

Management's Discussion and Analysis

May 10, 2010

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

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

Caution Regarding Forward-Looking Statements

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

Use of Non-GAAP Terms

In our financial reporting, we refer to Imputed Revenue or Total Revenue, including Imputed Revenue and EBITDA, and adjusted earnings (loss), 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". Total Revenue, including Imputed Revenue, is defined as Imputed Revenue, plus reported revenue, less any agency fees included in reported revenue. Microsoft pays Softchoice an agency fee or commission for EA sales, and therefore Softchoice does not reflect the imputed revenue in the revenue line for these transactions but records only the agency fees earned within revenue. Imputed Revenue allows for better comparability between fiscal periods since an increase in the product mix of EAs would make it appear that Softchoice is selling fewer products, when that would not be the case. The use of Imputed Revenue also aids in comparison with our competitors. This measure is not likely to be used by 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 an agreement often provides a more cost-effective solution for our customers, particularly in the small and medium business (SMB) market.

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

<i>(in thousand of US dollars) unaudited</i>	Q1 2010	Q1 2009	Y/Y %
Reported Revenue	\$ 282,745	\$ 218,358	29.5%
Agency fees	(9,024)	(9,789)	(7.8)%
Imputed Revenue*	159,934	137,525	16.3%
Total Revenue, including Imputed Revenue	<u>\$ 433,655</u>	<u>\$ 346,094</u>	<u>25.3%</u>

*Agency fees are included in Imputed Revenue

EBITDA is defined as operating income plus amortization of property and equipment and amortization of intangible assets. EBITDA, as defined in our loan agreements, is used by the Company's bankers in establishing and measuring certain financial covenants. In addition, valuation metrics in our industry are based on multiples of EBITDA, and therefore 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 our operating results compared to others in our industry and other potential investments.

<i>(in thousands of US dollars) unaudited</i>	Q1 2010	Q1 2009	Y/Y %
Operating income (loss)	\$ 4,727	\$ (399)	n/a
Amortization of property and equipment	777	719	8.1%
Amortization of intangible assets	1,834	1,943	(5.6)%
EBITDA	<u>\$ 7,338</u>	<u>\$ 2,263</u>	<u>224.3%</u>

Adjusted earnings (loss) eliminates the after-tax impact related to the resizing and refinancing charges, and any foreign exchange (gain) /loss on the cash, intercompany debt and external debt denominated in a non-functional currency.

<i>(in thousands of US dollars) unaudited</i>	Q1 2010	Q1 2009	Y/Y %
Net earnings (loss)	\$ 4,532	\$ (2,389)	-
After-tax foreign exchange (gain) /loss	(1,652)	1,391	(218.7)%
Adjusted earnings (loss)	\$ 2,880	\$ (998)	-
Adjusted earnings per share	\$ 0.15	\$ (0.06)	-

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

Net earnings for the first quarter were \$4.5 million compared to a net loss of \$2.4 million reported for the same period of the prior year. The increase in net earnings is mainly a result of a gross profit increase of 19 percent, coupled with a decrease in selling, general and administrative expenses of 10 percent.

Adjusted earnings for the first quarter were \$2.9 million compared to an adjusted loss of \$1.0 million reported for the same period of the prior year. Adjusted earnings per share (basic and diluted) is \$0.15 per share compared to an adjusted loss of \$0.06 per share for the same period of the prior year. In prior years, the Company hedged against foreign exchange exposures to reduce volatility in its earnings. The Company decided not to hedge this exposure in 2010 but will separately disclose the foreign exchange impact. The hedging process is expensive, and management has decided not to spend cash on mitigating a foreign exchange exposure where the result is unrealized and does not affect cash provided by operating activities. This decision could increase the volatility in the reported earnings stream and affect reported earnings per share performance.

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 is excluded from reported operating income but included in other income and deductions. Prior to the second quarter of 2009, realized foreign exchange gains and losses were included in operating income of the Company. The change was made in order to simplify portrayal and 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.

First-Quarter Highlights

- Total revenue for the quarter was \$282.7 million, reflecting an increase of 30 percent from the revenue of \$218.4 million reported in the first quarter of the prior year. Total Revenue, including Imputed Revenue, for the first quarter was \$433.7 million, an increase of 25 percent versus the same quarter of the prior year. Eliminating the impact of foreign exchange, revenue increased by 19 percent during the quarter compared to the same period of the prior year, and Total Revenue, including Imputed Revenues grew by 17 percent.
- Gross profit for the quarter was \$36.4 million reflecting an increase of 19 percent compared to the same quarter of the prior year. Eliminating the impact of foreign exchange during the first quarter, gross profit grew by 11 percent versus the same period of the prior year.
- First quarter operating expenses (excluding goodwill impairment, resizing and refinancing charges, amortization of property and equipment and amortization of intangible assets) declined

by six percent for Canadian operations and five percent for U.S. operations measured in their respective currencies. However on a consolidated basis, Operating expenses grew by three percent compared to the same quarter of the prior year, primarily as a result of changes in foreign exchange rates.

- EBITDA for the quarter of \$7.3 million increased by 224 percent compared to the same quarter of the prior year, whereas operating income was \$4.7 million for the first quarter compared to a net loss of \$0.4 million reported for the same quarter of the prior year.
- Net earnings for the quarter were \$4.5 million compared to a net loss of \$2.4 million in the same period of the prior year. Earnings per share was \$0.23 per share (basic and diluted), compared to a net loss per share of \$0.14 (basic and diluted) in the same quarter of the prior year.
- Total debt of the Company was \$15.7 million at the end of the quarter, and the Company had \$32.2 million in cash on hand. This is a reduction of \$24.7 million in debt compared to debt levels at the end of the first quarter of the prior year.

Management Comments[†]

International Data Corporation (IDC) recently released its preliminary PC unit estimates, which indicated worldwide PC shipments, are expected to increase 24 percent year-over-year in 2010. Growth continues to be fueled by mobility, although desktop units returned to positive year-over-year growth for the first time since the second quarter of 2008. IDC's view is that commercial PC replacements will occur gradually over the next one to two years and not in a step function fashion, indicating that growth could be 15 percent or higher for 2010. These expectations are in line with the Company's estimate for PC unit growth. IDC estimates that, assuming normal seasonality for the remainder of 2010, PC units will grow approximately 16 percent. It is anticipated that CIOs will likely focus more of their IT budget on infrastructure-oriented projects (servers/storage/networking) that offer a more quantifiable return on investment (ROI). We also believe the proliferation of enterprise licensing agreements has driven disparate upgrade cycles for hardware and operating systems, and that the age of the installed base is likely the bigger driver of PC unit shipments (not Windows 7).

Forrester Research is also expecting a rebound in 2010 as IT spending in the United States is forecast to grow 6.6 percent to \$568 billion, 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 SMB business segments started to increase their IT spending during the first quarter of 2010. We define SMB as any company with fewer than 2,000 PCs; enterprise customers have 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 grew during the first quarter of 2010. Management attributes this growth to strong Microsoft Select and enterprise software business related to the federal government year end and a large government renewal within the United States. The Microsoft segment continues to see challenges related to fee structure and lower true-up activity, particularly in the United States, which is 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 EAs for changes in the number of users).

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

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 this deferral 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.

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

Cost Management

The successful integration of the three acquired businesses, in late 2007 and early 2008, has positioned the Company with stronger sales and delivery capacity, and also with a lower cost model that is capable of driving strong revenue growth as we come out of the current recession. Coupling the leverage of this integration and a broader drive for increased productivity levels and cost reduction strategies, we have positioned the Company to deliver greater shareholder returns. These actions continue to have an impact on the Company's results, with total selling general and administrative costs declining by 10 percent during the first quarter compared to the same quarter of the prior year.

Detailed Review of Operating Results for the Quarter

Summary of Quarterly Data

(in thousands of US dollars, except per share amounts) unaudited

	2008			2009				2010
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	\$ 334,396	\$ 276,356	\$ 334,988	\$ 218,358	\$ 279,273	\$ 218,728	\$ 283,889	\$ 282,745
Gross profit	53,442	35,464	43,686	30,654	41,312	30,813	39,490	36,446
Operating income (loss)	13,919	1,086	(34,490)	(399)	12,920	2,133	9,564	4,727
Net earnings	7,425	(1,665)	(21,875)	(2,389)	12,642	4,913	7,097	4,532
Earnings (loss) per share	\$0.42	\$(0.09)	\$(1.25)	\$(0.14)	\$0.72	\$0.29	\$0.39	\$0.23

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 number of sales usually occur in the last two or three weeks. The following trends have typically influenced sales in each quarter:

- March 31 is the Canadian federal government year-end. Historically, the government made purchases toward the end of its fiscal year. The effect of this buying pattern has diminished recently as the government has attempted to spread out its purchasing activities throughout the year.
- June 30 is Microsoft's fiscal year-end. Softchoice has historically benefited from the sales and marketing drive that has been generated by Microsoft sales representatives to meet its year-end targets.

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

- 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.

Three-Month Period Ended March 31, 2010 Compared to the Three-Month Period Ended March 31, 2009

<i>(in thousands of US dollars, except per share amounts)</i> <i>unaudited</i>	Q1 2010		Q1 2009		Y/Y %
		% of revenue		% of revenue	
Total Revenue, including Imputed Revenue	\$ 433,655	153.4%	\$ 346,094	158.5%	25.3%
Revenue	282,745	100.0%	218,358	100.0%	29.5%
Gross profit	36,446	12.9%	30,654	14.0%	18.9%
Expenses (excluding amortization)	29,108	10.3%	28,391	13.0%	2.5%
EBITDA	7,338	2.6%	2,263	1.0%	224.3%
Amortization	2,611	0.9%	2,662	1.2%	(1.9)%
Operating income	4,727	1.7%	(399)	(0.2)%	-
Interest and other expenses	540	0.2%	1,145	0.5%	(52.8)%
Foreign currency exchange (gain) /loss	(2,032)	(0.7)%	1,616	0.7%	(225.7)%
Net earnings (loss) before taxes	6,219	2.2%	(3,160)	(1.4)%	-
Net earnings (loss)	4,532	1.6%	(2,389)	(1.1)%	-
Earnings (loss) per share	\$ 0.23		\$ (0.14)		-

Revenue

Revenue for the first quarter was \$282.7 million, an increase of 30 percent from revenue of \$218.4 million reported for the first quarter of 2009. Total Revenue, including Imputed Revenue increased by 25 percent over the same period of the prior year.

Agency fees for EA licenses declined by eight percent compared to the increase in Microsoft Imputed Revenue of 16 percent reported in the same period of the prior year. The change in agency fees reflects erosion in the fee margin as a percentage of Imputed Revenue as a result of changes in the fee structure between Microsoft and its partners and the mix of licenses sold. This decrease is also due to a decline in the renewal rate of Year 2 and 3 licenses during the first quarter, and a reduction in true-up and add-on licenses as a result of a slow recovery from the downturn in the economic environment. This was offset somewhat by a strong performance in Year 1 renewals, which reflected a 98 percent increase in Imputed Revenue compared to the prior year, primarily as a result of the cyclical nature of the three-year license renewal cycle.

In Canada, sales in Canadian dollars grew by eight percent overall and Total Revenue, including Imputed Revenue, grew by 11 percent compared to the same quarter of the prior year. The relative strength in hardware and Microsoft revenue offset a general decline in other software sales.

In the United States, sales grew by 28 percent overall and Total Revenue, including Imputed Revenue, grew by 21 percent compared to the same quarter of the prior year. Hardware sales grew by nine percent compared to the first quarter of the prior year, primarily as a result of a general rebound in desktop and laptop sales within the United States and poor sales recorded in the first quarter of the prior year. Microsoft sales grew by 78 percent primarily due to the impact of one large transaction with a federal government customer.

Sales of other software grew by six percent primarily driven by sales of Adobe, Symantec and VM Ware products.

The Canadian dollar appreciated against the U.S. dollar from 1.2456 during the first quarter of 2009 to 1.0411 in 2010 for a year-over-year change of 16 percent. If the foreign exchange rate had held constant, year-over-year reported revenue and Total Revenue, including Imputed Revenue would have increased by 19 percent and 17 percent, respectively, for a total foreign currency impact on revenue and Total Revenue, including Imputed Revenue, of \$21.6 and \$27.2 million, respectively.

Gross Profit

Gross profit for the first quarter was \$36.4 million, reflecting an increase of 19 percent compared to gross profit of \$30.7 million reported in the first quarter of the prior year. Eliminating the foreign currency impact, overall gross profit grew by 11 percent compared to the same quarter of the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue, was 8.4 percent, which declined slightly from 8.9 percent as reported in the same quarter of the prior year. The gross profit erosion experienced on both Imputed and reported revenue was primarily a result of erosion of fees on the Microsoft business and the impacts of a large transaction during the quarter that was transacted at a low profit margin.

Rebates in the first quarter of 2010 grew by 383 percent compared to the same quarter of the prior year, largely due to the strong growth in the Microsoft business segment in the U.S. commercial market as well as growth within the North American public sector market.

Marketing development funds earned in the first quarter increased slightly from the same quarter of the prior year growing by one percent.

Product Segment Analysis

(in thousands of US dollars) unaudited

	Q1 2010	Q1 2009	Y/Y %
Microsoft revenue	\$ 112,250	\$ 71,923	56.1%
Agency fees	(9,024)	(9,789)	(7.8)%
Microsoft Imputed Revenue	159,934	137,525	16.3%
Total Microsoft Revenue, including Imputed Revenue	263,160	199,659	31.8%
Other software revenue	70,508	66,859	5.5%
Hardware revenue	99,987	79,576	25.6%
Total Revenue, including Imputed Revenue	\$ 433,655	\$ 346,094	25.3%
Total reported revenue	\$ 282,745	\$ 218,358	29.5%

Expenses and EBITDA

(in thousands of US dollars) unaudited

	Q1				Y/Y %
	Q1 2010	% of gross profit	Q1 2009	% of gross profit	
Salaries and benefits	\$ 21,562	59.2%	\$ 20,053	65.4%	7.5%
Selling, general and administrative	7,546	20.7%	8,338	27.2%	(9.5)%
	29,108	79.9%	28,391	92.6%	2.5%

Total expenses grew by three percent compared to the first quarter of the prior year. Expenses as a percentage of gross profit decreased to 80 percent from 93 percent reported in the same quarter of the previous year, primarily as a result of the strong gross profit performance compared to the prior year and the cost reduction actions taken by the Company. The slight increase in expenses given the strong gross profit growth reflects the Company's focus on cost management and the results of the productivity and cost management efforts that were undertaken in previous years.

Average headcount levels for the first quarter decreased by two percent compared to the same quarter of the prior year. The increase in salaries and benefits reflects increased incentive compensation expense associated with our increased gross profit.

Selling, general and administrative expenses decreased by 10 percent compared to the same quarter of the prior year, reflecting management's vigilance regarding cost management during these difficult economic times.

EBITDA reflects the profits of the Company after salaries, selling, general and administrative expenses and any unusual items are deducted from gross profit. A gross profit increase of 19 percent, coupled with a decrease of 10 percent in selling, general and administrative expenses, has demonstrated the effectiveness of the Company's cost model. As a result, EBITDA increased from the same quarter of the prior year by 224 percent.

Other

Amortization of property and equipment increased by eight percent compared to the first quarter of the prior year as a result of capital asset purchases made in the latter part of 2009. The amortization of intangible assets decreased by six percent, primarily as a result of fully amortizing the intangibles related to the 3-Soft acquisition during the current quarter.

Interest and other expense was \$0.5 million during the first quarter of 2010, consisting primarily of interest costs and amortization of deferred financing fees associated with the long-term debt.

The effective tax rate for the first quarter of 2010 was approximately 27 percent, which increased from the rate for the same quarter of the prior year primarily as a result of a non-deductible expense that was reversed in the first quarter of the prior year. The effective tax rate still remains below the statutory tax rates as a result of the impacts of both permanent and temporary timing differences.

Net earnings for the first quarter of 2010 were \$4.5 million compared to a net loss of \$2.4 million reported in the same period of the prior year. Earnings per share was \$0.23 per share (basic and diluted), compared to a net loss of \$0.14 per share (basic and diluted) reported in the same period of the prior year. On an adjusted basis, earnings for the quarter were \$2.9 million compared to a net loss of \$1.0 million reported in the same period of the prior year. Adjusted earnings per share was \$0.15 per share (basic and diluted) compared to an adjusted loss of \$0.06 per share (basic and diluted) in the prior year.

Liquidity and Capital Resources

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

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

Operating Activities

Cash provided by operating activities was approximately \$15.0 million during the quarter (2009 – \$(0.5) million).

Accounts receivable balances reflect days sales outstanding (DSO) of 41 days as at March 31, 2010, compared to a DSO of 47 days as at March 31, 2009. The Company targets DSO levels of 45 days.

Days payable outstanding (DPO) decreased from 63 days for the same period of the prior year to 61 days as at March 31, 2010. The decrease in DPO is primarily the result of the timing of vendor payments. We expect that DPO levels will decline over the remainder of the year as the Company begins to take advantage of early payment discounts offered by various vendors.

The Company's DSO ratio 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.

Debt Financing

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

- An asset-backed loan (ABL) which can be drawn up to the lesser of C\$115.0 million or 85 percent of eligible accounts receivable. There is an accordion feature to this facility in the amount of C\$30.0 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL 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 16 percent per annum (2009 – 17.5 percent); this rate was reduced after 2009 as a result of meeting certain financial ratios. The term debt loan was provided by HSBC (Canada) Inc. with participation by Ontario Teachers' Pension Plan (OTPP). OTPP is a major shareholder and also a related party. This loan can be repaid without penalty or termination fee after 36 months.

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

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

The table below shows the level of debt available to the Company and the amounts outstanding as at March 31, 2010. Including available cash, the net cash position at the end of the first quarter of 2010 was

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

\$16.5 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 March 31, 2010 (thousands of US dollars) unaudited	Available	Drawn
Short-term debt		
ABL	\$ 74,781	\$ -
Current portion of term debt	<u>4,104</u>	<u>4,104</u>
	78,885	4,104
Term debt, long-term	<u>11,645</u>	<u>11,645</u>
Total debt	<u>\$ 90,530</u>	<u>\$ 15,749</u>

Cash Flow

In addition to having excess debt availability, the Company was able to reduce debt from \$40.5 million at March 31, 2009 to \$15.7 million at March 31, 2010, and during the same period cash balances increased from \$0.1 million to \$32.2 million.

The reduction in debt was primarily a result of \$15.0 million of cash generated from earnings adjusted for non-cash items and the equity offering proceeds, partially offset by \$1.8 million of cash used for financing and investing activities.

Share Capital

As of March 31, 2010, 19,778,789 common shares of the Company were issued and outstanding. Options to acquire an aggregate of 50,000 common shares are outstanding under the Company's Employee Stock Option Plan. At the end of 2006, the Board of Directors terminated the 2003 Stock Option Plan so that options could no longer be issued under this plan. This termination was executed without prejudice to the options that were already outstanding under the existing plan. As of March 31, 2010, there were 119,957 deferred share units (DSUs) outstanding under the Company's deferred share unit plan for Directors, each of which represents the right to acquire one common share when the holder ceases to be a non-executive director of the Company.

On June 12, 2009, a one-time bridge LTIP for executives of the Company was approved; as at March 31, 2010, there were 152,000 phantom shares and 152,000 phantom options outstanding, both payable in cash. On June 12, 2009, the 2009 LTIP for executives of the Company was also approved; the plan consists of a cash payout or the issuance of up to 50 percent of the DSU equivalent upon achievement of a cumulative net income target. Refer to Note 5 of the interim financial statements.

On March 11, 2010, the Share Appreciation Rights (SAR) plan for eligible officers and key employees of the Company was approved by the Board of Directors. On March 31, 2010, the Company granted 160,000 SARs to eligible participants. The strike price of the units granted is C\$9.90. The Company must achieve a threshold share price of C\$12.50 following the three-year vesting period in order for any award to be made. The maturity date price will be determined by the volume weighted average trading price per share on the Toronto Stock Exchange for the 10 trading days immediately after the vesting period is completed. Upon maturity, if the threshold share price is met, each SAR entitles the holder to receive an amount equal to the maturity date price less the strike price of C\$9.90. The awards granted under this plan are payable in cash. Refer to Note 5 of the interim financial statements.

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

Equity Financing

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

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

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

As at March 31, 2010, included in trade accounts receivable was \$717 thousand due from a major shareholder, Ontario Teachers' Pension Plan (OTPP), for product sales with payment terms of net 30 days (March 31, 2009 – \$119 thousand). Total product sales to OTPP during the three-month period ended March 31, 2010 were \$660 thousand (2009 – \$104 thousand). This related-party transaction is in the normal course of operations and has been recorded at the exchange amount, which is the amount of consideration established and agreed between the related parties.

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 three-month period ended March 31, 2010, OTPP received principal repayments of \$205 thousand (2009 - \$132 thousand) and interest payments of \$132 thousand (2009 - \$61 thousand). Refer to "Liquidity and Capital Resources".

Microsoft and Softchoice

Microsoft is the ubiquitous provider of infrastructure software worldwide. Approximately 70 percent of Microsoft's revenue is from desktop applications and operating systems such as Windows and Office productivity suites. Microsoft has about 95 percent of the market share in this area, with projected single-digit growth for the next few years. During the quarter, about 40 percent of Softchoice's revenue, or 61 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 during the term of the "insurance" product. Microsoft sells this type of product through Software Assurance and Enterprise Agreements. Customers are also able to purchase the license agreement on its own, but this gives them no rights or access to later versions of the product. To upgrade, they must repurchase the software license.

Software Assurance

Software Assurance (SA) is an "insurance" or "maintenance" type of license that allows customers to upgrade to the latest technology if new applications are introduced during the period that the SA is in effect. The license also entitles the customer to many different types of training and service benefits. SA

licenses are renewed annually; this renewal feature increases the predictability of the Company's revenue stream.

Enterprise Agreements

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

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

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

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

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

Key Performance Measures

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

Revenue or Growth Indicators:

- Number of Customers

Productivity Indicators:

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

Number of Customers

During the first quarter of 2010, the number of customers purchasing from Softchoice increased by one percent in Canada and declined by 10 percent in the United States compared to the same period of the prior year. Although the number of buying customers making purchases declined on a consolidated basis

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

by six percent compared to the same quarter of the prior year, gross profit per customer increased by 25 percent, which drove most of the gross profit growth during the current quarter.

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

	Q1 2010	Q1 2009
Small and Medium	38%	45%
Enterprise	24%	31%
Government and Education	<u>38%</u>	<u>24%</u>
Total	100%	100%

The portion of sales to enterprise customers decreased in the first quarter, with 24 percent of sales to the enterprise customer base, compared to 31 percent during the first quarter of the prior year. This decrease is primarily due to the mix of federal government business experienced in Canada and the United States during the first quarter of 2010.

Gross Profit per Order

In Canada, gross profit per order increased by 16 percent during the first quarter compared to the same period of the prior year as a result of an increase in margin percentage received on orders stemming from a change in the mix of products sold compared to the prior year and the related margin uplift associated with certifications attained in 2009. In the United States, gross profit per order increased by 27 percent compared to the same period of the prior year due to the mix of large orders delivered in the quarter compared to the prior year, which generally earn higher margins, as well as the higher margins realized during the quarter related to specific license types of the Microsoft business and as a result of obtaining required certification for certain vendors.

Gross Profit per Employee and per Sales Employee

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

	Q1 2010		Q1 2009		Y/Y change	
	Sales	Total	Sales	Total	Sales	Total
Average headcount	427	865	440	885	(2.8)%	(2.2)%
Quarter-end headcount	435	872	443	888	(1.8)%	(1.8)%
Gross profit/person (\$000's)	\$83.8	\$41.8	\$69.2	\$34.5	21.1%	21.1%

During the first quarter the total number of employees decreased by 16 people, or two percent, compared to the same period of the prior year.

During the first quarter of 2010, gross profit per sales employee, a key measure of productivity, increased by 21 percent, primarily as a result of the improved productivity of the sales team as the economy continued to show signs of a recovery. Gross profit per employee also increased by 21 percent compared to the same period of the prior year. This increase is primarily a result of the impact of the economic recovery that occurred during the quarter and its effect on gross profit performance, resulting in strengthening of margin per sales employee rates compared to the same period of the prior year. We expect both productivity measures to show similar trends in future quarters.[†]

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

Significant 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 and 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 products in which the Company acts as a principal are presented on a gross basis. As a principal, the Company obtains and validates a customer order, purchases the product from the supplier at a negotiated price, arranges for shipment of the product, collects payment from the customers, ensures that the product reaches the customer and processes returns. The Company's products are 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 an order and refers the order to a supplier for a fee.

Revenue is recorded when the product is shipped to customers, Freight On Board (FOB) 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 revenue is recognized.

Multiple-Element Arrangements

In December 2009, the Canadian Institute of Chartered Accountants (CICA) issued Emerging Issues Committee (EIC) Abstract 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 be either 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 year of adoption. The Company adopted EIC 175 effective January 1, 2010.

The Company's revenue arrangements may contain multiple elements; however, to date revenue from multiple-element arrangements has not been significant. Accordingly, the adoption of EIC 175 did not

have a material impact on the Company's financial statements. The Company is still required to determine the appropriate accounting under EIC 175, including whether the deliverables specified in a multiple-element arrangement should be treated as separate units of accounting for revenue recognition purposes.

In the past, for arrangements involving multiple elements, the Company allocated 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. EIC 175 has eliminated the use of the residual value method, and therefore, effective January 1, 2010, the Company has allocated revenue using the relative selling price method for the separate units of accounting. The multiple elements in an arrangement typically might include one or more of the following: hardware, software, maintenance, installation, and/or other professional service offerings. The Company allocates the arrangement fee in a multiple-element transaction to the separate elements based on their relative selling prices, as indicated by vendor-specific objective evidence or third-party evidence of selling price, and if neither are available, estimated selling prices are used. The allocated portion of the arrangements that is undelivered is then deferred.

In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single multiple-element arrangement, and therefore, the Company allocates the corresponding revenue to 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 a 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 at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than the full amount due on its accounts receivable. 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 credit worthiness 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 estimate is recalculated multiple times per year to ensure it reflects the most relevant data available.

Deferred Revenue

Deferred revenue has historically included revenue that is not yet earned on sales of service to customers where performance is not yet complete and maintenance contracts where the contract start date is not yet in effect. Revenue from maintenance contracts performed by third-party vendors is recognized once the contract date is in effect. Revenue from maintenance contracts performed by internal resources is recognized ratably over the term of the maintenance period. Internal consulting services are recognized on a time and materials basis.

Deferred revenue has also included revenue that is not yet earned on sales to customers with initial extended payment terms beyond 180 days.

Effective January 1, 2010, the Company determined that it has sufficient evidence in most instances to conclude that a fee is fixed and determinable when initial payment terms are beyond 180 days and as such, the Company will recognize revenue in such instances when appropriate, based on its revenue recognition policy.

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 calculated on a straight-line basis over their estimated useful lives as follows:

Office equipment	three years
Computer equipment	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 that will be produced by the 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 asset is written down to its 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 a reporting unit may be 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. The fair value of the reporting unit is derived taking by the sum of the discounted after-tax cash flows expected to result from its use including a terminal value calculation. 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 intangibles assets whenever events or changes in circumstances indicate that an asset might not be recoverable. In assessing recoverability of its long-lived assets, the Company compares the carrying amount to the sum of the undiscounted pre-tax cash flows expected to result from the its use and eventual disposition. A terminal value calculation is included to represent the eventual disposition of the assets included in the reporting unit. An impairment loss is recognized if it is determined that the carrying amount is not recoverable and exceeds its fair value. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its 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 adoption of this standard in its financial results for 2010 and 2009.

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 Translation

Assets and liabilities denominated in currencies other than the respective functional currency are translated into functional currency at exchange rates in effect at the balance sheet date. 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 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 for 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

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 values 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 (DSU) Plan 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 (DSU) 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 if the common shares are then traded on the Toronto Stock Exchange, or the fair market value as determined by the Board.

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. 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 Plan, and to deliver common shares to the director. The cost of the deferred share units is recorded in equity.

Long-Term Incentive Plan

On June 12, 2009, a one-time bridge LTIP for 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 any amount to be paid.

The bridge LTIP also granted 152,000 phantom options based on a notional strike price of C\$3.22 per unit. The value of each unit will be calculated 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, which was \$8.39, and the strike price. All of the phantom options granted will vest in February 2011. 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, 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 executives of the Company was approved. The 2009 LTIP consists of the issuance of a cash payout or the issuance of up to 50 percent of the DSU equivalent 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 achievement defined as Threshold, Target, Superior and Maximum payout gates. Payouts to the participants under the Plan will be in February 2012 dependent upon continuing full-time employment by the Company through the vesting period (February 2012) for any amount to be paid.

The Company is accruing for the costs of the DSU Plan and LTIP programs based on projected payments under the respective plans. The details of the plans are described in Note 5 of the interim consolidated financial statements.

Share Appreciation Rights Plan

On March 11, 2010, the Share Appreciation Rights (SAR) plan for eligible officers and key employees of the Company was approved by the Board of Directors. On March 31, 2010, the Company granted 160,000 SAR to eligible participants. The strike price of the units granted is C\$9.90. The Company must achieve a threshold share price of C\$12.50 following the three-year vesting period in order for any award to be made. The maturity date price will be determined by the volume weighted average trading price per share on the Toronto Stock Exchange for the 10 trading days immediately after the vesting period is completed. Upon maturity, if the threshold share price is met, each SAR entitles the holder to receive an amount equal to the maturity date price less the strike price of C\$9.90. The awards granted under this plan are payable in cash. Refer to Note 5 of the interim 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 the 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 is measured at the intrinsic value between the grant date and measurement date, which 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 an 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 apply to annual financial statements for periods ending after September 30, 2009. Effective October 1, 2009, the Company applied the modifications prescribed. These standards had an impact on the disclosures provided by the Company but did not affect the Company's consolidated results or financial position. Refer to Note 14 of the 2009 annual consolidated 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 credit accounting risk and the credit risk of its counterparties should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 has been 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 statements of earnings and retained earnings and consolidated balance sheet 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 in neither the Canadian or U.S. dollar 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 March 31, 2010, 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 only with reputable financial institutions. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. As such, the Company performs ongoing credit evaluations of its customers' financial condition to evaluate creditworthiness and to assess impairment of

outstanding receivables. As at March 31, 2010, the Company is aware of a concentration of credit risk with respect to one customer whose receivable balances make up approximately 16 percent of the total balance of accounts receivable. . Approximately 20 percent of the Company's accounts receivable are greater than 31 days past due (March 31, 2009 – 36 percent). The Company's allowance for doubtful accounts is \$4.3 million (March 31, 2009 – \$4.0 million). 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 rates due to the balance outstanding as of the year-end, as well as debt settlements made during the year.

From time to time, the Company may use derivatives to manage this foreign exchange risk. The Company's policy is to use derivatives for risk management purposes only, and it does not enter into such contracts for trading purposes. The Company enters into derivatives only with high-credit-quality financial institutions. The Company did not enter into any new derivative financial instrument contracts during the 2009 fiscal year. In addition, there were no outstanding derivative financial instruments as at March 31, 2010.

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 2008. The Company did not enter into any new derivative financial instrument contracts during the 2009 fiscal year. In addition, there were no outstanding derivative financial instruments as at March 31, 2010.

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

Consolidated Financial Statements

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

adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

International Financial Reporting Standards (IFRS)

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

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 has elected not to restate any business combinations that occurred prior to January 1, 2010.
Net book value as deemed cost available for property, plant 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 impact of componentization on accounting policy All significant components of furniture and fixtures, office equipment and computer hardware to 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 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 recognized at fair value at initial grant date and remeasured at fair value at the end of each subsequent reporting Each installment is accounted for as a separate arrangement
Provisions and Contingencies (IAS 37)	<ul style="list-style-type: none"> Different threshold used for recognition of a contingent liability could have an impact on the timing of when a provision may be recorded.

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

Disclosure Controls and Procedures

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

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

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at March 31, 2010 and has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were adequate and effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting which occurred during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.