

Softchoice Corporation
Interim Consolidated Balance Sheets
(in thousands of U.S. dollars)

	September 30, 2009	December 31, 2008
	[unaudited]	
ASSETS		
Current assets		
Cash	\$ 11,625	\$ 14,098
Accounts receivable, net of allowance for doubtful accounts of \$3,477 (December 31, 2008 - \$2,759)	150,908	241,581
Inventory	2,674	1,722
Prepaid expenses and other assets	2,139	8,056
Future income taxes	2,029	2,095
Income taxes recoverable	-	254
	169,375	267,806
Property and equipment (note 2)	6,825	7,252
Goodwill (note 3)	10,917	10,172
Intangible assets (notes 2 and 3)	46,381	49,923
Long-term accounts receivable	181	830
Deferred costs	1,396	2,377
Future income taxes	17,159	17,401
	\$ 252,234	\$ 355,761
 LIABILITIES		
Current liabilities		
Bank indebtedness (note 4)	\$ 2,694	\$ 40,376
Accounts payable and accrued liabilities	155,945	227,884
Current portion of deferred revenue	3,827	5,033
Income taxes payable	2,930	-
	165,396	273,293
Long-term liabilities		
Deferred lease inducements	508	483
Deferred revenue	181	830
Long-term debt (note 4)	11,761	13,717
	12,450	15,030
Total liabilities	177,846	288,323
Shareholders' equity		
Capital stock (note 5)	9,827	9,827
Contributed surplus (note 6)	996	2,495
Retained earnings	57,165	42,000
Accumulated other comprehensive income *	6,400	13,116
	63,565	55,116
Total shareholders' equity	74,388	67,438
	\$ 252,234	\$ 355,761
Contingencies (note 7)		

See accompanying notes to interim consolidated financial statements.

* Accumulated other comprehensive income is comprised of foreign currency translation adjustments.

Softchoice Corporation
Interim Consolidated Statements of Earnings and Retained Earnings
(in thousands of U.S. dollars except per share information)
(Unaudited)

	3 month period ended September 30, 2009	3 month period ended September 30, 2008	9 month period ended September 30, 2009	9 month period ended September 30, 2008
Revenue				
Software	\$ 119,455	\$ 139,085	\$ 425,247	\$ 484,048
Hardware	93,431	128,137	260,191	381,511
Agency fees	5,842	9,134	30,921	43,747
	<u>218,728</u>	<u>276,356</u>	<u>716,359</u>	<u>909,306</u>
Cost of sales	<u>187,915</u>	<u>240,892</u>	<u>613,580</u>	<u>781,133</u>
Gross profit	<u>30,813</u>	<u>35,464</u>	<u>102,779</u>	<u>128,173</u>
Expenses				
Salaries and benefits	19,229	22,520	56,905	73,119
Selling, general and administrative	6,716	9,183	23,105	28,255
Amortization of property and equipment	762	720	2,185	2,013
Amortization of intangible assets (note 3)	1,973	1,955	5,930	5,881
	<u>28,680</u>	<u>34,378</u>	<u>88,125</u>	<u>109,268</u>
Operating income	2,133	1,086	14,654	18,905
Foreign currency exchange (gain) loss	(6,230)	1,108	(10,778)	1,270
Interest expense	1,490	1,703	4,644	5,035
Other	15	495	(493)	(13)
Earnings (loss) before income taxes	<u>6,858</u>	<u>(2,220)</u>	<u>21,281</u>	<u>12,613</u>
Provision for (recovery of) income taxes				
Current	2,019	(884)	5,672	4,591
Future	(73)	329	444	559
	<u>1,946</u>	<u>(555)</u>	<u>6,116</u>	<u>5,150</u>
Net earnings (loss) for the period	4,912	(1,665)	15,165	7,463
Retained earnings - Beginning of period	52,253	67,208	42,000	61,587
Dividends (note 8)	-	(1,692)	-	(5,199)
Retained earnings - End of period	<u>\$ 57,165</u>	<u>\$ 63,851</u>	<u>\$ 57,165</u>	<u>\$ 63,851</u>
Net earnings (loss) per common share (note 9)				
Basic	\$ 0.28	\$ (0.09)	\$ 0.87	\$ 0.43
Diluted	\$ 0.28	\$ (0.09)	\$ 0.87	\$ 0.43
Basic weighted average number of common shares outstanding	17,496,807	17,527,465	17,496,807	17,463,868
Diluted weighted average number of common shares outstanding	17,553,515	17,596,235	17,512,165	17,546,990

See accompanying notes to interim consolidated financial statements.

Softchoice Corporation
Interim Consolidated Statements of Cash Flows
(in thousands of U.S. dollars)
(Unaudited)

	3 month period ended September 30, 2009	3 month period ended September 30, 2008	9 month period ended September 30, 2009	9 month period ended September 30, 2008
Cash provided by (used in)				
Operating activities				
Net earnings (loss) for the period	\$ 4,912	\$ (1,665)	\$ 15,165	\$ 7,463
<i>Items not affecting cash</i>				
Amortization of property and equipment	762	720	2,185	2,013
Stock-based (recovery) compensation (note 6)	54	54	(1,499)	1,100
Future income taxes	(73)	329	444	559
Amortization of intangible assets (note 3)	1,973	1,955	5,930	5,881
Unrealized foreign currency (gain) loss	(5,240)	(381)	(7,761)	286
(Gain) loss on disposal of property and equipment	-	-	(2)	5
	<u>2,388</u>	<u>1,012</u>	<u>14,462</u>	<u>17,307</u>
Net change in non-cash working capital items relating to operations (note 13)	<u>22</u>	<u>31,653</u>	<u>27,347</u>	<u>3,665</u>
	<u>2,410</u>	<u>32,665</u>	<u>41,809</u>	<u>20,972</u>
Financing activities				
Repayment of bank indebtedness due to refinancing (note 4)	(5,516)	-	(40,317)	-
Increase in bank indebtedness due to refinancing (note 4)	-	-	1,627	-
Repayment of long-term debt due to refinancing (note 4)	(2,455)	-	(13,688)	-
Increase in long-term debt due to refinancing (note 4)	-	-	9,368	-
(Decrease) increase in bank indebtedness	-	(33,891)	-	26,107
Increase (decrease) in long-term debt	-	779	-	(2,120)
Payment of cash dividend	-	(1,692)	-	(5,199)
Proceeds from issuance of common shares (note 5)	-	2	-	565
	<u>(7,971)</u>	<u>(34,802)</u>	<u>(43,010)</u>	<u>19,353</u>
Investing activities				
Purchase of property and equipment	(254)	(1,753)	(1,128)	(3,575)
Purchase of intangible assets	(558)	(366)	(932)	(965)
Proceeds on disposal of property and equipment	32	51	61	46
Acquisition, net of cash acquired	-	1,145	-	(39,254)
	<u>(780)</u>	<u>(923)</u>	<u>(1,999)</u>	<u>(43,748)</u>
Effect of exchange rate changes on cash	<u>687</u>	<u>(35)</u>	<u>727</u>	<u>(170)</u>
Decrease in cash during the period	(5,654)	(3,095)	(2,473)	(3,593)
Cash - Beginning of period	<u>17,279</u>	<u>10,565</u>	<u>14,098</u>	<u>11,063</u>
Cash - End of period	<u>\$ 11,625</u>	<u>\$ 7,470</u>	<u>\$ 11,625</u>	<u>\$ 7,470</u>
Interest paid	\$ 1,029	\$ 703	\$ 3,001	\$ 3,063
Income taxes paid	\$ (6)	\$ 358	\$ 2,525	\$ 4,256

Softchoice Corporation

Interim Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(in thousands of U.S. dollars)

(Unaudited)

	3 month period ended September 30, 2009	3 month period ended September 30, 2008	9 month period ended September 30, 2009	9 month period ended September 30, 2008
Comprehensive Income				
Net earnings (loss) for the period	\$ 4,912	\$ (1,665)	\$ 15,165	\$ 7,463
Foreign currency translation adjustment	<u>(3,921)</u>	<u>2,299</u>	<u>(6,716)</u>	<u>3,362</u>
Comprehensive income	<u>\$ 991</u>	<u>\$ 634</u>	<u>\$ 8,449</u>	<u>\$ 10,825</u>
 Accumulated other comprehensive income				
Balance - Beginning of period			\$ 13,116	\$ 2,550
Foreign currency translation adjustment			<u>(6,716)</u>	<u>3,362</u>
Balance - End of period			<u>\$ 6,400</u>	<u>\$ 5,912</u>

Softchoice Corporation

Notes to Interim Consolidated Financial Statements

(in thousands of U.S. dollars unless otherwise stated)
(unaudited)

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.

The Company's United States operations are carried on by Softchoice Corporation (Softchoice U.S.), a corporation incorporated under the laws of the State of New York. On December 10, 2007, the Company incorporated a wholly owned subsidiary, Softchoice Holding Corporation (Holdco). Holdco is incorporated under the laws of the State of Delaware. The Company 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

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and, accordingly, certain disclosures normally included in annual audited financial statements prepared in accordance with Canadian GAAP are not provided. These interim consolidated financial statements have been prepared following accounting principles consistent with those used in the annual audited consolidated financial statements and should be read in conjunction with the annual audited financial statements of the Company for the year ended December 31, 2008. The results of the operations for the interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

Goodwill and Intangible assets

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*, and Section 3450, Research and Development Costs. New 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, 2008 was \$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 three and nine-month periods ended September 30, 2008 was \$304 and \$898, respectively. As of September 30, 2009, computer software of \$1,761 is included within intangible assets. The reclassification of amortization for the three and nine-month periods ended September 30, 2009 was \$252 and \$880, respectively.

Business combinations

In January 1, 2009, the CICA issued Section 1582, Business Combinations, replacing Section 1581, Business Combinations. This section establishes the 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. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

Softchoice Corporation
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Use of estimates and measurement uncertainty

Financial statements prepared in accordance with Canadian GAAP require management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the interim consolidated financial statements, the disclosure of contingent assets and liabilities, and the amounts of revenue and expenses reported during the reporting period. Management must also make estimates and judgments about future results of operations, 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 bonuses payable, the determination of future income taxes and the determination and classification of stock-based transactions. Actual results could differ from those estimates.

Consolidated financial statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 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 consolidated financial statements.

3. Goodwill and intangible assets

	Goodwill	Intangibles assets
Balance as at December 31, 2008	\$ 10,172	\$ 49,923
Reclassification of computer software	-	1,761
Amortization	-	(5,930)
Foreign currency exchange	745	627
Balance as at September 30, 2009	<u>\$ 10,917</u>	<u>\$ 46,381</u>

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 and did not result in a change to the original impairment assessment.

4. Bank indebtedness

	September 30, 2009	December 31, 2008
Revolving credit facility	\$ (1,268)	\$ 466
Term debt - current	<u>3,962</u>	<u>39,910</u>
	2,694	40,376
Term debt - long-term	<u>11,761</u>	<u>13,717</u>
	<u>\$ 14,455</u>	<u>\$ 54,093</u>

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To finance its acquisitions and the ongoing working capital requirements, the Company has established two credit facilities. The first is an asset-backed loan (ABL) that can be drawn to the lesser of CA\$115 million and 85% of eligible accounts receivable. There is an accordion feature to this facility in the amount of CA\$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 rate plus 2.25% on inception and can be reduced to prime rate plus 1.75%, depending on certain financial measures being realized. The ABL has a term of three years. The ABL was provided to the Company through a lending syndicate comprising Bank of America (agent), Bank of Montreal and TD Bank.

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% per annum; this rate could be reduced to 16% per annum after December 31, 2009, if certain financial ratios are achieved. The term debt was provided by HSBC (Canada) Inc., with 20% participation by the 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 has assessed the financial instruments impact of the new loan agreements and has determined it is not material as at the end of the third quarter. The Company will continue to assess this impact throughout the year.

The Company has also used \$2,695 of its available credit as security for letters of credit issued to various institutions.

5. Capital stock

Authorized

Unlimited number of common shares

Issued

17,496,807 (December 31, 2008 - 17,496,807)
common shares

	Shares		Amount
Balance as at December 31, 2008	17,496,807	\$	9,827
Balance as at September 30, 2009	17,496,807	\$	9,827

There were no common share options exercised during the period.

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 DSU for members of the Board of Directors. For each calendar year, the Board of Directors will determine the amount of compensation for non-executive directors that will be paid in deferred share units. Deferred share units are fully vested on issuance. At the beginning of each calendar quarter, the number of deferred share units to be credited to the account of each eligible director will be determined by dividing one quarter of that portion of the annual compensation that is to be paid in DSUs by the fair value of the common shares. The fair 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 if the common shares are then traded on the Toronto Stock Exchange or the fair value as determined by the Board of Directors.

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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 to deliver common shares to the director. The cost to the Company of the deferred share units granted for the three and nine-month periods ended September 30, 2009 was \$54 and \$163, (September 30, 2008 - \$54 and \$166).

Long Term Incentive Plan

A review of the performance criteria set for both the 2007 and 2008 LTIP has concluded that it is unlikely that the minimum payout for the LTIP will be achieved. As a result, an adjustment to the LTIP provision was made during the second quarter that reversed \$1.3 million of the liability previously accrued.

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 CA\$3.22 per unit, with a payout based on the Company's 2009 financial performance benchmarked against a peer group of publicly traded companies.

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 September 30, 2009, the Company recorded a liability of \$188 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 CA\$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 ten 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 CA\$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.

At the end of September 30, 2009, the Company recorded a liability of \$215 on these phantom options.

6. 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 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. The Company has not granted stock options during the nine-month period ended September 30, 2009. The employee share option plan was cancelled by the Board of Directors in 2006.

	Amount
Balance as at December 31, 2008	\$ 2,495
Stock-based compensation	<u>(1,499)</u>
Balance as at September 30, 2009	<u>\$ 996</u>

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7. 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. Loss, if any, sustained on their ultimate resolution will be accounted for prospectively in the period of settlement in earnings.

8. Dividends

On March 31, 2008, June 30, 2008 and September 30, 2008, the Company paid quarterly dividends of CA\$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 in the three or nine-month period ended September 30, 2009.

9. Weighted average number of common shares

	3 month period ended September 30, 2009	3 month period ended September 30, 2008	9 month period ended September 30, 2009	9 month period ended September 30, 2008
Issued and outstanding - Beginning of period	17,496,807	17,527,293	17,496,807	17,407,631
Net weighted average number of common shares issued during the period	-	172	-	56,237
Weighted average number of common shares used in computing basic earnings per share	17,496,807	17,527,465	17,496,807	17,463,868
Assumed exercise of stock options - net of common shares issued	56,708	68,770	15,358	83,122
Weighted average number of shares used in computing diluted earnings per share	17,553,515	17,596,235	17,512,165	17,546,990

10. Segmented information

The Company operates in one reportable segment. Segments are defined as components for which separate financial information is available and is regularly evaluated by the chief operating decision maker. 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 information

Geographic segments of revenue are as follows:

	3 month period ended September 30, 2009	3 month period ended September 30, 2008	9 month period ended September 30, 2009	9 month period ended September 30, 2008
Canada ⁽¹⁾	\$ 84,503	\$ 90,484	\$ 282,352	\$ 340,879
United States	134,225	185,872	434,007	568,427
	\$ 218,728	\$ 276,356	\$ 716,359	\$ 909,306

(1) Revenue for the three-month period ended September 30, 2009 and 2008, is CA\$92,520 and CA\$94,209 respectively. Revenue for the nine-month period ended September 30, 2009 and 2008, is CA\$331,483 and CA\$346,301 respectively.

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Geographic segments of property and equipment are located as follows:

	September 30, 2009	December 31, 2008
Canada	\$ 5,008	\$ 5,133
United States	1,817	2,119
	<hr/> \$ 6,825	<hr/> \$ 7,252

Geographic segments of goodwill are as follows:

	September 30, 2009	December 31, 2008
Canada	\$ 5,982	\$ 5,237
United States	4,935	4,935
	<hr/> \$ 10,917	<hr/> \$ 10,172

Geographic segments of intangible assets are as follows:

	September 30, 2009	December 31, 2008
Canada	\$ 11,673	\$ 12,032
United States	34,708	37,891
	<hr/> \$ 46,381	<hr/> \$ 49,923

11. Major suppliers

Approximately 24% (September 30, 2008 - 29%) of the Company's sales in the current quarter and 32% year to date (September 30, 2008 - 33%) related to products published by one software publisher.

12. Related party transactions

As at September 30, 2009, included in trade accounts receivable is \$108 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 three and nine-month period ended September 30, 2009 were \$104 and \$259, respectively (three and nine-month period ended September 30, 2008 - \$149 and \$236, respectively). 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 third quarter, the shareholder received principal repayments of \$205 and interest repayments of \$166. Refer to note 4 for a description of this transaction.

The Company offers a DSU for members of the Board of Directors. Refer to note 5 for a description of this plan and the amounts recorded in the interim consolidated financial statements.

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13. Supplemental disclosures of cash flow information

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

	3 month period ended September 30, 2009	3 month period ended September 30, 2008	9 month period ended September 30, 2009	9 month period ended September 30, 2008
Accounts receivable	\$ 33,549	\$ 52,494	\$ 100,275	\$ 40,507
Inventories	(854)	(1,535)	(894)	(2,181)
Prepaid expenses and other assets	160	(1,709)	6,545	(1,201)
Long-term accounts receivable	436	-	649	-
Deferred costs	867	-	1,136	-
Accounts payable and accrued liabilities	(36,093)	(17,580)	(81,566)	(30,991)
Deferred lease inducements	(14)	(60)	(31)	(27)
Deferred revenue	(102)	1,369	(1,905)	2,032
Income taxes recoverable	2,073	(1,326)	3,138	(4,474)
	<u>\$ 22</u>	<u>\$ 31,653</u>	<u>\$ 27,347</u>	<u>\$ 3,665</u>

14. 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, as well as expenditures on property and equipment deployed. The Company is financing its activities, primarily, through a term loan and ABL loan facilities with major financial institutions and has always strived to maintain a minimal level of debt. As a result of the acquisitions, the Company's debt levels have increased over historical norms.

15. Comparative amounts

Certain comparative amounts have been reclassified to conform to the current interim consolidated financial statement presentation.