

Softchoice

2009 Financial Review

Contents

- 1** Message to Shareholders
- 3** Management's Discussion and Analysis
- 28** Management's Responsibility
- 28** Auditors' Report
- 29** Consolidated Financial Statements
 - 29** Consolidated Balance Sheets
 - 30** Consolidated Statements of Earnings and Retained Earnings
 - 31** Consolidated Statements of Cash Flows
 - 32** Consolidated Statements of Comprehensive Income
and Accumulated Other Comprehensive Income
- 33** Notes to Consolidated Financial Statements
- 51** Ten-Year Financial Summary
- 52** Directors and Officers
- 53** Corporate Information

To our shareholders, customers, partners and employees:

By any account, 2009 was an extraordinary year. One of the sharpest economic downturns since the Great Depression roiled markets around the world, creating the most challenging business environment Softchoice has ever faced. Yet thanks to the initiative of our people, we responded to the crisis prudently and with an eye toward the future, strengthening our financial position while enhancing our value through an increasingly comprehensive technology offering.

In many respects, our commitment to investing in the areas that help customers reduce IT costs and transform their businesses through innovation has made Softchoice more relevant than ever.

As was the case with organizations the world over, the global recession had a significant impact on our financial performance. As customers moved to conserve capital by extending technology refresh cycles and delaying major infrastructure projects, we experienced our largest decline in sales ever. Yet even in the face of a 20 percent revenue decrease, Softchoice generated net earnings of US\$22.3 million compared to a loss of US\$14.4 million for 2008. Adjusting for the goodwill impairment we recorded in the fourth quarter of 2008, as well as the impact of foreign exchange gains, earnings for the year were US\$0.72 per share (basic) versus US\$0.90 per share (basic) for 2008.

In addition to delivering a creditable earnings performance, what is equally noteworthy is the progress we made in creating a foundation that will give us greater flexibility to manage risk and capitalize on future growth opportunities. Through a company-wide focus on cost management, and by fully realizing the synergies of the acquisitions we made over the past two years, we reduced our expense base by 18 percent over the prior year. These savings are now locked into our business and will continue to create leverage for our bottom line as our revenue performance improves. Disciplined cash management, along with the substantial cash flow generation capability of our business, also allowed us to reduce our total company debt to US\$16.8 million by the end of the year, compared to US\$54.1 million at the end of 2008. Finally, in December we strengthened our balance sheet further with the completion of our first bought-deal public share financing. As a result, we entered 2010 ready to meet the challenges and opportunities before us with renewed strength and vitality.



LAWRENCE G. TAPP
CHAIRMAN

DAVID MACDONALD
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Executing our Strategy

Several years ago, we outlined a strategy to diversify our business by increasing the scope of what we do for our customers. Through organic growth and selective acquisitions, we are steadily achieving this goal – both by broadening our portfolio of technology offerings and through prudent investments in the technical expertise needed to support the design and implementation of increasingly complex solutions.

The global recession has created many challenges. But it has also provided an opportunity to test the mettle of our strategy. In many ways this year has given us a new appreciation for the role we play in helping organizations both navigate the world of technology, and transform their operations through innovation. From the desktop to the data center, from volume purchasing expertise to asset management, one thing is clear: more and more customers are relying on Softchoice to make their IT count.

Value in Action

In lean times, maximizing existing infrastructure is essential. And when it comes to investing in technology, only the most airtight business case will do. In 2009, customers took unprecedented

advantage of our assessment services to identify opportunities to reduce costs and explore new opportunities to improve productivity. We also consolidated our leadership position in this area with the introduction of Axis – the technology behind the first IT asset management-as-a-service offering in the industry. By combining access to certified IT asset management experts and powerful online reporting capabilities, we're giving organizations the information they need to reduce the costs and resources required to manage their IT infrastructures.

The extraordinary focus on data center efficiency makes it clear that even in the face of spending constraints, organizations continue to look toward innovation to improve their productivity and ultimately, their competitive advantage. Server and desktop virtualization are delivering computing power and simplifying IT management with an ease and efficiency unheard of even just a few years ago. At the same time, cloud computing models are providing new levels of flexibility by reducing infrastructure costs and driving economies of scale in terms of how applications are delivered to end-users. The decisions our customers face have never been more exciting, or more complex.

It is here in the data center – the backbone of today's business – that the value we are providing is perhaps most tangible. It is also where we are realizing our vision of giving customers the best of all worlds: the efficiency and resources of a national large-volume reseller on the one hand, and the personal touch and technical expertise of a local solutions provider on the other.

Fulfilling this promise means leveraging our local branch network to deliver the technical and project management expertise to design and implement today's most complex data center solutions – not just in Chicago or Toronto, but in every major market in North America. But that's only part of what's differentiating Softchoice. End-to-end solutions also mean providing the asset management and volume purchasing know-how to ensure that the technology components that comprise a solution – whether software licenses, servers, or networking equipment – are not only acquired reliably, but in the most cost-effective manner possible. Finally, it means offering customers the tools and resources – including hardware life cycle services like custom imaging and disposal – to maximize the value of a given investment, from the moment it enters production until it is retired.

Moving our Business Forward

With 150 individuals in our pre-sales and professional services groups, we are delivering a portfolio of high-value solutions like never before. And by increasing our relevance to our customers and partners, we're also creating new trajectories from which to grow and diversify our business. Since the second quarter of 2008, sales of non-Microsoft software have grown from 26 percent of reported revenues to 36 percent. What's more, in 2009 our gross margins increased by 42 basis points on a full-year basis, reflecting

the impact of higher value solution sales – including products from partners like VMware, EMC and Citrix – on our business mix. At the same time, these competencies are strengthening our position with Microsoft and IBM, both of which are looking to partners like Softchoice to help their customers reap the benefits of their technology through value-added integration and deployment support.

Although the road ahead will remain challenging, we have good reason to be optimistic. Our ability to work with customers in person in more than 40 markets across North America remains unmatched in our industry. This is the essential ingredient in being a trusted advisor, especially when it comes to managing mission-critical infrastructure projects for our customers. To this platform we have extended the ability to address almost any technology need – from the purchase of a single PC, to delivering the project management expertise for a major data center rollout. And we continue to provide the best in personalized service through our four regional call centers, backed by one of the most efficient and cost-effective supply chains anywhere.

No one knows the ultimate strength of the economic recovery. We do, however, see signs that a positive shift for our industry is at hand. Like leading partners and industry analysts, we believe that the equipment replacement and infrastructure projects that were delayed over the past year are now coming back online. This pent-up demand, coupled with compelling innovations in the data center and the tendency of many organizations to invest in technology ahead of hiring staff, is laying the foundation for the next major growth cycle in our industry.

Making IT count goes to the very heart of what this organization is about. Under the most challenging circumstances our people have exemplified this focus in the grandest sense – both in terms of serving our customers with distinction and as caring global citizens. Whether building a new computer lab in Rwanda, or rallying to the aid of the earthquake victims in Haiti through grassroots fundraising campaigns, our people continue to show what's possible when technology and the compassion of the human spirit work in tandem.

We are proud of what the Softchoice team has accomplished. Their actions demonstrate that even in the face of adversity we have continued to move our business forward in ways that will contribute to our long-term success. With a strong and stable financial position and a truly compelling portfolio of services and solutions, now more than ever we are ready to meet the challenges ahead and to help our customers capitalize on the transformative power of IT.



David MacDonald
President and Chief Executive Officer



Lawrence G. Tapp
Chairman

Management's Discussion and Analysis

February 12, 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 the economy and financial conditions such as the risk that customers will delay purchases, causing a downturn in overall revenues, the risk that customers will not be able to obtain sufficient credit to finance IT, the risk that customers could face bankruptcy or other financial difficulties, causing increased bad debt expenses for the Company and loss of ongoing sales, the risk that suppliers could tighten credit terms and credit requirements, making it difficult or more expensive to purchase products for resale, risks related to our debt financing, risks of litigation due to employee layoffs, exchange rate risk and the risk of credit card fraud. The Company also faces risks related to the IT distribution channel such as dependence on Microsoft, reliance on financial incentives, dependence on distributors, the inability to respond to changes in the manner of IT distribution, technical innovation, competition, the risk of IT product defects and the risks of providing technology solutions offerings. There are additional risks regarding 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 or Total Revenue, including Imputed Revenue, and EBITDA, adjusted EBITDA and adjusted (loss) earnings, all of which are non-GAAP terms. None of these terms has any standardized meaning under GAAP and they are therefore unlikely to be comparable to similar measures used by other companies.

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," below. Total Revenue, including Imputed Revenue, reflects 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 revenue in the revenue line for these transactions. 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 less, 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 any competitors in the industry for two reasons:

1. Public competitors all sell hardware as well as software and, typically, software revenue is only about 20 percent of total revenue. The impact of the EA license is therefore much less significant.
2. Softchoice has sold a greater portion of EA license agreements than our competitors since we believe that the agreement often provides a more cost-effective solution for our customers, particularly in the small and medium business (SMB) market.

The tables below show the Total Revenue, including Imputed Revenue, for the fourth quarter of 2009 and for 2009 compared to the same periods of the prior year. Year-over-year revenue comparisons are discussed in the next section of this report.

| Unaudited (in thousands of U.S. dollars) | Q4 2009 | Q4 2008 | Y/Y change |
|--|------------|------------|------------|
| Reported revenue | \$ 283,889 | \$ 334,988 | (15.3%) |
| Agency fees | (10,052) | (13,447) | (25.2%) |
| Imputed Revenue* | 151,062 | 180,473 | (16.3%) |
| Total Revenue, including Imputed Revenue | \$ 424,899 | \$ 502,014 | (15.4%) |

| Unaudited (in thousands of U.S. dollars) | 2009 | 2008 | Y/Y change |
|--|--------------|--------------|------------|
| Reported revenue | \$ 1,000,248 | \$ 1,244,295 | (19.6%) |
| Agency fees | (40,974) | (57,193) | (28.4%) |
| Imputed Revenue* | 656,511 | 771,339 | (14.9%) |
| Total Revenue, including Imputed Revenue | \$ 1,615,785 | \$ 1,958,441 | (17.5%) |

* Agency fees are included in Imputed Revenue.

EBITDA is defined as operating income plus amortization of property and equipment, amortization of intangible assets, and goodwill impairment charge. 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 management uses 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 the operating results compared to others in our industry and other potential investments.

| (in thousands of U.S. dollars) | Q4 2009 | Q4 2008 | Y/Y change | 2009 | 2008 | Y/Y change |
|--|-----------|-------------|------------|-----------|-------------|------------|
| Operating income (loss) | \$ 9,564 | \$ (34,490) | (127.7%) | \$ 24,218 | \$ (15,561) | n/a |
| Amortization of property and equipment | 723 | 629 | 14.9% | 2,907 | 2,640 | 10.1% |
| Amortization of intangible assets | 2,018 | 2,290 | (11.9%) | 7,949 | 8,173 | (2.7%) |
| Goodwill impairment | — | 43,624 | 0.0% | — | 43,624 | 0.0% |
| EBITDA | \$ 12,305 | \$ 12,053 | 2.1% | \$ 35,074 | \$ 38,876 | (9.8%) |

Adjusted EBITDA accounts for unusual items that are not expected to recur in the normal course of business, or specific non-operating items. This term is used to facilitate comparisons of results under more similar circumstances. In 2008,

particularly during the fourth quarter, the adjusting costs include severance costs associated with a reduction in workforce and bank fees associated with extending and refinancing the Company's debt.

| (in thousands of U.S. dollars) | Q4 2009 | Q4 2008 | Y/Y change | 2009 | 2008 | Y/Y change |
|----------------------------------|-----------|-----------|------------|-----------|-----------|------------|
| EBITDA | \$ 12,305 | \$ 12,053 | 2.1% | \$ 35,074 | \$ 38,876 | (9.8%) |
| Resizing and refinancing charges | — | 2,771 | (100.0%) | — | 2,771 | (100.0%) |
| Adjusted EBITDA | \$ 12,305 | \$ 14,824 | (17.0%) | \$ 35,074 | \$ 41,647 | (15.8%) |

Adjusted earnings (loss) eliminates the after-tax impact related to the resizing and refinancing charges, goodwill impairment and any foreign exchange (gain) loss, or gain on the cash,

intercompany debt and external debt denominated in a non-functional currency and subject to mark-to-market adjustments.

| (in thousands of U.S. dollars) | Q4 2009 | Q4 2008 | Y/Y change | 2009 | 2008 | Y/Y change |
|--|----------|-------------|------------|-----------|-------------|------------|
| Net earnings (loss) | \$ 7,097 | \$ (21,875) | n/a | \$ 22,263 | \$ (14,388) | n/a |
| After-tax foreign exchange (gain) loss | (1,679) | 700 | (340.0%) | (9,514) | 1,710 | (656.4%) |
| After-tax goodwill impairment | — | 26,638 | — | — | 26,638 | — |
| After-tax resizing and refinancing | — | 1,789 | — | — | 1,789 | — |
| Adjusted earnings | \$ 5,418 | \$ 7,252 | (25.3%) | \$ 12,749 | \$ 15,749 | (19.0%) |
| Adjusted EPS | \$ 0.30 | \$ 0.41 | (27.5%) | \$ 0.72 | \$ 0.90 | (16.4%) |

Change in Reporting Presentation

In the second quarter of 2009, the Company made a change to the reporting presentation of foreign exchange gains and losses, which will now be excluded from reported operating income but included in other income and deductions on a prospective basis. Prior to the second quarter of 2009, realized foreign exchange gains and losses were included in operating income.

The change was made in order to simplify portrayal and to eliminate the need to discuss adjusted EBITDA (as operating income less amortization of property and equipment, amortization of intangible assets, and foreign exchange gains or losses). All prior-year comparisons have been adjusted to reflect this change.

Selected Annual Information

The following information is provided to give a context for the broader comments elsewhere in this report.

| (in thousands of U.S. dollars, except per share amounts) | Year ended December 31, 2009 | Year ended December 31, 2008 | Year ended December 31, 2007 |
|---|---|------------------------------------|------------------------------------|
| Total Revenue, including Imputed Revenue | \$ 1,615,785 | \$ 1,958,441 | \$ 1,261,133 |
| Revenue | 1,000,248 | 1,244,295 | 777,082 |
| Gross profit | 142,269 | 171,803 | 125,117 |
| Gross profit as a percentage of revenue | 14.2% | 13.8% | 16.1% |
| Gross profit as a percentage of Total Revenue, including Imputed Revenue | 8.8% | 8.8% | 9.9% |
| EBITDA | 35,074 | 38,876 | 40,117 |
| Net earnings (loss) before income taxes | 31,840 | (24,830) | 36,950 |
| Net earnings (loss) | 22,263 | (14,388) | 21,997 |
| Earnings (loss) per share | | | |
| Basic | \$ 1.26 | \$ (0.82) | \$ 1.27 |
| Fully diluted | \$ 1.26 | \$ (0.82) | \$ 1.25 |
| Total assets | 294,189 | 355,761 | 319,826 |
| Long-term liabilities | 12,671 | 13,717 | 22,815 |
| Shareholders' equity | – | 67,438 | 74,700 |
| Dividends | – | 5,199 | 6,546 |

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

Net earnings for the current year were \$22.3 million compared to a net loss of \$14.4 million reported in the prior year.

Adjusted earnings were \$12.7 million compared to \$15.8 million in the prior year. Adjusted earnings per share (basic and diluted) is \$0.72 per share, compared to \$0.90 per share a year earlier. In prior years, the Company has hedged against foreign

exchange exposures to reduce volatility in the earnings statement. The Company decided not to hedge this exposure in 2009 but will separately disclose the foreign exchange impact. The hedging process itself is expensive, and management has decided not to spend cash on mitigating a foreign exchange exposure where the result is unrealized and does not have an impact on our reported cash position. This decision could increase the volatility in the reported earnings stream and affect reported earnings per share performance.

Fourth Quarter Highlights

- Total revenue for the quarter was \$283.9 million, reflecting a decrease of 15 percent from the revenue of \$335.0 million reported in the fourth quarter of the prior year. Total Revenue, including Imputed Revenue, for the current quarter was \$424.9 million, a decline of 15 percent versus the prior quarter. Eliminating the impact of foreign exchange, revenue declined by 20 percent during the quarter compared to the same period of the prior year, and gross profit declined by 14 percent.
- Gross profit for the quarter was \$39.5 million, reflecting a decrease of 10 percent compared to the same quarter of the prior year. Ignoring the impact of foreign exchange during the fourth quarter, gross profit declined by 14 percent versus the same period of the prior year.
- Fourth quarter operating expenses (excluding goodwill impairment, resizing and refinancing charges, amortization of property and equipment and amortization of intangible assets) declined by two percent for Canadian operations and 22 percent for U.S. operations measured in their respective currencies. Operating expenses, on a consolidated basis, declined by eight percent compared to the same quarter last year.
- Adjusted EBITDA for the quarter of \$12.3 million decreased by 17 percent compared to the same quarter of the prior year, whereas operating income decreased by 20 percent compared to the same quarter of the prior year, ignoring the impacts of the goodwill impairment and the resizing and refinancing costs incurred in the fourth quarter of 2008.
- Net earnings for the quarter were \$7.1 million compared to a net loss of \$21.9 million in the same period of the prior year. Earnings per share was \$0.39 per share (basic and diluted), compared to a net loss per share of \$1.25 (basic and diluted) in the same quarter of the prior year.
- Total debt of the Company was \$16.8 million at the end of the quarter, and the Company had \$18.6 million in cash on hand during the same period. This is a reduction of \$37.3 million in debt compared to debt levels since the end of the fourth quarter of the prior year.
- 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. Proceeds of the offering were used by the Company to repay the Company's short-term indebtedness under a three-year \$115 million revolving asset-backed loan facility and to reduce the dependence of the Company on this facility. The additional amounts remaining after such repayment will be used for general corporate and working capital purposes.

Management Comments*

As the economies of both the United States and Canada continued to be in a recession during the first half of 2009, IT professionals and published reports suggest IT spending may have bottomed and anticipate the IT industry will return to growth in 2010, but not to 2008 levels until 2012.

The Company reviewed various reports from International Data Corporation (IDC) and from hardware vendors during 2009 and has concluded that our hardware sales results in 2009 were slightly behind industry trends. The hardware business seems to be affected the most of all technology segments, as published reports from IDC suggest it was expected to suffer a 16.5 percent decline in global IT spending in 2009 compared to 2008. This is consistent with the decline the Company experienced in 2009,

which saw a year-over-year decline in its revenues of 20 percent compared to 2008.

However, Forrester Research is expecting a rebound in 2010 as IT spending in the United States is forecast to grow 6.6 percent to \$568 billion in 2010, rebounding from an 8.2 percent decline in the prior year. 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.

Customers in both our enterprise and small and medium business (SMB) segments have placed extremely tight controls on spending during the 2009 fiscal year. We define SMB as any company with fewer than 2,000 PCs; enterprise customers have

* This section includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

more than 2,000 PCs. Until corporations in these two key business segments release funding for technology refresh and software acquisitions, management believes that overall revenue and gross profit results will continue to reflect current conditions.

The Microsoft business segment declined during the fourth quarter of 2009. Management attributes this decline to a lower Microsoft fee structure and lower true-up activity over the year, particularly in the United States, driven by reduced employment levels in the corporate sector and deferred investment in server and software purchases, as well as increased competition in the software sector. (True-up activity relates to fees charged on EA agreements for changes in the number of users.) The Company will be increasing its business focus on the Microsoft segment for 2010.

Business Outlook*

The Company continues to believe that many clients have limited capacity to defer technology hardware and software replacement for long periods of time before it begins having an impact on their ability to improve their internal productivity, and we believe there will be some level of catch-up spending when businesses return to their normal technology refresh cycles.

Despite the gross profit decline we experienced during 2009, we expect 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 close the gap to prior period operating results going forward.

Detailed Review of Quarterly Operating Results

Summary of Quarterly Data (in thousands of U.S. dollars, except per share amounts)

| | 2008 | | | | 2009 | | | |
|---------------------|------------|------------|------------|------------|-------------------|-------------------|-------------------|-------------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Revenue | \$ 298,554 | \$ 334,396 | \$ 276,356 | \$ 334,988 | \$ 218,358 | \$ 279,273 | \$ 218,728 | \$ 283,889 |
| Gross profit | 39,211 | 53,442 | 35,464 | 43,686 | 30,654 | 41,312 | 30,813 | 39,490 |
| Operating income | | | | | | | | |
| (loss) | 3,924 | 13,919 | 1,086 | (34,490) | (399) | 12,920 | 2,133 | 9,564 |
| Net earnings (loss) | 1,727 | 7,425 | (1,665) | (21,875) | (2,389) | 12,642 | 4,913 | 7,097 |
| Earnings (loss) | | | | | | | | |
| per share | \$ 0.10 | \$ 0.42 | \$ (0.09) | \$ (1.25) | \$ (0.14) | \$ 0.72 | \$ 0.29 | \$ 0.39 |

Cost Management

The successful integration of the three acquired businesses, in late 2007 and early 2008, has improved the Company's sales and delivery capacity, and provided a lower-cost model that is capable of driving strong revenue growth as we come out of the current recession. The year-over-year revenue and gross profit declines experienced during the first half of the year were the most severe for the year. This is evident from the sequential improvement in year-over-year gross profit performance for each of the quarters, showing a 10 percent decline during the fourth quarter, compared to the year-over-year gross profit decline of 17 percent experienced during 2009.

Coupling the leverage of this integration with a broader drive for increased productivity levels and cost reduction strategies, we have positioned the Company to remain profitable throughout the recession. These actions continue to have an impact on the Company's results, with total operating expense levels, excluding the goodwill impairment, resizing and refinancing costs, declining by six percent during the fourth quarter compared to the same quarter of the prior year.

The previously announced four percent reduction in general employee salaries and six percent reduction in executives' salaries went into effect on May 1, 2009. While we have not instituted a complete freeze on new hiring, all hiring continues to be subject to increased scrutiny.

* This section includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Seasonality

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

- March 31 is the Canadian federal government year-end. Historically, the government tended to make 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. In the last few years, this has become the largest quarter in our fiscal year.
- September 30 is the U.S. federal government year-end, but our business from this segment is not sufficient to overcome the more general reduction in activity due to summer vacation schedules.
- 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.

Selected Fourth Quarter Information

| Unaudited (in thousands of U.S. dollars, except per share amounts) | Q4 2009 | | Q4 2008 | | Y/Y change |
|--|----------------|---------------|----------|--------------|------------|
| | \$ | % of revenue | \$ | % of revenue | |
| Total Revenue, including Imputed Revenue | 424,899 | 149.7% | 502,014 | 149.9% | (15.4%) |
| Revenue | 283,889 | 100.0% | 334,988 | 100.0% | (15.3%) |
| Gross profit | 39,490 | 13.9% | 43,686 | 13.0% | (9.6%) |
| Expenses | 27,185 | 9.6% | 28,862 | 8.6% | (5.8%) |
| Restructuring costs and refinancing costs | – | 0.0% | 2,771 | 0.8% | (100.0%) |
| EBITDA | 12,305 | 4.3% | 12,053 | 3.6% | 2.1% |
| Amortization | 2,741 | 1.0% | 2,919 | 0.9% | (6.1%) |
| Goodwill impairment | – | 0.0% | 43,624 | 13.0% | (100.0%) |
| Operating income | 9,564 | 3.4% | (34,490) | (10.3%) | n/a |
| Interest and other expenses | 876 | 0.3% | 1,435 | 0.4% | (39.0%) |
| Foreign currency exchange (gain) loss | (1,871) | (0.7%) | 1,542 | 0.5% | (221.3%) |
| Net earnings (loss) before taxes | 10,559 | 3.7% | (37,467) | (11.2%) | n/a |
| Net earnings (loss) | 7,097 | 2.5% | (21,875) | (6.5%) | n/a |
| Earnings (loss) per share | 0.39 | – | (1.25) | – | – |

Revenue

Total revenue for the quarter was \$283.9 million, reflecting a decrease of 15 percent from the revenue of \$335.0 million reported in the fourth quarter of the prior year. Total Revenue, including Imputed Revenue, for the current quarter was \$424.9 million, a decline of 15 percent versus the prior quarter.

Revenue from United States operations was \$162.0 million, reflecting a decrease of 24 percent from the prior year quarter. Revenue from Canadian operations, measured in Canadian

dollars, was C\$128.8 million in the quarter, reflecting a decrease of 14 percent from the prior year quarter.

The Canadian dollar appreciated from 1.2099 in the fourth quarter of 2008 to 1.0570 in 2009 for a period-over-period change of 13 percent. If the foreign exchange rate had held constant, quarterly reported revenue and Total Revenue, including Imputed Revenue, would have decreased by 20 percent and 20 percent, respectively, for a total foreign currency impact on revenue of \$15.5 and \$21.0 million, respectively.

Microsoft Imputed Revenue associated with agency fees was \$151.1 million in the quarter, a decline of 16 percent from the same period last year. The amount earned by Softchoice in agency fees was \$10.1 million in the quarter, which is a decline of 25 percent from the same quarter last year. The deterioration in fee margin as a percentage of Imputed Revenue is largely attributable to a reduction in the EA fee structure introduced by Microsoft during the second quarter of 2009. The decline in agency fees was also affected by a decline in the volume of true-up and add-on business, and a decrease in the volume of business derived from the annuity or renewal license stream.

Agency fees represent 26 percent of total gross profit in this quarter compared to 31 percent in the fourth quarter of 2008.

Product Segment Analysis

| Unaudited (in thousands of U.S. dollars) | Q4 2009 | Q4 2008 | Y/Y change |
|--|------------|------------|------------|
| Microsoft revenue | \$ 71,902 | \$ 108,717 | (33.9%) |
| Agency fees | (10,052) | (13,447) | (25.2%) |
| Microsoft Imputed Revenue | 151,062 | 180,473 | (16.3%) |
| Total Microsoft Revenue, including Imputed Revenue | 212,912 | 275,743 | (22.8%) |
| Other software revenue | 102,887 | 96,249 | 6.9% |
| Hardware revenue | 109,100 | 130,022 | (16.1%) |
| Total Revenue, including Imputed Revenue | \$ 424,899 | \$ 502,014 | (15.4%) |
| Total reported revenue | \$ 283,889 | \$ 334,988 | (15.3%) |

Gross Profit

Gross profit for the quarter was \$39.5 million, reflecting an approximate 90 basis point improvement in gross margin percentage and a decrease in gross profit of 10 percent compared to gross profit of \$43.7 million reported in the fourth quarter of the prior year. Eliminating the positive foreign currency impact, overall gross profit declined by 14 percent compared to the fourth quarter of the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue, was 9.3 percent compared to 8.7 percent in the fourth quarter of the prior year. This is primarily the result of the margin improvements experienced across all three product lines. These factors have offset the decline in gross profit experienced in the U.S. hardware business and the Microsoft business during the fourth quarter.

Product line margins have shown a slight increase this quarter, by 90 basis points, compared to the same quarter of the prior year. The overall gross profit decrease in the quarter is primarily

Other software sales were \$102.9 million in the quarter, a seven percent increase compared to the same period of the prior year, despite the broad-based slowdown in technology spending.

Hardware sales were \$109.1 million in the quarter, compared to \$130.0 million in the same quarter last year. Hardware sales in Canada increased by 14 percent on the strength of some large enterprise accounts, when measured in Canadian dollars, while hardware sales in U.S. operations declined by 34 percent, continuing the trend of constrained purchases as corporations extend their technology refresh cycle to preserve capital during the recession.

driven by erosion in the volume of business related to the hardware business and the Microsoft business. This decline in gross profit was offset somewhat by strengthening performance in other software sales as a result of certifications that have been attained during the year and by the Microsoft margins resulting from the mix of license types sold during the quarter.

Rebates in the fourth quarter of 2009 declined by 53 percent compared to the fourth quarter of 2008, largely due to declines in Microsoft sales in the United States, failure to renew one key customer during the quarter (which impacted public sector rebates), changes in the Microsoft rebate program and a decline in IBM rebates during the quarter compared to the fourth quarter of the prior year.

Marketing development funds earned in the quarter increased by about 51 percent. This increase is primarily the result of an increase in the amount of funding for events conducted during the quarter.

Expenses and Adjusted EBITDA

| (in thousands of U.S. dollars) | Q4 2009 | | Q4 2008 | | Y/Y change |
|--|---------------|-------------------|---------|-------------------|------------|
| | \$ | % of gross profit | \$ | % of gross profit | |
| Salaries and benefits | 19,494 | 49.4% | 20,528 | 47.0% | (5.0%) |
| Selling, general and administrative ("SG&A") | 7,691 | 19.5% | 8,334 | 19.1% | (7.7%) |
| | 27,185 | 68.8% | 28,862 | 66.1% | (5.8%) |

Total salaries and benefits and SG&A expenses decreased by six percent in the quarter compared to the same period of the prior year. These expenses as a percentage of gross profit grew slightly to 68.8 percent over the period, primarily as a result of the gross profit decline during the quarter.

Employee levels decreased by four percent compared to the fourth quarter of 2008. The decrease in salaries and benefits reflects reduced incentive compensation earnings associated with our lower gross profit levels compared to the same period of the prior year. Salary expenses in the fourth quarter also reflect a provision for a performance incentive program for 2009 and 2010 in the amount of \$0.6 million that was introduced in the second quarter of 2009, reflecting expected performance under the program. (Please refer to the Company's Management Information Circular dated April 3, 2009 for more information on Softchoice's Long-Term Incentive Plan.)

Selling, general and administrative expenses decreased eight percent compared to the same quarter of the prior year reflecting the impact of various cost-reduction initiatives that were put in place throughout the year. This decline reflects management's vigilance regarding cost management during these difficult economic times.

Adjusted EBITDA reflects the profits of the Company after salaries, SG&A costs and any unusual items are deducted from gross profit. A gross profit decline of 10 percent, offset by an expense decline of six percent, has resulted in an adjusted EBITDA decrease of 17 percent from the fourth quarter of the prior year.

Other

Amortization of property and equipment increased by 15 percent compared to the fourth quarter of the prior year as a result of capital asset purchases made close to the year end in 2008.

The amortization of intangibles has decreased by 12 percent compared to the same period of the prior year, primarily as a result of a true-up that was performed in the fourth quarter of the prior year as a result of finalizing the purchase price equation for the Software Plus acquisition.

Interest expense and other income was \$0.8 million in the quarter. A foreign exchange gain of \$1.9 million existed in the fourth quarter of 2009 based on the appreciation of the Canadian dollar from the previous quarter, with approximately \$1.1 million of the total foreign exchange gain resulting from the revaluation of the Company's intercompany loan and \$0.6 million attributable to the revaluation impacts of the term loan, both of which are on the books of the Canadian division and are denominated in U.S. dollars.

Net earnings for the quarter were \$7.1 million compared to a net loss of \$21.9 million in the same period of the prior year. Earnings per share was \$0.39 per share (basic and diluted), compared to a net loss per share of \$1.25 (basic and diluted) in the same quarter of the prior year. Adjusted earnings for the quarter were \$5.4 million, a decrease of 25 percent compared to the same period of the prior year. Adjusted earnings per share was \$0.30 per share (basic) compared to \$0.41 per share (basic) in the same quarter of the prior year.

The effective tax rate for the quarter was approximately 33 percent, which is a decline from the same quarter of the prior year. This decline is primarily as a result of a lower effective tax rate in Canada attributable to non-taxable dividends received in the Canadian company, the non-taxable and non-deductible impacts of the Long-Term Incentive Plan as a result of the reversal provisions made for the 2007 and 2008 plans, and the non-taxable portion of foreign exchange capital gain.

Detailed Review of Annual Operating Results

Selected Annual Information

| | 2009 | | 2008 | | |
|---|------------------|-----------------|-----------|-----------------|------------|
| (in thousands of U.S. dollars, except per share amounts) | \$ | % of revenue | \$ | % of revenue | Y/Y change |
| Total Revenue, including Imputed Revenue | 1,615,785 | 161.5% | 1,958,441 | 157.4% | (17.5%) |
| Revenue | 1,000,248 | 100.0% | 1,244,295 | 100.0% | (19.6%) |
| Gross profit | 142,269 | 14.2% | 171,803 | 13.8% | (17.2%) |
| Expenses | 107,195 | 10.7% | 130,156 | 10.5% | (17.6%) |
| Restructuring costs and refinancing costs | — | 0.0% | 2,771 | 0.2% | (100.0%) |
| EBITDA | 35,074 | 3.5% | 38,876 | 3.1% | (9.8%) |
| Amortization | 10,856 | 1.1% | 10,813 | 0.9% | 0.4% |
| Goodwill impairment | — | 0.0% | 43,624 | 3.5% | (100.0%) |
| Operating income | 24,218 | 2.4% | (15,561) | (1.3%) | n/a |
| Interest and other expenses | 5,027 | 0.5% | 6,457 | 0.5% | (22.1%) |
| Foreign exchange loss (gain) | (12,649) | (1.3%) | 2,812 | 0.2% | (549.8%) |
| Net earnings before taxes | 31,840 | 3.2% | (24,830) | (2.0%) | n/a |
| Net earnings | 22,263 | 2.2% | (14,388) | (1.2%) | n/a |
| Earnings (loss) per share | 1.26 | — | (0.82) | — | — |

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

Revenue for 2009 was \$1.0 billion, reflecting a decrease of 20 percent from 2008 revenue of \$1.2 billion. Total Revenue, including Imputed Revenue, declined by 18 percent over the period.

Agency fees for EA licenses declined by 28 percent compared to the decline in Microsoft Revenue of 26 percent reported in the same period of the prior year. These agency fees reflect erosion in the fee margin as a percentage of Imputed Revenue from 7.4 percent to 6.2 percent. This decrease is due to the larger proportion of Year 1 opportunities that were renewed during 2008 (which typically earn a higher fee percentage), changes to the Microsoft fee structure and a reduction in true-up and add-on licenses as a result of the downturn in the economy.

In Canada, sales in Canadian dollars declined by seven percent overall, and Total Revenue, including Imputed Revenue, declined by five percent compared to 2008. The relative strength in other software sales offset a general decline in both Microsoft and hardware sales.

In the United States, sales declined by 24 percent overall, and Total Revenue, including Imputed Revenue, declined by 21 percent compared to 2008. Hardware sales declined by 34 percent compared to the prior year.

Sales of other software remained relatively consistent compared to the prior year.

The Canadian dollar depreciated against the U.S. dollar from 1.0658 during 2008 to 1.1414 in 2009 for a year-over-year change of seven percent. If the foreign exchange rate had held constant, year-over-year reported revenue and Total Revenue, including Imputed Revenue, would have decreased by 17 percent and 16 percent, respectively, for a total foreign currency impact on revenue and Total Revenue, including Imputed Revenue, of \$27.6 and \$38.2 million, respectively.

Gross Profit

Gross profit for 2009 was \$142.3 million, reflecting a decrease of 17 percent compared to gross profit of \$171.8 million reported in the prior year. Eliminating currency impact, overall gross profit declined by 15 percent compared to the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue, was 8.8 percent, which remained flat compared to the prior year.

Rebates in 2009 declined by 53 percent compared to 2008, largely due to the declines in the Microsoft business in the United States, a decrease in the U.S. IBM business and changes in the Microsoft rebate program.

Marketing development funds earned in 2009 grew by five percent. This growth reflects an increase compared to the same period of the prior year, primarily due to vendor funding received for events conducted during the year.

Product Segment Analysis

| Unaudited (in thousands of U.S. dollars) | 2009 | 2008 | Y/Y change |
|--|--------------|--------------|------------|
| Microsoft revenue | \$ 304,574 | \$ 410,774 | (25.9%) |
| Agency fees | (40,974) | (57,193) | (28.4%) |
| Microsoft Imputed Revenue | 656,511 | 771,339 | (14.9%) |
| Total Microsoft Revenue, including Imputed Revenue | 920,111 | 1,124,920 | (18.2%) |
| Other software revenue | 326,383 | 325,702 | 0.2% |
| Hardware revenue | 369,291 | 507,819 | (27.3%) |
| Total Revenue, including Imputed Revenue | \$ 1,615,785 | \$ 1,958,441 | (17.5%) |
| Total reported revenue | \$ 1,000,248 | \$ 1,244,295 | (19.6%) |

Expenses and Adjusted EBITDA

| (in thousands of U.S. dollars) | 2009 | | 2008 | | Y/Y change |
|-------------------------------------|-------------------|-------|-------------------|-------|------------|
| \$ | % of gross profit | \$ | % of gross profit | | |
| Salaries and benefits | 76,399 | 53.7% | 93,648 | 54.5% | (18.4%) |
| Selling, general and administrative | 30,796 | 21.6% | 36,508 | 21.3% | (15.6%) |
| | 107,195 | 75.3% | 130,156 | 75.8% | (17.6%) |

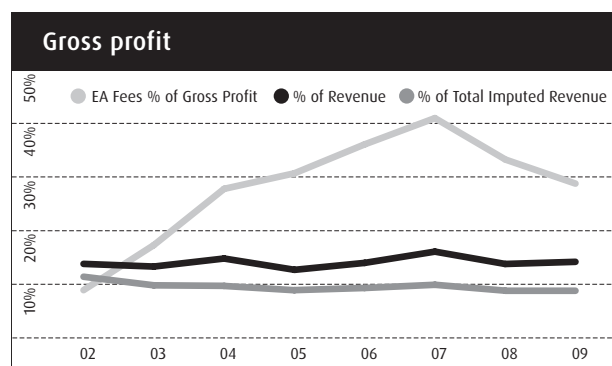
Total expenses decreased by 18 percent over the prior year. Expenses as a percentage of gross profit decreased slightly to 75.3 percent from 75.8 percent reported in the previous year, primarily as a result of the cost reduction actions taken by the Company. The decline in expenses reflects the Company's focus on cost management and the results of the productivity and cost management activities that were undertaken in 2008 and 2009.

Average headcount levels for 2009 decreased by 13 percent compared to 2008. The reductions in salaries and benefits reflect the lower staff levels and the reduced incentive compensation earnings associated with our lower gross profit levels. Salary expenses for 2009 also reflect a reversal of an amount accrued in prior years for the Long-Term Incentive Plan (LTIP) in the amount of \$1.4 million, reflecting expected LTIP performance in 2009 and 2010 under the former plans. This reversal was offset by a provision for the new performance incentive program that was introduced in the second quarter of 2009 for a total cost in the year of \$1.0 million. (Please refer to the Company's Management Information Circular dated April 3, 2009 for more information on Softchoice's LTIP.)

Selling, general and administrative expenses decreased by 16 percent compared to the prior year, reflecting a

reduction in overall expense levels that was partially offset by a one-time benefit in 2008 from the recovery of a sales tax exposure in the amount of \$0.9 million. This decline reflects management's vigilance regarding cost management during these difficult economic times.

Adjusted EBITDA reflects the profits of the Company after salaries, selling, general and administrative costs and any unusual items are deducted from gross profit. A gross profit decline of 17 percent, offset by an expense decline of 18 percent, has demonstrated the versatility of the Company's new cost model. As a result, adjusted EBITDA decreased from 2008 levels by 16 percent.



Other

Amortization of property and equipment increased by 10 percent compared to 2008 as a result of capital asset purchases made in the latter part of 2008. The amortization of intangibles has decreased by three percent, primarily as a result of a true-up that was performed in the fourth quarter of the prior year.

Other expenses include interest expense and other income of \$5.0 million during 2009, which is made up primarily of interest costs associated with the long-term debt and a foreign currency gain of \$12.6 million.

The effective tax rate for 2009 was approximately 33 percent, which decreased from the prior period primarily as a result of a lower effective tax rate in Canada attributable to non-taxable dividends received in the Canadian company, the non-taxable and non-deductible impacts of the LTIP accrual reversal, and the non-taxable portion of a foreign exchange capital gain that resulted in lower taxable income for the period. These impacts were offset by an increase in the U.S. effective tax rate attributable to a tax true-up recorded in the second quarter of 2009.

Net earnings for 2009 were \$22.3 million compared to a net loss of \$14.4 million in the prior year. Earnings per share was \$1.26 per share (basic and diluted), compared to a net loss per share of \$0.82 (basic and diluted) in the prior year. On an adjusted basis, earnings for the year were \$12.6 million, a decrease of 20 percent compared to the prior year. Adjusted earnings per share was \$0.72 per share (basic) compared to \$0.90 per share (basic) 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 meet the Company's planned growth and development activities.

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

Operating Activities

Cash provided by operating activities was approximately \$33.1 million during the year ended December 31, 2009 (2008 – \$30.9 million).

Accounts receivable balances reflect days sales outstanding (DSO) of 40 days as at December 31, 2009, compared to 43 days outstanding as at December 31, 2008. The Company targets DSO levels of 45 days.

Days payable outstanding (DPO) decreased from 58 days in the prior year to 53 days at the end of December 31, 2009. The decrease in DPO is primarily the result of the timing of vendor payments. We expect that DPO levels will decline from this level in future years.

The Company's DSO ratio has improved from the prior year and exceeds target levels, indicating that accounts receivable are being collected in a timely manner. Furthermore, the DPO ratio has also improved. 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.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

| | On demand | Less than 1 year | 1 to 2 years | More than 2 years | Total |
|-------------------------------|-----------|------------------|--------------|-------------------|------------|
| Accounts payable and accruals | \$ 29,697 | \$ 137,426 | \$ – | \$ – | \$ 167,123 |
| Debt | – | 4,104 | 4,104 | 8,567 | 16,775 |
| | \$ 29,697 | \$ 141,530 | \$ 4,104 | \$ 8,567 | \$ 183,898 |

Capital resources are financing resources available to the Company, which include debt and equity financing. As of

December 31, 2009, the Company does not have any material commitments for capital expenditures.

Debt Financing

Debt financing is provided to Softchoice in Canada, and working capital and other financing needs are 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 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 incurs interest at prime plus 2.25 percent on inception and can reduce to prime plus 1.75 percent depending on certain financial measures being realized. 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 US\$20.5 million. The debt has a five-year term and quarterly payments of US\$1.0 million. Interest on this loan is 17.5 percent per annum; this rate will be reduced to 16.0 percent per annum 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). This loan can be repaid without penalty or termination fee after 36 months. OTPP is a major shareholder and also a related party. During the year OTPP purchased hardware and software products from the Company totalling \$512 thousand.

Both loans have certain financial covenants as conditions to continued borrowing. A fixed-charge coverage ratio is required by both loans, and the term debt loan has two additional covenants, including a maximum debt leverage covenant and an asset coverage 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 million, and were used by the Company to repay the Company's short-term indebtedness under the ABL and to reduce the dependence of the Company on this facility. Any additional amounts remaining after such repayment will be used for general corporate and working capital purposes.

The table below indicates the level of debt available to the Company and the amounts outstanding as at December 31, 2009. Including available cash, the net cash position at the end of 2009 is \$1.8 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.*

Debt levels as at December 31, 2009

| (in thousands of U.S. dollars) | Available | Drawn |
|--------------------------------|------------|-----------|
| Short-term debt | | |
| ABL | \$ 95,192 | \$ – |
| Current portion of term debt | 4,104 | 4,104 |
| | 99,296 | 4,104 |
| Term debt, long-term | 12,671 | 12,671 |
| Total debt | \$ 111,967 | \$ 16,775 |

Cash Flow

In addition to having excess debt availability, the Company was able to reduce debt from \$54.0 million at December 31, 2008 to \$16.8 million at December 31, 2009, and during the same period cash balances increased from \$14.1 million to \$18.6 million.

The reduction in debt was primarily a result of \$33.1 million of cash generated from earnings adjusted for non-cash items and the equity offering proceeds, partially offset by \$3.4 million of cash used for investing activities.

Share Capital

As of December 31, 2009, 19,759,189 common shares of the Company were issued and outstanding. Options to acquire an aggregate of 69,684 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 December 31, 2009, there were 111,733 deferred share units outstanding under the Company's deferred share unit plan for Directors, each of which represents the right to acquire one common share. Refer to Note 10 of the financial statements.

Equity Financing

On November 20, 2009, the Company entered into a bought-deal financing agreement whereby the Company issued a total

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

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 the Company's short-term indebtedness under a three-year \$115 million revolving asset-backed loan facility and to reduce the dependence of the Company 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 subsequent to the year end.

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 December 31, 2009, included in trade accounts receivable is \$205 thousand due from a major shareholder, Ontario Teachers' Pension Plan ("OTPP"), for product sales with payment terms of net 30 days (December 31, 2008 – nil). Total product sales to OTPP during the year ended December 31, 2009 were \$512 thousand (2008 – \$298). 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.

As a result of the refinancing that occurred in the first quarter of 2009, a portion of the long-term debt outstanding is backed by OTPP. During the year ended 2009, OTPP received principal repayments of \$748 thousand and interest repayments of \$616 thousand. Refer to "Debt Financing," above.

Key Performance Measures

The Company presents four key performance measures to help investors understand the 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 make revenue-based analysis distorting.

Revenue or Growth Indicators:

- Number of Customers

Productivity Indicators:

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

For the fourth quarter of 2008, these performance indicators are presented excluding data related to the Optimus Solutions acquisition. As a result, comparative results will be slightly exaggerated since all data for 2009 includes the results of all acquisitions, which have been fully integrated and cannot be segregated to normalize the effects attributable to the acquisitions.

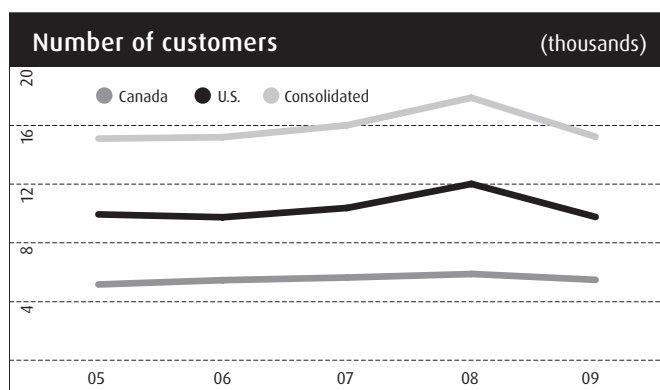
Number of Customers

During 2009, due to decisions made by our customers to defer spending, the number of customers purchasing from Softchoice decreased by eight percent in Canada and by 23 percent in the United States compared to the prior year.

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

| | 2009 | 2008 |
|--------------------------|------|------|
| Small and Medium | 44% | 54% |
| Enterprise | 36% | 24% |
| Government and Education | 20% | 22% |
| Total | 100% | 100% |

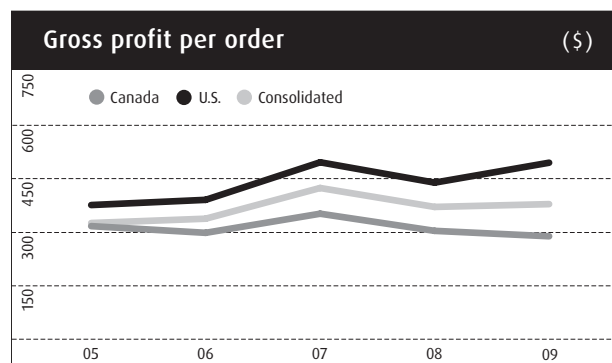
The portion of sales made to enterprise customers increased in 2009, with 36 percent of sales to the enterprise customer base, compared with 24 percent during 2008. This increase is primarily due to the impact of the acquisitions, which added a larger portion of enterprise customers to our business mix.



Gross Profit per Order

In Canada, gross profit per order increased by seven percent during the fourth 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, excluding transactions related to professional services, gross profit per order increased by 13 percent compared to the same period of the prior year due to the mix of large deal orders delivered in the quarter compared to the prior year, which generally earn higher margins, as well as the increased margins realized during the quarter related to

non-Microsoft business 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 2009 compared to 2008. Data related to the employees acquired through acquisitions has been included in both reporting periods.

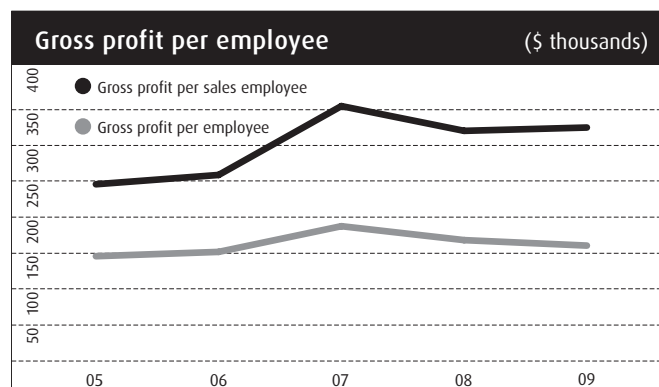
| | Q4 2009 | | Q4 2008 | | Y/Y change | |
|----------------------------------|---------------|---------------|---------|--------|------------|--------|
| | Sales | Total | Sales | Total | Sales | Total |
| Average headcount | 433 | 877 | 487 | 917 | (11.1%) | (4.4%) |
| Quarter-end headcount | 433 | 874 | 478 | 897 | (9.4%) | (2.6%) |
| Gross profit per person (\$000s) | \$91.2 | \$45.2 | \$91.4 | \$48.7 | (0.2%) | (7.2%) |

| | 2009 | | 2008 | | Y/Y change | |
|----------------------------------|----------------|----------------|---------|---------|------------|---------|
| | Sales | Total | Sales | Total | Sales | Total |
| Average headcount | 437 | 882 | 535 | 1,017 | (18.4%) | (13.2%) |
| Year-end headcount | 433 | 874 | 478 | 897 | (9.4%) | (2.6%) |
| Gross profit per person (\$000s) | \$328.6 | \$162.8 | \$359.4 | \$191.5 | (8.6%) | (15.0%) |

During 2009 the total number of employees decreased by 135 people, or 13 percent, compared to the prior year, reflecting the actions we have taken to drive cost reductions and enhance productivity.

During 2009, gross profit per sales employee, a key measure of productivity, decreased by nine percent, primarily as a result of lower productivity from the sales team. Gross profit per employee decreased by 15 percent compared to the prior year. This decrease is primarily a result of impacts from the economic downturn that occurred during 2009 and its impact on the gross profit performance during the year, resulting in erosion of margin per sales employee rates compared to the

prior year. We expect both productivity measures to improve in future quarters.*



* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

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. About 30 percent of Softchoice's revenue, or 57 percent of Total Revenue, including Imputed Revenue, is 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 for 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 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.

Microsoft does not pay rebates on sales of EAs. As a result of the increase of EA sales, rebates have begun to have a smaller impact on the overall profitability of the Company. We anticipate that this trend will continue.*

Critical Accounting Policies

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies and historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period that would have a material impact on the Company's financial condition or results of operation.

Revenue Recognition

The Company generates revenue from selling technology products and licensing the rights to software products to end-users. 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 customer orders, purchases the product from the supplier at a negotiated price, arranges for shipment

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

of the product, collects payment from customers, ensures that the product reaches customers and processes returns. The Company's product is shipped directly to customers using third-party carriers. Sales of products in which the Company acts as an agent are presented on a net basis. As an agent, the Company obtains the order and refers the order to a supplier for a fee.

Revenue is recorded when the product is shipped to customers, Freight on Board shipping point, or when customers acquire the right to use or copy software under license, but in no case prior to the commencement of the term of the software license agreement or service contract, when the price is fixed and determinable and collection is reasonably assured. The Company estimates the level of anticipated sales returns based on historical experience and makes appropriate reserves at the time the revenue is recognized. Our policy for revenue recognition is discussed in more detail in Note 2 of the financial statements.

Multiple-Element Arrangements: The Company's business agreements contain multiple elements; however, to date revenue from multiple elements has not been significant. Accordingly, the Company is required to determine the appropriate accounting, including whether the deliverables specified in a multiple-element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element.

For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. These elements may include one or more of the following: hardware, software, maintenance and/or installation. The Company first allocates the arrangement fee in a multiple-element transaction to the undelivered elements based on the total fair value of those undelivered elements, as indicated by vendor-specific objective evidence. This portion of the arrangement is then deferred.

Then the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. 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 multiple-element arrangement and, therefore, the Company allocates the corresponding revenue among the various components, as described above.

Professional Services: The Company also generates revenue from providing professional services to end-users such as

information technology (IT) data center and business process hosting, data center configuration and the design and development of IT systems. Time incurred on the contract or project is tracked, and billings are processed based on the percentage-of-completion method of accounting. Under this method, the actual hours incurred and the budgeted hours to complete the project are used 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. Time and material contracts are billed as time is incurred.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are initially measured at fair value and subsequently recognized at amortized cost net of provisions for doubtful accounts.

The Company maintains an allowance for doubtful accounts in 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. Individual overdue accounts are reviewed, and allowances are recorded to state accounts receivable at net realizable value when it is known that they are not collectible in full. Additionally, the Company assesses the overall adequacy of the allowance for doubtful accounts by considering various factors including the aging of receivables, historical bad debt experience and the general economic environment. Management's judgment is required when the Company assesses the realization of accounts receivable, including assessing the probability of collection and the current creditworthiness of each customer.

Sales Returns Allowance

At the end of each period, the Company records an estimate for sales returns based on historical experience. The historical estimate is recalculated multiple times a year to ensure it reflects the most relevant data available.

Deferred Revenue

Deferred revenue includes revenue that is not yet earned on sales to customers with extended payment terms beyond 180 days, services sales to customers where performance is not yet complete and maintenance contracts where the contract start date is not yet in effect. Deferred revenue on extended payment terms is recognized as the funds are received from the customer. Revenue on maintenance contracts performed by third-party vendors is recognized once the contract date is in effect. Revenue on maintenance contracts performed by internal resources is recognized ratably over the term of the maintenance period. Internal consulting services are recognized on a per usage basis.

Inventories

Inventory is comprised of finished goods and is valued at the lower of cost or net realizable value. Finished goods inventory consists of goods purchased in advance for resale and goods that are awaiting configuration for customers. Cost is determined on a first-in, first-out basis.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

| | |
|------------------------|------------------------------------|
| Office equipment | three years |
| Computer equipment | three years |
| Computer software | three years |
| Leasehold improvements | over the term of the related lease |

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An estimate of undiscounted future cash flows produced by assets, or the appropriate grouping of assets, is compared with the carrying value to determine whether an impairment exists. If an impairment is determined to exist, the assets are written down to their fair value.

Goodwill

Goodwill is the excess of the fair value over the tangible and identifiable intangible assets and liabilities acquired in a business combination. The Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the fair value of the reporting unit is less than its book value. Impairment is tested by comparing the fair value of the reporting unit to which goodwill has been assigned to its carrying value including goodwill. When the carrying value of the reporting unit exceeds the fair value, the excess of the carrying value of the goodwill compared to the implied fair value of the reporting unit's goodwill is recognized as an impairment loss.

Intangible Assets

Intangible assets are related to acquisitions and are recorded at their fair value at the acquisition date. These assets include customer relationships, non-compete agreements, and acquired contracts, which have finite lives. These intangible assets are amortized over their estimated economic lives of five to 10 years, unless indicated otherwise.

Management reviews the carrying value of its finite-lived intangible assets whenever events or changes in circumstances indicate the asset might be impaired. If an impairment is

determined to exist, the assets are written down to fair value.

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets." The new Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Company has reflected the impact of this standard on its financial results in 2009. The adoption of this standard required the Company to retroactively reclassify its computer software assets on its consolidated balance sheet from property and equipment to intangible assets. The net carrying value of computer software reclassified as of December 31, 2009 was \$1.8 million (December 31, 2008 – \$1.6 million). In addition, the amortization of computer software has been reclassified from amortization of property and equipment to amortization of intangible assets. The reclassification of amortization for the year ended December 31, 2009 was \$1.2 million (December 31, 2008 – \$1.2).

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws. Income taxes are calculated based on management's best estimates, and realized tax assets and liabilities may differ from the amounts provided for. The Company provides a valuation allowance for future tax assets when it is more likely than not that some portion or all of the future tax assets will not be realized.

Tax reserves are established for uncertain income tax positions based on management's best estimates.

Foreign Currency Transactions

Assets and liabilities denominated in currencies other than the respective functional currency are translated at exchange rates in effect at the balance sheet date into the functional currency. Revenue and expense items are translated at average rates of exchange for the period. Translation gains or losses are included in the determination of earnings.

The parent company maintains its accounts in Canadian dollars; therefore, its functional currency varies from the reporting currency. The accounts of the U.S. subsidiaries are maintained in U.S. dollars. The parent company's financial results are translated using the current rate, under which all assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, and revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains and losses are included in the foreign currency translation adjustment in the consolidated statements of comprehensive income and accumulated other comprehensive income.

Use of Estimates and Measurement Uncertainty

Financial statements prepared in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities, and amounts of revenue and expenses reported during the reporting period. Management must also make estimates and judgments about future results of operations, and related specific elements of the business and operations, in assessing recoverability of assets and recorded value of liabilities. Significant areas requiring the use of estimates and assumptions include the determination of the fair value of assets and liabilities acquired in a business combination, the determination of the allowance for doubtful accounts, the determination of impairment of goodwill and other intangible assets, the determination of future income taxes and the determination and classification of stock-based transactions. Actual results could differ from those estimates.

Deferred Share Unit Plan and Long-Term Incentive Plan

On May 7, 2007, the shareholders approved the implementation of a Deferred Share Unit Plan (DSU) and Long-Term Incentive Plan (LTIP) for directors and key employees respectively. The details of each plan are as follows:

Deferred Share Unit Plan

The Company offers a Deferred Share Unit Plan for members of the Board of Directors. For each calendar year, the Board of Directors determines the amount of compensation for non-executive directors that will be paid in deferred share units. DSUs are fully vested upon issuance. At the beginning of each calendar quarter, the number of DSUs to be credited to the account of each eligible director is determined by dividing one-quarter of that portion of the annual compensation that is to be paid in DSUs by the fair market value of the common shares. The fair market value is the volume weighted average trading price per common share of the Company on the Toronto Stock Exchange during the five trading days immediately preceding such quarter, or the fair market value as determined by the Board.

Each deferred share unit represents the right to receive one common share of the Company when the holder ceases to be a non-executive director of the Company. To satisfy this obligation, the Company will at its option either (i) issue common shares from treasury to the director or (ii) direct the plan trustee (an independent trust company selected by the Company) to acquire common shares in the market at the direction of the Company for the purpose of share compensation arrangements, including the DSU. The cost of the deferred share units are recorded in equity.

Long-Term Incentive Plan

A review of the performance criteria set for the 2008 LTIP has concluded that it was unlikely that the minimum payout for the LTIP will be achieved. As a result, an adjustment to the LTIP provision was made during the year that reversed the amount previously recorded.

On June 12, 2009, a one-time bridge LTIP for the executives of the Company was approved. The bridge LTIP consists of the issuance of phantom share grants and phantom option grants, which are payable in cash and recorded in accrued liabilities. As part of the bridge LTIP, 152,000 phantom shares were granted based on a notional share price of C\$3.22 per unit, with a payout based on the Company's 2009 financial performance benchmarked against a peer group of publicly traded companies, and dependent upon continued employment. Participants in the bridge LTIP must remain employed by the Company through the vesting period (February 2011) for an amount to be paid.

The bridge LTIP also granted 152,000 phantom option grants based on a notional strike price of C\$3.22 per unit. The value of each unit will be derived as the difference between the average closing price of the Company's common shares on the Toronto Stock Exchange for the first 10 trading days after the Company's 2009 annual earnings release, and the strike price. All of the phantom options granted will vest in February 2011. The Company marks to market the liability each reporting date. The fair value of the liability at any time is equal to the difference between the quoted market price of the Company's shares and the strike price of C\$3.22, after taking into consideration the time elapsed in the vesting period and the probability of achieving the performance criteria, as stipulated in the bridge LTIP.

On June 12, 2009, the 2009 LTIP for the executives of the Company was approved. The 2009 LTIP consists of a cash payout or the issuance of up to 50 percent of deferred share units upon achievement of a cumulative net income target. The Plan has a single element to it, which is cumulative net income over the three-year period including the 2009, 2010 and 2011 fiscal years. Four levels of payout exist under the Plan based on varying degrees of overachievement defined as Threshold, Target, Superior and Maximum payout gates. Payouts under the Plan will be in February 2012, dependent upon continuing full-time employment by the Company through the vesting period (February 2012) for an amount to be paid.

The Company is accruing for the costs of the DSU and LTIP programs based on projected payments under the respective plans. The details of the plans are described in Note 10 of the financial statements.

Share-Based Compensation

The Company has a share-based compensation plan. The Company accounts for this plan, which calls for settlement by the issuance of equity instruments, using the fair-value-based method. Under the fair-value-based method, compensation cost attributed to options granted to employees is measured at fair value at the grant date and amortized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash that is measured at the intrinsic value between the grant date and measurement date results in a change in compensation cost.

Compensation cost is recognized on a straight-line basis over the vesting period. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

Financial Instruments

Effective January 1, 2008, the Company adopted CICA Handbook Sections 3862 and 3863, which replace CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation." These sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Additionally, in June 2009, the CICA modified Section 3862, "Financial Instruments – Disclosures," to improve the disclosure of fair value measurements, particularly with respect to the relative reliability of the data on which these measurements are based and the liquidity risk related to financial instruments. The modifications will apply to annual financial statements for periods ending after September 30, 2009. Effective October 1, 2009, the Company has applied the modifications prescribed. These standards had an impact on the Company's disclosures provided but did not affect the Company's consolidated results or financial position. Refer to Note 14 of the financial statements.

On January 20, 2009, the Emerging Issues Committee (EIC) of the Canadian Accounting Standards Board (AcSB) issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities," which establishes that an entity's own credit accounting risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have an impact on the consolidated financial statements of the Company.

(a) Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized on the trade date at fair value and are subsequently measured based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. The classification generally cannot be changed subsequent to designation at initial recognition of the instruments.

Held for trading

Financial assets that are purchased and held with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash and restricted cash are classified as held for trading.

Loans and receivables

Accounts receivable are classified under this category and are carried at amortized cost using the effective-interest-rate method.

Financial Liabilities

Bank indebtedness, accounts payable and long-term debt are classified as other financial liabilities. Financial liabilities are initially recognized on the trade date at fair value and are subsequently measured at amortized cost.

(b) 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.

From time to time, the Company enters into certain contracts for the purchase or sale of non-financial items that are denominated in currencies other than the Canadian or U.S. dollar. In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is denominated in the functional currency of the counterparty, the embedded derivative is considered to be closely related and is not accounted for separately.

If the contract is neither in Canadian or U.S. currency nor the functional currency of the counterparty, the embedded foreign currency derivative is separated unless the non-functional item delivered under the contract is routinely denominated in the currency of the contract in international commerce or the currency the contract is denominated in is commonly used in the economic environment in which the transaction takes place.

As of December 31, 2009, the fair value of embedded derivatives was not material and did not have a significant impact on earnings.

Liquidity Risk

Please refer to "Liquidity and Capital Resources," above.

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 with only 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. The Company is not aware of any concentration risk with respect to any particular customer. Approximately 20 percent of the Company's accounts receivable are greater than 31 days past due (December 31, 2008 – 21 percent). The Company's allowance for doubtful accounts is \$3.9 million (December 31, 2008 – \$2.8). Any amounts not provided for are considered fully collectible.

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 conversion rates due to the balance outstanding as of the year-end, as well as debt settlements made during the year. For every 200 basis points that the Canadian dollar appreciates, the translation and revaluation impact for the full year on net earnings would be, on average, an increase of \$1.4 million. For every 200 basis points that the Canadian dollar depreciates, the translation and revaluation impact for the full year on net earnings would be, on average, a decrease of \$1.4 million.

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 derivative financial instrument contracts during the 2009 fiscal year. In addition, there were no outstanding derivative financial instruments as at December 31, 2009.

On the revolving credit facility and long-term debt, an incremental increase or decrease in the prime rate of 0.25 percent would result in an increase or decrease in interest expense of \$87 thousand, respectively. In the past, the Company has used an interest rate swap to mitigate the risk of fluctuating interest rates. There was one outstanding derivative financial instrument as at December 31, 2008, which terminated on January 11, 2009. This swap was classified as held for trading in the prior year. The Company did not enter into any derivative financial instrument contracts during the 2009 fiscal year. In addition, there were no outstanding derivative financial instruments as at December 31, 2009.

Fair Value of Financial Instruments

The carrying values of cash, restricted cash, bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments. The fair value of long-term debt approximates the amortized cost.

Recently Issued Accounting Pronouncements

Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations," replacing Section 1581, "Business Combinations." This section establishes standards for the accounting of 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 be applicable to financial statements relating 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.

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 the 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 apply to interim and annual consolidated financial statements related to fiscal years beginning on or after January 1, 2011. Early adoption is permitted. The Company is currently assessing the future impact of these new standards on its financial statements.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, "Multiple Deliverable Revenue Arrangements," replacing EIC 142, "Revenue Arrangements with Multiple Deliverables." This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated and the consideration allocated; (3) in situations where a vendor does not have vendor-specific objective evidence (VSOE) or third-party evidence of a selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative-selling-price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

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 to 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 financial year.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. 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. The Company has also engaged an external advisor to assist in the conversion to IFRS.

The conversion project consists of three phases.

Scoping and Diagnostic Phase – This phase involves a detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS, a preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters and a high-level assessment of potential consequences for financial reporting, business processes, internal controls, and Information systems.

Design and Solutions Development Phase – This phase involves prioritizing accounting treatment issues and preparing a conversion plan, quantifying the impact of conversion to IFRS, reviewing and approving accounting policy choices, performing a detailed impact assessment and designing changes to systems and business processes, developing IFRS training material and drafting IFRS financial statement content.

Implementation and Post-Implementation Review Phase – This phase involves embedding changes to systems business processes and internal controls; determining the opening IFRS transition balance sheet and tax impacts; conducting parallel accounting under Canadian GAAP and IFRS; and preparing detailed reconciliations of Canadian GAAP to IFRS financial statements. This phase also involves conversion assessment, evaluating improvements for a sustainable operational IFRS model, and testing the internal controls environment.

The Company has completed the diagnostic phase and the project design phase, and is continuing to develop solutions and execute its project implementation strategy. Initial training has been given to key employees, and further investments in training and resources will be made throughout the transition to facilitate a timely and efficient changeover to IFRS.

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 expects to elect not to restate any business combinations that occurred prior to January 1, 2010. |
| Assets and liabilities of subsidiaries, associates and joint ventures (entities in the same group may adopt IFRS at different dates) | Softchoice may elect different IFRS accounting policies than its subsidiaries, but the subsidiaries would need to align with those policies when preparing consolidated IFRS financial statements. |
| Net book value as deemed cost available for property and equipment (IAS 16), investment property (IAS 40) and intangible assets (IAS 38) | The Company has elected to use the net book value at transition to value its property and equipment. An entity that applies the net book value as deemed cost exemption at the IFRS transition date is not required to revalue these assets in subsequent periods. |
| Leases (IFRIC 4, "Determining whether an Arrangement Contains a Lease") | The Company has made an assessment to determine whether arrangements existing at the date of transition to IFRS contain a lease on the basis of facts and circumstances existing at the transaction date. Softchoice expects that all operating lease arrangements under Canadian GAAP will continue to be assessed as operating leases on adoption. |
| Borrowing costs (IAS 23) | The Company has elected to apply IAS 23's amendments prospectively. This means that Softchoice is required to start capitalizing borrowing costs relating to all qualifying assets, effective prospectively on adoption. |
| Cumulative transaction 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 material 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 be in the following key accounting areas:

| Key Accounting Area | Differences with Potential Impact to the Company |
|--|--|
| Presentation of Financial Statements (IAS 1) | <ul style="list-style-type: none"> Additional disclosures required in the notes to the financial statements |
| Property and Equipment (IAS 16) | <ul style="list-style-type: none"> Evaluating the impact of componentization on accounting policy All significant components of furniture and fixtures, office equipment and computer hardware will be amortized according to their useful lives determined in accordance with IFRS |
| Impairment of Assets (IAS 36) | <ul style="list-style-type: none"> Grouping of assets in cash-generating units (CGUs) on the basis of independent cash inflows for impairment testing purposes, using a discounted cash-flow method (DCF) in a single-step approach Goodwill is allocated to and tested in conjunction with its related CGU or group of CGUs Under certain circumstances, previous impairment taken (other than goodwill) is required to be reversed The Company is currently in the process of defining a CGU |
| Income Taxes (IAS 12) (subject to adoption at transition of a revised IAS 12 standard) | <ul style="list-style-type: none"> Recognition and measurement criteria for deferred tax assets and liabilities may differ |
| Share-Based Payments (IFRS 2) | <ul style="list-style-type: none"> Liabilities related to share-based payments made to employees that call for settlement in cash or other assets are recognized at fair value at the initial grant date and remeasured at fair value at the end of each subsequent reporting period Each installment is accounted for as a separate arrangement |
| Provisions and Contingencies (IAS 37) | <ul style="list-style-type: none"> The different threshold used for recognition of a contingent liability could have an impact on the timing of when a provision may be recorded |

This is not an exhaustive list of all the significant impacts that could occur during the conversion to IFRS.

Additionally, the Company has prepared a preliminary IFRS financial statement format in accordance with IAS 1, "Presentation of Financial statements," and is in the process of analyzing the contractual implications of the new policy choices on financing arrangements and similar obligations. The effects on information technology, data systems and internal controls are ongoing and the final impact has not yet been assessed. The Company does not expect that significant modifications will be necessary on conversion.

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.

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.

Evaluation of 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 in 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, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2009, 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.

Evaluation of Internal Control Over Financial Reporting

The Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings."

The Company's management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework in designing the Company's internal control over financial reporting.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2009, and has concluded that, as of the end of the period covered by this report, the Company's internal control over financial reporting was effective.

Internal control over financial reporting cannot provide absolute assurance due to its inherent limitations. It involves diligence and compliance and is subject to lapses in judgment and breakdowns resulting in human error. As a result of these limitations, internal control over financial reporting cannot prevent or detect all errors or intentional misstatements resulting from fraudulent activities.

Remediation Plan

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has been diligent in remediating the Company's previously disclosed material weakness in internal control over financial reporting by enhancing the control over goodwill impairment testing.

The following specific remediation activities, previously disclosed, are now satisfactorily completed:

- A goodwill impairment analysis checklist providing guidance on evaluating matters has been developed and is now used for assessment on a quarterly basis.
- A formal review process over the selection of key assumptions and data used in the analysis has been established.
- Valuation experts' opinions on the formal analysis is obtained as required.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believes the remediation activities have been fully implemented in 2009 and will continue to monitor the effectiveness of these activities and make any changes as deemed required.

Changes in Internal Control Over Financial Reporting

Except as described above, there were no changes to the Company's internal control over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative methods exist, management had chosen those it deems most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles. The financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

Softchoice Corporation maintains adequate systems of internal accounting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that Softchoice Corporation's assets are appropriately accounted for and adequately safeguarded. Our evaluation of these internal controls over financial reporting has been provided in our Management's Discussion and Analysis.



David L. MacDonald
President and Chief Executive Officer

Auditors' Report to the Shareholders of Softchoice Corporation

We have audited the consolidated balance sheets of Softchoice Corporation as at December 31, 2009 and 2008 and the consolidated statements of earnings and retained earnings, cash flows and comprehensive income and accumulated other comprehensive income for each of the years in the two-year period ended December 31, 2009. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying Management's Discussion and Analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and all of its members are non-executive directors. This committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It also reviews the consolidated financial statements, management's discussion and analysis, auditors' report and all other public reporting related to financial matters; and considers the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board for its consideration when approving the consolidated financial statements for issuance to the shareholders. PricewaterhouseCoopers LLP, the external auditors, have full and free access to the Audit Committee.



David Long
Chief Financial Officer and
Senior Vice President, Finance

financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
February 11, 2010

Consolidated Balance Sheets

(in thousands of U.S. dollars)

| As at December 31 | 2009 | 2008 |
|---|-------------------|------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 18,601 | \$ 14,098 |
| Accounts receivable – net of allowance for doubtful accounts of \$3,967 (December 31, 2008 – \$2,759) (note 4) | 185,278 | 241,581 |
| Inventories | 1,151 | 1,722 |
| Prepays and other assets (note 5) | 5,367 | 8,056 |
| Future income taxes (note 6) | 2,270 | 2,095 |
| Income taxes recoverable | – | 254 |
| | 212,667 | 267,806 |
| Restricted cash | 500 | – |
| Property and equipment (note 7) | 6,894 | 7,252 |
| Goodwill (note 8) | 11,063 | 10,172 |
| Intangible assets (note 8) | 44,866 | 49,923 |
| Long-term accounts receivable | 303 | 830 |
| Deferred costs | 1,676 | 2,377 |
| Future income taxes (note 6) | 16,220 | 17,401 |
| | \$ 294,189 | \$ 355,761 |
| Liabilities | | |
| Current liabilities | | |
| Bank indebtedness (note 9) | \$ – | \$ 466 |
| Accounts payable and accrued liabilities | 173,676 | 227,884 |
| Current portion of deferred revenue | 3,309 | 5,033 |
| Term debt – current (note 9) | 4,104 | 39,910 |
| Income taxes payable | 3,288 | – |
| | 184,377 | 273,293 |
| Long-term liabilities | | |
| Deferred lease inducements | 480 | 483 |
| Deferred revenue | 303 | 830 |
| Long-term debt (note 9) | 12,671 | 13,717 |
| | 13,454 | 15,030 |
| Total liabilities | 197,831 | 288,323 |
| Shareholders' equity | | |
| Capital stock (note 10) | 25,842 | 9,827 |
| Contributed surplus (note 11) | 983 | 2,495 |
| Retained earnings | 64,263 | 42,000 |
| Accumulated other comprehensive income | 5,270 | 13,116 |
| | 69,533 | 55,116 |
| Total shareholders' equity | 96,358 | 67,438 |
| | \$ 294,189 | \$ 355,761 |

Commitments and contingencies (note 12)

Related-party transactions (note 17)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings and Retained Earnings

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

FINANCIAL STATEMENTS

| For the years ended December 31 | 2009 | 2008 |
|--|-------------------|------------|
| Revenue | | |
| Software | \$ 589,983 | \$ 675,570 |
| Hardware | 369,291 | 511,532 |
| Agency fees | 40,974 | 57,193 |
| | 1,000,248 | 1,244,295 |
| Cost of sales | 857,979 | 1,072,492 |
| Gross profit | 142,269 | 171,803 |
| Expenses | | |
| Salaries and benefits | 76,399 | 93,648 |
| Selling, general and administrative | 30,796 | 36,508 |
| Amortization of property and equipment | 2,907 | 2,640 |
| Amortization of intangible assets (note 8) | 7,949 | 8,173 |
| Goodwill impairment (note 8) | — | 43,624 |
| Resizing and refinancing charges (note 16) | — | 2,771 |
| | 118,051 | 187,364 |
| Operating income (loss) | 24,218 | (15,561) |
| Foreign currency exchange (gain) loss | (12,649) | 2,812 |
| Interest expense | 6,050 | 6,286 |
| Other (income) expense | (1,023) | 171 |
| Earnings (loss) before income taxes | 31,840 | (24,830) |
| Provision for (recovery of) income taxes (note 6) | | |
| Current | 8,117 | 6,758 |
| Future | 1,460 | (17,200) |
| | 9,577 | (10,442) |
| Net earnings (loss) for the year | 22,263 | (14,388) |
| Retained earnings – Beginning of year | 42,000 | 61,587 |
| Dividends (note 15) | — | (5,199) |
| Retained earnings – End of year | \$ 64,263 | \$ 42,000 |
| Net earnings (loss) per common share (note 10) | | |
| Basic | \$ 1.26 | \$ (0.82) |
| Diluted | \$ 1.26 | \$ (0.82) |
| Basic weighted average number of shares outstanding | 17,628,735 | 17,472,170 |
| Diluted weighted average number of shares outstanding | 17,708,738 | 17,554,049 |

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

| For the years ended December 31 | 2009 | 2008 |
|---|------------------|-------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Net (loss) earnings for the year | \$ 22,263 | \$ (14,388) |
| Items not affecting cash | | |
| Amortization of property and equipment | 2,907 | 2,640 |
| Stock-based compensation (note 11) | (1,420) | 1,194 |
| Future income taxes | 1,460 | (17,200) |
| Amortization of intangible assets | 7,949 | 8,173 |
| Goodwill impairment | – | 43,624 |
| Unrealized foreign currency loss | (9,112) | 4,703 |
| (Gain) loss on disposal of property and equipment | 35 | (21) |
| | 24,082 | 28,725 |
| Net change in non-cash working capital items relating to operations (note 18) | 9,049 | 2,155 |
| | 33,131 | 30,880 |
| Financing activities | | |
| (Repayment) increase of bank indebtedness (note 9) | (466) | 21,479 |
| Repayment of long-term debt (note 9) | (59,313) | (3,747) |
| Increase in long-term debt (note 9) | 17,683 | – |
| Payment of cash dividend | – | (5,199) |
| Proceeds from issuance of common shares (note 10) | 15,624 | 565 |
| | (26,472) | 13,098 |
| Investing activities | | |
| Purchase of property and equipment | (1,800) | (4,790) |
| Purchase of intangible assets | (1,163) | (1,139) |
| Proceeds on disposal of property and equipment | 25 | 88 |
| Restricted cash | (500) | – |
| Acquisition, net of cash acquired | – | (34,412) |
| | (3,438) | (40,253) |
| Effect of exchange rate changes on cash | 1,282 | (690) |
| Increase in cash | 4,503 | 3,035 |
| Cash – Beginning of year | 14,098 | 11,063 |
| Cash – End of year | \$ 18,601 | \$ 14,098 |

See accompanying notes to consolidated financial statements.
Supplemental disclosures of cash flow information (note 18)

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(in thousands of U.S. dollars)

FINANCIAL STATEMENTS

| As at December 31 | 2009 | 2008 |
|---|-----------|-------------|
| Comprehensive income | | |
| Net earnings (loss) for the year | \$ 22,263 | \$ (14,388) |
| Foreign currency translation adjustment | (7,846) | 10,566 |
| Comprehensive income (loss) | \$ 14,417 | \$ (3,822) |
| Accumulated other comprehensive income | | |
| Balance – Beginning of year | \$ 13,116 | \$ 2,550 |
| Foreign currency translation adjustment | (7,846) | 10,566 |
| Balance – End of year | \$ 5,270 | \$ 13,116 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2009 and 2008
(in thousands of U.S. dollars, except per share amounts)

1 NATURE OF OPERATIONS

Softchoice Corporation (the “Company”) was formed on May 15, 2002 pursuant to an amalgamation with Ukraine Enterprise Corporation (UEC). The Company was incorporated under the *Canada Business Corporations Act*. The Company is a North American business-to-business direct marketer of technology products.

Softchoice’s United States operations are carried on by a subsidiary of Softchoice Corporation (“Softchoice U.S.”), a corporation incorporated under the laws of the state of New York. On December 10, 2007, Softchoice incorporated a wholly-owned subsidiary, Softchoice Holding Corporation (“Holdco”). Holdco is incorporated under the laws of Delaware. Softchoice transferred its ownership in Softchoice U.S. into Holdco in exchange for the common shares of Holdco. Holdco is not an operating company. Softchoice U.S. has also issued preferred shares, which are entirely owned by the Company.

2 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

Principles of consolidation

These consolidated financial statements include the accounts of Softchoice Corporation and its wholly-owned subsidiary, Holdco, and its wholly-owned subsidiary Softchoice U.S. All intercompany transactions have been eliminated on consolidation.

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 December 31, 2009 (2008 – nil) represents funds held in escrow under an escrow agreement related to a non-competition contract with a competitor.

Accounts receivable and allowance for doubtful accounts

Trade accounts receivable are initially measured at fair value and subsequently recognized at amortized cost net of provisions for doubtful accounts.

The Company maintains an allowance for doubtful accounts in 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. Individual overdue accounts are reviewed, and allowances are recorded to state accounts receivable at net realizable value when it is known that they are not collectible in full. Additionally, the Company assesses the overall adequacy of the allowance for doubtful accounts by considering various factors including the aging of receivables, historical bad debt experience and the general economic environment. Management’s judgment is required when the Company assesses the realization of accounts receivable, including assessing the probability of collection and the current creditworthiness of each customer.

Sales returns allowance

At the end of each period, the Company records an estimate for sales returns based on historical experience. The historical estimate is recalculated multiple times a year to ensure it reflects the most relevant data available.

Deferred revenue

Deferred revenue includes revenue that is not yet earned on sales to customers with extended payment terms beyond 180 days, services sales to customers where performance is not yet complete and maintenance contracts where the contract start date is not yet in effect. Deferred revenue on extended payment terms is recognized as the funds are received from the customer. Revenue on maintenance contracts performed by third-party vendors is recognized once the contract date is in effect. Revenue on maintenance contracts performed by internal resources is recognized ratably over the term of the maintenance period. Internal consulting services are recognized on a per usage basis.

Revenue recognition

The Company generates revenue from selling technology products and licensing the rights to software products to end-users. 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 customer orders, purchases the product from the supplier at a negotiated price, arranges for shipment of the product, collects payment from customers, ensures that the product reaches customers and processes returns. The Company's product is shipped directly to customers using third-party carriers. Sales of products in which the Company acts as an agent are presented on a net basis. As an agent, the Company obtains the order and refers the order to a supplier for a fee.

Revenue is recorded when the product is shipped to customers, Freight on Board shipping point, or when customers acquire the right to use or copy software under license, but in no case prior to the commencement of the term of the software license agreement or service contract, when the price is fixed and determinable and collection is reasonably assured. The Company estimates the level of anticipated sales returns based on historical experience and makes appropriate reserves at the time the revenue is recognized.

Multiple-element arrangements

The Company's business agreements contain multiple elements; however, to date revenue from multiple elements has not been significant. Accordingly, the Company is required to determine the appropriate accounting, including whether the deliverables specified in a multiple-element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element.

For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. These elements may include one or more of the following: hardware, software, maintenance and/or installation. The Company first allocates the arrangement fee in a multiple-element transaction to the undelivered elements based on the total fair value of those undelivered elements, as indicated by vendor-specific objective evidence. This portion of the arrangement is then deferred.

Then the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. 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 multiple-element arrangement and, therefore, the Company allocates the corresponding revenue among the various components, as described above.

Professional services

The Company also generates revenue from providing professional services to end-users such as information technology (IT) data center and business process hosting, data center configuration and the design and development of IT systems (design and build). Time incurred on the contract or project is tracked and billings are processed based on the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, the actual hours incurred and the budgeted hours to complete the project are used 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. Time and material contracts are billed as time is incurred. Professional services revenue is included in hardware revenue.

Cost of sales

Rebates and marketing development funds received from vendors are included in cost of sales and are recorded as earned based on the contractual arrangements with the suppliers.

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, are 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 completed.

Inventories

Inventory is comprised of finished goods and is valued at the lower of cost and net realizable value. Finished goods inventory consists of goods purchased in advance for resale and goods that are awaiting configuration for customers. Cost is determined on a first-in, first-out basis.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

| | |
|------------------------|------------------------------------|
| Office equipment | three years |
| Computer equipment | three years |
| Computer software | three years |
| Leasehold improvements | over the term of the related lease |

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An estimate of undiscounted future cash flows produced by assets, or the appropriate grouping of assets, is compared with the carrying value to determine whether an impairment exists. If an impairment is determined to exist, the assets are written down to their fair value.

Goodwill

Goodwill is the excess of the fair value over the tangible and identifiable intangible assets and liabilities acquired in a business combination. The Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the fair value of the reporting unit is less than its book value. Impairment is tested by comparing the fair value of the reporting unit to which goodwill has been assigned to its carrying value including goodwill. When the carrying value of the reporting unit exceeds the fair value, the excess of the carrying value of the goodwill compared to the implied fair value of the reporting unit's goodwill is recognized as an impairment loss.

Intangible assets

Intangible assets are related to acquisitions and are recorded at their fair value at the acquisition date. These assets include customer relationships, non-compete agreements, and acquired contracts, which have finite lives. These intangible assets are amortized over their estimated economic lives of five to 10 years, unless indicated otherwise.

Management reviews the carrying value of its finite-lived intangible assets whenever events or changes in circumstances indicate that the asset might be impaired. If an impairment is determined to exist, the assets are written down to fair value.

In February 2008, The Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets." Section 3064 addresses when an

internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, "Financial Statement Concepts." These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and have been adopted by the Company effective January 1, 2009. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards (IFRS) and US GAAP by eliminating the practice of recognizing as assets a variety of start-up, preproduction and similar costs that do not meet the definition and recognition criteria of an asset.

The adoption of this standard required the Company to retroactively reclassify its computer software assets on its consolidated balance sheet from property and equipment to intangible assets. The net carrying value of computer software reclassified as of December 31, 2009 was \$1,757 (December 31, 2008 – \$1,580). In addition, the amortization of computer software has been reclassified from amortization of property and equipment to amortization of intangible assets. The reclassification of amortization for the year ended December 31, 2009 was \$1,153 (December 31, 2008 – \$1,209). See details in note 8.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws. Income taxes are calculated based on management's best estimates, and realized tax assets and liabilities may differ from the amounts provided for. The Company provides a valuation allowance for future tax assets when it is more likely than not that some portion or all of the future tax assets will not be realized.

Tax reserves are established for uncertain income tax positions based on management's best estimate.

Foreign currency transactions

Assets and liabilities denominated in currencies other than the respective functional currency are translated at exchange rates in effect at the balance sheet date into the functional currency. Revenue and expense items are translated at average rates of exchange for the period. Translation gains or losses are included in the determination of earnings.

The parent company maintains its accounts in Canadian dollars; therefore, its functional currency varies from the reporting

currency. The accounts of the U.S. subsidiaries are maintained in U.S. dollars. The parent company's financial results are translated using the current rate, under which all assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, and revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains and losses are included in the foreign currency translation adjustment in the consolidated statements of comprehensive income and accumulated other comprehensive income.

Use of estimates and measurement uncertainty

Financial statements prepared in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities, and amounts of revenue and expenses reported during the reporting period. Management must also make estimates and judgments about future results of operations, and related specific elements of the business and operations, in assessing recoverability of assets and recorded value of liabilities. Significant areas requiring the use of estimates and assumptions include the determination of the fair value of assets and liabilities acquired in a business combination, the determination of the allowance for doubtful accounts, the determination of impairment of goodwill and other intangible assets, the determination of future income taxes and the determination and classification of stock-based transactions. Actual results could differ from those estimates.

Earnings per share

Basic earnings per share is computed by dividing the earnings for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is 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. 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.

Defined contribution plan

The Company has a defined contribution plan providing retirement benefits for its employees. Employees may contribute subject to certain limits based on federal tax laws. The Company contributes 50 percent of the employee's contribution up to three percent of the employee's total

compensation. The Company contributions vest 50 percent after two years but before three years, 75 percent after three years but before four years, and 100 percent after four years. The total pension expense for 2009 was \$1,146 (2008 – \$741).

Deferred Share Unit Plan and Long-Term Incentive Plan

On May 7, 2007, the shareholders approved the implementation of a Deferred Share Unit Plan (DSU) and Long-Term Incentive Plan (LTIP) for directors and key employees respectively. The Company is accruing for the costs of the DSU and LTIP programs based on projected payments under the respective plans. The DSUs are recorded in equity and 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 number of DSUs to be credited to the account of each eligible director is determined by dividing one-quarter of that portion of the annual compensation that is to be paid in DSUs by the fair market value of the common shares. The bridge LTIP is recorded in accrued liabilities and consists of the issuance of phantom share grants and phantom option grants, which are payable in cash. The details of the plans are described in note 10.

Share-based compensation

The Company has a share-based compensation plan. The Company accounts for this plan, which calls for settlement by the issuance of equity instruments, using the fair-value-based method. Under the fair-value-based method, compensation cost attributed to options granted to employees is measured at fair value at the grant date and amortized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash that is measured at the intrinsic value between the grant date and measurement date results in a change in compensation cost.

Compensation cost is recognized on a straight-line basis over the vesting period. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

Capital management

On September 1, 2008, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants Handbook ("CICA") Section 1535, "Capital Disclosures." Section 1535 requires disclosure of information about the entity's objectives, policies and processes for managing capital, as well as quantitative data about capital and whether the entity has complied with any externally imposed capital requirements. These standards impacted the Company's disclosures provided but did not affect the Company's consolidated results or financial position. Refer to note 13.

Financial instruments

Effective January 1, 2008, the Company adopted CICA Handbook Sections 3862 and 3863, which replace CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation." These sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Additionally, in June 2009, the CICA modified Section 3862, "Financial Instruments – Disclosures," to improve the disclosure of fair value measurements, particularly with respect to the relative reliability of the data on which these measurements are based, and the liquidity risk related to financial instruments. The modifications will apply to annual financial statements for periods ending after September 30, 2009. Effective October 1, 2009, the Company has applied the modifications prescribed. These standards impacted the Company's disclosures provided but did not affect the Company's consolidated results or financial position. Refer to note 14.

On January 20, 2009, the Emerging Issues Committee (EIC) of the Canadian Accounting Standards Board (AcSB) issued EIC Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities," which establishes that an entity's own credit accounting risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have an impact on the consolidated financial statements of the Company.

Recently issued accounting pronouncements

Business combinations

On January 1, 2009, the CICA issued Section 1582, "Business Combinations," replacing Section 1581, "Business Combinations." This section establishes standards for the accounting of 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 standard will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption is permitted. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

Consolidated financial statements

In January 2009, the CICA published Section 1601, "Consolidated Financial Statements," and Section 1602, "Non-Controlling Interests," which together replace Section 1600, "Consolidated Financial Statements." Section 1601 establishes standards for the preparation of 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 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and should be adopted at the same time as Section 1582. Early adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new standards on its consolidated financial statements.

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC 175, "Multiple Deliverable Revenue Arrangements," replacing EIC 142, "Revenue Arrangements with Multiple Deliverables." This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

3 ACQUISITIONS

On January 2, 2008, the Company completed the share purchase of Optimus Solutions in exchange for total cash consideration of \$40,898, including acquisition costs of \$1,750. Included in this purchase price is the earn-out portion of \$5,949, which was calculated based on the performance of Optimus Solutions in 2008, and a net working capital adjustment of \$3,933.

Optimus Solutions is a comprehensive IT products and solutions company focused on helping enterprise and mid-market clients plan, build and maintain their information technology infrastructure, with headquarters in Norcross, Georgia and nine offices in the United States.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations of Optimus Solutions have been included in the consolidated financial statements since the date of acquisition. The Company finalized the allocation of the purchase price during 2008. The intangibles arising from this acquisition will be amortized into earnings over their estimated useful life of 10 years.

The following is the fair value of the assets and liabilities acquired at the date of acquisition:

| | | | |
|--|----|----------|--------|
| Net assets acquired | | | |
| Accounts receivable | \$ | 29,460 | |
| Other current assets | | 267 | |
| Property and equipment | | 327 | |
| Accounts payable and accrued liabilities | | (27,291) | |
| Other current liabilities | | (2,008) | 755 |
| Intangible assets | | | |
| Customer relationships | | | 21,694 |
| Goodwill | | | 18,449 |
| <hr/> | | | |
| Total purchase consideration, net of cash acquired | \$ | | 40,898 |

This goodwill was written off as part of an impairment charge. Refer to note 8.

4 ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following:

| | 2009 | 2008 |
|--|-------------------|-------------------|
| Trade accounts receivable – net of provision of \$3,947 (2008 – \$2,409) | \$ 169,218 | \$ 222,100 |
| Other receivables – net of provision of \$20 (2008 – \$350) | 16,060 | 19,481 |
| | \$ 185,278 | \$ 241,581 |

5 PREPAIDS AND OTHER ASSETS

Prepays and other assets include cash deposits and prepaid expenses.

6 INCOME TAX EXPENSE AND FUTURE INCOME TAXES

The Company's income tax provision has been determined as follows:

| | 2009 | 2008 |
|---|-----------|-------------|
| Earnings (loss) before income taxes | \$ 31,840 | \$ (24,830) |
| Combined basic federal and provincial income tax rate | 32.43% | 33.00% |
| Expected income tax expense (recovery) | \$ 10,326 | \$ (8,194) |
| Foreign tax rates differential | 966 | (2,048) |
| Items not deductible for tax purposes (permanent differences) | (2,359) | (431) |
| Adjustments in respect of previous periods | 750 | - |
| U.S. state tax deductible for federal purposes | (348) | 535 |
| Other | 242 | (304) |
| Provision for (recovery of) income taxes | \$ 9,577 | \$ (10,442) |

The significant components of future income tax assets and liabilities are:

| | 2009 | 2008 |
|-----------------------------------|-----------|-----------|
| Future income tax assets | | |
| Amortization and impairments | \$ 17,348 | \$ 17,401 |
| Unrealized foreign exchange gains | (1,128) | - |
| Reserves | 2,270 | 2,095 |
| Net future income tax assets | \$ 18,490 | \$ 19,496 |

Net future income tax assets are classified as follows:

| | 2009 | 2008 |
|-----------|-----------|-----------|
| Current | \$ 2,270 | \$ 2,095 |
| Long-term | 16,220 | 17,401 |
| | \$ 18,490 | \$ 19,496 |

The Company has not recorded a valuation allowance against its future income tax assets because it believes it is more likely than not that sufficient taxable income will be realized during future periods to utilize the future tax assets. Realization of the future tax benefit is dependent upon many factors including the Company's ability to generate taxable income in the applicable jurisdictions in future periods.

7 PROPERTY AND EQUIPMENT

2009

| | Cost | Accumulated amortization | Net |
|------------------------|-----------|-----------------------------|----------|
| Office equipment | \$ 8,068 | \$ 6,967 | \$ 1,101 |
| Computer equipment | 5,931 | 3,746 | 2,185 |
| Leasehold improvements | 5,277 | 1,669 | 3,608 |
| | \$ 19,276 | \$ 12,382 | \$ 6,894 |

2008

| | Cost | Accumulated amortization | Net |
|------------------------|-----------|-----------------------------|----------|
| Office equipment | \$ 7,424 | \$ 5,835 | \$ 1,589 |
| Computer equipment | 5,897 | 3,806 | 2,091 |
| Leasehold improvements | 4,467 | 895 | 3,572 |
| | \$ 17,788 | \$ 10,536 | \$ 7,252 |

The net carrying value, and related amortization, of computer software has been reclassified to intangible assets as of January 1, 2008. See note 8 for details of computer software assets.

8 GOODWILL AND INTANGIBLE ASSETS

| | Goodwill | Intangibles |
|---------------------------------|-----------|-------------|
| Balance as at December 31, 2008 | \$ 10,172 | \$ 49,923 |
| Addition of computer software | – | 1,072 |
| Amortization | – | (7,949) |
| Foreign exchange | 891 | 1,820 |
| Balance as at December 31, 2009 | \$ 11,063 | \$ 44,866 |

| 2009 | | | |
|--------------------------|------------------|-----------------------------|------------------|
| | Cost | Accumulated amortization | Net |
| Acquired contracts | \$ 2,144 | \$ 2,122 | \$ 22 |
| Customer relationships | 60,918 | 17,194 | 43,724 |
| Favorable lease contract | 110 | 110 | – |
| Computer software | 7,832 | 6,075 | 1,757 |
| Foreign exchange impact | 518 | 1,155 | (637) |
| | \$ 71,522 | \$ 26,656 | \$ 44,866 |

| 2008 | | | |
|--------------------------|------------------|-----------------------------|------------------|
| | Cost | Accumulated amortization | Net |
| Acquired contracts | \$ 2,144 | \$ 1,996 | \$ 148 |
| Customer relationships | 60,918 | 10,490 | 50,428 |
| Favorable lease contract | 110 | 110 | – |
| Computer software | 5,708 | 4,128 | 1,580 |
| Foreign exchange impact | (2,393) | (160) | (2,233) |
| | \$ 66,487 | \$ 16,564 | \$ 49,923 |

During the fourth quarter of 2008, the Company performed the annual goodwill impairment assessment and, as a result, the Company recognized a non-cash goodwill impairment charge of \$43,624, \$26,638 net of future income taxes. This charge was included in consolidated (loss) earnings for the year ended December 31, 2008. This adjustment was finalized by management during the second quarter of 2009 and did not result in a change to the original impairment assessment.

9 BANK INDEBTEDNESS AND LONG-TERM DEBT

| | 2009 | 2008 |
|---------------------------|------------------|-----------|
| Revolving credit facility | \$ — | \$ 466 |
| Term debt – current | 4,104 | 39,910 |
| | 4,104 | 40,376 |
| Term debt – long-term | 12,671 | 13,717 |
| | \$ 16,775 | \$ 54,093 |

On January 2, 2008, the Company increased its revolving credit facility to support the acquisitions of Software Plus and Optimus Solutions and the working capital needs of the Company. The credit facility was with a large American financial institution and its Canadian subsidiary and provided for credit to both the Company and its U.S. subsidiary in the combined amount of \$85,000. Of this amount, \$25,000 had been provided under a term loan payable in semi-annual installments over five years with interest payable monthly. Availability under the remaining facility was subject to a formula, based on eligible accounts receivable. The interest charged on the facility fluctuated from prime to prime plus one percent.

On January 2, 2008, the Company entered into a term debt facility with a major Canadian chartered bank to support the acquisition of Optimus Solutions. This debt was due on December 31, 2008 but was extended to March 31, 2009. This debt was unsecured and incurred interest rates of prime plus 2.5 percent in the first quarter of 2008, rising by 50 basis points each quarter thereafter.

Subsequent to December 31, 2008, both the revolving credit facility and the term loan were replaced.

To finance its acquisitions and ongoing working capital requirements, the Company established two credit facilities in February 2009. The first is an asset-backed loan (ABL) that can be drawn to the lesser of C\$115 million and 85 percent of eligible accounts receivable. There is an accordion feature to this facility in the amount of C\$30 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL incurs interest at prime plus 2.25 percent on inception and can be reduced to prime plus 1.75 percent, depending on certain financial measures. The ABL has a term of three years. It was provided to the Company through a lending syndicate comprised of Bank of America (agent), Bank of Montreal and TD Bank. As at December 31, 2009, the amount available on the ABL was approximately C\$101 million.

The term debt is subordinated to the ABL and is in the amount of US\$20.5 million. This debt has a five-year term and has quarterly payments of US\$1.0 million. Interest on this loan is 17.5 percent per annum; this rate could be reduced to 16 percent per annum after December 31, 2009, if certain financial ratios are achieved. The term debt was provided by HSBC (Canada) Inc., with 20 percent participation by Ontario Teachers' Pension Plan, a related party. This loan can be repaid without penalty or termination fee after 36 months.

Both loans have certain financial covenants as conditions to continued borrowing. A fixed-charge coverage ratio is required by both loans and the term-debt loan has two additional covenants including a maximum debt leverage covenant and an asset coverage covenant. The fixed-charge ratio is likely to be the most stringent covenant. The Company's various debt covenants were met as of December 31, 2009. Additionally, the Company is not subject to any capital requirements imposed by a regulator.

As at December 31, 2009, the Company has used \$2,488 (2008 – \$2,462) of its available credit as security for letters of credit issued to various institutions.

10 CAPITAL STOCK

Authorized

Unlimited number of common shares

Issued

19,759,189 (December 31, 2008 – 17,496,807)

| | Shares | Amount |
|---|------------|-----------|
| Balance as at December 31, 2007 | 17,407,631 | \$ 9,220 |
| Issued for options exercised | 89,176 | 565 |
| Transfer from contributed surplus (note 11) | – | 42 |
| Balance as at December 31, 2008 | 17,496,807 | \$ 9,827 |
| Share financing | 2,250,000 | 15,923 |
| Issued for options exercised | – | – |
| Transfer from contributed surplus (note 11) | 12,382 | 92 |
| Balance as at December 31, 2009 | 19,759,189 | \$ 25,842 |

Share 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. In addition, the underwriters were granted the option to purchase up to an additional 337,500 shares at a price of C\$7.75 per common share to cover over-allotments. These options remained unexercised and expired on January 10, 2010, which was 30 days following the closing date.

Shareholder rights plan

On April 4, 2007, the Board of Directors of the Company adopted a shareholder rights plan (the “Rights plan”). The Rights plan is subject to reconfirmation at the third and sixth annual meeting of shareholders following the first confirmation meeting, which was held on May 7, 2007, and will expire at the close of the Company’s ninth annual meeting (the “Expiration Time”). Pursuant to the Rights plan, one right (“Right”) was issued and attached to each common share outstanding at the close of business on the Record date, and will attach to each common share subsequently issued. The Rights will separate from the common shares and will be exercisable on the close of business on the tenth trading day (the “Separation Time”) after the

earlier of the date on which a person has acquired 20 percent or more of, or a person commences or announces a takeover bid for, the Company’s outstanding common shares, other than by an acquisition pursuant to a Permitted Bid or a Competing Permitted Bid.

The Rights plan is designed to require any person interested in acquiring more than 20 percent of the common shares to do so by way of a Permitted Bid or a Competing Permitted Bid or to make an offer which the Board considers to represent the full and fair value of the common shares. In order to constitute a Permitted Bid, an offer must be made in compliance with the Rights plan, it must be made to all shareholders (other than the bidder), it must be open for at least 60 days and be accepted by shareholders holding more than 50 percent of the outstanding voting shares and, if so accepted, it must be extended for a further 10 business-day period.

A person (a “Grandfathered Person”) who was the beneficial owner of more than 20 percent of the outstanding common shares on April 4, 2007 is deemed not to be an Acquiring Person until it ceases to own more than 20 percent of the common shares or increases its beneficial ownership by more than one percent of the outstanding common shares on April 4, 2007, except in specified circumstances. To the knowledge of the directors of the Company, the only Grandfathered Person is Ontario Teachers’ Pension Plan Board.

Net earnings per common share

Weighted average number of common shares:

| | 2009 | 2008 |
|---|-------------------|------------|
| Issued and outstanding – Beginning of year | 17,496,807 | 17,407,631 |
| Weighted average number of shares issued in the year – net of share redemptions | 131,928 | 64,539 |
| Weighted average number of shares used in computing basic earnings per share | 17,628,735 | 17,472,170 |
| Assumed exercise of stock options – net of shares repurchased from proceeds | 80,003 | 81,879 |
| Weighted average number of shares used in computing diluted earnings per share | 17,708,738 | 17,554,049 |

There were no share redemptions in the year ended December 31, 2009 (December 31, 2008 – nil).

Stock option plan

The Board of Directors approved an Employee Stock Option Plan under which 1,706,000 common shares were reserved for issuance to employees. The options' vesting period is determined by the Board of Directors at the time of grant and expires within six to eight years after the date of grant. All options currently outstanding have vested. The Directors cancelled this plan in November 2006.

A summary of the status of the Company's employee stock option plan is as follows (in Canadian dollars):

| | 2009 | | 2008 | |
|---------------------------------|--------------------------|--|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding – Beginning of year | 102,859 | \$ 6.47 | 195,446 | \$ 6.43 |
| Expired | (33,175) | 4.77 | (3,411) | 5.56 |
| Exercised | – | – | (89,176) | 6.34 |
| Outstanding – End of year | 69,684 | \$ 7.21 | 102,859 | \$ 6.47 |
| Exercisable – End of year | 69,684 | \$ 7.21 | 102,859 | \$ 6.47 |
| Options held by employees | 19,684 | \$ 5.20 | 21,284 | \$ 5.20 |
| Options held by officers | 50,000 | 8.00 | 81,575 | 6.80 |
| | 69,684 | \$ 7.21 | 102,859 | \$ 6.47 |

| Options outstanding | | | | Options exercisable | | | |
|--------------------------|--|---|---------------------------------|--|---|---------------------------------|--|
| Range of exercise prices | Number outstanding as at December 31, 2009 | Weighted average remaining contractual life (years) | Weighted average exercise price | Number outstanding as at December 31, 2009 | Weighted average remaining contractual life (years) | Weighted average exercise price | |
| \$ 5.20 | 19,684 | 0.08 | \$ 5.20 | 19,684 | 0.08 | \$ 5.20 | |
| \$ 8.00 | 50,000 | 3.12 | 8.00 | 50,000 | 3.12 | 8.00 | |
| | 69,684 | 2.36 | \$ 7.21 | 69,684 | 2.36 | \$ 7.21 | |

The exercise price of stock options granted is determined by the Board of Directors, but cannot be less than 100 percent of the market price of the common shares at the date of grant.

For the purposes of calculating the stock option expense, the fair value of each option granted for each year was estimated using the Black-Scholes option pricing model. The Company has not granted stock options during the 12-month period ended December 31, 2009 (2008 – nil). The 2003 stock options were valued using the following assumptions: expected volatility of 75 percent, risk-free interest rates of five percent, expected lives of four years, and expected dividend yields of zero percent. The weighted average grant date fair value of the options issued in 2003 is \$5.57, net of cancellations. There have been no additional stock options issued since 2003.

On May 7, 2007, the shareholders approved the implementation of a Deferred Share Unit Plan (DSU) and Long-Term Incentive Plan (LTIP) for directors and key employees respectively. The details of each plan are as follows:

Deferred Share Unit Plan

The Company offers a Deferred Share Unit Plan for members of the Board of Directors. For each calendar year, the Board of Directors determines the amount of compensation for non-executive directors that will be paid in Deferred Share Units.

A summary of the status of the Company's DSU plan is as follows:

| | 2009 | 2008 |
|---|---------------------------------------|--------------------------------|
| | Number of deferred share units | Number of deferred share units |
| Outstanding – Beginning of year | 31,730 | 16,643 |
| Granted | 92,385 | 15,087 |
| Exercised | (12,382) | – |
| Outstanding and exercisable – End of year | 111,733 | 31,730 |

Long-Term Incentive Plan

A review of the performance criteria set for the 2008 LTIP has concluded that it was unlikely that the minimum payout for the LTIP will be achieved. As a result, an adjustment to the LTIP provision was made during the year that reversed \$1.4 million of the amount previously recorded.

On June 12, 2009, a one-time bridge LTIP for the executives of the Company was approved. The bridge LTIP consists of the issuance of phantom share grants and phantom option grants, which are payable in cash. As part of the bridge LTIP, 152,000 phantom shares were granted based on a notional share price of C\$3.22 per unit, with a payout based on the Company's 2009 financial performance benchmarked against

DSUs are fully vested upon issuance. At the beginning of each calendar quarter, the number of DSUs to be credited to the account of each eligible director is determined by dividing one-quarter of that portion of the annual compensation that is to be paid in DSUs by the fair market value of the common shares. The fair market value is the volume weighted average trading price per common share of the Company on the Toronto Stock Exchange during the five trading days immediately preceding such quarter, or the fair market value as determined by the Board.

Each deferred share unit represents the right to receive one common share of the Company when the holder ceases to be a non-executive director of the Company. To satisfy this obligation, the Company will at its option either (i) issue common shares from treasury to the director, or (ii) direct the plan trustee (an independent trust company selected by the Company) to acquire common shares in the market at the direction of the Company for the purpose of share compensation arrangements, including the DSU. The cost to the Company of the deferred share units granted for the year ended December 31, 2009 was \$216 (2008 – \$214).

a peer group of publicly traded companies, and dependent upon continued employment.

Participants in the bridge LTIP must remain employed by the Company through the vesting period (February 2011) for an amount to be paid. As at December 31, 2009, the Company recorded a liability of \$157 relating to the phantom share component of the bridge LTIP.

The bridge LTIP also granted 152,000 phantom option grants based on a notional strike price of C\$3.22 per unit. The value of each unit will be derived as the difference between the average closing price of the Company's common shares on the Toronto Stock Exchange for the first 10 trading days after the Company's 2009 annual earnings release, and the strike price. All of the

phantom options granted will vest in February 2011. The Company marks to market the liability each reporting date. The fair value of the liability at any time is equal to the difference between the quoted market price of the Company's shares and the strike price of C\$3.22, after taking into consideration the time elapsed in the

vesting period and the probability of achieving the performance criteria, as stipulated in the bridge LTIP.

As of December 31, 2009, the Company recorded a liability of \$192 on these phantom options.

A summary of the status of the Company's bridge LTIP plan is as follows (in Canadian dollars):

| | Phantom Shares – 2009 | | Phantom Options – 2008 | |
|---------------------------------|--------------------------|-------------------------------|---------------------------|---------------------------------|
| | Number of phantom shares | Notional share price per unit | Number of phantom options | Weighted average exercise price |
| Outstanding – Beginning of year | – | – | – | – |
| Granted | 152,000 | \$ 3.22 | 152,000 | \$ 3.22 |
| Outstanding – End of Year | 152,000 | \$ 3.22 | 152,000 | \$ 3.22 |

On June 12, 2009, the 2009 LTIP for the executives of the Company was approved. The 2009 LTIP consists of a cash payout or the issuance of up to 50 percent of deferred share units upon achievement of a cumulative Net Income target. The Plan has a single element to it, which is cumulative Net Income over the three-year period including the 2009, 2010 and 2011 fiscal years. Four levels of payout exist under the Plan based on varying

degrees of overachievement defined as Threshold, Target, Superior and Maximum payout gates. Payouts under the Plan will be in February, 2012, dependent upon continuing full-time employment by the Company through the vesting period (February 2012) for an amount to be paid. The cost to the Company of the LTIP for the year ended December 31, 2009 was \$231.

11 CONTRIBUTED SURPLUS

For stock options granted to employees and directors after January 1, 2002, the Company records compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the three year vesting period as an increase to stock-based compensation expense and contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to capital stock.

| | Amount |
|--|----------|
| Balance of contributed surplus as at January 1, 2008 | \$ 1,343 |
| Stock-based compensation expense | 1,194 |
| Stock options exercised (note 10) | (42) |
| Balance of contributed surplus as at December 31, 2008 | \$ 2,495 |
| Stock-based compensation expense | (1,420) |
| Deferred share units exercised (note 10) | (92) |
| Balance of contributed surplus as at December 31, 2009 | \$ 983 |

12 COMMITMENTS AND CONTINGENCIES

During the normal course of business, there have been various claims instituted against the Company. Management is unaware of any matters that have a material adverse effect on the financial position of the Company or its results of operations. No amount has been provided in these financial statements in respect of these claims. Loss, if any, sustained upon their ultimate resolution will be accounted for prospectively in the period of settlement in the consolidated statements of earnings.

The Company is obligated to make future minimum annual lease payments under operating leases for office equipment and premises as follows:

| | Amount |
|------------|-----------|
| 2010 | \$ 7,149 |
| 2011 | 6,441 |
| 2012 | 6,290 |
| 2013 | 5,954 |
| 2014 | 4,740 |
| Thereafter | 4,558 |
| | \$ 35,132 |

13 CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure a sufficient liquidity position to ensure financial flexibility is present to: increase shareholder value through organic growth and selective acquisitions; allow the Company to respond to changes in economic and/or marketplace conditions; and to finance general and administrative expenses, working capital and overall capital expenditures. Management defines capital as the Company's shareholders' equity comprised primarily of issued capital, contributed surplus, and earnings less net debt. Net debt consists of interest-bearing debt less cash. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources. The capital management objectives remain the same as in the previous fiscal year.

The Company currently funds its requirements from its internally-generated cash flows and the use of credit facilities. The Company has a term loan and ABL facilities with major financial institutions. The Company's various debt covenants were met as of December 31, 2009. Refer to note 9.

14 FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized on the trade date at fair value and are subsequently measured based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. The classification generally cannot be changed subsequent to designation at initial recognition of the instruments.

Held for trading

Financial assets that are purchased and held with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash and restricted cash are classified as held for trading.

Loans and receivables

Accounts receivable are classified under this category and are carried at amortized cost using the effective interest rate method.

Financial Liabilities

Bank indebtedness, accounts payable and long-term debt are classified as other financial liabilities. Financial liabilities are initially recognized on the trade date at fair value and are subsequently measured at amortized cost.

(b) 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.

From time to time, the Company enters into certain contracts for the purchase or sale of non-financial items that are denominated in currencies other than the Canadian or U.S. dollar. In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is denominated in the functional currency of the counterparty, the embedded derivative is considered to be closely related and is not accounted for separately.

If the contract is neither in Canadian or U.S. currency nor the functional currency of the counterparty, the embedded foreign currency derivative is separated unless the non-functional item delivered under the contract is routinely denominated in the currency of the contract in international commerce or the currency the contract is denominated in is commonly used in the economic environment in which the transaction takes place.

As of December 31, 2009, the fair market value of embedded derivatives was not material and did not have a significant impact on earnings.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The

ability to do this relies on the Company maintaining sufficient cash in excess of anticipated needs by collecting its accounts receivable in a timely manner, and having available funds to draw upon from the credit facilities.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

| | On demand | Less than 1 year | 1 to 2 years | More than 2 years | Total |
|-------------------------------|-----------|------------------|--------------|-------------------|------------|
| Accounts payable and accruals | \$ 29,697 | \$ 137,426 | \$ – | \$ – | \$ 167,123 |
| Debt | – | 4,104 | 4,104 | 8,567 | 16,775 |
| | \$ 29,697 | \$ 141,530 | \$ 4,104 | \$ 8,567 | \$ 183,898 |

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 with only 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. The Company is not aware of any concentration risk with respect to any particular customer. Approximately 20 percent of the Company's accounts receivable are greater than 31 days past due (December 31, 2008 – 21 percent). The Company's allowance for doubtful accounts is \$3,967 (December 31, 2008 – \$2,759). Any amounts not provided for are considered fully collectible.

As at December 31, 2009, the remaining overdue balances are as follows:

| | 2009 | 2008 |
|-------------------------------|-----------|-----------|
| 31 to 60 days past due | \$ 19,105 | \$ 18,607 |
| 61 to 90 days past due | 8,414 | 14,437 |
| Greater than 91 days past due | 10,438 | 17,746 |
| | \$ 37,957 | \$ 50,790 |

The following is a reconciliation of allowance for doubtful accounts movements:

| | Amount |
|----------------------------------|----------|
| Balance as at December 31, 2008 | \$ 2,759 |
| Bad debt expense | 2,244 |
| Write-off of accounts receivable | (1,213) |
| Foreign exchange loss | 177 |
| Balance as at December 31, 2009 | \$ 3,967 |

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 impacted by fluctuations in foreign exchange conversion rates due to the balance outstanding as of the year-end, as well as debt settlements made during the year. For every 200 basis points that the Canadian dollar appreciates, the translational and revaluation impact for the full year on net earnings would be, on average, an increase of \$1,372. For every 200 basis points that the Canadian dollar depreciates, the translational and revaluation impact for the full year on net earnings would be, on average, a decrease of \$1,361.

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 derivative financial instrument contracts during the 2009 fiscal year. In addition, there were no outstanding derivative financial instruments as at December 31, 2009.

On the ABL and long-term debt, an incremental increase or decrease in the prime rate of 0.25 percent would result in an increase or decrease in interest expense of \$87, respectively. In the past, the Company has used an interest rate swap to mitigate the risk of fluctuating interest rates. There was one outstanding derivative financial instrument as at December 31, 2008, which terminated on January 11, 2009. This swap was classified as held for trading in the prior year. The Company did not enter into any derivative financial instrument contracts during the 2009 fiscal year. In addition, there were no outstanding derivative financial instruments as at December 31, 2009.

Fair value of financial instruments

The carrying values of cash, restricted cash, bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments. The fair value of long-term debt approximates the amortized cost.

15 DIVIDENDS

On March 31, 2008, June 30, 2008 and September 30, 2008, the Company paid quarterly dividends of C\$0.10 per common share. During the fourth quarter of 2008, the Board of Directors suspended the quarterly dividend payment; therefore, there were no dividend payments during the year ended December 31, 2009.

16 RESIZING AND REFINANCING CHARGES

On October 20, 2008, the Company announced a cost-reduction initiative, which included workforce and expense base reductions. This resulted in resizing charges of \$1,381 for severance-related charges. The Company has accrued for all expected severance-related costs, most of which were paid prior to December 31, 2008. In addition, refinancing charges and extension fees of \$1,390 were incurred during the year ended December 31, 2008 in connection with the extension of the term loan facility and the debt refinancing. See note 9.

17 RELATED-PARTY TRANSACTIONS

As at December 31, 2009, included in trade accounts receivable is \$205 due from a major shareholder for product sales with payment terms of net 30 days (December 31, 2008 – nil). Total product sales to this shareholder during the year ended December 31, 2009 were \$512 (2008 – \$298). 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.

As a result of the refinancing that occurred in the first quarter of 2009, a portion of the long-term debt outstanding is backed by a major shareholder. During the year ended December 31, 2009, the shareholder received principal repayments of \$748 and interest repayments of \$616. Refer to note 9 for a description of this transaction.

18 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | 2009 | 2008 |
|---------------|----------|----------|
| Interest paid | \$ 3,877 | \$ 3,420 |
| Taxes paid | 4,657 | 7,805 |

Net change in non-cash working capital items relating to operations:

| | 2009 | 2008 |
|--|-----------|-------------|
| Accounts receivable | \$ 69,141 | \$ (17,995) |
| Inventories | 654 | (1,529) |
| Prepays and other assets | 3,454 | (3,730) |
| Long-term accounts receivable | 527 | (503) |
| Deferred costs | 892 | (1,094) |
| Accounts payable and accrued liabilities | (66,668) | 24,802 |
| Deferred lease inducements | (69) | (108) |
| Deferred revenue | (2,324) | 2,899 |
| Income taxes recoverable | 3,442 | (587) |
| | \$ 9,049 | \$ 2,155 |

19 SEGMENTED INFORMATION

The Company's assets, operations and employees are located in Canada and the United States. Revenues are attributed to customers based on where the products are shipped.

Geographic segments of revenue are as follows:

| | December 31, 2009 | December 31, 2008 |
|---------------|------------------------------|----------------------|
| Canada* | \$ 404,258 | \$ 463,436 |
| United States | 595,990 | 780,859 |
| | \$ 1,000,248 | \$ 1,244,295 |

* Revenue for the years ended December 31, 2009 and 2008 was C\$460,237 and C\$495,238, respectively.

Geographic segments of property and equipment are located as follows:

| | December 31, 2009 | December 31, 2008 |
|---------------|------------------------------|----------------------|
| Canada | \$ 5,170 | \$ 5,133 |
| United States | 1,724 | 2,119 |
| | \$ 6,894 | \$ 7,252 |

Geographic segments of goodwill are as follows:

| | December 31, 2009 | December 31, 2008 |
|---------------|------------------------------|----------------------|
| Canada | \$ 6,128 | \$ 5,237 |
| United States | 4,935 | 4,935 |
| | \$ 11,063 | \$ 10,172 |

Geographic segments of intangible assets are as follows:

| | December 31, 2009 | December 31, 2008 |
|---------------|------------------------------|----------------------|
| Canada | \$ 11,217 | \$ 12,032 |
| United States | 33,649 | 37,891 |
| | \$ 44,866 | \$ 49,923 |

20 ECONOMIC DEPENDENCE

Approximately 30 percent (December 31, 2008 – 27 percent) of the Company's sales in the year relate to products published by Microsoft.

21 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

Ten-Year Financial Summary

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

| | Dec. 31 09 | Dec. 31 08 | Dec. 31 07 | Dec. 31 06 | Dec. 31 05 | Dec. 31 04* | Dec. 31 03* | Dec. 31 02* | Dec. 31 01* | Mar. 31 01* |
|---|-----------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | \$ 1,000,248 | \$ 1,244,295 | \$ 777,082 | \$ 703,237 | \$ 639,482 | \$ 477,935 | \$ 390,793 | \$ 420,006 | \$ 254,343 | \$ 262,575 |
| Gross profit as a percentage of revenue | 14.2% | 13.8% | 16.1% | 14.0% | 12.7% | 13.3% | 12.0% | 12.6% | 12.2% | 11.3% |
| Gross profit per customer | 9.3 | 8.6 | 7.8 | 6.6 | 5.4 | 4.5 | 3.8 | 4.4 | 2.7 | 2.5 |
| Net earnings | 22,263 | (14,388) | 21,997 | 15,930 | 13,108 | 9,731 | 3,118 | 9,554 | 3,258 | 1,583 |
| Return on equity | 1.26 | (0.82) | 1.27 | 0.93 | 0.76 | 0.57 | 0.18 | 0.56 | 0.20 | 0.10 |
| Total assets | 294,189 | 355,761 | 319,826 | 187,254 | 173,485 | 103,523 | 114,797 | 103,581 | 79,681 | 73,214 |
| Cash flow from operations | 33,131 | 30,880 | 35,064 | 11,470 | 4,021 | 10,232 | 3,654 | 11,367 | 9,844 | (57) |
| Number of offices | 44 | 45 | 41 | 34 | 32 | 32 | 33 | 32 | 34 | 33 |
| Number of employees | 874 | 897 | 795 | 624 | 604 | 463 | 436 | 456 | 426 | 424 |

Notes:

In 2001, Softchoice changed its fiscal year-end from March 31 to December 31. As a result, information for the period ended December 31, 2001 is for a nine-month period only.

* All figures have been restated in U.S. dollars and are unaudited.

Directors and Officers

Directors

Dr. Kevin Francis

President and CEO of CenterBeam, a North-American-managed IT services provider based in San Jose, California, and the former president and CEO of Xerox Canada.

Gilles Lamoureux

Former senior advisor to Ernst & Young Corporate Finance Inc. and a former founding partner of Orenda Capital Finance.

William W. Linton

Executive vice president of finance and CFO of Rogers Communications Inc. and the former president and CEO of Call-Net Enterprises Inc.

Robert W. Luba

President of Luba Financial Inc. and the former president and CEO of Royal Bank Investment Management Inc.

David L. MacDonald

President and CEO of Softchoice and the former chairman of the Information Technology Association of Canada (ITAC).

Allan J. Reesor

Former CIO of General Foods (Kraft), Canada Packers (Maple Leaf Foods), TNT Canada and the Ontario Teachers' Pension Plan.

William P. Robinson

President and a director of Manvest Inc., a Calgary-based private-equity investment company.

Lawrence G. Tapp

Chairman and director of the boards of Automation Tooling Systems Inc., Mainstream Equities Inc. and Comcare Health Services and the former dean of the Richard Ivey School of Business at the University of Western Ontario.

Officers

David L. MacDonald

President and Chief Executive Officer

Lawrence G. Tapp

Chairman of the Board

David Long

Chief Financial Officer and Senior Vice President, Finance

Nick Foster

Senior Vice President, Business Development

Steve Johnson

Senior Vice President, Business Solutions, Architecture and Delivery

Steve Leslie

Senior Vice President, Sales and Professional Services

Kevin Wright

Senior Vice President, Operations and Chief Information Officer

Josh Greene

Vice President, Telesales

Craig James

Vice President, Professional Services

Maria Odoardi

Vice President, People

Rob O'Sullivan

Vice President, Sales, U.S. East

Sandy Potter

Vice President, Business Development

Sergio Vettese

Vice President, Finance

Nicole Wengle

Vice President, Sales, Canada

Corporate Information

Head Office

Softchoice Corporation
173 Dufferin Street, Suite 200
Toronto, Ontario M6K 3H7
Telephone: 416.588.9002
Fax: 416.588.9022
www.softchoice.com
Sales: 1.800.268.7638

Corporate and Shareholder Information

David Long
Chief Financial Officer and
Senior Vice President, Finance
investor_relations@softchoice.com

Annual Meeting of Shareholders

Tuesday, May 11, 2010
10:00 a.m. to 12:00 p.m. Eastern Time
Intercontinental Hotel
225 Front Street West
Ballroom A – Lower Lobby
Toronto, Ontario

Registrar and Transfer Agent

Computershare Investor Services Canada
Head Office
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1
Telephone: 800.564.6253
Fax: 888.453.0330
www.computershare.com

Exchange Listing

The Toronto Stock Exchange
TSX: SO

Solicitors

Borden Ladner Gervais LLP
Pillsbury Winthrop Shaw Pittman LLP

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants

Bankers

Bank of America, N.A.
BMO Bank of Montreal



Softchoice Corporation
173 Dufferin Street, Suite 200
Toronto, Ontario
M6K 3H7

Telephone: 416.588.9002

Fax: 416.588.9022

Sales: 1.800.268.7638

www.softchoice.com



Softchoice is committed to working in an environmentally responsible manner and to doing our part to help create sustainable communities. The paper used in this report is certified by the Forest Stewardship Council (FSC).