveyed believe that corporations globally will increase IT spending this year. The biggest drivers of revenue growth and profitability in the sector were predicted to come from cloud computing, mobile applications and client computing and virtualization. While executives surveyed believe that the U.S. economy won't fully recover until 2012, respondents suggest a more sustainable recovery than previously thought.

Customers in both our enterprise and SMB business segments continued to increase their IT spending during the second quarter of 2010. We define SMB as any company with fewer than 2,000 PCs; enterprise customers have more than 2,000 PCs.

The Microsoft business segment grew during the first half of 2010. Management attributes this growth to strong Microsoft Select and enterprise software business. Growth in the enterprise business is largely the result of an increase in Corporate renewals and higher add-on activity for the first six-months of this year, compared to the same period in 2009. The Microsoft segment continues to experience lower true-up activity (true-up activity relates to fees charged on EAs for changes in the number of users). Refer to the section "Microsoft and Softchoice" on page 15 for more information.

[†] This section includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Business Outlook[†]

The Company believes that many clients are starting to invest in hardware and software replacement following the capital expenditure containment experienced over the past 24 months. This is particularly true in Canada. While IT expenditure is increasing slowly in the US, the Company is experiencing a longer sales cycle resulting from increased scrutiny of capital expenditures. The Company continues to believe there will be some level of catch-up spending when businesses return to their normal technology refresh cycles.

The sales performance experienced during the first half of 2010 seems to signal that the worst is over and the Company expects that a reasonable growth rate is sustainable throughout the remainder of the year. The Company believes that the strength of our sales and delivery model and the cost management initiatives we have put in place will result in the Company continuing to improve on its performance compared to the prior-period operating results.

Detailed Review of Operating Results for the Quarter

Summary of Quarterly Data

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

Unaudited

	<i>Three months ended</i>							
	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010
Revenue	\$ 276,356	\$ 334,988	\$ 218,358	279,273	\$ 218,728	283,889	\$282,745	\$311,212
Gross profit	35,464	43,686	30,654	41,312	30,813	39,490	36,446	47,137
Operating income (loss)	1,086	(34,490)	(399)	12,920	2,133	9,564	4,727	14,148
Net earnings (loss)	(1,665)	(21,875)	(2,389)	12,642	4,913	7,097	4,532	6,388
Earnings (loss) per share	\$(0.09)	\$(1.25)	\$(0.14)	\$0.72	\$0.29	\$0.39	\$0.23	\$0.32

Seasonality

Historically, the Company's sales have followed a quarterly seasonality pattern that is typical of many companies in the information technology industry. The Company experiences high sales at the end of the second and fourth quarters and lower sales in the third quarter due to a lag in corporate spending during the summer months. Within each quarter, a significant number of sales usually occur in the last two or three weeks. The following trends have typically influenced sales in each quarter:

- March 31 is the Canadian federal government year-end. Historically, the government made purchases toward the end of its fiscal year. The effect of this buying pattern has diminished recently as the government has attempted to spread out its purchasing activities throughout the year.
- June 30 is Microsoft's fiscal year-end. Softchoice has historically benefited from the sales and marketing drive that has been generated by Microsoft sales representatives to meet its year-end targets.
- September 30 is the U.S. federal government year-end. Our business from this segment is not sufficient to overcome the more general reduction in activity due to summer vacation schedules.

[†] This section includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

- December 31 marks the fiscal year-end of much of corporate North America. Historically, there have been increases in all revenue lines as our customers complete their asset purchases to meet their internal year-end requirements.

Three Month Period Ended June 30, 2010 Compared to the Three Month Period Ended June 30, 2009

(In thousands of U.S. dollars except per share amounts)
Unaudited

	<i>Three months ended June 30,</i>				<i>% Change</i>
	<i>2010</i>		<i>2009</i>		
		% of revenue		% of revenue	
Total revenue, including imputed revenue	\$570,410	183.0%	\$ 539,066	193.0%	5.8%
Revenue	311,212	100.0%	279,272	100.0%	11.4%
Gross profit	47,137	15.1%	41,310	14.8%	14.1%
Expenses	30,740	9.9%	25,674	9.2%	19.7%
EBITDA	16,397	5.3%	15,636	5.6%	4.9%
Amortization, interest and other	5,852	1.88%	(1,946)	(0.7)%	-400%
Net earnings before income taxes	10,545	3.4%	17,582	6.3%	-40.02-%
Net earnings for the period	\$ 6,388	2.1%	\$ 12,642	4.5%	-49.5%
Net earnings per common share (basic and fully diluted)	\$ 0.32		\$0.72		

This table shows the relative mix of hardware and software sales for the three months ended June 30, 2010 and is discussed in greater detail below.

Product Segment Analysis

(In thousands of U.S. dollars)
Unaudited

	<i>Three months ended June 30,</i>		<i>% Change</i>
	<i>2010</i>	<i>2009</i>	
Microsoft revenue	\$ 117,541	\$ 108,811	8.0%
Agency fees	(16,953)	(15,290)	10.9%
Microsoft imputed revenue	276,151	275,084	0.4%
Total Microsoft revenue, including imputed revenue	376,739	368,605	2.2%
Other software revenue	88,000	83,278	5.7%
Hardware revenue	105,671	87,183	21.2%
Total revenue including, including imputed revenue	570,410	539,066	6.0%
Total reported revenue	\$ 311,212	\$ 279,272	11.4%

Revenue

Revenue for the second quarter was \$311.2 million, an increase of 11 percent from revenue of \$279.3 million reported for the second quarter of 2009. Total Revenue, including Imputed Revenue increased by six percent over the same period of the prior year. Adjusting for the foreign exchange impact on reported revenue, revenue increased six percent this quarter from the same quarter in 2009. Revenue was higher in all categories with the highest growth in hardware sales (increased 21 percent) compared to the comparable quarter in 2009.

Canada

In Canada, revenue increased 6.4 percent over the same quarter in 2009 to C\$124.4 million (2009 - C\$116.9 million). This increase was primarily attributable to hardware sales (increased 16.5 percent when measured in Canadian dollars). Hardware sales were strong in Canada with sales of notebooks, desktops, servers and storage contributing to the increase. The Company's server and storage business was up this quarter over the same quarter in 2009, with increased sales of IBM, HP and VMWare.

Sales of Microsoft were also higher this quarter (increased by 4.6 percent in Canadian dollars), compared to the same quarter in 2009. Higher revenue earned from Microsoft Select licenses, Indirect and other licenses contributed to the increase. Agency fees earned on EA licenses were also higher in Canada, increasing almost six percent compared to the equivalent quarter in 2009. This increase is primarily driven by an increase in year-one renewals on EA agreements.

Sales of other software were relatively consistent in Canada this quarter over the comparable quarter in 2009, decreasing 0.3 percent when measured in Canadian dollars.

United States

In the United States, revenue increased six percent over the same quarter in 2009 from \$178.9 million to \$190.0 million. The increase is largely attributable to higher sales of hardware and Microsoft products, while sales of non-Microsoft software were down slightly (three percent) compared to the second quarter of 2009. Lower sales of security software contributed to the decline.

Hardware sales were higher this quarter increasing \$8.6 million from the second quarter of 2009. Higher sales of notebooks, desktops and servers contributed to the increase. Sales of HP, Dell, IBM, Citrix and VMWare were all higher this quarter over the second quarter of 2009.

Sales of Microsoft products also increased in our U.S. business. Agency fees earned from Enterprise Agreements increased eight percent over the same quarter in 2009. The increased fees were obtained from year-one renewals and year-one new agreements.

Gross Profit

Gross profit for the second quarter was \$47 million, reflecting an increase of 14 percent compared to gross profit of \$41 million reported in the second quarter of the prior year. Eliminating the foreign currency impact, overall gross profit grew by nine percent compared to the same quarter of the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue, was 8.2 percent, an increase of 0.5 percent from 7.7 percent reported in the same quarter of the prior year. Increased margins were realized in our hardware business, and in particular on server sales. Slightly improved margins were also achieved on sales of Microsoft, particularly in Canada, contributing to the overall improved gross profit for the quarter.

Rebates in the second quarter of 2010 grew by 50 percent compared to the same quarter of the prior year. Rebates reflect better than expected performance in the current quarter, while in 2009, some quarterly target thresholds were not met.

Marketing development funds earned in the second quarter were also higher, increasing from the same quarter of the prior year by 19 percent. This increase largely reflects the Company's focus on optimizing the marketing development opportunities offered by our many partners.

Expenses and EBITDA

(In thousands of U.S. dollars)

Unaudited

	<i>Three months ended June 30,</i>				<i>%</i>
	<i>2010</i>	<i>2009</i>			<i>Change</i>
			% of gross profit	% of gross profit	
Salaries and benefits	\$ 22,663	\$ 17,622	48.1%	42.7%	28.6%
Selling, general and administrative	8,077	8,052	17.1%	19.4%	0.3%
	\$ 30,740	\$ 25,674	65.2%	62.1%	19.7%

Total salaries and benefits, and selling, general and administrative (SG&A) expenses increased by 20 percent compared to the same period of the prior year. When the impact of foreign exchange is removed, total salaries and benefits and SG&A increased by 13% compared to the same quarter in 2009. Total salaries and benefits and SG&A expense as a percentage of gross profit increased to 65 percent from 62 percent reported in the same period of the previous year, primarily as a result of higher performance based compensation which is consistent with an increase in gross profit compared to the prior year.

Average headcount levels for the second quarter increased by two percent compared to the same quarter of the prior year. The increase in salaries and benefits reflects increased headcount, increased incentive compensation expense associated with our increased gross profit, and long-term executive compensation plans. Benefits expense this quarter was also higher due to increased health care costs in the United States. Salary expenses in the second quarter of 2009 reflect a reduction in the amount accrued for the Long-Term Incentive Plan (LTIP) associated with prior years.

Selling, general and administrative expenses remained consistent compared to the same quarter of the prior year, reflecting management's continued focus on cost management strategies.

EBITDA reflects the profits of the Company after salaries, SG&A expenses and any unusual items are deducted from gross profit. A gross profit increase of 14 percent, offset by a 20 percent increase in salaries and benefits and SG&A expenses has resulted in an overall EBITDA increase from the same quarter of the prior year of five percent.

Other

Amortization of property and equipment declined by six percent compared to the second quarter of the prior year as a result of fewer capital asset purchases made during the three month period-ended June 30, 2010 compared to the same period in 2009. The amortization of intangible assets decreased by 21 percent. This decrease is resultant from the full amortization in the first quarter of this year, of the intangibles associated with the 3-Soft acquisition completed in 2007.

Interest and other expense was \$1.0 million during the second quarter of 2010, consisting primarily of interest costs and amortization of deferred financing fees associated with the long-term debt. Interest and other expense have declined by 33 percent compared to the second quarter of the prior year due to lower draws on the line of credit in the current quarter.

The effective tax rate for the second quarter of 2010 was approximately 39 percent, which increased from the rate of 28 percent reported in the same period of the prior year. The increase in the effective tax rate is primarily the result of a non-deductible expense that was reversed in the second quarter of the prior year thereby decreasing taxable income for that quarter, coupled with the tax impact of the foreign exchange fluctuation quarter over quarter.

Net earnings for the second quarter of 2010 were \$6.4 million compared to \$12.6 million reported in the same period of the prior year. Earnings per share was \$0.32 per share (basic and diluted), compared to

\$0.72 per share (basic and diluted) reported in the same period of the prior year. On an adjusted basis, earnings for the quarter were \$8.5 million compared to \$8.1 million reported in the same period of the prior year. Adjusted Earnings per share were \$0.43 per share (basic and diluted) compared to \$0.46 per share (basic and diluted) in the prior year. At June 30, 2010 there were 19,778,789 common shares of the Company issued and outstanding, compared to 17,496,807 common shares issued and outstanding as at June 30, 2009.

Six Month Period Ended June 30, 2010 Compared to the Six Month Period Ended June 30, 2009

(In thousands of U.S. dollars except per share amounts)
Unaudited

	<i>Six months ended June 30,</i>				<i>% Change</i>
	<i>2010</i>		<i>2009</i>		
		% of revenue		% of revenue	
Total revenue, including imputed revenue	\$1,021,011	171.9%	\$ 885,161	177.9%	15.4%
Revenue	593,956	100.0%	497,631	100.0%	19.4%
Gross profit	83,582	14.1%	71,966	14.5%	16.1%
Expenses	59,847	10.1%	54,067	10.9%	10.7%
EBITDA	23,735	4.0%	17,899	3.6%	32.6%
Amortization, interest and other	6,972	1.2%	3,477	0.7%	100.5%
Net earnings before income taxes	16,763	2.8%	14,422	2.9%	16.2%
Net earnings for the period	\$ 10,920	1.8%	\$ 10,253	2.1%	6.5%
Net earnings per common share (basic and fully diluted)	\$ 0.55		\$ 0.59		

This table shows the relative mix of hardware and software sales for the six months ended June 30, 2010 and is discussed in greater detail below.

Product Segment Analysis

(In thousands of U.S. dollars)
Unaudited

	<i>Six months ended June 30,</i>		<i>% Change</i>
	<i>2010</i>	<i>2009</i>	
Microsoft revenue	\$ 233,811	\$ 180,734	29.4%
Agency fees	(25,977)	(25,079)	3.6%
Microsoft imputed revenue	453,031	412,609	9.8%
Total Microsoft revenue, including imputed revenue	660,865	568,264	16.3%
Other software revenue	154,488	150,137	2.9%
Hardware revenue	205,658	166,760	23.3%
	1,021,011	885,161	15.4%
Total reported revenue	\$ 593,956	\$ 497,631	19.4%

Revenue

Revenue for the first half of the year was \$594 million, an increase of 19 percent from revenue of \$497.6 million reported for the first half of 2009. Total Revenue, including Imputed Revenue increased by 15 percent over the same period of the prior year. Eliminating the impact of foreign exchange, revenue increased 12 percent from the same six-month period in 2009. For the six months ended June 30, 2010, revenue increased in all segments, and in particular, revenue from Microsoft and hardware sales were both higher year-to-date, compared to the first half of 2009.

Agency fees for EA licenses increased by four percent compared to the first six months of 2009. Microsoft Imputed Revenue was up almost 10 percent compared to the same period of the prior year. The lower proportion of growth in agency fees when compared to Microsoft Imputed Revenue reflects changes in the fee structure between Microsoft and its partners and the mix of licenses sold.

Canada

In Canada, sales in Canadian dollars grew seven percent overall for the six months ended June 30, 2010 from the same period in 2009. Growth in hardware sales (increased by 19 percent) and Microsoft revenue (increased by eight percent) offset a slight decline in other software sales (down four percent). Sales of desktops, servers and other hardware were up with sales of Lenovo, HP and IBM all higher in the period.

United States

In the United States, sales grew by 15 percent overall for the six months ended June 30, 2010, from the same period in 2009. Hardware sales grew by 12 percent primarily as a result of pent-up demand to refresh older desktops and laptops. Microsoft sales were also higher, up 38 percent primarily due to the impact of one large transaction with a federal government customer in the first three months of this year.

Gross Profit

Gross profit for the first half of 2010 was \$83.6 million, reflecting an increase of 16 percent compared to gross profit of \$72 million reported in the first half of the prior year. Eliminating the foreign currency impact, overall gross profit grew by 10 percent compared to the same quarter of the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue, was 8.2 percent, which increased slightly from 8.1 percent as reported in the same period of the prior year. Margins earned on sales of hardware and Microsoft were higher for the six months ended June 30, 2010 compared to the same period in 2009.

Rebates in the first half of 2010 more than doubled from the same period in 2009. This increase is attributable to changes to the rebate program offered by Microsoft and increased rebates offered by other vendors.

Marketing development funds earned in the first half of this year increased 10 percent from the first half of 2009. This growth reflects increased incentives offered by partners and funding of numerous marketing programs.

Expenses and EBITDA

(In thousands of U.S. dollars)

Unaudited

	<i>Six months ended June 30,</i>				<i>%</i>
	<i>2010</i>		<i>2009</i>		<i>Change</i>
		<i>% of gross profit</i>		<i>% of gross profit</i>	
Salaries and benefits	\$ 44,225	52.9%	\$ 37,677	52.4%	17.4%
Selling, general and administrative	15,622	18.7%	16,390	22.8%	-4.7%
	\$ 59,847	71.6%	\$ 54,067	75.1%	10.7%

Total salaries and benefits and selling, general and administrative expenses grew by 11 percent compared to the same period of the prior year, or three percent if the foreign exchange rate had held constant year over year. Expenses as a percentage of gross profit decreased to 71 percent from 75 percent reported in the same six months of the previous year, primarily as a result of the strong gross profit performance compared to the prior year.

Average headcount levels for the six-months ended June 30, 2010 remained consistent compared to the same six-month period of the prior year. The increase in salaries and benefits reflects increased incentive compensation expense associated with our increased gross profit.

Selling, general and administrative expenses decreased by five percent compared to the same period of the prior year, reflecting management's continued focus regarding cost management.

EBITDA reflects the profits of the Company after salaries, SG&A expenses and any unusual items are deducted from gross profit. A gross profit increase of 16 percent, offset by an increase of 11 percent in total salaries and benefits and SG&A expenses has resulted in an EBITDA increase from the same period of the prior year by 32.6 percent.

Other

Amortization of property and equipment remained consistent compared to the six-months ended June 30 of the prior year. The amortization of intangible assets decreased by 13 percent, primarily as a result of fully amortizing the intangibles related to the 3-Soft acquisition earlier in the year.

Interest and other expense was \$1.5 million during the six-months ended June 30, 2010, consisting primarily of interest costs and amortization of deferred financing fees associated with the long-term debt.

The effective tax rate for the first half of 2010 was approximately 35 percent, compared to 29 percent reported for the same period of the prior year. The increase in the effective tax rate is primarily the result of a non-deductible expense that was reversed in the second quarter of the prior year, coupled with the tax impact of the foreign exchange fluctuation.

Net earnings for the first half of 2010 were \$10.9 million compared to \$10.3 million reported in the same period of the prior year. Earnings per share was \$0.55 per share (basic and diluted), compared to \$0.58 per share reported in the same period of the prior year. On an adjusted basis, earnings for the first half of the year were \$11.3 million compared to \$7.1 million reported in the same period of the prior year. Adjusted Earnings per share was \$0.57 per share (basic and diluted) compared to \$0.40 per share (basic and diluted) in the prior year.

Liquidity and Capital Resources

Management believes that the Company is able to generate sufficient amounts of cash to meet its financial obligations as they fall due, to maintain its current capacity and to fund its planned growth and development activities.

The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company's capacity to maintain sufficient cash in excess of anticipated needs. This cash is primarily provided by operating activities, as well as by debt and equity financing.

Operating Activities

Cash provided by operating activities was \$14.7 million during the second quarter of 2010 compared to \$40.1 million for the same period last year. The reduction is largely due to changes in accounts payable and accrued liabilities during the second quarter of 2010 compared to the same period last year. During the second quarter of 2010, accounts payable and accrued liabilities decreased by \$14.6 million from the previous quarter. During the second quarter of 2009, accounts payable and accrued liabilities increased by \$19.6 million from the prior quarter.

Accounts receivable balances reflect days sales outstanding (DSO) of 39 days as at June 30, 2010, compared to a DSO of 38 days as at June 30, 2009. The Company continues to target DSO levels of 45 days.

Days payable outstanding (DPO) increased from 59 days as at June 30, 2009 to 63 days as at June 30, 2010. The increase in DPO is primarily the result of the timing of vendor payments. We expect that DPO levels will decline over the remainder of the year as the Company begins to take advantage of early payment discounts offered by various vendors.

The Company's DSO ratio is generally consistent with the prior year and exceeds target levels, indicating that accounts receivable are being collected in a timely manner. Furthermore, the DPO ratio has increased from the prior year. Management monitors DSO and DPO levels against expected cash flow needs, as well as target levels. Management believes that the Company is able to generate sufficient cash to maintain its current capacity and to meet obligations as they become due.

Debt Financing

Debt financing is provided to Softchoice in Canada, and working capital and other financing is provided to the U.S. Company as required. On February 2, 2009, the Company established two new credit facilities to finance its acquisitions and ongoing working capital requirements:

- An asset-backed loan (ABL) which can be drawn up to the lesser of C\$115.0 million or 85 percent of eligible accounts receivable. There is an accordion feature to this facility in the amount of C\$30.0 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL currently incurs interest at prime plus two percent. The ABL has a term of three years. It was provided to Softchoice through a lending syndicate comprised of Bank of America (agent), Bank of Montreal and TD Bank.
- A term debt loan is subordinated to the ABL in the amount of U.S. \$20.5 million. The debt has a five-year term and quarterly payments of U.S. \$1.0 million. Interest on this loan is 16 percent per annum (2009 – 17.5 percent); this rate was reduced after 2009 as a result of meeting certain financial ratios. The term debt loan was provided by HSBC (Canada) Inc. with participation by Ontario Teachers' Pension Plan (OTPP). OTPP is a major shareholder and also a related party. This loan can be repaid without penalty or termination fee after 36 months.

Both loans have certain financial covenants as conditions for continued borrowing. A fixed-charge coverage ratio is required by both loans, and the term debt loan has two additional covenants, including a borrowing base to outstanding principal ratio and a leverage ratio covenant. The fixed-charge ratio is considered likely to be the most stringent covenant. The Company does not anticipate violating any of the current covenants over the term of the debt.[†]

On November 20, 2009, the Company entered into a bought-deal financing agreement. Proceeds of the offering were approximately C\$17.4 million, and were used by the Company to repay its short-term indebtedness under the ABL and to reduce its dependence on this facility. Any additional amounts remaining after such repayment will be used for general corporate and working capital purposes.

The table below shows the level of debt available to the Company and the amounts outstanding as at June 30, 2010. Including available cash, the net cash position at the end of the second quarter of 2010 was \$30.7 million. We believe that the level of debt available to Softchoice is sufficient to finance the working capital requirements of the business and the growth that we expect.[†]

[†] This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

(In thousands of U.S. dollars)

Unaudited

Short-term debt

ABL

Term debt, current

Term debt, long term

Total debt

	June 30, 2010	
	Available	Drawn
	\$ 74,781	\$ 0
	4,104	4,104
	78,885	4,104
	10,619	10,619
	\$ 89,504	\$ 14,723

Cash Flow

In addition to having excess debt availability, the Company was able to generate cash of \$26.9 million for the first six months of the year compared to \$3.1 million for the same period last year. The generation of cash was primarily the result of \$29.6 million of cash generated from earnings adjusted for non-cash items, partially offset by \$2.7 million of cash used for financing and investing activities.

Share Capital

As of August 10, 2010, 19,778,789 common shares of the Company were issued and outstanding. Options to acquire an aggregate of 50,000 common shares are outstanding under the Company's Employee Stock Option Plan. At the end of 2006, the Board of Directors terminated the 2003 Stock Option Plan so that options could no longer be issued under this plan. This termination was executed without prejudice to the options that were already outstanding under the existing plan. As of June 30, 2010, there were 125,710 deferred share units (DSUs) outstanding under the Company's deferred share unit plan for Directors, each of which represents the right to acquire one common share when the holder ceases to be a non-executive director of the Company.

On June 12, 2009, a one-time bridge LTIP for executives of the Company was approved; as at June 30, 2010, there were 152,000 phantom shares and 152,000 phantom options outstanding, both payable in cash.

In March 2010, the Company approved the Share Appreciation Rights (SAR) plan for eligible officers and key employees. On March 31, 2010, the Company granted 144,000 SARs to eligible participants. The strike price of the units granted is C\$9.90. The Company must achieve a threshold share price of C\$12.50 following the three-year vesting period in order for any award to be made. The maturity date price will be determined by the volume weighted average trading price per share on the Toronto Stock Exchange for the 10 trading days immediately prior to the end of the vesting period. Upon maturity, if the threshold share price is met, each SAR entitles the holder to receive an amount equal to the maturity date price less the strike price of C\$9.90. The awards granted under this plan are payable in cash. Refer to Note 4 of the interim financial statements.

On February 11, 2010, the Board of Directors adopted a 2010 Performance Stock Option ("PSO") plan for the executives of the Company, which was approved by the shareholders on May 11, 2010. The plan dictates that a minimum share price has to be achieved for any PSO level to vest. The PSO plan has a seven year expiry term and a three year vesting period, depending on share price attainment. Under the plan, the number of options that ultimately vest is subject to the Company attaining various market share price hurdles on the third anniversary of the grant date, as established by the Board of Directors for each grant.

Equity Financing

On November 20, 2009, the Company entered into a bought-deal financing agreement whereby the Company issued a total of 2,250,000 common shares at a price of C\$7.75 for gross proceeds of C\$17,437,500. In connection with the financing, the underwriters received a fee equal to five percent of the gross proceeds of the offering. As noted above, proceeds of the offering were used by the Company to repay its short-term indebtedness under a three-year C\$115 million revolving asset-backed loan facility and to reduce its dependence on this facility. Any additional amounts remaining after such repayment will be used for general corporate and working capital purposes.

In addition, the underwriters were granted the option to purchase additional shares to cover over-allotments on the equity offering. These options remained unexercised and expired on January 10, 2010.

Off-Balance Sheet Arrangements

Management is not aware of any material off-balance sheet arrangements that are reasonably likely to have a current or future effect on the results of operations or financial condition of the Company.

Transactions with Related Parties

As at June 30, 2010, included in trade accounts receivable was \$96 thousand due from a major shareholder, Ontario Teachers' Pension Plan (OTPP), for product sales with payment terms of net 30 days (December 31, 2009 - \$205 thousand). Total product sales to OTPP during the three-month and six-month periods ended June 30, 2010 were \$181 thousand and \$841 thousand (2009 - \$50 thousand and \$154 thousand). This related-party transaction is in the normal course of operations and has been recorded at the exchange amount, which is the amount of consideration established and agreed between the related parties.

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 OTPP. During the three-month and six-month periods ended June 30, 2010, OTPP received principal repayments of \$205 thousand and \$410 thousand (2009 - \$205 thousand and \$337 thousand) and interest payments of \$136 thousand and \$268 thousand (2009 - \$173 thousand and \$234 thousand). Refer to "Liquidity and Capital Resources".

Microsoft and Softchoice

Microsoft is the ubiquitous provider of infrastructure software worldwide. Approximately 70 percent of Microsoft's revenue is from desktop applications and operating systems such as Windows and Office productivity suites. Microsoft has about 95 percent of the market share in this area, with projected single-digit growth for the next few years. During the quarter, about 37 percent of Softchoice's revenue, or 66 percent of Total Revenue, including Imputed Revenue was derived from the sale of Microsoft products.

Software Licenses

Software licenses are used across the industry to regulate the use and ownership of all types of software products. For Microsoft products, the customer is able to buy the license alone or with an "insurance" type of product that allows the customer to obtain, free of charge, the most recent versions of the software during the term of the "insurance" product. Microsoft sells this type of product through Software Assurance and Enterprise Agreements. Customers are also able to purchase the license agreement on its own, but this gives them no rights or access to later versions of the product. To upgrade, they must repurchase the software license.

Software Assurance

Software Assurance (SA) is an "insurance" or "maintenance" type of license that allows customers to upgrade to the latest technology if new applications are introduced during the period that the SA is in effect. The license also entitles the customer to many different types of training and service benefits. SA licenses are renewed annually; this renewal feature increases the predictability of the Company's revenue stream.

Enterprise Agreements

In October 2001, Microsoft began offering Enterprise Agreements (EAs). An EA includes a perpetual license and SA. Customers license every desktop in their environment with a consistent suite of Microsoft products. They are then considered to be compliant with all Microsoft license requirements for the ensuing year, regardless of changes to their employee base. EAs have a three-year term whereby the customer pays three equal annual installments for the perpetual license and the SA benefits. Annually they are charged a "true-up" fee for changes in the number of users over the year. Customers usually like the convenience and risk-mitigation factors associated with the annual evaluation process rather than a constant evaluation of the number of users actually deploying the software compared to the number actually licensed.

After the three-year period, customers may renew the EA for a further three-year period, but this renewal includes the SA benefits only and is cheaper for the customer than the original EA.

With an EA, Microsoft transfers the license and bills the customers directly, paying resellers such as Softchoice an agency fee or commission on these sales. The result of these transactions is that the revenue recorded by Softchoice is reduced but the gross profit remains. Therefore, the Company's margin on these deals is 100 percent and, as a result, they increase the Company's overall gross margin.

The proportion of sales of this product within total sales has risen significantly in the past few years. Meaningful year-over-year comparison of Softchoice's revenue requires an adjustment to the EA sales that Microsoft obtains and on which Softchoice is paid an agency fee. Softchoice refers to this revenue line as Imputed Revenue.

Key Performance Measures

The Company presents four key performance measures to help investors understand its business. The measures reflect both the growth of the business and our productivity and are consistent with the way that management evaluates the business. We use gross profit measures, instead of a more typical revenue measure, because of the trend among our customer base toward EA license agreements. Therefore, the increase in our revenue mix that is recorded on a net basis would distort the results of revenue-based analysis.

Revenue or Growth Indicators:

- Number of Customers

Productivity Indicators:

- Gross Profit per Order
- Gross Profit per Sales Employee
- Gross Profit per Employee

Number of Customers

During the second quarter of 2010, the number of customers purchasing from Softchoice decreased by four percent compared to the same period of the prior year. Although the number of buying customers

making purchases declined, gross profit per customer increased by 19 percent, which drove most of the gross profit growth during the current quarter.

We segment our customers based on the size of the customers' information technology environment. Revenue from these customers is segmented as follows:

Unaudited	<i>Three months ended June 30,</i>	
	2010*	2009*
Small and Medium	40%	42%
Enterprise	40%	36%
Government and Education	20%	22%
Total	100%	100%

* Estimate

The portion of sales to enterprise customers increased in the second quarter, with 40 percent of sales to the enterprise customer base, compared to 36 percent during the second quarter of the prior year. This increase is primarily due to the mix of enterprise business experienced in Canada and the United States during the second quarter of 2010.

Gross Profit per Order

In Canada, gross profit per order increased by 17 percent during the second quarter compared to the same period of the prior year as a result of an increase in margin percentage received on orders stemming from a change in the mix of products sold compared to the prior year and the related margin uplift associated with certifications attained in 2009.

In the United States, gross profit per order increased by 18 percent compared to the same period of the prior year due to the mix of large orders delivered in the quarter compared to the prior year, which generally earn higher margins, as well as the higher margins realized during the quarter related to specific license types of the Microsoft business and as a result of obtaining required certification for certain vendors.

Gross Profit per Employee and per Sales Employee

The table below shows the employee base of the Company for the second quarter of 2010 compared to the same quarter of the prior year.

Unaudited (In thousands of U.S. dollars except headcount amounts)	<i>Three months ended June 30,</i>					
	2010		2009		% Change	
	Sales	Total	Sales	Total	Sales	Total
Average headcount	441	899	438	884	0.7%	1.7%
Quarter-end headcount	438	895	440	886	(0.5%)	1.0%
Gross profit per person	107.6	52.7	93.9	46.6	14.6%	13.1%

(In thousands of U.S. dollars except headcount amounts) Unaudited	<i>Six months ended June 30,</i>					
	2010		2009		% Change	
	Sales	Total	Sales	Total	Sales	Total
Average headcount	434	882	439	884	(1.1%)	(0.2%)
Quarter-end headcount	438	895	440	886	(0.5%)	1.0%
Gross profit per person	190.8	93.4	163.6	81.2	16.6%	15.0%

During the three months ended June 30, 2010 the total average number of employees increased by 15 people, or two percent, compared to the same period of the prior year.

During the three months ended June 30, 2010, gross profit per sales employee, a key measure of productivity, increased by 15 percent, primarily as a result of the improved productivity of the sales team as the economy continued to show signs of a recovery. Gross profit per employee also increased by 13 percent compared to the same period of the prior year. This increase is primarily a result of the impact of the economic recovery that occurred during the quarter and its effect on gross profit performance, resulting in strengthening of margin per sales employee rates compared to the same period of the prior year. We expect both productivity measures to show similar trends in future quarters. [†]

Critical Accounting Policies and Estimates

In our 2009 Annual Audited Consolidated Financial Statements and accompanying notes, as well as in our 2009 Annual MD&A, we describe the accounting policies and estimates that are critical to the understanding of our business and the results of our operations. The following section describes changes to the critical accounting policies and estimates from those found in our 2009 Annual MD&A.

Deferred Revenue

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. Revenue from maintenance contracts performed by third-party vendors is recognized once the contract date is in effect. Revenue from maintenance contracts performed by internal resources is recognized ratably over the term of the maintenance period. Internal consulting services are recognized on a time and materials basis.

Historically, deferred revenue has also included unearned revenue on sales to customers where extended payment terms beyond 180 days were granted. Effective January 1, 2010, the Company determined that for most sales with extended payment terms, sufficient evidence exists to conclude that the fee is fixed and as such, the Company will recognize revenue in such instances when appropriate, based on its revenue recognition policy.

[†] This section contains forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Stock-based Compensation

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 Softchoice.

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.

These plans are described in greater detail under the "Share Capital" section above, as well as in Note 4 of the Interim Consolidated Financial Statements for the three and six months ended June 30, 2010.

Updates to Risks and Uncertainties

Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, accounts receivable and other receivables. The Company minimizes the credit risk of cash by depositing only with reputable financial institutions. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. As such, the Company performs ongoing credit evaluations of its customers' financial condition to evaluate creditworthiness and to assess impairment of outstanding receivables. Approximately 22 percent of the Company's accounts receivable are greater than 31 days past due (June 30, 2009 – 28 percent). The Company's allowance for doubtful accounts is \$4.7 million (December 31, 2009 - \$4.0 million). Any amounts not provided for are considered fully collectible.

Liquidity Risk

Please refer to "Liquidity and Capital Resources" above.

Foreign Exchange and Interest Rate Risk

The Company operates in both the United States and Canada, and the parent company maintains its accounts in Canadian dollars while the accounts of the U.S. subsidiaries are maintained in U.S. dollars. For the parent company's intercompany debt and external debt held in U.S. dollars, this may occasionally give rise to a risk that its earnings and cash flows may be affected by fluctuations in foreign exchange rates due to the balance outstanding as of the quarter-end, as well as debt settlements made during the year.

From time to time, the Company may use derivatives to manage this foreign exchange risk. The Company's policy is to use derivatives for risk management purposes only, and it does not enter into such contracts for trading purposes. The Company enters into derivatives only with high-credit-quality financial institutions. The Company did not enter into any new derivative financial instrument contracts during the six months ended June 30, 2010. In addition, there were no outstanding derivative financial instruments as at June 30, 2010.

Recently Issued Accounting Pronouncements

(i) Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations," replacing Section 1581, "Business Combinations." This section establishes standards for accounting for business combinations and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new section will apply to financial statements related to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

(ii) Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-Controlling Interests," which together replace Section 1600, "Consolidated Financial Statements." Section 1601 establishes standards for preparing consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The sections will apply to interim and annual consolidated financial statements related to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

(iii) International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged with IFRS, as issued by the International Accounting Standards Board (IASB). For its 2011 interim and annual financial statements, the Company will be required to report under IFRS and to provide IFRS comparative information for the 2010 fiscal year.

Accounting Policies

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. Management has assessed the exemptions from full retrospective application available under IFRS 1, "First-Time Adoption of International Financial Reporting Standards," and their potential impacts on the Company's financial position.

On adoption of IFRS, the exemptions being considered by the Company that could result in material impacts are as follows:

Exemption	Application of Exemption
Business combinations	The Company has elected not to apply IFRS 3, Business Combinations retrospectively. Therefore, there is no requirement to restate any business combinations that occurred prior to the date of transition, January 1, 2010.
Net book value as deemed cost available for property, plant and equipment (IAS 16), and intangible assets (IAS 38)	The Company has elected to use historical cost accounting at transition to value its property and equipment, which is consistent with current accounting policy, instead of using fair value accounting. An entity that applies the book value as deemed cost at the IFRS transition date is not required to re-value these assets in subsequent periods.

Leases (IFRIC 4, "Determining whether an Arrangement Contains a Lease")	The Company has elected to assess arrangements that may contain a lease that are in existence at the date of transition, based on facts and circumstances in effect at the transition date. Softchoice expects that all lease arrangements under IFRS have been identified accordingly.
Borrowing costs (IAS 23)	The Company has elected to apply the amendments in IAS 23 prospectively. This means that Softchoice is required to start capitalizing borrowing costs relating to all qualifying assets, effective prospectively on or after the date of transition.
Cumulative translation differences (IAS 21, "The Effects of Changes in Foreign Exchange Rates")	The Company has elected to reset all cumulative translation gains and losses to zero in opening retained earnings at January 1, 2010.

Management is in the process of quantifying the expected differences between IFRS and the current accounting treatment under Canadian GAAP. Differences with respect to recognition, measurement, presentation and disclosure of financial information are expected to arise in the following key accounting areas:

Key Accounting Area	Differences with Potential Impact to the Company
Presentation of Financial Statements (IAS 1)	Opening balance sheet and subsequent to transition: <ul style="list-style-type: none"> Additional disclosures required in the notes to the financial statements.
Property and Equipment (IAS 16)	Opening balance sheet and subsequent to transition: <ul style="list-style-type: none"> All significant components of furniture and fixtures, office equipment and computer hardware have been identified. The Company's current asset categories and estimated useful lives under Canadian GAAP are reflective of the asset components and useful lives as determined under IFRS. Useful lives and residual values will be reviewed at least annually.
Impairment of Assets (IAS 36)	Opening balance sheet: <ul style="list-style-type: none"> No significant impact is expected. Subsequent to transition: <ul style="list-style-type: none"> Grouping of assets in cash-generating units (CGUs) Goodwill is allocated to and tested in conjunction with its related CGU or group of CGUs. Recoverable amount will be the higher of fair value less cost to sell and the value in use. Impairment loss will be recognized when a CGU's carrying amount exceeds its recoverable amount. Impairment losses will be allocated first to goodwill and pro-rata to the remaining assets in the CGU. Under certain circumstances, previous impairment taken (other than goodwill) is required to be reversed The Company has determined individual CGUs on the basis of the lowest level at which separately independent cash inflows can be identified

Income Taxes (IAS 12) (subject to adoption at transition of a revised IAS 12 standard)	<p>Opening balance sheet and subsequent to transition:</p> <ul style="list-style-type: none"> • It is possible that recognition and measurement criteria for deferred tax assets and liabilities may differ. • We are currently assessing the impact on the financial statements. • The impact will depend on the net amount of all differences in accounting policy
Share-Based Payments (IFRS 2)	<p>Opening balance sheet:</p> <ul style="list-style-type: none"> • No significant impact is expected. <p>Subsequent to transition:</p> <ul style="list-style-type: none"> • Cash settled share-based payment awards are recorded as liabilities and must be measured at fair value by applying an option pricing model. Under Canadian GAAP, the Company recorded a liability based on the intrinsic value of the award. • As a result, the Company has determined the quarterly impact of IFRS on the specific cash settled share-based incentive plans. • Forfeiture estimates will be recognized in the period they are estimated, and will be revised for actual forfeitures in subsequent periods, whereas, under current accounting application, forfeitures are recognized as they occur. • With respect to the graded vesting of an award, the Company will treat each installment as a separate arrangement.
Provisions and Contingencies (IAS 37)	<p>Opening balance sheet:</p> <ul style="list-style-type: none"> • No significant impact is expected. <p>Subsequent to transition:</p> <ul style="list-style-type: none"> • Different threshold used for recognition of a contingent liability could have an impact on the timing of when a provision may be recorded. • Onerous contracts identified by the Company will be accrued as liabilities.

The differences identified in this document should not be regarded as an exhaustive list and other changes may result from our conversion to IFRS. At this time, the comprehensive impact of the changeover on the Company's future financial position and results of operations is not yet determinable.

The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the IASB is expected to continue issuing new accounting standards during the transition period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the applicable IFRS standards at the conversion date are known.

IFRS Changeover Plan

The conversion project consists of three phases:

- 1) Scoping and Diagnostic Phase
- 2) Design and Solutions Development Phase
- 3) Implementation and Post-Implementation Review Phase

Below is a summary of the key activities and status updates on the Company's IFRS changeover plan.

Key Activity	Status
1) Scoping and Diagnostic Phase	
<ul style="list-style-type: none"> • Develop initial project plan • Establish project structure including steering committee and extended teams • Train core project team 	<p>As part of the IFRS conversion project, the Company has established an implementation team, which includes a project manager, management from all relevant departments and a steering committee to oversee the project. Appropriate training has been provided to project team members.</p> <p>Quarterly progress updates are provided to the Audit Committee. The Company's external auditors are also consulted throughout the process.</p>
<ul style="list-style-type: none"> • Detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS • Preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters • High-level assessment of potential consequences for financial reporting, business processes, internal controls and information systems. 	<p>Detailed assessments have been completed for all key standards and significant policy changes.</p> <p>Initial assessments of impacts on business processes and systems were made and action plans are in place.</p>
2) Design and Solutions Development Phase	
<ul style="list-style-type: none"> • Prioritize accounting treatment issues and prepare a conversion plan • Review and approve accounting policy choices • Quantify the impact of selected accounting policies made under conversion to IFRS 	<p>Completed detailed assessments and systematic analysis of IFRS standards and interpretations.</p> <p>Selections of significant IFRS accounting policy choices and IFRS 1 elections have been identified and quantifying impacts are underway.</p>
<ul style="list-style-type: none"> • Creation of parallel IFRS ledgers for processing of 2010 comparatives 	<p>We have created a duplicate IFRS environment in our information systems to track all adjusting IFRS entries for our opening balance sheet and throughout the dual reporting period.</p>
<ul style="list-style-type: none"> • Perform a detailed impact assessment to business processes 	<p>We are currently analyzing the contractual implications of the new policy choices on financing arrangements and similar obligations. The Company does not expect that significant modifications will be necessary on conversion.</p>
<ul style="list-style-type: none"> • Design and develop changes to information systems • Design and develop changes to internal controls over financial reporting • Design and develop changes to disclosure controls and procedures 	<p>The effects on information systems, internal controls and disclosure controls are ongoing and the final impact has not yet been assessed.</p> <p>The Company does not expect that significant modifications will be necessary on conversion.</p> <p>Revision of process narratives and reassessment of ICFR and DC&P design and effectiveness to be completed throughout Fiscal 2010 and 2011.</p>

3) Implementation and Post-Implementation Review Phase	
<ul style="list-style-type: none"> • Determine the opening IFRS transition balance sheet and required IFRS 1 disclosures • Preparation of the interim and annual consolidated financial statements associated disclosures, including 2010 comparatives in accordance with IAS 1 • Preparation of detailed reconciliations of Canadian GAAP to IFRS financial statements. 	<p>Preparation of the opening IFRS transition balance sheet, including the impact on retained earnings is underway and near completion.</p> <p>Preparation of the draft consolidated financial statements and notes, including detailed reconciliations, are in progress.</p> <p>Processes to track additional disclosures under IFRS are being implemented.</p>
<ul style="list-style-type: none"> • Conversion assessment, evaluating improvements for a sustainable operational IFRS model. • Test the internal controls environment. 	To be done in fiscal year 2012.

The Company's IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to International standards currently in development or in light of new information or other external factors that could arise between now and when the changeover is completed.

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining disclosure controls and procedures as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". Disclosure controls and procedures are designed to provide reasonable assurance that material information is made known to the Company's management for timely disclosure evaluation and that information required to be disclosed in reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Disclosure controls and procedures cannot provide absolute assurance due to their inherent limitations. Each involves diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human error. As a result of these limitations, disclosure controls and procedures cannot prevent or detect all errors or intentional misstatements resulting from fraudulent activities.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at June 30, 2010 and has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were adequate and effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting which occurred during the six months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.