

# **Hartco**

## **Annual Information Form**

For Fiscal Year Ended December 31, 2011

**March 28, 2012**

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## FORWARD-LOOKING STATEMENTS

The Hartco Inc. Annual Information Form (“AIF”) contains forward-looking statements. All statements other than statements of historical fact contained in this AIF are forward-looking statements, including, without limitation, statements regarding the future financial position, litigation, projected costs and plans and objectives of or involving, Hartco Inc. (the “Corporation” or the “Company”), Hartco Investments Inc., Hartco Distribution Inc., the General Partner for Hartco Distribution Limited Partnership (“Hartco Distribution”), Metafore Technologies Inc. (“Metafore”) or any of their respective subsidiaries. Holders (“Shareholders”) of shares (jointly, “shares”) of the Corporation can identify many of these statements by looking for words such as “believe”, “expects”, “will”, “intends”, “projects”, “anticipates”, “estimates”, “continues” or similar words or the negative thereof. These forward-looking statements include statements with respect to the amounts to be retained by the Corporation for capital expenditures; there can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this AIF. Although management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Forward-looking statements involve known and unknown risks and uncertainties which may cause actual results in future periods to differ materially from forecasted results. Those risks include, among others, changes in customer demand for information technology products or services, changes in supplier pricing actions or terms, customer orders, pricing actions by competitors, changes in laws and regulations and general changes in economic conditions.

The information contained in this AIF, including the information set forth under “Risk Factors”, identifies additional factors and could affect the operating results and performance of the Corporation.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this AIF are made as of the date of this AIF and the Corporation assumes no obligations to update or revise them to reflect new events or circumstances.

## ORGANIZATIONAL STRUCTURE

On April 15, 2009, following a final order from the Quebec Superior Court, Hartco completed its conversion from an income trust to a corporation. The conversion was implemented pursuant to a plan of arrangement under the *Canada Business Corporations Act* (“CBCA”). Under the Plan of Arrangement, all of the outstanding trust units of the Fund and “tracking share units” of Hartco Investments Inc. were exchanged for common shares of Hartco Inc. on a one-for-one basis. Following the conversion, there were 13,598,890 common shares of Hartco Inc. issued and outstanding. The common shares of Hartco Inc. commenced trading on the Toronto Stock Exchange on April 20, 2009 under the stock symbol “HCI”.

On July 28, 2005, the shareholders of Hartco Corporation approved the conversion of the Company into an income trust by way of a Plan of Arrangement. This conversion was completed on August 28, 2005. Pursuant to the conversion, the shareholders exchanged their common shares for units of the new trust known as Hartco Income Fund.

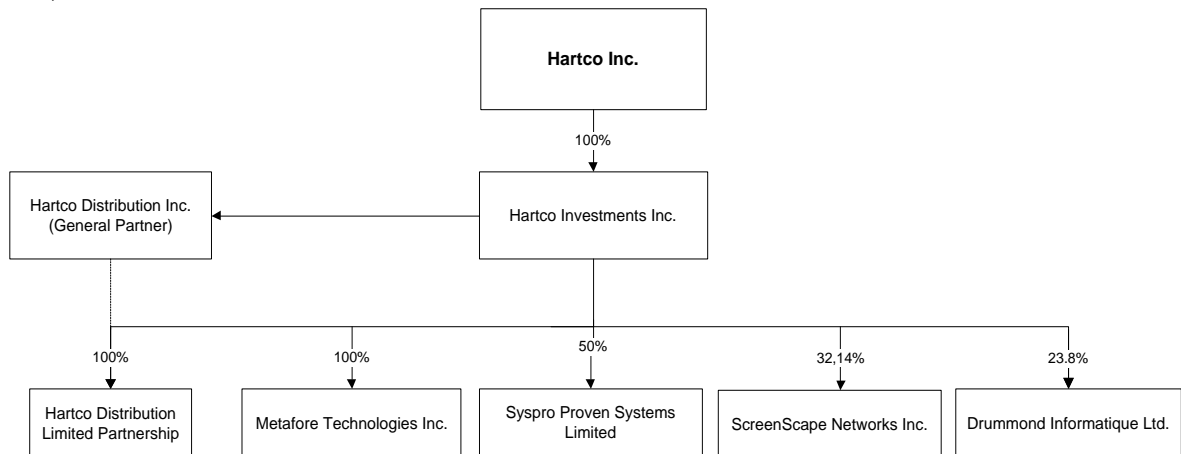
Hartco Corporation was constituted by a Certificate and Articles of Incorporation issued pursuant to the CBCA on April 5, 2000, and merged with Multimicro on July 12, 2000 to assume all of the obligations of the then amalgamating corporations and Hartco Enterprises Inc. (“Enterprises”) became a separate public entity, continuing its operations independently under the name Hart Stores Inc.

Multimicro was constituted by a Certificate and Articles of Incorporation issued pursuant to the CBCA on December 30, 1996.

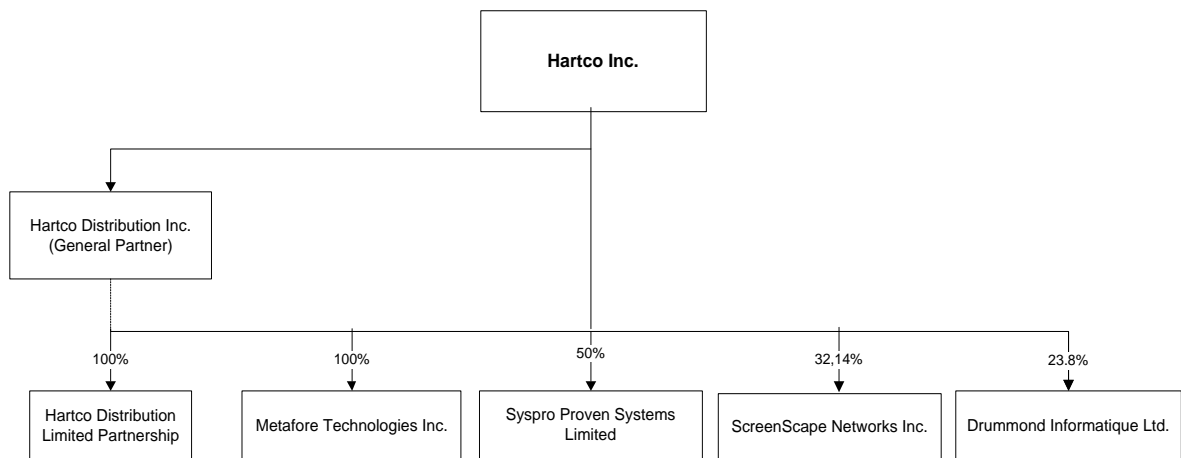
On October 25, 1984, Enterprises was constituted by a Certificate and Articles of Amalgamation issued pursuant to the provisions of the CBCA. Enterprises is the successor corporation to: (1) Hart Department Stores (Cornwall) Ltd., which was originally incorporated on May 31, 1963, under the *Canada Corporations Act* and continued under the CBCA on November 6, 1980; (2) Compucentre Investments Ltd., which was incorporated under the provisions of the CBCA on April 30, 1981; (3) Compucentre Computer Centre Ltd., which was incorporated under the provisions of the CBCA on November 3, 1976, and which amended its Articles of Incorporation by a Certificate and Articles of Amendment on December 8, 1978, to obtain a French version for its name; (4) Multimicro Distributors Inc., which was incorporated under the provisions of the CBCA on February 13, 1981; and (5) SDI Systèmes d'Informatique Ltée, which was incorporated on November 6, 1980 under the provisions of the CBCA.

The registered office of the Corporation is located at 9393 Louis-H.-Lafontaine Boulevard, Montreal, Quebec, H1J 1Y8.

The diagram set out below details the organizational structure of the Corporation as at December 31, 2011.



The diagram set out below details the organizational structure of the Corporation as at January 1, 2012.



## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview of activities

**Hartco operates in three reportable segments in Canada: the Franchising and Distribution segment, the Commercial segment, and Corporate Services, for which the Company presents results separately.**

**The Franchising and Distribution segment** encompasses the Company's distribution activities operated by Hartco Distribution Limited Partnership ("Hartco Distribution"), as well as the franchising of businesses that sell a broad range of IT solutions to private and public sector organizations of every size. Franchises operate under the banners of Metafore™ and MicroAge®, which together include 50 locations from coast to coast. Segment revenues are comprised of sales to franchisees and of royalties earned from franchisees.

**The Commercial segment** includes the business activities operated by the Company's Metafore Technologies Inc. ("Metafore") subsidiary. Metafore has been delivering information technology solutions to private and public sector organizations of every size for more than 25 years. As one of Canada's leading IT solution providers, Metafore designs, supplies, installs and supports IT infrastructure solutions that contribute to improved productivity and overall business performance.

**Corporate Services** include activities and expenses related to the Company's corporate and shared services that are not recharged to the operating segments.

## History

In 1976, the first four Compucentre stores were opened as kiosks in high-traffic areas in major shopping centres in the Montreal region and carried a product line that consisted of calculators, TV games and micro-chip based consumer products. They were the first in Canada to sell microcomputers in the retail environment when the Corporation's predecessor imported the first microcomputer in November 1976.

In 1977, the first store-type location was opened in Place Ville-Marie in Montreal. This location carried the same product mix as the kiosks, as well as the emerging product lines of personal computers and microprocessor-based business systems.

In 1978, recognizing that separate networks were required to cater to the needs of the professional and commercial markets, the first Compucentre Professional Business Centre was opened. The Company was among the first in Canada to target "**Solution Selling**" (including consulting, needs analysis, training, service and support at the client's site). All stores were owned and operated by Compucentre Computer Centre Ltd. until 1980, when it became apparent that the corporate chain philosophy was not efficient in the fast-paced microcomputer market. The franchising concept was tested by franchising two of the existing Compucentre Home Computer Store locations to local owner operators. The results were dramatic increases in revenues and profits and corresponding decreases in inventories. Consequently, in 1981, the business development strategy was changed to a franchising concept and all the existing company-owned Compucentre Home Computer Store locations were converted to franchises.

In 1984 due to continued expansion of the Company's franchise network, Hartco Enterprises Inc. was formed and in December of 1984, it was listed on the Montreal Exchange and Toronto Stock Exchange, following a public issue of 1,000,000 common shares.

In 1986, the Company acquired the MicroAge Network in Canada, which consisted of 13 franchised locations and, under a licensing agreement, became the exclusive franchisor of MicroAge Computer Stores in Canada. With the acquisition of the Canadian MicroAge franchise network, coupled with its own Compucentre Professional Business Centre and the Compucentre Home Computer Stores franchise networks, the Company became the largest franchisor of computer stores in Canada.

In 1993, the Company introduced a new franchise network called CompuSmart (Canada's Computer Superstore). CompuSmart was designed to cater to the growing home/work-at-home and small business markets and was the first of its kind in Canada, providing a complete mix of brand name computer products and accessories.

In July 1993, the Company acquired a controlling interest in Cabtel Corporation ("Cabtel"), a specialty retailer of telephones and telephone accessories operating under the names of The Telephone Booth and La Cabine Téléphonique with locations situated in high traffic malls in Quebec and Ontario. By the end of the same year, the Company acquired the remaining non-controlling interest of Cabtel.

In January 1994, the Company completed the purchase of Northwest Digital Ltd., one of Hewlett-Packard's largest full-line value-added dealers in Canada, operating six locations within Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, four of which were integrated into the existing franchise network.

In January 1994, the Company acquired 50% of Syspro Proven Systems Ltd., a Toronto based MicroAge franchise.

In January 1997, the Company acquired 50% of NWD Systems (Montreal) Inc., a Laval based MicroAge franchise.

In 1999, Hartco increased its retail presence in the market place by adding four new CompuSmart locations, bringing the total to 18.

In 1999, the Telephone Booth Division continued its market penetration by adding seven new locations under The Telephone Booth banner, including its first location in the province of Alberta. Also, during 1999 it acquired the assets of Westcomm, a leader in reselling long distance and wireless PCS telecommunication services, which it operated under the trade name Connectel Solutions.

In 2000, the Company launched ZingPC.com, an internet-based reseller of computer technology, catering to clients with a requirement for simple and efficient procurement capabilities combined with highly knowledgeable and skilled sales representatives.

In July 2000, the Company acquired 50% of Solutions Technologiques Dorval Inc., a Montreal based Microserv franchise.

In August 2000, the Company acquired 50% shareholdings in Metafore Corporation a franchise operating in Calgary (Alberta), Toronto and Waterloo (Ontario).

In February 2002, the Company acquired the remaining shares of Metafore Corporation and of Ottawa Office Integration Inc., to become the sole shareholder of each company. The Company also acquired 100% of the issued and outstanding shares of 543749 Ontario Limited (CompuSmart Hamilton) which has since been closed.

In September 2002, Cabtel sold its 100% ownership in 3944573 Canada Inc. which then operated under the trade name Connectel Solutions in Montreal, Quebec. Connectel Solutions was a global solutions provider for business clients seeking communication, wireless and networking expertise.

In December 2002, the Company acquired the remaining 50% shareholdings of Countercom Systems Inc., a Vancouver (British Columbia) based CompuSmart franchise, to become the sole shareholder of the company. Following the reorganization of the share capital of 3754910 Canada Inc., operating as ZingPC.com, the Company also acquired 100% of the issued and outstanding common shares of that company.

In November 2003, the Company acquired the remaining 50% shareholdings of LW1A Technologies (Winnipeg) Inc., a Winnipeg (Manitoba) based Compucentre location and of Orpha Solutions Inc., a London (Ontario) based CompuSmart location, to become the sole shareholder of both of these companies. The locations have since been closed and the companies have been wound up into the Company and dissolved.

In April 2004, HTC Stores Inc., a subsidiary of the Company, acquired 100% shareholdings of Tesseract Software Ltd., a Victoria (British Columbia) based CompuSmart franchise.

In June 2004, the Company acquired all the issued and outstanding shares of Sundance Harbor Corp. to become the sole shareholder of Softwarehouse (West) Inc., an Edmonton (Alberta) based franchise operating three CompuSmart locations in that province. The Company also acquired all the issued and outstanding shares of Vancouver Office Technologies Inc., which were later sold to Metafore Corporation in February 2005.

In 2004, the Company converted nine Compucentre locations to the CompuSmart Express banner, taking advantage of the benefit of strong brand recognition. In 2004, the Company decided to use the critical mass attained with its CompuSmart Division to add audio visual lines of merchandise and consumer electronics to its product offerings.

In May 2005, the Company sold all issued and outstanding shares of Cabtel to Glentel Inc.

In June 2005, the Company acquired the remaining 50% shareholdings of 3680738 Canada Inc. (CompuSmart Ottawa, Ontario), BH Brandon Computers Inc. (CompuSmart Brandon, Manitoba), Delron Ventures Inc. (CompuSmart Saskatoon, Saskatchewan) and Solutions Technologiques Dorval Inc. (Microserv), to become the sole shareholder of these companies.

On July 28, 2005, the shareholders of Hartco Corporation approved the conversion of the Company into an income trust by way of a Plan of Arrangement. This conversion was completed on August 28, 2005. Pursuant to the conversion, the shareholders exchanged their common shares for units of the new trust known as Hartco Income Fund.

In November 2005, Hartco Investments LP sold its 50% participation in East Coast Technologies Inc. (MicroAge Saint John's, Newfoundland and Labrador) to its partners in the business, and in December 2005, it also sold its 50% participation in Bathurst Office Technologies Inc. (MicroAge Bathurst, New Brunswick) to its partner in that business. These locations remain franchisees of the Corporation.

In December 2005, Hartco Investments LP acquired an additional 49.9% shareholding to hold 99.9% of 3469859 Canada Inc. (CompuSmart Montreal, Quebec) to stabilize the business following litigation with its former partner.

In July 2006, CompuSmart Solutions Group, the business to business arm of CompuSmart LP, merged with Metafore LP, leaving CompuSmart as a pure retail operation.

In November 2006, Hartco Investments LP acquired the remaining 0.1% shares of 3469859 Canada Inc. (CompuSmart Montreal, Quebec) to become the sole shareholder of the company.

In January 2007, the Corporation announced that it was initiating the process of exploring strategic options for CompuSmart, with emphasis on a potential sale of all or a portion of the retail division.

In June 2007, after exploring all potential strategic options for the division, the Corporation completed its divestiture of the CompuSmart locations with all locations closed or sold.

In February 2009, Hartco Income Fund announced its intention to convert from an income trust to a corporation.

On April 14, 2009 at the special unitholders meeting, the unitholders of the Fund and the shareholders of Hartco Investments Inc., an affiliated corporation, approved the conversion of the Fund to a Corporation. The conversion was completed on April 15, 2009 and all of the outstanding trust units of the Fund and "tracking share units" of Hartco Investments Inc. were exchanged for common shares of Hartco Inc. on an one-for-one basis. The common shares of Hartco Inc. commenced trading on the Toronto Stock Exchange on April 20, 2009 under the stock symbol "HCI".

On December 14, 2009 the Corporation announced an agreement to merge two of its wholly owned subsidiaries, Metafore Limited Partnership and Solutions Technologiques Dorval Limited Partnership into a new wholly owned subsidiary Metafore Technologies Inc., creating one of the largest IT solution providers in Canada with operations across Canada.

In January 2010 Hartco Limited Partnership changed its name to Hartco Distribution Limited Partnership.

In March 2011, Hartco Investments Inc. sold an advanced connectivity service contract for \$1,500,000. The gain, net of related expenses and goodwill, was \$1,044,000. The sale agreement provides for an additional sale consideration of \$2,000,000, which has not been recorded, contingent on specified future events to be confirmed in 2012.

In June 2011 Hartco Investments Inc. sold its 50% participation in NWD Systems (Montreal) Inc. (MicroAge Laval, Quebec) to its partner in that business.

In July, 2011, Hartco Investments Inc. purchased 32.14% of the common shares of ScreenScape Networks Inc., an online service for engaging audiences in public places through the use of Internet-enabled digital displays.

## NARRATIVE DESCRIPTION OF THE BUSINESS

### Reportable Segments

The Corporation's consolidated revenues by business segment were as follows:

(In thousands of dollars)	Year ended December 31	
	2011	2010
Franchising & Distribution	86,084	102,580
Commercial	351,191	362,726
Total	437,275	465,306

The Company has 3 reportable segments: the Franchising and Distribution segment, the Commercial segment and Corporate services.

**The Franchising and Distribution** segment encompasses the Company's distribution activities operated by Hartco Distribution Limited Partnership ("Hartco Distribution"), as well as the franchising of businesses that sell a broad range of IT solutions to private and public sector organizations of every size. Franchises operate under the banners of Metafore™ and MicroAge®, which together include 50 locations from coast to coast. Segment revenues are comprised of sales to franchisees and of royalties earned from franchisees.

**The Commercial** segment includes the business activities operated by the Company's subsidiary Metafore Technologies Inc. ("Metafore"). Metafore has been delivering information technology solutions to private and public sector organizations of every size for more than 25 years. As one of Canada's leading IT solution providers, Metafore designs, supplies, installs and supports IT infrastructure solutions that contribute to improved productivity and overall business performance.

**Corporate services** include activities and expenses related to the Company's corporate and shared services that are not recharged to the operating segments.

These segments are managed separately, since they require specific market strategies. The Company assesses the performance of each segment based on operating income before depreciation and amortization.

Accounting policies relating to each segment are identical to those used for the purposes of the consolidated financial statements. Inter-segment sales are made in the normal course of business and have been recorded at the exchange amount, which approximate prevailing prices in the markets serviced. Management of financial expenses and income tax expense is centralized and, consequently, these expenses are not allocated to these segments

### Competitive Conditions

The Corporation's subsidiaries and their franchisees operate in a highly competitive environment. The IT industry is characterized by intense competition, based primarily on product availability, short product life cycles, credit availability, price, speed of delivery, ability to tailor specific solutions to customer needs, quality and depth of product lines and pre-sale and post-sale training, service and support. Weakness in demand in the market intensifies the competitive environment.

### Identifiable Intangible Properties

Hartco Distribution owns numerous registered and unregistered trademarks and trade names. Many of these are used for house brands and private labels and for in-house merchandising and promotional programs. Hartco Distribution is also an authorized distributor user or dealer for many nationally and internationally recognized brands.

In 1986, Hartco Enterprises Inc. became the exclusive franchisor of MicroAge Computer Centres in Canada, under a licensing agreement which expired in July 2001. In June 2002, the Company entered into a ten year Licensing Agreement with MLT Technology Services, L.L.C., the owner of the Canadian trademarks and trade names used by the MicroAge network. This Agreement was transferred to Hartco Distribution and has been extended for an additional five (5) years expiring December 31, 2016. It may be further extended at Hartco Distribution's option for one additional term of five (5) years.

## **Seasonal Fluctuations**

Historically, the Corporation's revenues are stronger during its first and fourth quarters and slower in the second and third quarters. This trend is tied to increased government purchasing activities during the quarter ending March 31st, and increased purchasing activities on the part of businesses during the quarter ending December 31st.

## **Principal Properties**

Hartco Distribution owns a 125,000 square foot building in Montreal, Québec. This facility houses Hartco Distribution warehouse and distribution facility. Corporate offices, as well as all shared services covering IT, Finance, HR, Marketing and Legal are also located at this facility.

## **RISKS AND UNCERTAINTIES**

### ***Risks related to the business***

Certain activities of the Company may be affected by factors that are beyond its control or influence including without limitation, those summarized below.

### ***Risk of increased liability clauses and non-performance under certain agreements***

The Company, through its commercial segment, is party to several service agreements as part of its ongoing operations. These agreements generally have liability clauses related to intellectual property, confidentiality, errors and omissions, and service delays. Many of these agreements may also have penalties in case of non-performance under these service agreements.

While the Company includes a cap on such liabilities and insures against these risks, a number of service agreements, particularly for the Public Sector, have unlimited liability provisions. In addition, certain penalty clauses may exceed the value of the total service agreement. Should any of these exposures materialize into real claims, due to errors resulting in legal judgments against the Company, the financial results, and professional reputation of the Company could be adversely impacted.

### ***Narrow Profit Margins***

As a result of intense price competition in the industry, the Company has narrow gross profit and operating profit margins. Future gross profit and operating margins may be adversely affected by changes in product mix, product life cycles, vendor pricing actions, and competitive and economic pressures.

### ***Risk of Declines in Inventory Value***

The Company is subject to the risk that the value of its inventory will decline as a result of price reductions by vendors or technological obsolescence caused by short product life cycles. It is the policy of most of the Company's suppliers to protect distributors from the loss in value of inventory due to technological change or vendors' price reductions. Certain practices are not embodied in written agreements and do not protect the Company in all cases from declines in inventory value. No assurance can be given that such practices to protect distributors will continue or that unforeseen new product developments will not adversely affect the Company.

### ***Dependence on Information Systems***

The Company is dependent on a variety of information systems for its operations, which support operational functions including sales and service transactions, inventory management, order processing, shipping, receiving and accounting. Failures or significant downtime of the Company's information systems could prevent the processing of customer orders and/or shipping product, delivering customer services, invoicing, and/or processing payments. The Company relies on the Internet for a significant percentage of its orders and information exchanges with its customers. The Internet and individual websites may experience disruptions and slowdowns, some of which may be caused by organized attacks. In addition, some websites may experience security breakdowns. To date, the Company's websites have not experienced any material breakdowns, disruptions or breaches in security; however

there can be no assurance that this will not occur in the future. If the Company was to experience a security breakdown, disruption or breach that compromised sensitive information, this could harm relationships with customers or suppliers. Disruption of the Company's website or the Internet in general could impair order processing or more generally prevent the Company's customers and suppliers from accessing information.

### ***Customer Credit Exposure***

As is customary in many industries, the Company extends credit to customers. Customers have a period of time, generally 30 to 40 days after the invoice date, to make payment. The Company is subject to the risk that customers will not pay for the products and/or services they have purchased. The risk that the Company may be unable to collect on receivables may increase if its resellers experience decrease in demand for their products and services or otherwise become less stable, due to adverse economic conditions. If there is a substantial deterioration in the collection of receivables or if the Company does not have the ability to use receivable-based financing, its earnings, cash flows and financial condition could deteriorate.

The Company's credit risk also extends to its franchisees and their financial condition. The Company is subject to losses if a franchisee's liquidity is not sufficient to continue operations and amounts are owing to the Company. In addition, if a franchisee ceased operations, this could create a permanent loss of volume for the Company's Distribution and Franchising segment.

### ***Product Supply***

The Company is dependent upon the supply of products available from its suppliers. The industry is characterized by periods of product shortages due to vendors' difficulty in projecting demand for certain products distributed by the Company. When such product shortages occur, the Company typically receives an allocation of product from the vendor. There can be no assurance that vendors will be able to maintain an adequate supply of products to fulfill all of the Company's customer orders on a timely basis. Failure to obtain adequate product supplies, if available to competitors could have an adverse effect on the Company's business.

### ***Dependence on Independent Shipping Companies***

The Company relies on arrangements with third-party independent shipping entities for the delivery of its products from vendors and to customers. The failure or inability of these shipping entities to deliver products, or the unavailability of their shipping services, even temporarily, could have a material adverse effect on the Company's business.

### ***Vendor Relations***

Suppliers have the ability to make, and in the past have made, rapid and significantly adverse changes to their business terms and conditions, which could include a reduction in the amount of credit provided, a reduction in the amount of price protection, a change in product return policy, return rights and a reduction in the level of purchase discounts and rebates they make available to the Company. In most cases, the Company has no guaranteed price or delivery agreements with suppliers. In certain product categories, limited price protection or rights of return offered by suppliers could have a bearing on the amount of product in inventory, could cause the Company to record inventory write-downs or other losses, and could have a material negative impact on gross profit margins.

### ***Liquidity and Capital Resources***

The Company's business requires capital to operate and to finance accounts receivable and product inventory that are not financed by trade creditors. The Company has historically relied upon cash generated from operations, credit facilities and trade credit from its vendors to satisfy its capital needs and finance growth. The Company utilizes a revolving credit facility. As financial markets change and new regulations come into effect, the cost of acquiring financing and the methods of financing might change. These changes could increase the Company's interest expense and other costs of capital and might not be available on terms that are favorable to Company working needs. The inability to obtain such sources of capital could have an adverse effect on the Company's business.

**Fluctuations in Interest Rates**

The Company utilizes a revolving credit facility. There are financial risks that could arise from fluctuations in interest rates and which could have an adverse effect on the Company's earnings.

**Key Personnel**

The future success of the Company is based, in large part, on the competencies of its management and key personnel. The loss of key personnel could have a negative effect on the Company. There can be no assurance that the Company will be able to retain its current personnel or, in the event of their departure, to attract new personnel with the required competencies in a timely fashion.

**Changes in Income Tax and Other Regulatory Legislation**

When new legislation applicable to the Company is enacted with minimal advance notice, or interpretations and/or new applications of existing laws are made, the Company may need to implement changes to its policies or structure. The Company makes plans for its structure and operations based upon existing laws and anticipated future changes in the law. The Company could be impacted by unanticipated changes in legislation, especially relating to income and other taxes, hazardous materials and electronic waste recovery legislation, and other laws related to trade, accounting, and business activities. Such changes in legislation, both domestic and international, could have a significant adverse effect on the Company's business.

**Liquidity of shares**

To the knowledge of the Company, there are two groups who beneficially own, directly or indirectly, or exercise control or direction over voting securities of the Company carrying more than 10% of the voting rights attached to any class of voting securities of the Company. One is the majority shareholder and the other is a U.S. shareholder with more than 2.4 million shares. Since the position of these groups of shareholders when combined represent more than 80% of the voting securities of the Company, the liquidity of other shares trading on the Toronto Stock Exchange ("TSX") could be limited.

**Income Tax Matters**

Hartco Investments Inc. inherited future income tax assets of the corporations which amalgamated upon its creation. Hartco Investments Inc. then became liable for any tax assessment that might be issued against the amalgamating corporations by the authorities for fiscal periods ending prior to August 28, 2005. The limited partnerships have since been liquidated into Hartco Investments Inc. except for Hartco Distribution LP which constitutes the surviving operating entity that can indemnify Hartco Investments Inc. should such a tax assessment be issued by the authorities. Also, should profits derived by Hartco Investments Inc. from the operations of the limited partnership prove to be insufficient to utilize tax losses carried forward and recorded as a future income tax asset during the period prescribed under the Income Tax Act, such asset may have to be written-off.

**Investment Eligibility and Foreign Property**

There can be no assurance that the shares will continue to be qualified investments for registered retirement savings plans, deferred profit sharing plans, registered retirement income trusts and registered education savings plans or that the shares will not be foreign property under the *Income Tax Act*. The *Income Tax Act* imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

**ASSOCIATES**

As at December 31, 2011 the Corporation and its subsidiaries had approximately 1,346 associates.

**SELECTED CONSOLIDATED FINANCIAL DATA <sup>(1)</sup>**

(IN THOUSANDS OF DOLLARS EXCEPT PER UNIT AND PER SHARE AMOUNTS)

	Dec. 31, 2011 \$	Dec. 31, 2010 \$	Dec. 31, 2009 \$	Dec. 31, 2008 \$	Dec. 31, 2007 \$
Revenues	<b>437,275</b>	465,306	422,562	468,789	495,928
Total assets	<b>122,306</b>	127,768	113,328	113,777	119,494
Total debt	-	-	-	-	-
Net earnings from continuing operations	<b>3,727</b>	7,073	3,011	8,109	5,584
Earnings per share from continuing operations	<b>0.28</b>	0.53	0.22	N/A	N/A
Earnings per unit from continuing operations	<b>NA</b>	NA	NA	0.60	0.41
Net earnings per share					
Basic	<b>0.28</b>	0.53	0.24	NA	NA
Diluted	<b>0.26</b>	0.49	0.23	NA	NA
Net earnings (loss) per unit	<b>N/A</b>	NA	NA	0.60	(0.20)
Cash distribution per unit	<b>N/A</b>	NA	0.225	0.60	0.60

(1) Years ended December 31, 2011 and 2010 are presented in accordance with IFRS while years ended December 31, 2009, 2008 and 2007 are presented using Canadian Generally Accepted Accounting Principles.

**DIVIDEND POLICY & CASH DISTRIBUTIONS**

In 2009, the Board of Directors adopted a dividend policy with the primary objective of maintaining a high liquidity ratio. Accordingly, no dividend has been declared in 2010 or in 2011 and the Board of Directors has no plans to do so at the present time.

## DESCRIPTION OF CAPITAL STRUCTURE

The common shares of Hartco Inc. commenced trading on the Toronto Stock Exchange on April 20, 2009 under the stock symbol "HCI". Pursuant to the conversion, all of the outstanding "trust units" of the Company and "tracking share units" of Hartco Investments Inc. were exchanged for common shares of Hartco Inc. on a one-for-one basis. The capital stock of the Company consists of common and preferred shares, as follows:

### Share Capital

#### Common Shares

##### Authorized:

An unlimited number of common shares of Hartco, no par value

#### Preferred Shares

##### Authorized:

An unlimited number of preferred shares of Hartco, non-voting, non-participating, no par value

##### Issued:

No preferred shares have been issued

<b>Issued and fully paid:</b>	<b>Number of shares</b>	<b>\$</b>
Balance outstanding as at January 1, 2010	13,540,690	22,230
Redeemed and cancelled shares	(207,070)	(740)
Share options exercised	3,594	8
Balance outstanding as at December 31, 2010	13,337,214	21,498
Redeemed and cancelled shares	(99,610)	(357)
Share options exercised	15,000	33
Balance outstanding as at December 31, 2011	13,252,604	21,174

### Redemption and Cancellation of Shares

On August 25, 2011, the Company announced that the Toronto Stock Exchange ("TSX") approved the Company's renewal of its normal course issuer bid ("NCIB") to purchase for cancellation up to 5% of Hartco's issued and outstanding common shares, or 664,099 common shares, through the facilities of the TSX over the twelve-month period starting on August 30, 2011 and ending August 29, 2012.

Previously, on August 26, 2010 the TSX had approved the renewal of Hartco's NCIB to purchase for cancellation up to 5% of Hartco's issued and outstanding common shares, or 668,554 common shares, through the facilities of the TSX over the twelve-month period starting on August 30, 2010 and ending on August 29, 2011.

During the year ended December 31, 2011, the Company repurchased and cancelled 99,610 shares at an average price of \$3.44 per share for a total of \$343,000 compared to 207,070 shares at an average price of \$3.35 for the year ended December 31, 2010 for a total of \$ 693,000.

**MARKET FOR SECURITIES**

Presently the Shares of the Corporation are listed on the Toronto Stock Exchange under the symbol "HCI". The following table sets forth the market price range, in Canadian dollars, and trading volumes of common shares of Hartco Inc. (HCI) on the Toronto Stock Exchange from January 1, 2011 to December 31, 2011.

<b>Month</b>	<b>(\$)</b> High	<b>(\$)</b> Low	<b>(\$)</b> Close	<b>Volume</b>
<b>HCI</b>				
January 2011	3.490	3.180	3.470	56,704
February 2011	3.950	3.380	3.800	89,977
March 2011	3.860	3.460	3.820	56,094
April 2011	4.000	3.670	3.870	42,203
May 2011	4.010	3.590	3.590	89,042
June 2011	3.650	3.300	3.300	46,953
July 2011	3.370	3.250	3.260	13,980
August 2011	3.400	2.660	2.700	31,270
September 2011	2.850	2.510	2.730	38,815
October 2011	2.880	2.530	2.860	25,344
November 2011	2.850	2.670	2.670	35,135
December 2011	2.780	2.560	2.600	41,231

**ESCROWED SECURITIES**

To the knowledge of the Corporation, none of its outstanding securities are held in escrow.

**DIRECTORS AND OFFICERS**

The following table sets out the name, province and country of residence, the position held with the Corporation and principal occupation of each person who is a Director or Officer of the Corporation as of the date hereof.

Each of the Directors has been elected to serve until the next annual meeting of shareholders of the Corporation.

<b>Name, Province and Country of Residence</b>	<b>Principal occupation</b>	<b>Director or Officer since<sup>(6)</sup></b>	<b>Approximate number of shares owned or over which control is exercised</b>	<b>%</b>
Peter M. Blaikie, Q.C. <sup>(1) (4)</sup> Quebec, Canada	Corporate Director	1999	36,000	Less than 1%
J. Pierre Brunet <sup>(1) (2) (3) (4)</sup> Quebec, Canada	Corporate Director	2003	11,000	Less than 1%
Claude Cornellier <sup>(5)</sup> Quebec, Canada	Vice President, Human Resources of the Corporation	2010	---	0.00%
Anthony DeCristofaro <sup>(1) (2) (3)</sup> Ontario, Canada	Chief Executive Officer RealBiz360 Enterprises Inc.	1997	10,000	Less than 1%
Annie Dickey, CA <sup>(5)</sup> Quebec, Canada	Corporate Controller	2007	2,000	Less than 1%
Carl Gauvreau, CA <sup>(8)</sup> Quebec, Canada	Vice-President Finance and Chief Financial Officer of the Corporation	2006	64 016	Less than 1%
Harry Hart <sup>(1)</sup> Quebec, Canada	Chairman and Chief Executive Officer of the Corporation	1976	8,381,400 <sup>(7)</sup>	63.24%
Nina Hart <sup>(1)</sup> Quebec, Canada	Corporate Director	1976	2,800	Less than 1%
Michael Lemieux Quebec, Canada	Secretary Treasurer of the Corporation	1984	1,160	Less than 1%
Michael Jones <sup>(5)</sup> Quebec, Canada	Chief Information Officer of the Corporation	2011	---	0.00%
G�rard A. Limoges, CM, FCA <sup>(1) (2) (3) (4)</sup> Quebec, Canada	Corporate Director	2003	15,000	Less than 1%
Patrick Waid <sup>(1)</sup> Quebec, Canada	President and Chief Operating Officer of the Corporation	2003	280,000	Less than 2.5%

<sup>(1)</sup> Member of the Board of Directors.

<sup>(2)</sup> Member of the Audit Committee.

<sup>(3)</sup> Member of the Compensation Committee

<sup>(4)</sup> Member of the Governance Committee.

<sup>(5)</sup> During the last five years each of the individuals above held the principal occupation described above or another position in the same company, or a company related thereto. The only exceptions are:

(a) Annie Dickey, who held the position of Corporate Controller at Airwide Solutions Inc. from 2004 to 2007.

(b) Claude Cornellier who held the position of Vice President, Human Resources at Avon Canada Inc. from 1995 to 2009 and Director, Human Resources at Coviden Inc. in 2010.

(c) Michael Jones who held the position of Global Vice-President Store Solution and Vice President of Development at SAP from 2006 to 2011, prior to this he held a position as Chief Information Officer at the Aldo Group.

(6) Although the Corporation was created in February 2009, its predecessors in title, Hartco Income Fund, Hartco Corporation or their own predecessors have been in the same business as the Corporation since 1976. For the purposes of this table, we have taken into account the years during which each of the Directors and Executive Officers held their position as Directors or Executive Officers of Hartco Inc. or of one of its predecessors.

(7) Consolco Inc., H & N Family Subco Inc. and Ackren Ltd., corporations owned directly or indirectly by Harry Hart and his family (which includes shares owned by Jeffrey Hart of 96,100) are the beneficial owners and registered holders of 4,668,400, shares in H & N Family Subco Inc., 3,427,900 in Ackren Ltd. and 7,000 in Consolco Inc., and Harry Hart personally owns 182,000 shares of Hartco Inc., which in total represents 63.24% of all outstanding shares of the Corporation.

(8) Carl Gauvreau tendered his resignation as the Corporation's Chief Financial Officer on January 6, 2012.

In total, the Corporation's Directors and Executive Officers hold, as a group, 8 803 376 shares which represent globally 66.43% of all issued and outstanding voting securities issued by the Corporation.

## LEGAL PROCEEDINGS

The Corporation is party to a certain number of legal proceedings, none of which involves a claim in damages in an amount exceeding 10% of the current value of the assets of the Corporation.

## TRANSFER AGENT AND REGISTRAR

The transfer agent of the Corporation is Computershare Trust Company of Canada having its place of business at 1500 University Street, Suite 700, Montreal, Quebec, H3A 3S8. The register of transfers of the shares of the Corporation is maintained by Computershare Trust Company of Canada and is located in the same office.

## MATERIAL CONTRACTS

The only material contracts entered into during the year ended December 31, 2011 or in prior years since January 1, 2002 which are still in effect are summarized as follows:

In June 2002, the Company entered into a ten year Licensing Agreement with MLT Technology Services, L.L.C., the new owner of the Canadian trademarks and trade names used by the MicroAge network. This Agreement expires December 31, 2016 and it may be extended at Hartco Distribution LP's option for one additional term of five (5) years.

On July 31st, 2009 the Company announced a new credit facility with a Canadian Chartered bank of \$45.0 million that consists of a \$25.0 million three-year committed evergreen revolving credit facility and two demand revolving credit facilities in the principal amount of \$10.0 million each. The \$25.0 million three-year committed evergreen revolving credit facility can be extended for an additional period of 364 days prior to each anniversary date. The new maturity date is July 29, 2014. The credit facility bears interest at rates based on the prime rate or bankers' acceptance plus a premium varying on the level of key financial ratios achieved. The drawings under the credit facility were nil as at December 31, 2011 and 2010. In addition, the Company is subject to maintain the usual debt to tangible net worth and fixed charge coverage ratios. There was no interest paid during the year ended December 31, 2011 and for 2010.

## EXTERNAL AUDITORS

The auditors of the Corporation are Deloitte & Touche LLP, Chartered Accountants, (1 Place Ville Marie, Suite 3000, Montreal, Quebec, H3B 4T9). To the Corporation's knowledge, none of the partners or employees of Deloitte & Touche LLP, Chartered Accountants own any of the Corporation's shares.

**ADDITIONAL INFORMATION**

The Corporation shall provide to any person or corporation, upon request to the Secretary at 9393 Louis-H.-Lafontaine Blvd., Montreal, Quebec, H1J 1Y8:

- (a) when the securities of the Corporation are in the course of a distribution pursuant to a short form prospectus or a preliminary prospectus has been filed in respect of a distribution of its securities,
  - (i) one copy of this AIF together with one copy of any document, or the pertinent pages of any document, incorporated by reference therein,
  - (ii) one copy of the comparative financial statements of the Corporation for its most recently completed financial period together with the accompanying report of the auditors thereon, both contained in the Corporation's December 31, 2011 Report to shareholders and one copy of any interim financial statements of the Corporation subsequent to the financial statements for its most recently completed financial period,
  - (iii) one copy of the Corporation's Notice of 2011 Annual Meeting and Management Proxy Circular; and
  - (iv) one copy of any other documents that are incorporated by reference into the preliminary prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or
- (b) at any other time, one copy of any other document referred to in (a) (i), (ii) and (iii) above, provided the Corporation may require the payment of a reasonable charge if the request is made by a person or company who is not a security holder of the Corporation.

Additional information including Directors' and Officers' remuneration and indebtedness, principal holders of the Corporation's securities and interests of insiders in material transactions, where applicable, is contained in the Corporation Notice of 2011 Annual meeting and Management Proxy Circular. Additional financial information is provided in the Corporation's comparative financial statements for its most recently completed financial period.

The Corporation files an Annual Information Form with certain provincial securities commissions and similar authorities.

Information concerning the Corporation, in addition to the documents referred to in (a) (i) to (iv) above, is available upon request from the Secretary of the Corporation, at the address indicated above. This additional information includes the Management's Discussion and Analysis of the First, Second and Third Quarter Results of the Corporation and the Corporation's quarterly earnings press releases. These documents, as well as the Corporation's annual and quarterly reports and news releases are also available on the Company's web site at [www.hartco.com](http://www.hartco.com).

Additional information about the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## SCHEDULE 1 - AUDIT COMMITTEE INFORMATION

### The Audit Committee's Charter

The Charter of the Corporation's Audit Committee is reproduced hereinafter as Schedule 1A appended hereto. The Charter is also available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Composition of Audit Committee

The Audit Committee of the Corporation is composed of three members who, in the view of the Board of Directors, are outside and independent Directors and are financially literate within the meaning of *Multilateral Instrument 52-110 Audit Committees*. The members of the Audit Committee are J. Pierre Brunet, Anthony DeCristofaro and Gérard A. Limoges.

### Relevant Education and Experience

J. Pierre Brunet taught Business Strategy at the undergraduate and MBA levels at the John Molson School of Business (JMSB) at Concordia University for over 30 years. During that time he also was an active consultant to organizations in Canada, Europe, Africa, and Asia. After early retirement from JMSB, he became president of Moody Industries Inc. from 1999 to 2000. He is a member of the Board of Directors of Hart Stores, Inc., chairman of the Board of Advisors of the PEAK Financial Group, a founding Board member of Canada's Top 40 under 40 and the JMSB International MBA Case Competition. He holds a B. Comm. from Loyola College, an MBA from Queen's University and a Ph.D. in Strategic Management from l'École des Hautes Études Commerciales in Montreal.

Anthony DeCristofaro has been in the computer industry for 25 years. Prior to joining RealBiz360 Enterprise Inc. in September 2010, Mr. DeCristofaro had established iseemedia Inc. in 2002 until its acquisition by Synchronica plc in 2010. Mr. DeCristofaro was President and Chief Executive Officer of MGI Software Inc. from January 1996 to February 2002. He was a founding board member of Delrina Corp., which was subsequently purchased by Symantec. From 1991 to 1995, Mr. DeCristofaro was Vice President and General Manager of AST Canada, a computer hardware company. From 1987 to 1991, Mr. DeCristofaro worked as a General Manager at NEC Canada, a computer hardware company. Mr. DeCristofaro holds an Advanced Business Administration degree from York University.

Gérard A. Limoges is the Chairman of the Audit Committee. Mr. Limoges practised for 37 years as a chartered accountant with Ernst & Young until his retirement in 1999 at which time he held the position of Deputy Chairman of this firm. He is/was a member and, in some cases, the chair of several audit committees of public companies, including those of Aeterna Zentaris Inc., Alexis Nihon REIT, Atrium Innovations Inc., Engenuity Technologies Inc., Hart Stores Inc., Canmarc REIT (formerly Homburg Canada REIT), Noranda Income Fund and Metro Inc.

### Reliance on Certain Exemptions

N/A

### Reliance on the Exemption in Subsection 3.3(2) or Section 3.6

N/A

### Reliance on Section 3.8

N/A

### Audit Committee Oversight

Nil

### Pre-Approval Policies and Procedures

The Audit Committee regularly reviews non-audit services which may be provided by the Corporation's external auditors and is required to authorize such services if the fees charged exceed \$50,000 on an annual basis.

**External Auditors Fees (By Category)**

The table below shows the fees that Deloitte & Touche LLP, the Corporation's external auditors, billed to the Corporation and its subsidiaries for various services for each year in the past two fiscal periods.

	Year ended December 31	
	2011	2010
	\$	\$
Audit fees	268,200	245,000
Audit-related fees	4,250	-
Tax fees	7,686	29,805
Total	280,136	274,805

**Audit Fees**

These fees include professional services provided by the external auditors for statutory audits of the annual financial statements, the review of financial accounting and reporting matters and other regulatory audits.

**Audit-Related Fees**

These fees relate to non-statutory audits, *Multilateral Instrument 52-111 – Reporting on Internal Control over Financial Reporting* process compliance-related fees, due diligence and the review of financial accounting and reporting matters including IFRS.

**Tax Fees**

These fees include professional services rendered by the external auditors for tax advice, indirect tax audit, assistance and counsel related to tax audits and assessments, and statutory filings.

**Other Fees**

*NIL*

These fees include any other permitted services not included in any of the above-stated categories including translation services related to all these services.

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**SCHEDULE 1A - CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF HARTCO INC.****PURPOSE**

The primary function of the audit committee (the “**Audit Committee**”) of the Board of Directors (the “**Board**”) of Hartco Inc. (the “**Corporation**”) is to assist the Board by:

- (i) Overseeing the integrity of the consolidated quarterly and annual financial statements of the Corporation;
- (ii) Recommending to the Board the appointment of the independent auditor and its compensation;
- (iii) Reviewing the independent auditor’s qualifications and independence;
- (iv) Overseeing the performance of the Corporation’s independent auditors;
- (v) Overseeing financial information contained in public filings of the Corporation prior to filing;
- (vi) Reviewing earnings announcements of the Corporation prior to release to the public;
- (vii) Reviewing the Corporation’s systems and being satisfied of their compliance with internal financial controls over financial reporting; and
- (viii) Reviewing and being satisfied with the Corporation’s auditing, accounting and financial reporting processes.

Consistent with these functions, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Corporation’s policies, procedures and practices at all levels.

The Audit Committee should also provide for open communication among the independent auditor, financial and senior management, the internal auditing function, and the Board of Directors, to insure resolution of disagreements between management and the Corporation’s independent auditor regarding financial reporting.

**Approval of Charter**

This Audit Committee charter is approved by the Board.

Future changes to this charter require approval by the Board based on the recommendation of the Audit Committee.

**STRUCTURE AND COMPOSITION**

The Audit Committee shall consist of no fewer than three members.

The members of the Audit Committee shall:

- (i) be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee; and
- (ii) meet the independence and experience requirements of all applicable corporate, exchange and securities act rules and regulations in Canada (the “Regulations”) including, but not limited to:
  - a. The Canadian Securities Administrators (the “CSA”);
  - b. The Toronto Stock Exchange (“TSX”); and
  - c. Other Canadian national and provincial securities rules and regulations.

All members of the Audit Committee shall be members of the Board.

All members of the Audit Committee shall have a working familiarity with basic finance and accounting practices and shall be able to read and understand financial statements. Generally, all members of the Audit Committee must comply with all financial literacy requirements of the securities exchange(s) on which the Corporation is listed.

The members of the Audit Committee shall be appointed by the Board annually on the recommendations of the Governance Committee or until successors are duly elected.

The Board shall normally designate the Chair of the Audit Committee. In the event that a Board designation is not made, the members of the Audit Committee shall elect a Chair by majority vote of the full Audit Committee membership.

In the event that the Chair of the Audit Committee does not attend a meeting of the Audit Committee, the members of the Audit Committee shall elect a temporary Chair for such meeting by majority vote of the members in attendance at the meeting.

Once appointed, Audit Committee members shall cease to be a member of the Audit Committee only upon:

- (i) Resignation from the Board or from the Committee;
- (ii) Death;
- (iii) Disability, as determined by an independent physician retained by the Board; or
- (iv) Not being re-appointed pursuant to the annual appointment process described above.

### **Meetings**

The Audit Committee shall meet as often as it determines necessary in fulfilling its duties, but not less frequently than quarterly.

Greater than 50% of Audit Committee membership is required for meeting quorum.

The Audit Committee shall meet separately on a periodic basis with management and the independent auditor in separate committee sessions.

In addition, the Audit Committee will meet with the independent auditor and management to discuss the annual audited financial statements, including the Corporation's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultations to, the Audit Committee.

### **Resolutions**

Resolutions of the Audit Committee shall require approval by a simple majority of members voting on such resolutions.

### **Responsibilities and Duties**

#### **Minutes**

The Audit Committee shall provide minutes from each meeting held and such minutes shall be made available to all members of the Board.

#### ***Independent Auditor***

With respect to the Corporation's independent auditor the Audit Committee shall:

- (i) Have the sole authority to recommend to the Board the appointment or replacement of the independent auditor (subject, if applicable, to shareholder approval);
- (ii) Have the independent auditor report directly to the Audit Committee;
- (iii) Meet with the independent auditor prior to the annual audit to discuss the planning, scope and staffing of the audit;
- (iv) Be directly responsible for establishing the compensation of the independent auditor;
- (v) Ensure that the Corporation does not hire employees or former employees of the independent auditor who have participated in any capacity in the audit of the Corporation for the immediately previous 12 month period;
- (vi) Oversee the resolution of disagreements between management and the independent auditor if they arise; and

- (vii) Pre-approve all auditing services and permitted non-audit services (including fees and terms thereof) to be performed for the Corporation and its subsidiaries by its independent auditor and consider whether the auditor's performance of permissible non-audit services is compatible with the auditor's independence. The authority to grant pre-approvals may be delegated to one or more designated members of the Audit Committee whose decisions will be presented to the full Audit Committee at its next regularly scheduled meeting.

### Reporting to the Board

The Audit Committee shall make regular reports to the Board, but not less frequently than quarterly.

### Financial Reporting

With respect to the Corporation's reporting of unaudited quarterly financial results, the Audit Committee shall:

- (i) Prior to their public release and filing with securities regulatory agencies, review and discuss with management the:
- a. Press releases;
  - b. Consolidated financial statements and notes thereto; and
  - c. Management's discussion and analysis.
- (ii) The review of the Corporation's unaudited quarterly financial results may include, but not be limited to:
- a. Any significant judgments (e.g. estimates and reserves) made in the preparation of financial statements and the view of each as to the appropriateness of such judgments;
  - b. The extent to which changes or improvements in financial or accounting practices, as recommended by the Audit Committee, have been implemented;
  - c. Significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;
  - d. The Corporation's use of "pro forma" or "adjusted" IFRS information;
  - e. The Corporation's use of forward-looking financial guidance;
  - f. Critical accounting policies and practices;
  - g. Alternative treatments of financial information within international financial reporting standards that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor;
  - h. Any written communications between the independent auditor and management (e.g. management letters, schedule of unadjusted differences);
  - i. The effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements;
  - j. Management certifications of reports filed by the Corporation pursuant to the Regulations;
  - k. Integrity of the Corporation's financial reporting processes; and
  - l. Any correspondence with regulators or governmental agencies and any published reports, which raise material issues regarding the Corporation's financial statements or accounting policies.
- (iii) Recommend to the Board whether the Board should approve the unaudited financial results.

## Year-End Audit

With respect to the Corporation's annual audit, the Audit Committee shall:

- (i) Prior to their public release and filing with securities regulatory agencies, review and discuss with management and the independent auditor the:
  - a. Press releases;
  - b. Financial statements and notes thereto for consolidated and separate entities;
  - c. Management's discussion and analysis; and
  - d. Results of the independent auditor's audit.
- (ii) The review of the Corporation's audited financial results, shall include, but not be limited to:
  - a. All matters described above with respect to unaudited quarterly financial results;
  - b. Results of the independent auditor's audit;
  - c. Matters required to be discussed by *National Instrument 52-107 as revised January 1, 2011 Respecting Acceptable Accounting Principles and Auditing Standards* relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management; and
  - d. A verbal and/or written report, as appropriate, from the independent auditors describing (i) all critical accounting policies and practices to be used, (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors and (iii) other material communications between the independent auditors and management, such as the annual management letter or schedule of unadjusted differences.
- (iii) Recommend to the Board whether the Board should approve the audited financial results.

## Annual Proxy Circular

The Audit Committee shall issue the reports required of the Audit Committee to be included in the Corporation's annual proxy circular.

## Regulatory Filings

The Audit Committee shall review and recommend to the Board the approval of documents filed with securities regulatory agencies including, but not limited to:

- (i) Management's, Discussion and Analysis;
- (ii) Press Releases announcing quarterly or annual results of the Corporation;
- (iii) Annual Information Form; and
- (iv) Management Proxy Circular.

## "Whistle Blower" and Related Procedures

The Audit Committee shall have procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and for the confidential submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

The identity of the originator of any submission received pursuant to this provision must be treated as confidential if such originator requests that such confidentiality be maintained.

## Fraud

Management shall report to the Audit Committee on a timely basis all discovered incidents of fraud within the Corporation, its subsidiaries or affiliated business units regardless of monetary value.

The Audit Committee shall direct management as to the treatment of any such discovered fraud.

This responsibility may be delegated to one or more designated members of the Audit Committee who shall report to the full Audit Committee at its next regularly scheduled meeting.

### **Certification**

The Audit Committee shall receive and review any disclosure from the Corporation's CEO or CFO made in connection with the certification of the Corporation's quarterly and annual reports filed with the Canadian Securities Commission of:

- (i) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize, and report financial data; and
- (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control.

### **Related Party Transactions**

The Audit Committee shall review and, if appropriate, approve, together with the other independent members of the Board, all related-party transactions including those between the Corporation and its officers and directors.

### **Legal Matters**

The Audit Committee shall review with management, and if necessary, the Corporation's counsel, any legal matter that could reasonably be expected to have a material impact on the Corporation's financial statements or accounting policies. The Audit Committee should also review, with the Corporation's counsel, legal compliance matters, including corporate securities trading policies.

### **Risk Management**

The Audit Committee shall discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's risk assessment and risk management policies including the use of derivative financial instruments. Areas to be considered in this respect may include, but are not limited to:

- (i) Insurance coverage;
- (ii) Foreign currency exposure;
- (iii) Interest rate exposure;
- (iv) Post retirement obligations, if appropriate.

### **Internal Controls**

The Audit Committee shall review and assess the Corporation's system of internal controls, control culture, and risk assessment and control activities.

### **Financial Guidance**

In addition to its review of quarterly financial reports, the Audit Committee shall review any other form of forward-looking financial guidance prior to issuance by the Corporation.

### **Other**

The Audit Committee shall undertake any other activities consistent with this Charter that the Audit Committee or the Board deem necessary or appropriate.

### **Other Advisors**

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors including consulting with the national office of the independent auditor. The Corporation shall provide for appropriate financing, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

**Limitation**

While the Audit Committee has the responsibilities and power set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and are in accordance with International Financial Reporting Standards and applicable rules and regulations. These are the responsibilities of management.