Hartco

ANNUAL REPORT 2010

FOR THE YEAR ENDED DECEMBER 31st

Company profile

Hartco Inc. (TSX: HCI) has been a leader among Canadian information technology solution providers for more than thirty years. Established in 1976, Hartco's operating divisions and business affiliates today employ over 1,400 people across Canada and generate combined annual revenues of more than $500 million.

Hartco Distribution. The Distribution and Franchising segment encompasses the Company's distribution activities operated by Hartco Distribution LP, as well as the franchising of businesses that sell a broad range of IT products and services to private and public sector organizations of every size. Franchises operate within business networks under the banners of Metafore™ and MicroAge®, which together include more than 50 locations from coast to coast.

Hartco Networks

Metafore has been delivering IT solutions to private and public sector organizations of every size for more than 25 years. With operations throughout Canada, and access to a network of 1200 certified technical resources from coast to coast, Metafore is one of Canada's leading information technology solution providers. Metafore designs, supplies, installs and supports IT infrastructure solutions that contribute to improved productivity, operational efficiency, and overall business performance.

MicroAge. The MicroAge Network is a national network of IT solution providers, many of which have been in operation since 1981 and have developed longstanding customer relationships based on their strong commitment to service excellence. MicroAge's national profile enables customers to leverage an extensive portfolio of capabilities to maximize the return on their technology investments.

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Financial Highlights

(in thousands of dollars, except per share amounts)
For the years ended December 31, 2010 and December 31, 2009

SUMMARY OF RESULTS

	2010	2009
	$	$
Revenues	**471,732**	422,562
EBITDA (1)	**11,763**	6,855
Net earnings from continuing operations	**7,201**	3,011
Earnings from discontinued operations	**-**	246
Net earnings	**7,201**	3,257
Adjusted free cash flow (2)	**2,914**	18,480
Basic earnings per share from continuing operations	**0.54**	0.22
Diluted earnings per share from continuing operations	**0.50**	0.21

(1) EBITDA: Definition is included in the non-GAAP financial measures section.
(2) Adjusted free cash flow: Definition is included in the non-GAAP financial measures sections.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	**December 31, 2010**	**September 30, 2010**	**June 30, 2010**	**March 31, 2010**
	$	**$**	**$**	**$**
Revenues	**120,258**	**112,963**	**115,882**	**122,629**
EBITDA (1)	**4,617**	**1,274**	**2,425**	**3,447**
Net earnings				
Continuing operations	**4,080**	**474**	**766**	**1,881**
Discontinued operations	**-**	**-**	**-**	**-**
Net earnings	**4,080**	**474**	**766**	**1,881**
Diluted earnings per share	**0.30**	**0.03**	**0.06**	**0.14**

Quarter ended	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
	$	$	$	$
Revenues	105,556	99,041	102,705	115,260
EBITDA (1)	1,868	2,679	1,254	1,054
Net earnings				
Continuing operations	434	1,614	608	355
Discontinued operations	246	-	-	-
Net earnings	680	1,614	608	355
Diluted earnings per share	0.05	0.11	0.04	0.03

(1) EBITDA: Definition is included in the section non-GAAP financial measures.

MESSAGE TO SHAREHOLDERS

DEAR SHAREHOLDERS,

We are very pleased with Hartco's performance for 2010, delivering nearly 12% revenue growth, more than doubling our earnings from the prior year, and generating over $10.8 million in cash flow from operations.

Following a challenging business climate in 2009, economic conditions improved significantly in 2010, contributing to increased demand for IT solutions from public and private sector organizations across most regions of Canada.

The merger of Metafore™ and Microserv™ at the beginning of the year created one of the largest IT solution providers in Canada and accelerated our leadership position and business strategy by offering enhanced value to customers and business partners, and reinforced our company's leadership position in the market. Moreover, the merger enabled Hartco to realize immediate operating improvements and synergies across its operating divisions, contributing to improved profitability.

We are proud to have achieved year-over-year revenue growth each quarter throughout 2010. Consolidated annual revenues increased by close to 12% to $471.7 million for the year ended December 31, 2010, compared to $422.6 million for the year ended December 31, 2009. Net earnings amounted to $7.2 million, or $0.50 per share on a diluted basis, in 2010, compared to net earnings of $3.3 million, or $0.23 per share, for the prior year.

Hartco's Metafore™ and MicroAge® networks were recognized on the Canadian Dealer News (CDN) listing of the Top 100 Solution Providers in 2010, with Metafore placing 4th and MicroAge ranking 13th.

Our solid execution over the past year has accelerated our momentum and created greater capacity for the Company to invest in strengthening its market position. Hartco generated free cash flow of $2.9 million in 2010 and the company closed the year with a cash position of $24.4 million, supporting our strategy is to preserve cash to invest in future growth and productivity improvements.

In spite of enduring economic uncertainty, resulting from global turmoil, we anticipate demand for information technology to remain strong and we expect our positive momentum to carry on throughout 2011.

Hartco's priorities for 2011 will be to grow market share, improve return on sales, implement a new integrated enterprise resource planning solution to replace virtually all the Company's legacy business critical systems, and develop the organization to ensure future success. The Company's solid balance sheet will provide us with the opportunity to invest in growth strategies to strengthen our position amongst leading Canadian IT solution providers. At the same time, it will be vitally important for us to maintain our focus on maximizing our liquidity through effective management of inventories, receivables and payables, while improving sales productivity and operational efficiency.

We continue to believe that information technology will remain one of the key enablers for Canadian businesses to improve their productivity and competitiveness and we are well positioned to benefit from this trend. We also remain committed to investing in our business with the goal of continuously improving our operating performance.

In closing, we wish to express our appreciation to our customers, our vendor partners, our franchisees, our associates, and our board of directors for their support and commitment to the success of our Company. To our shareholders, we extend our sincere gratitude for your confidence and trust.

Harry Hart,
Chairman and Chief Executive Officer

Patrick Waid
President and Chief Operating Officer

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the years ended December 31, 2010 and December 31, 2009

PERIOD OF REFERENCE

The following Management Discussion and Analysis ("MD&A") provides a review of the consolidated financial condition and results of operations of Hartco Inc. ("the Company" or "Hartco") for the quarter and year ended December 31, 2010, compared to the quarter and the year ended December 31, 2009.

The MD&A should be read in conjunction with the information contained in the audited consolidated financial statements and the notes thereto for these periods.

FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, the statements in this document are forward-looking. 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. Risks that could cause our results to differ materially from our expectations are discussed in the risks and uncertainties section of our annual Management Discussion and Analysis.

CORPORATE STRUCTURE

In 2009, the Company completed the conversion from an income trust to a corporation.

The conversion has been accounted for as a continuity of interests of the Fund since Hartco Inc. (TSX: HCI) continued to operate the business of the Fund and there have been no ownership changes.

As a corporation, Hartco is subject to Canadian federal and provincial corporate income tax on its taxable income for the period beginning on the effective date of the conversion.

PROFILE AND BUSINESS PRIORITIES

The Company operates in two business segments in Canada: the Franchising and Distribution segment, and the Commercial segment.

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 infrastructure solutions to private and public organizations across Canada. Franchises operate under the banners of Metafore™ and MicroAge®, which together include more than 50 locations from coast to coast. Segment revenues are comprised of product and services sales to franchisees and of royalties earned on franchisee revenues. Hartco Distribution results also include activities and expenses related to the Company's corporate services.

The Commercial segment includes the business activities operated by the Company's Metafore Technologies Inc. ("Metafore") subsidiary, and those of a MicroAge franchise accounted for as a Variable Interest Entity ("VIE"). Since January 2010, two previously separate companies in the Commercial segment, Metafore and Microserv™, have been operating as one merged company under the Metafore brand. Metafore is one of the largest IT Solution providers in Canada, with operations across the country.

Hartco's businesses are focused on delivering IT infrastructure solutions, products and services to Canadian organizations of all sizes. Over the past two years, Hartco has increased its business focus on the realignment of its core business as described below.

In April 2009, Hartco reorganized its legal structure in order to convert to a corporation. In August of the same year, Hartco announced the conclusion of a new financing agreement with Bank of Montreal to replace its existing asset-based lending facility providing greater financial flexibility and is more adapted to Hartco's business model.

In December 2009, the Company announced the merger of Microserv™ and Metafore™ to form Metafore Technologies Inc., a leader in providing IT solutions to organizations of all size in Canada.

In 2010, the Company launched a project to implement an integrated enterprise resource planning solution ("ERP") companywide.

REVIEW OF BUSINESS PRIORITIES

For 2010, the Company had established four main priorities for its business segments:

1. Maximize financial and operating performance
2. Complete the post-merger integration of Metafore
3. Implement an integrated ERP solution
4. Develop the organization to ensure future success

The Company emerged from the 2009 recession with the objective to profitably grow revenues. In addition, the Company focused on improving productivity and ensuring effective management of inventory, accounts receivables and accounts payable to maximize return on invested capital (ROIC). During the year ended December 31, 2010, the Company, increased revenues and earnings as well as its cash position compared to the same period last year.

Following the announcement of the Metafore and Microserv merger, the Company launched a number of initiatives to review and optimize its operating model and maximize synergies across the organization. Certain benefits were realized in 2010 as a result of marketing, sales, customer service and HR related integration activities, while more significant productivity improvements and operational synergies will be achieved throughout 2011, following the harmonization of business processes and information systems. During the second half of 2010, the Company announced executive appointments for Metafore to further strengthen its management team and to develop the organization for long-term success.

The Company is in the process of implementing a common, integrated enterprise resource planning ("ERP") solution for all its businesses, which is expected to enable the Company to deliver higher productivity, greater process automation and enhanced customer service capabilities, along with greater scalability to support future growth. The project is progressing and the new ERP solution should be implemented during the second half of 2011.

Hartco believes that talent will be its most vital source of competitive differentiation in the future and initiatives have been undertaken to improve organizational effectiveness, efficiency and capabilities. Moreover, the Company is striving to improve its recruiting, development, retention and succession planning practices, and has harmonized performance management practices across all segments and divisions.

SEASONALITY

Historically, the Company's revenues are stronger during its first and fourth quarters and slower in the second and third quarters. This cycle is tied to increased corporate and government purchasing activities at year end.

CONSOLIDATED RESULTS FOR THE YEAR ENDED DECEMBER 31, 2010 COMPARED TO THE YEAR ENDED DECEMBER 31, 2009

Consolidated net earnings for the year ended December 31, 2010 amounted to $7.2 million, or $0.54 per share ($0.50 on a diluted basis), compared to $3.3 million, or $0.24 per share ($0.23 on a diluted basis), for the corresponding year ended December 31, 2009.

Consolidated revenues amounted to $471.7 million for the year ended December 31, 2010, compared to $422.6 million for the year ended December 31, 2009, an increase of $49.1 million or 11.6%. Net revenues in the Franchising and Distribution segment increased by $21.9 million or 34.3%, while the Commercial segment's revenues increased by $27.3 million or 7.6%.

Consolidated cost of sales and operating expenses stood at $460.0 million for the year ended December 31, 2010, compared to $415.7 million for the year ended December 31, 2009. This increase of $44.3 million or 10.6% is explained by higher volumes and related expenses.

Consolidated EBITDA (definition is provided in the non-GAAP financial measures section) was $11.8 million for the year ended December 31, 2010 compared to $6.9 million for the year ended December 31, 2009, an increase of $4.9 million or 71.6%. The higher level of gross profit and EBITDA are mainly attributable to higher procurement and service sales volume. Operating expenses were lower by $1.2 million including non-recurring expenses of $2.2 million compared to 2.6 million in 2009. The non-recurring expenses in 2010 were mostly related to the ERP implementation, sales and corporate tax assessments and severances. These variances are explained in the segment analysis.

Consolidated depreciation and amortization for the year ended December 31, 2010 stood at $3.2 million, compared to $2.4 million for the year ended December 31, 2009. The increase represents accelerated depreciation and amortization on currently deployed information systems that will be replaced by a new integrated ERP solution in 2011.

Net financial expenses stood at $1.0 million for the year ended December 31, 2010 compared to $0.7 million for the year ended December 31, 2009. Financial expenses for the years ended December 31, 2010 and 2009 consisted mostly of interest on sales and corporate tax assessments and bank fees. The Company had minimal interest expenses due to its low level of borrowings over the past two years. The interest on sales and corporate tax assessments included in the current period amounts to $0.6 million and relates to tax audits for the years 2005 to 2010.

An income tax expense of $1.6 million was recognized during the current fiscal year compared to $1.4 million for the year ended December 31, 2009. The variance of $0.2 million is explained by higher pre-tax earnings and was partially offset by adjustments resulting from the corporate tax governmental audits.

The share of results in equity investments amounted to earnings of $1.3 million in 2010, compared to earnings of $0.7 million in 2009, and reflects the Company's participation in the results of a MicroAge franchisee that operates independently from the rest of the Commercial segment.

Non-controlling interest for the current fiscal year and last year amounted to $0.1 million, representing the share of profits for non-controlling shareholders of the Company accounted for as a VIE.

Segment review

Franchising and Distribution

Franchising and Distribution net revenues, excluding royalties, stood at $83.5 million for the year ended December 31, 2010, compared to $61.7 million for the year ended December 31, 2009. This increase is mainly explained by a higher sales volume from the MicroAge network.

Royalty revenues totaled $2.0 million for the year ended December 31, 2010 compared to $1.9 million for the year ended December 31, 2009.

For the current fiscal year, EBITDA for the segment was $4.5 million, compared to EBITDA of $1.3 million for the 2009 fiscal year. Gross profit was positively impacted by higher volumes of $3.5 million and was partially offset by lower margins of $2.9 million. EBITDA was positively impacted by $2.6 million due to lower expenses attributable to improved cost controls and headcount reductions despite $0.9 million of various non-recurring expenses. These non-recurring expenses consisted mostly of sales tax assessments and non-capitalized expenses related to the ERP implementation. During the same period last year, operating expenses included a charge of $0.4 million for sales tax assessments and conversion expenses of $0.5 million. It should be noted that the Company's corporate expenses are reported in this segment.

Commercial

The Commercial segment recorded revenues of $386.2 million for the year ended December 31, 2010, compared to $358.9 million for the year ended December 31, 2009. This increase in sales of $27.3 million, or 7.6%, is explained by higher volumes in Ontario and Alberta and was slightly offset by a reduction in Quebec.

EBITDA for the year ended December 31, 2010 stood at $7.2 million, compared to $5.5 million for the year ended December 31, 2009, an increase of $1.7 million or 30.9%. This EBITDA increase is explained by higher volume of $4.0 million and was partially offset by lower margins of $0.9 million and higher operating expenses of $1.4 million. The higher level of expenses is largely explained by higher commissions related to the higher volume, and other non-recurring expenses related to sales tax audit assessments and severance.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS
(in thousands of dollars, except per share amounts)

Quarter ended	**December 31, 2010 $**	**September 30, 2010 $**	**June 30, 2010 $**	**March 31, 2010 $**
Revenues	**120,258**	**112,963**	**115,882**	**122,629**
EBITDA (1)	**4,617**	**1,274**	**2,425**	**3,447**
Net earnings				
Continuing operations	**4,080**	**474**	**766**	**1,881**
Discontinued operations	**-**	**-**	**-**	**-**
Net earnings	**4,080**	**474**	**766**	**1,881**
Diluted earnings per share	**0.30**	**0.03**	**0.06**	**0.14**

Quarter ended	December 31, 2009 $	September 30, 2009 $	June 30, 2009 $	March 31, 2009 $
Revenues	105,556	99,041	102,705	115,260
EBITDA (1)	1,868	2,679	1,254	1,054
Net earnings				
Continuing operations	434	1,614	608	355
Discontinued operations	246	-	-	-
Net earnings	680	1,614	608	355
Diluted earnings per share	0.05	0.11	0.04	0.03

(1) EBITDA: Definition is included in the section non-GAAP financial measures.

CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED DECEMBER 31, 2010 COMPARED TO THE FOURTH QUARTER ENDED DECEMBER 31, 2009

Consolidated net earnings for the quarter ended December 31, 2010 amounted to $4.1 million or $0.31 per share ($0.30 on a diluted basis), compared to net earnings of $0.7 million, or $0.05 per share (basic and diluted) for the corresponding quarter ended December 31, 2009.

Consolidated revenues amounted to $120.3 million for the quarter ended December 31, 2010, compared to $105.6 million for the quarter ended December 31, 2009, an increase of $14.7 million or 13.9%. Net revenues in the Franchising and Distribution segment increased by $4.7 million or 30.7%, while the Commercial segment's revenues increased by $10.0 million or 11.1%.

Consolidated cost of goods sold and operating expenses stood at $115.6 million for the quarter ended December 31, 2010, compared to $103.7 million for the quarter ended December 31, 2009. This increase of $11.9 million or 11.6% is attributable to a higher volume and higher related operating expenses across the businesses.

Consolidated EBITDA was $4.6 million for the quarter ended December 31, 2010 compared to $1.9 million for the quarter ended December 31, 2009, an increase of $2.7 million or 147.0%. The higher levels of gross profit and EBITDA are mainly attributable to higher volumes as well as lower overall operating expenses and higher margins. The higher volume had a positive impact of $2.2 million on consolidated EBITDA while the higher margins and lower operating expenses had a positive impact of $0.2 million and $0.3 million respectively. These variances are explained in the segment analysis.

Consolidated depreciation and amortization for the quarter ended December 31, 2010 stood at $0.7 million compared to $0.9 million for the quarter ended December 31, 2009. The decrease in depreciation and amortization expenses is related to the accelerated depreciation and amortization incurred in the last quarter last year. This accelerated depreciation and amortization was related to current information systems that will be replaced by a new integrated ERP solution in 2011 and leasehold improvements for leases that were terminated during the current year.

Net financial expenses stood at $0.1 million for the quarter ended December 31, 2010 compared to $0.2 million for the quarter ended December 31, 2009. The financial expenses for the quarters ended December 31, 2010 and 2009 consisted mostly of bank fees. The Company had minimal interest expenses due to its low level of borrowings in the past two years.

The income tax expense recognized during the current quarter amounted to $0.2 million compared to an expense of $0.7 million recorded in the year ended December 31, 2009. The variance of $0.5 million is explained by adjustments resulting from corporate tax audits that were partially offset by higher pre-tax earnings.

The share of results in equity investment amounted to $0.5 million for the quarter ended December 31, 2010, compared to $0.3 million during the same quarter ended December 31, 2009, and reflects the Company's participation in the results of a MicroAge franchisee that operates independently from the rest of the Commercial segment.

Non-controlling interest for the current quarter amounted to $0.1 million, representing the share of profits for non-controlling shareholders of the Company accounted for as a VIE, compared to $29,000 for the share of losses for the corresponding quarter of last year.

SEGMENT REVIEW FOR CONTINUING OPERATIONS – FOURTH QUARTER

(Tabular amounts in thousands of dollars except for number of locations)

	2010			2009		
	Franchising/ Distribution	Commercial	Total	Franchising/ Distribution	Commercial	Total
	$	$	$	$	$	$
Revenues	65,631	100,299	165,930	63,459	90,287	153,746
Royalties	447	-	447	441	-	441
Inter-segment transactions	(46,119)	-	(46,119)	(48,631)	-	(48,631)
	19,959	100,299	120,258	15,269	90,287	105,556
Cost of sales and expenses	64,722	97,038	161,760	63,404	88,915	152,319
Inter-segment transactions	(46,119)	-	(46,119)	(48,631)	-	(48,631)
	18,603	97,038	115,641	14,773	88,915	103,688
Operating income before the under-noted item	1,356	3,261	4,617	496	1,372	1,868
Depreciation and amortization	278	384	662	238	646	884
Operating income	1,078	2,877	3,955	258	726	984
Assets	49,603	79,844	129,447	39,159	73,966	113,125
Goodwill	-	4,815	4,815	-	4,815	4,815
Capital expenditures	1,109	254	1,363	184	143	327
Number of locations Beginning and end of period	40	14	54	45	15	60

Segment review

Franchising and Distribution

Franchising and Distribution net revenues, excluding royalties, for the quarter ended December 31, 2010, stood at $19.5 million, compared to $14.8 million for the quarter ended December 31, 2009. This increase is explained by higher sales volume from the MicroAge network.

Royalty revenues totaled $0.4 million for both quarters ended December 31, 2010 and December 31, 2009.

EBITDA was $1.4 million for the current quarter, compared to $0.5 million for the corresponding quarter in 2009. Higher volume increased EBITDA by $0.8 million while lower operating expenses had a positive impact of $0.7 million. Lower margins had a negative impact on EBITDA of $0.6 million. The operating expenses were lower than last year due to lower non-recurring costs mainly related to the fund conversion in 2009 and severance as well as cost cutting initiatives that were slightly offset by higher non-capitalized expenses related to the implementation of the ERP. It should be noted that the Company's corporate expenses are reported in this segment.

Commercial

The Commercial segment had revenues of $100.3 million for the quarter ended December 31, 2010, compared to $90.3 million for the quarter ended December 31, 2009. This revenue increase of $10.0 million, or 11.1%, is mainly explained by increased volume in Alberta and Ontario that were slightly offset by lower volume in Quebec.

EBITDA for the quarter ended December 31, 2010 was $3.3 million compared to $1.4 million for the same period last year, an increase of $1.9 million or 137.8%. This EBITDA increase is explained by higher volume of $1.4 million and higher margins of $0.8 million. Higher operating expenses of $0.4 million were incurred due to the higher commissions related to higher volume and severance costs.

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(*in thousands of dollars, except per unit amounts*)

	2010	2009
	$	$
Revenues	**471,732**	422,562
EBITDA (1)	**11,763**	6,855
Net earnings from continuing operations	**7,201**	3,011
Earnings from discontinued operations	**-**	246
Net earnings	**7,201**	3,257
Adjusted free cash flow (2)	**2,914**	18,480
Basic earnings per share from continuing operations	**0.54**	0.22
Diluted earnings per share from continuing operations	**0.50**	0.21
Cash	**24,356**	22,127
Total assets	**129,447**	113,134

(1) EBITDA: Definition is included in the non-GAAP financial measures section.
(2) Adjusted free cash flow: Definition is included in the non-GAAP financial measures sections.

LIQUIDITY AND FINANCIAL CONDITION

During the year ended December 31, 2010, the Company generated a cash flow from operating activities of $10.9 million compared to $20.2 million for the year ended December 31, 2009.

Operating activities, before changes in non-cash working capital items, generated cash flow of $12.1 million during the year ended December 31, 2010 compared to $6.5 million for the year ended December 31, 2009, an increase of $5.6 million. This increase in cash flow is mainly explained by higher results from operations. The cash outflow from the non-cash working capital totaled $1.2 million in the current period, compared to a cash inflow of $13.7 million in the year ended December 31, 2009.

For the year ended December 31, 2010, accounts payable and accrued liabilities, deferred revenues and income taxes payable had a positive impact on cash flow of $7.5 million, $1.2 million and $0.2 million respectively. Accounts receivable had an unfavorable effect on cash flow from non-cash working capital of $10.1 million. For the same period in 2009, accounts receivable, inventories and deferred revenues had a favorable effect on cash flow from non-cash working capital of $7.5 million, $8.0 million and $0.8 million respectively, while accounts payable and accrued liabilities had a negative impact of $2.5 million. The Company's policy is to take advantage of prompt-pay discounts on trade payable, while temporarily financing its accounts receivable through the completion of the cash conversion cycle.

Borrowings under the revolving credit facilities were nil as at December 31, 2010 and have been nil at the end of every quarter since December 2007. Redemption of shares had a negative impact on cash flow of $0.7 million in 2010 and was $0.1 million for the same period last year while deferred financing costs had a negative impact on cash flow of $0.1 million in 2010 compared to $0.3 million in 2009. In 2009, when Hartco operated as an income trust, distributions to unit holders and tracking shareholders were $3.0 million.

Cash flows used for investing activities totaled $7.5 million during the year ended December 31, 2010 compared to $1.0 million for the year ended December 31, 2009. Additions to property and equipment reached $1.5 million for the year ended December 31, 2010 compared to $0.6 million for the same period last year, while intangible assets additions represent $5.4 million for the current year compared to $0.4 million for the same period last year. Current capital expenditures are mainly related to improvements to the Company's information systems, including a project to integrate virtually all of its legacy business critical applications into one integrated enterprise resource planning solution. Otherwise, the Company is not required to invest significantly in property and equipment. The Company also has a long-term receivable of $0.6 million with one of its customers as part of its normal operations.

NON-GAAP FINANCIAL MEASURES

Standardized Free Cash Flow is a non-GAAP measure recommended by the CICA in order to provide a consistent and comparable measurement of free cash flow across entities of cash generated from operations and is used as an indicator of financial strength and performance. Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented to other entities.

Standardized Free Cash Flow represents an indication of the entity's continuing capacity to generate discretionary cash from operations, comprising cash flows from operating activities, net of total capital expenditures and those dividends that are more representative of financial costs. It does not represent the cash flow in the period available for management to use at its discretion, which may be affected by other sources and non-discretionary use of cash.

Standardized Free Cash Flow is defined as cash flows from operating activities including operating cash flows provided from or used in discontinued operations, as reported in accordance with GAAP, less adjustments for:

(a) total capital expenditures as reported in accordance with GAAP; and
(b) dividends, when stipulated, unless deducted in arriving at cash flows from operating activities.

Capital expenditures are defined as cash outlays, capital in nature, required to maintain the business at its current operating capacity and efficiency level, including additions to intangible assets. Adjusted Free Cash Flow includes proceeds from the disposal of assets and collection of loans receivable.

The calculation for the years under review is as follows:

Standardized free cash flow and Adjusted free cash flow	**2010**	2009
(in thousands of dollars)	**$**	$
Cash flow provided by continuing operating activities	**10,850**	20,193
Additions to property and equipment and intangible assets	**(6,871)**	(1,004)
Deferred financing costs	**(52)**	(313)
Cash flow used for discontinued operations	**(414)**	(431)
Standardized Free Cash Flow	**3,513**	18,445
Net collection of long term receivables	**(599)**	35
Adjusted Free Cash Flow	**2,914**	18,480

EBITDA is a non-GAAP financial measure. Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other entities.

The Company defines EBITDA as earnings from continuing operations before financial expenses, depreciation and amortization, provisions for income taxes, share of results of equity investments and non-controlling interest. EBITDA for the year ended December 31, 2010 stood at $11.8 million ($6.9 million for the same period ended in 2009) and is the same amount as earnings from continuing operations before the under-noted items as presented in the Consolidated Statement of Earnings and Comprehensive Earnings. The reporting of EBITDA is intended to assist readers in the performance of financial analysis.

The reconciliation of EBITDA from net earnings from continuing operations is as follows:

	Quarter ended December 31		Year ended December 31	
	2010	2009	**2010**	2009
(in thousands of dollars)	**$**	$	**$**	$
Net earnings from continuing operations	**4,080**	434	**7,201**	3,011
Add back:				
Non-controlling interest	**69**	(29)	**147**	124
Share of results of equity investments	**(511)**	(320)	**(1,342)**	(729)
Income taxes	**203**	727	**1,551**	1,380
Financial expenses	**114**	172	**1,003**	694
Depreciation and amortization	**662**	884	**3,203**	2,375
EBITDA	**4,617**	1,868	**11,763**	6,855

DIVIDEND POLICY AND CASH DISTRIBUTIONS

The Company's current dividend policy is to maintain a high equity ratio. Accordingly, no dividend was declared or paid in 2010 and the Board of directors has no plans to do so at the present time.

In 2009, prior to Hartco's conversion from an income trust to a corporation, monthly distributions were paid on a level basis without any consideration for the Company's normal seasonal fluctuations that occur over the course of a year. Cash distributions during the year ended December 31, 2009 amounted to $3.0 million, of which $2.2 million was attributed to unitholders and $0.8 million to tracking shareholders as follows:

Distribution to Unitholders

Payment date	Record date	Distribution per unit	Distribution declared
		$	$
January 15, 2009	December 31, 2008	0.050	499,440
February 15, 2009	January 31, 2009	0.050	499,440
March 16, 2009	February 28, 2009	0.050	499,440
April 15, 2009	March 31, 2009	0.050	499,440
April 30, 2009	April 14, 2009	0.025	249,720
Total distribution		0.225	2,247,480

Distribution to Tracking Shareholders

Payment date	Record date	Distribution per tracking share	Distribution declared
		$	$
January 15, 2009	December 31, 2008	0.046	167,137
February 15, 2009	January 31, 2009	0.046	167,137
March 16, 2009	February 28, 2009	0.046	167,137
April 15, 2009	March 31, 2009	0.046	167,137
April 30, 2009	April 14, 2009	0.023	83,569
Total distribution		0.207	752,117

Total Distribution

Payment date	Record date	Distribution declared $
January 15, 2009	December 31, 2008	666,577
February 15, 2009	January 31, 2009	666,577
March 16, 2009	February 28, 2009	666,577
April 15, 2009	March 31, 2009	666,577
April 30, 2009	April 14, 2009	333,289
Total distribution		2,999,597

SUMMARY OF CONTRACTUAL OBLIGATIONS

	Payments due by period				
As at December 31, 2010 *(in thousands of dollars)*	**Total** **$**	**Less than 1 year** **$**	**1-3 years** **$**	**4-5 years** **$**	**After 5 years** **$**
Operating leases	2,956	1,014	1,720	222	-
Total contractual obligations	2,956	1,014	1,720	222	-

The credit facility, of which no amount was used as of December 31, 2010, expires on August 1st, 2013. There are no purchase commitments or amounts payable under litigations.

CAPITAL RESOURCES

The Company has a credit facility of $45.0 million that consists of a $25.0 million three-year committed evergreen revolving credit facility which can be extended for an additional year prior to each anniversary date, and two demand revolving credit facilities in the principal amount of $10.0 million each. During the year, the Company obtained the extension for an additional year until August 1st, 2013 as outlined in the credit agreement. The credit facility bears interest at various rates based on the prime rate or bankers' acceptances plus a premium varying with the level of key financial ratios achieved. In addition, the Company is subject to maintaining the usual debt to tangible net worth and fixed charge coverage ratios as well as certain other conditions. As at December 31, 2010 no amount was outstanding under the Credit Facility.

The Company's debt capitalization ratio stood at 0:100 as at December 31, 2010. Debt is calculated net of cash, and capital includes non-controlling interest. As at December 31, 2010, Hartco Inc. was in compliance with all its key financial and coverage ratios.

The Company believes that cash flow from operations, funds available under its Credit Facility and other sources of cash will be sufficient to meet its anticipated cash requirements for the next year.

OUTSTANDING SHARE DATA

A summary of the changes to Hartco's share capital during the year ended December 31, 2010 is as follows:

Common Shares	Number of shares	Thousands of dollars
Balance outstanding as at December 31, 2008	-	-
Conversion from Trust units	13,598,890	48,743
Redeemed and cancelled shares	(58,200)	(208)
Balance outstanding as at December 31, 2009	13,540,690	48,535
Redeemed and cancelled shares	(207,070)	(740)
Options exercised	3,594	8
Balance outstanding as at December 31, 2010	13,337,214	47,803

The following table provides the weighted average number of shares used in the calculation of both basic and diluted earnings per share:

(in thousands of dollars, except number of shares)	**2010** $	2009 $
Net earnings from continuing operation	**7,201**	3,011
Earnings from discontinued operations	**-**	246
Net earnings	**7,201**	3,257
Weighted average number of shares outstanding		
- basic	**13,415,840**	13,585,597
- diluted	**14,383,217**	13,964,428

OFF-BALANCE SHEET ARRANGEMENTS

The Company, through its subsidiaries, Hartco Distribution LP and Metafore Technologies Inc. (formerly Solutions Technologiques Dorval LP), has guaranteed third party financial institutions of two franchisees for a total of $550,000. As at December 31, 2010, there were no amounts for which the Company could be called upon. In the event that the Company is called upon one of the guarantee amounting to $400,000, the Company may exercise its security against the assets of the franchisee to offset the amounts called under the guarantee. The other guarantee of $150,000 is unsecured. If an amount becomes payable under one of the guarantee, it will be charged to earnings in the year in which the liability is likely to be incurred, and would correspond to the portion in excess of the net realizable value of the assets under security.

Hartco had bank letters of guarantee for performance service contracts outstanding for an equivalent value of $5,000 as at December 31, 2010.

FINANCIAL INSTRUMENTS

During the two most recent years, the Company did not make use of derivative financial instruments such as swaps, futures, or hedging contracts, as the Company's operations would not normally require the use of such instruments.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties occurred within the normal course of business and have been measured at their exchange amount. These transactions were as follows:

(in thousands of dollars)	**2010** **$**	2009 $
Accounts receivable - equity investments (1)	**1,274**	581
Revenues - equity investments (1)	**35,784**	9,181
Interest income - equity investments (1)	**98**	98
Accounts receivable - common controlled entity (2)	**1**	17
Revenues - common controlled entity (2)	**669**	137

(1) Transactions with equity investments.
Equity investments are franchisees in which the Company or its subsidiaries hold an equity interest. Revenues in the table above represent the sale of product from Hartco under normal terms and conditions, while interest income was earned on interest-bearing loans and advances.

(2) Transactions with common controlled entity.
Hartco is related, through its majority shareholder, to an entity to which it sold products

MANAGEMENT'S CONCLUSION ON THE DISCLOSURE CONTROLS, PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

a) Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is communicated to the Chief Executive Officer and the Chief Financial Officer and that such information is recorded, processed, summarized and reported within the time periods specified.

As of December 31, 2010 Management has evaluated the design and operation of the Company's disclosure controls and procedures and has concluded that such disclosure controls and procedures are effective.

b) Internal Control over Financial Reporting

Management of the Company is responsible for designing and evaluating the effectiveness of internal controls over financial reporting as defined in National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

Management has used the Internal Control-Integrated Framework to evaluate the effectiveness of internal controls over reporting, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Because of their inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Company's internal controls over financial reporting as of December 31, 2010 and has concluded that such internal controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

There has been no change in the Company's internal control over financial reporting that occurred since the year ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 on-going 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 law 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 then been liquidated in 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 proves 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.

CRITICAL ACCOUNTING ESTIMATES

Accounts Receivable

As of December 31, 2010 accounts receivable totaled $71.0 million. Management follows conservative practices in granting trade credit and diligently practices several credit risk minimizing techniques. Management regularly reviews the Company's entire accounts receivable portfolio and, based on the most current available information, updates its estimate of unrecoverable amounts. These amounts form the basis of the Company's allowance for doubtful accounts.

Inventory

As at December 31, 2010 inventories totaled $10.6 million. Inventories are valued at the lower of cost and net realizable value. Appropriate provisions have been made for slow-moving and obsolete inventories. As a result of the high rate of technological change, management closely monitors the quality and profile of inventories to identify items which may present a risk.

Once identified, various strategies are developed to maximize the realizable value of goods, such as returns to manufacturers, promotional activities (advertising, markdowns, etc.) and finally, liquidation. Management reviews inventory item profiles on an ongoing basis, which minimizes overall risk, and updates the estimates of the amount required to reflect such risk. Estimated unrecoverable amounts are charged to earnings in the period in which the risk is identified.

Impairment of Long-Lived Assets

The Company assesses long-lived assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of the loss is determined by deducting the asset's fair value from its carrying value.

Impairment of goodwill

Goodwill is not amortized but it is tested for impairment annually, or more frequently, if events or changes in circumstances indicate a possible impairment. The Company compares the reporting unit's carrying value to its market value determined through a discounted cash flow analysis. In preparing the analysis, the Company uses its judgment in estimating future profitability, growth, capital spending and discount rate. If the carrying value of the reporting unit exceeds the market value, the Company would then determine the amount of the impairment loss by comparing the fair value of the goodwill to its carrying amount.

NEW ACCOUNTING POLICIES

New accounting standards to be adopted in future years

International Financial reporting Standards ("IFRS")

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with IFRS. The Company will begin reporting its financial statements in accordance with IFRS on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Company has established a changeover plan to convert to these new standards according to the timetable set with these new rules. An implementation team has been created and third party advisors have been engaged to provide training and guidance to the staff. The Company completed the scoping and diagnostic phase in 2008 and its documentation during 2009. The Company has made its transition choices and policy elections in 2010.

In addition to measurement differences, there will be changes to ensure the Company's Consolidated financial statements comply with IFRS presentation and disclosures. A first draft of Q1, Q2 and Q3 2011 IFRS financial statements and note disclosures has been prepared and will be refined over the coming months.

The Company does not expect that the initial adoption of IFRS will have a significant impact on disclosure controls and procedures, information technology systems or business activities. Appropriate staff training has been completed and will continue as new standards develop.

The Company has identified the following IFRS standard choices and accounting policy differences between Canadian GAAP and IFRS as having the largest potential impacts on the Company's financial statements:

Accounting policy	Differences	Potential Impacts
Business Combinations and Basis of consolidation	On transition to IFRS: First-time adopters may elect not to apply IFRS 3 (as amended in 2008) retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRSs). However, if a first-time adopter restates any business combination to comply with IFRS 3 (as amended in 2008), it shall restate all later business combinations and shall also apply IAS 27 (as amended in 2008) from that same date. Under IFRS, the requirement to consolidate an entity is determined based on control, with additional consideration for special purpose entities. Under Canadian GAAP a similar control model applies, except in the case of special purpose entities, which are accounted for under the VIE model.	The Company has finalized impact calculations of business combinations and basis of consolidation and based on preliminary analysis will no longer consolidate its VIE and will use equity accounting. This would have the impact of reducing revenues and EBITDA slightly but with no impact on net income.
Property, plant and equipment	IFRS requires separate amortization of major components of an asset. This requirement being less explicit under Canadian GAAP, a greater number of major components have been identified and will be amortized separately under IFRS.	The Company has determined that it will re-evaluate its building and land at fair value and it will become its deemed cost. The Company has determined that there will be no significant impacts on the annual depreciation expense.

The differences identified in this document should not be regarded as an exhaustive list and other changes may result from our conversion to IFRS. Furthermore, the disclosed impacts of our conversion to IFRS reflect our most recent assumptions, estimates and expectations, including our assessment of the IFRS expected to be applicable at the time of conversion. As a result of changes in circumstances, such as economic conditions or operations, and the inherent uncertainty from the use of assumptions, the actual impacts of our conversion to IFRS may be different from those presented above.

ADDITIONAL INFORMATION

Additional information relating to the Company, including its most recent annual information form, is available on SEDAR at www.sedar.com.

Montreal, Canada
February 24, 2011

Responsibility for financial reporting

Hartco Inc.'s ("Company") management is satisfied with the integrity and the fair presentation of the consolidated financial statements and other information in this report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial and operating data contained elsewhere in this report are consistent with that contained in the consolidated financial statements.

The Company's policy is to maintain effective systems of internal accounting and administrative controls at reasonable cost. Existing systems are designed to provide reasonable assurance that the financial information is accurate and reliable and that the Company's assets are adequately accounted for and safeguarded. The Audit Committee, which is comprised of four independent directors, meets with representatives of the Company's auditors, and with members of management to ensure that financial controls and financial information are adequate.

The consolidated financial statements have been reviewed by the Audit Committee and together with the other required information in this report have been approved by the Board of Directors. These consolidated financial statements have been examined by the Company's auditors, Deloitte & Touche LLP, chartered accountants, and their report follows.

February 24, 2011

HARRY HART,
Chairman and Chief Executive Officer

CARL GAUVREAU, CA
Vice-President Finance and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hartco Inc.

We have audited the consolidated financial statements of Hartco inc. which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of earnings and comprehensive earnings, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hartco Inc. as at December 31, 2010 and 2009 and the results of its operations, and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP[1]

Montreal, Quebec
February 24, 2011

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[1] Chartered accountant auditor permit No 13556

Consolidated Statements of Earnings and Comprehensive Earnings

For the years ended December 31, 2010 and December 31, 2009
(in thousands of dollars, except per share amounts)

	2010	2009
	$	$
Revenues	**471,732**	422,562
Cost of sales and expenses (Note 3)	**459,969**	415,707
Earnings from continuing operations before the under-noted items	**11,763**	6,855
Depreciation and amortization (Note 9 and 10)	**3,203**	2,375
Operating income from continuing operations	**8,560**	4,480
Financial expenses (Note 4)	**1,003**	694
Earnings from continuing operations before income taxes, share of results of equity investments and non-controlling interest	**7,557**	3,786
Income tax expenses (Note 11)		
Current	**81**	253
Future	**1,470**	1,127
	1,551	1,380
Earnings from continuing operations before share of results of equity investments and non-controlling interest	**6,006**	2,406
Share of results of equity investments	**1,342**	729
Non-controlling interest	**(147)**	(124)
Net earnings from continuing operations	**7,201**	3,011
Earnings from discontinued operations (Note 5)	**-**	246
Net earnings and comprehensive earnings	**7,201**	3,257
Earnings per share (Note 6)		
Basic earnings per share	**0.54**	0.24
- continuing operations	**0.54**	0.22
- discontinued operations	**-**	0.02
Diluted earnings per share	**0.50**	0.23
- continuing operations	**0.50**	0.21
- discontinued operations	**-**	0.02

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2010 and December 31, 2009
(in thousands of dollars)

	Shareholders' Capital (Note 13)	**Contributed Surplus**	**Retained Earnings**	**2010 Shareholders' Equity Total**
Balance at December 31, 2009	**48,535**	**771**	**11,683**	**60,989**
Net earnings for 2010	**-**	**-**	**7,201**	**7,201**
Stock based compensation (Note 13)	-	**284**	-	**284**
Exercise of options	**8**	-	-	**8**
Redemption and cancellation				**-**
of shares (Note 13)	**(740)**	**47**	-	**(693)**
Balance at December 31, 2010	**47,803**	**1,102**	**18,884**	**67,789**

	Shareholders' Capital (Note 13)	Contributed Surplus	Retained Earnings	2009 Shareholders' Equity Total
Balance at December 31, 2008	48,743	661	10,759	60,163
Net earnings for 2009	-	-	3,257	3,257
Stock based compensation (Note 13)	-	33	-	33
Redemption and cancellation				
of shares (Note 13)	(208)	77	-	(131)
Distributions				
Unitholders	-	-	(1,748)	(1,748)
Tracking shareholders	-	-	(585)	(585)
Balance at December 31, 2009	48,535	771	11,683	60,989

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and December 31, 2009
(in thousands of dollars)

	2010 $	2009 $
Cash flows provided by (used in):		
Operating activities		
Net earnings	**7,201**	3,257
Adjustments for:		
Depreciation of property and equipment (Note 9)	**2,473**	1,840
Amortization of intangible assets (Note 10)	**730**	535
Amortization of deferred financing costs (Note 10)	**121**	44
Loss on disposal of property and equipment, intangible assets, and other assets	**-**	63
Stock based compensation expense (Note 13)	**284**	15
Future income taxes	**1,470**	1,127
Share of results of equity investments, net of dividends received	**(342)**	(479)
Non-controlling interest	**147**	124
	12,084	6,526
Change in non-cash working capital items (Note 7)	**(1,234)**	13,667
	10,850	20,193
Financing activities		
Redemption of shares (Note 13)	**(693)**	(131)
Deferred financing costs	**(52)**	(313)
Exercise of options	**8**	-
Distributions to unitholders and tracking shareholders	**-**	(3,000)
	(737)	(3,444)
Investing activities		
Additions to intangible and other assets	**(5,411)**	(415)
Additions to property and equipment	**(1,460)**	(589)
Decrease (increase) in long-term receivable	**(599)**	35
	(7,470)	(969)
Cash flow from continuing operations	**2,643**	15,780
Cash outflow from discontinued operations (Note 5)	**(414)**	(431)
Net change in cash	**2,229**	15,349
Cash, beginning of year	**22,127**	6,778
Cash, end of year	**24,356**	22,127
SUPPLEMENTAL CASH FLOW INFORMATION (Note 7)		
Interest paid	**965**	592
Income taxes paid	**325**	485

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Balance Sheets

As at December 31
(in thousands of dollars)

	2010	2009
	$	$
Assets		
Current assets		
Cash	**24,356**	22,127
Accounts receivable	**70,953**	60,876
Inventories (Note 3)	**10,584**	10,599
Future income taxes (Note 11)	**8**	139
Current assets - discontinued operations (Note 5)	**-**	9
	105,901	93,750
Investments and long-term receivable (Note 8)	**4,129**	3,188
Property and equipment (Note 9)	**6,236**	7,249
Intangible and other assets (Note 10)	**6,388**	2,776
Future income taxes (Note 11)	**1,978**	1,356
Goodwill	**4,815**	4,815
	129,447	113,134
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**51,993**	45,509
Deferred revenues	**6,196**	5,029
Income taxes payable	**535**	358
Future income taxes (Note 11)	**1,961**	-
Current liabilities - discontinued operations (Note 5)	**-**	423
	60,685	51,319
Non-controlling interest	**973**	826
Commitments, guarantees and contingent liabilities (Note 14)		
Shareholders' Equity (Note 13)	**67,789**	60,989
	129,447	113,134

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

Harry Hart

Harry Hart, Director

Gérard Limoges

Gérard A. Limoges, Director

1. DESCRIPTION OF BUSINESS

Hartco Inc. (the "Company" or "Hartco") was incorporated under the Canada Business Corporations Act on February 17, 2009 and is listed under the symbol HCI on the TSX. Hartco has been in the IT industry for more than 30 years.

Through its operating divisions, which together include more than 50 locations across Canada under the banners of Metafore ™ and MicroAge®, the Company delivers IT infrastructure solutions to private and public organizations of every size. In December 2009, Hartco announced the merger of Metafore ™ and Microserv, two of its companies in the Commercial Segment, which now operate under the Metafore brand.

On April 15, 2009, Hartco completed its conversion from an income trust to a corporation. The conversion was implemented pursuant to a Plan of Arrangement under the Business Corporations Act (Canada). Pursuant to 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.

The Arrangement was accounted for as a continuity of interests since Hartco Inc. continued to operate the business of the Company and there have been no ownership changes.

As a corporation, Hartco is subject to Canadian federal and provincial corporate income tax on its taxable income for the period beginning on the effective date of the conversion.

2. ACCOUNTING POLICIES

Basis of presentation

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

Principles of consolidation

The consolidated financial statements include the accounts of Hartco Inc., of its wholly-owned subsidiaries and a variable interest entity ("VIE").

The Company consolidates variable interest entities in accordance with Accounting Guideline 15, Consolidation of Variable Interest Entities ("AcG-15"). This Guideline presents clarification on the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Under AcG-15, an enterprise should consolidate a variable interest entity when that enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns, if they occur, or both does not (the "primary beneficiary"). Assets recognized as a result of consolidating the variable interest entity does not represent additional assets that could be used to satisfy claims against the Company's general assets.

Use of estimates

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, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, significant estimates are made regarding inventory valuation, provisions for uncollectible receivables and loans, valuation of future income taxes and income tax expense, impairment of long lived assets, impairment of goodwill, revenue recognition and the estimated useful lives of long-lived assets. Actual results could differ from those estimates.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first in, first out basis. Net realizable value is the estimated selling price in the ordinary course of business less costs to sell the goods. The cost of inventory comprises the purchase price, import duties and freight, reduced by trade discounts and rebates. A review of the inventory is performed at each quarter end to determine if a write-down or reversal of previously recorded write-downs in carrying value is required. The write-down and/or reversal of write-down is recorded in the cost of goods sold as recognized.

Investments

The Company holds an equity interest in a franchisee in which it has significant influence, and therefore is accounted for using the equity method.

Property and equipment

Property and equipment are recorded at original cost and are depreciated over their estimated useful lives as follows:

Buildings	diminishing balance	4%
Furniture and equipment	diminishing balance	20%
Rolling stock	diminishing balance	30%
Computer equipment	straight-line	5 years

Leasehold improvements are amortized using the straight-line basis over the lesser of their estimated useful lives and the term of the lease, which may include the first renewal option when renewal has been determined to be reasonably assured. Typical amortization periods are between 5 to 10 years.

Intangible and other assets

Internal use software is recorded at original cost and is amortized using the straight-line method over five years from the date it is put in service.

Other assets are comprised of deferred financing fees that are recorded at cost and are amortized on a straight-line basis over the estimated life of the credit facility.

Impairment of long-lived assets

The Company assesses long-lived assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of the loss is determined by deducting the asset’s fair value from its carrying value.

Goodwill

Goodwill represents the difference between the purchase price and the fair value of the identifiable net assets of an acquired business. Goodwill is not amortized, but is tested annually for impairment in the fourth quarter, or earlier when events or circumstances occur that indicate that the carrying value may exceed the fair value.

Foreign currency translation

Monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars using the year-end exchange rate. Revenues and expenses are translated at the exchange rate on the day of the transaction. The resulting gains and losses on translation are included in the statement of earnings.

Revenue recognition

Revenue on the sale of goods is recognized when title of the goods is transferred to the customer and collection is reasonably assured. Revenue on the sale of consulting and service contracts is recognized as the services are rendered and collection is reasonably assured. Revenue on royalties is recognized as the services are rendered and collection is reasonably assured. Initial franchise fee revenues are recognized when the franchise locations commence operations. Payments received in advance are deferred until the services are provided or the goods are delivered.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement values and the tax values of assets and liabilities, using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for the portion of the future income tax assets when its realization is not considered more likely than not.

Share-Based Compensation

During 2009, the Board of Directors adopted the 2009 Stock Option Plan (the “Stock Option Plan”) for directors, officers and employees of the Company.

Under the Stock Option Plan, the Company issues equity-settled share-based payment awards. A fair value for the equity settled awards is measured at the date of grant. The vesting method of the share-based payment awards is graded. The Company determines fair value using the Black-Scholes option pricing model to value each class of award.

The fair value of each award is recognized as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed quarterly and the expense is adjusted to reflect actual and estimated levels of vesting.

Financial Instruments

Financial assets and liabilities are initially recorded at fair value. Subsequently, financial instruments classified as financial assets available for sale, held for trading and derivative financial instruments, part of a hedging relationship or not, must be measured at fair value on the balance sheet at each reporting date, whereas other financial instruments are measured at amortized cost using the effective interest method.

The following is a summary of the accounting model the Company applies to each of its significant categories of financial instruments outstanding:

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term receivable and loans on equity investments	Loans and receivables
Credit facilities	Other financial liabilities

Transaction costs

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transactions costs related to other liabilities and loans and receivables are added to the carrying value of the asset or netted against the carrying value of the liability when a maturity date is determinable, and are then recognized over the expected life of the instrument using the effective interest method. In situations in which the expected life of the liability is not determinable, the costs are recorded as deferred financing costs. Deferred financing costs are comprised principally of legal fees and are amortized on a straight-line basis over the expected life of the credit facility and are included in intangibles and other assets.

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

Comprehensive earnings

Comprehensive income is the change in shareholders' equity, which results from transactions other than those resulting from investments by shareholders and distributions to shareholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments.

New accounting standards to be adopted in future periods

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") set January 1, 2011 as the date that IFRS replaced Canadian GAAP for publicly accountable enterprises, which includes Canadian reporting issuers. Hartco will prepare its financial statements in accordance with IFRS for fiscal years commencing January 1, 2011.

3. INVENTORIES

For the years ended December 31, 2010 and 2009, the following amounts of inventory were expensed:

	2010	2009
	$	$
Purchases	**338,429**	296,794
Writedown for obsolescence and aging	**411**	533
Net change in inventories	**(64)**	6,649
Total inventory expense	**338,776**	303,976

The write-down in carrying value for the years ended December 31, 2010 and 2009 was for slow-moving inventory. Other costs of sales and expenses are related to service costs, direct costs, marketing and selling costs, and general and administrative costs.

4. FINANCIAL EXPENSES

	2010	2009
	$	$
Interest expense and other charges on credit facility	**203**	201
Other interest and bank charges	**976**	618
Interest income	**(176)**	(125)
	1,003	694

5. DISCONTINUED OPERATIONS

Following the Company's divestiture of the CompuSmart retail division in 2007, the Company has now settled all obligations related to leases that were terminated.

The results of discontinued operations presented in the consolidated statements of earnings were nil for the year ended December 31, 2010 and were $246,000 for the year ended December 31, 2009 due to the reversal of a provision for lease obligations following settlements of certain lease obligations.

The results of CompuSmart's operations, cash flows, and financial position have been segregated in the consolidated financial statements and are reported as discontinued operations.

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

Discontinued operations cash flow items were as follows:

	2010	2009
	$	$
Cash flow used for operating activities	**(414)**	(431)
Cash flow used in investing activities	**-**	-
Cash flow provided by financing activities	**-**	-
	(414)	(431)

As at December 31, 2009, all assets and liabilities of the discontinued operations have been segregated from the consolidated balance sheet and have been reclassified as “current assets of discontinued operations” and “current and non-current liabilities of discontinued operations”, as follows:

	December 31, 2010	As at December 31, 2009
Assets	**$**	$
Current assets		
Accounts receivable	**-**	9
Current assets of discontinued operations	**-**	9
Liabilities		
Current liabilities		
Vendors and other payable	**-**	8
Lease obligations	**-**	400
Deferred revenues	**-**	15
Current liabilities - discontinued operations	**-**	423
Net liabilities - discontinued operations	**-**	(414)

	2010	2009
	$	$
Lease obligations beginning of year	**400**	848
Adjustments	**(45)**	(246)
Payments	**(355)**	(202)
Lease obligations end of year	**-**	400

6. EARNINGS PER SHARE

Earnings per share is calculated using the weighted average number of common shares outstanding. Shares is used alternatively for shares or units outstanding for the period prior to the conversion of Hartco from an income trust (see Note 1). Accordingly, the following table provides the net earnings and the weighted average number of common shares used in the calculation of basic and diluted earnings per share.

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

	2010 $	2009 $
Net earnings from continuing operations	**7,201**	3,011
Net earnings from discontinued operations	**-**	246
Net earnings	**7,201**	3,257
Weighted average number of shares outstanding		
- basic	**13,415,840**	13,585,597
- assumed exercise of stock options	**967,377**	378,831
- diluted	**14,383,217**	13,964,428

7. SUPPLEMENTARY CASH FLOW INFORMATION

Change in non-cash working capital items	2010 $	2009 $
Accounts receivable	**(10,077)**	7,494
Inventories	**15**	7,998
Accounts payable and accrued liabilities	**7,484**	(2,475)
Deferred revenues	**1,167**	837
Income taxes payable	**177**	(187)
	(1,234)	13,667

The portion of accounts payable and accrued liabilities related to capital expenditures as at December 31, 2010 was $1,003,000 ($1,384,000 as at December 31, 2009) and has been reflected as a reduction of acquisitions of intangible and other assets in the statement of cash flows.

8. INVESTMENTS

	2010 $	2009 $
Equity investments	**2,550**	2,208
Loan receivable - equity investment company	**980**	980
Long-term receivable	**599**	**-**
	4,129	3,188

The loan receivable from the equity investment company bears interest of 10% and is without specific terms of repayment and is secured by the assets of the recipient. The cost of the equity investments at the time of purchase amounted to $1,673,000. Since acquisition, the equity pick-up amounted to $3,877,000 and dividends amounted to $3,000,000. The short-term portion of the long-term receivable amounts to $128,000 as at December 31, 2010 (nil in 2009). The long-term receivable bears interest at 4.5% and is payable in monthly installments of $10,000.

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

9. PROPERTY AND EQUIPMENT

			2010
	Cost	**Accumulated depreciation**	**Net Book Value**
	$	**$**	**$**
Land	**921**	**-**	**921**
Buildings	**5,414**	**2,449**	**2,965**
Furniture and equipment	**6,879**	**6,512**	**367**
Computer equipment	**9,821**	**8,321**	**1,500**
Leasehold improvements	**1,721**	**1,238**	**483**
Rolling stock	**392**	**392**	**-**
	25,148	**18,912**	**6,236**

			2009
	Cost	Accumulated depreciation	Net Book Value
	$	$	$
Land	921	-	921
Buildings	5,414	2,326	3,088
Furniture and equipment	6,744	6,005	739
Computer equipment	8,610	7,013	1,597
Leasehold improvements	2,705	1,801	904
Rolling stock	392	392	-
	24,786	17,537	7,249

Depreciation recorded for the year ended December 31, 2010, amounted to $2,473,000 ($1,840,000 for the year ended December 31, 2009).

10. INTANGIBLE AND OTHER ASSETS

			2010
	Cost	**Accumulated amortization**	**Net Book Value**
	$	**$**	**$**
Internal use software	**8,660**	**2,473**	**6,187**
Deferred financing costs	**365**	**164**	**201**
	9,025	**2,637**	**6,388**

			2009
	Cost	Accumulated amortization	Net Book Value
	$	$	$
Internal use software	4,252	1,745	2,507
Deferred financing costs	313	44	269
	4,565	1,789	2,776

Amortization recorded for the year ended December 31, 2010 amounted to $730,000 for Internal use software and $131,000 for deferred financing costs ($535,000 and $44,000 respectively for the year ended December 31, 2009). Internal use software acquired during the year in the amount of $4,408,000 ($1,799,000 for the year ended December 31, 2009) was mainly for operating systems, while the total capitalized deferred financing cost was $52,000 ($313,000 in 2009).

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

11. INCOME TAXES

Since April 15, 2009, upon conversion to a corporate structure, the income of Hartco Inc. became taxable. Previously, the Company, as a publicly traded income trust, qualified for special tax treatment that permitted a tax deduction for distributions paid to unitholders.

For accounting purposes, the Company computed future income tax, based on temporary differences that were expected to reverse after 2010, at the tax rate expected to apply for those periods. The Company was not subject to, and did not recognize, any current income taxes or future income tax assets or liabilities on temporary differences expected to reverse prior to 2011.

Income taxes in the statement of earnings differ from the statutory rate as follows:

	2010	2009
	$	$
Earnings from continuing operations before income taxes, share of results of equity investments and non-controlling interest	**7,557**	3,786
Statutory income tax rate	**29.6%**	30.1%
Income taxes expense based on statutory income tax rate	**2,237**	1,141
Impact of changing tax rates	**136**	295
Tax effect of non-deductible expenses and other adjustments	**(597)**	(58)
Temporary differences not previously recognized	**(225)**	2
	(686)	239
Total tax expense for the year	**1,551**	1,380

The future income tax assets are as follows:

	2010	2009
	$	$
Current assets		
Lease exit cost accruals	**-**	118
Others	**8**	21
	8	139
Long-term assets		
Tax benefit of losses carried forward	**516**	434
Property and equipment and intangibles	**1,462**	922
	1,978	1,356
Total future income tax assets	**1,986**	1,495
Current liabilities		
Partnership income, net of tax benefit of losses carried forward	**1,961**	-
Net future income taxes assets	**25**	1,495

The Company has $6,324,000 in loss carry forwards expiring between 2015 to 2028.

12. CREDIT FACILITY

The Company has a credit facility of $45.0 million that consists of a $25.0 million three-year committed evergreen revolving credit facility which can be extended for an additional year prior to each anniversary date, and two demand revolving credit facilities in the principal amount of $10.0 million each. 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 at December 31, 2010 and as at December 31, 2009. In addition, the Company is subject to maintain the usual debt to tangible net worth and fixed charge coverage ratios. As at December 31, 2010 and 2009, Hartco Inc. was in compliance with the financial covenants.

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

13. SHAREHOLDERS' EQUITY

In 2009, pursuant to the conversion, all of the outstanding trust units of the Company and "tracking share units" of Hartco Investments Inc. (see Note 1) were exchanged for common shares of Hartco Inc. on a one-for-one basis.

Common Shares

Authorized:
An unlimited number of voting common shares of Hartco

Preferred Shares

Authorized:
An unlimited number of preferred shares of Hartco, non-voting, non-participating
Issued:
No preferred shares have been issued

A summary of the activities of Hartco's share capital for the years ended December 31, 2010 and 2009 is as follows:

Units	Number of units	Thousands of dollars
Total units outstanding as at December 31, 2008	**13,598,890**	**48,743**
Conversion to Hartco common shares	**(13,598,890)**	**(48,743)**
Total units oustanding as at December 31, 2009	**-**	**-**

Common Shares	Number of shares	Thousands of dollars
Balance outstanding as at December 31, 2008	**-**	**-**
Conversion from Trust units	**13,598,890**	**48,743**
Redeemed and cancelled shares	**(58,200)**	**(208)**
Balance outstanding as at December 31, 2009	**13,540,690**	**48,535**
Redeemed and cancelled shares	**(207,070)**	**(740)**
Options exercised	**3,594**	**8**
Balance outstanding as at December 31, 2010	**13,337,214**	**47,803**

Redemption and Cancellation of Shares

On August 26, 2010 the Toronto Stock Exchange approved the renewal of Hartco's normal course issuer bid ("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 Toronto Stock Exchange over the twelve-month period starting on August 30, 2010 and ending on August 29, 2011.

For the year ended December 31, 2010, the Company had repurchased and cancelled 207,070 shares at an average price of $3.35 per share for a total of $693,000 (58,200 shares for the year ended December 31, 2009 at an average price of $2,25 per share for a total of $131,000).

Previously, during the third quarter of 2009, the Company launched a NCIB. Under the NCIB, Hartco was entitled to repurchase for cancellation up to 679,944 common shares over the twelve-month period starting on August 28, 2009 and ended on August 27, 2010, representing 5% of Hartco's issued and outstanding common shares. The purchases by Hartco were effected through the facilities of the Toronto Stock Exchange and were made at the market price of the common shares at the time of the purchase.

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

For the initial NCIB on August 28, 2009, the Company repurchased and cancelled 265,270 shares at an average price of $3.08 per share for a total of $818,000.

Stock Option Plan

In 2009, the Board of Directors of the Company adopted the 2009 Stock Option Plan (the "Stock Option Plan") for directors, officers and employees of the Company. The principal terms of the Stock Option Plan are as follows:

(a) the maximum number of Common Shares that can be issued upon the exercise of options granted under the Stock Option Plan is equal to 10% of the number of Common Shares of the Company issued and outstanding from time-to-time;

(b) no option may be granted under the Stock Option Plan to any optionee unless the aggregate number of Common Shares: (i) issued to "insiders", as defined in the *Securities Act* (Ontario), within any one-year period; and (ii) issuable to "insiders" at any time, under the Stock Option Plan, or when combined with all of the Company's other security-based compensation arrangements, could not exceed 10% of the total number of issued and outstanding Common Shares of the Company;

(c) the exercise price of options granted under the Stock Option Plan is set at the time of the grant of the options, but cannot be less than the volume weighted average trading price of the Common Shares of the Company on the Toronto Stock Exchange for the five trading days immediately preceding the day on which an option is granted;

(d) the Board of Directors establishes the term of each option when granted, subject to a maximum term of ten years from the date on which it is granted; and

(e) an option will "vest" each year as to 20% of the Common Shares subject to the option, commencing one year after the date of grant, such that an option will be fully "vested" five years after the date of grant, unless otherwise determined by the Board of Directors of the Company at the time of grant.

A summary of the activity related to the Stock Option Plan for the year ended December 31, 2010 and 2009, is as follows:

		2010		2009
	Number of options	**Weighted exercise price**	Number of options	Weighted exercise
Outstanding, beginning of year	**987,668**	**$2.18**	-	-
Granted	**135,000**	**$3.56**	987,668	$2.18
Forfeited	**(128,334)**	**$2.18**	-	-
Exercised	**(3,594)**	**$2.18**	-	-
Outstanding, end of year	**990,740**	**$2.37**	987,668	$2.18
Exercisable, end of year	**253,279**	**$2.23**	9,668	$2.18

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

The fair values of the options granted during the year have been determined using the Black-Scholes option pricing model using the following assumptions:

			Stock Option
Grant date	**November 11, 2010**	**August 10, 2010**	August 13, 2009
Share price at grant date	**$3.43**	**$3.60**	$2.18
Exercise price	**$3.43**	**$3.60**	$2.18
Expected option life in years (1)	**5 years**	**5 years**	5 years
Risk free interest rate	**2.24%**	**1.73%**	2.85%
Expected volatility	**64%**	**63%**	42%
Expected dividend yield	**0%**	**0%**	0%
Forfeiture rate	**0%**	**0%**	0%
Fair value per option	**$1.90**	**$1.95**	$1.22

(1) The contractual life of the options granted on August 13, 2009 is 10 years. The remaining life of these options is 8 years and 8 months. The contractual life of the options granted on August 10, 2010 is 10 years. The remaining life of these options is 9 years 8 months while the options granted on November 11, 2010 have a contractual life of 10 years and their remaining life is 9 years and 11 months.

Volatility has been estimated by taking the historic volatility in the Company's share price.

The risk free rate used in determining the fair value of the share option awards is based on a Government of Canada yield curve.

The resulting fair value is expensed over the service period of five years on the assumption that a nominal number of the options will lapse over the vesting period as employees leave the Company.

Stock based compensation expenses amounted to $284,000 for the year ended December 31, 2010 and $33,000 during the year ended December 31, 2009 and are included in cost of sales and expenses. When Hartco operated as an income trust, it had a long-term incentive plan and when it was cancelled during 2009, the Company reversed an expense of $18,000.

14. Commitments, guarantees and contingent liabilities

a) Commitments

As at December 31, 2010, the minimum future net rentals payable under long-term operating leases, exclusive of certain operating costs for which the Company is responsible are as follow:

	$
2011	1,014
2012	783
2013	562
2014	375
2015	222
Thereafter	-
	2,956

b) Guarantees

The Company, through its subsidiaries, Hartco Distribution LP and Metafore Technologies Inc. (in 2009, Solutions Technologiques Dorval LP), has guaranteed third party financial institutions of two franchisees for a total of $550,000. As at December 31, 2010, there were no amounts for which the Company could be called upon. In the event that the Company is called upon for one of the guarantee amounting to $400,000, the Company may exercise its security against the assets of the franchisee to offset the amounts called under the guarantee. The other guarantee of $150,000 is unsecured. If an amount becomes payable under one of the guarantees, it will be charged to earnings in the year in which the liability is likely to be incurred, and would correspond to the portion in excess of the net realizable value of the assets under security.

(in thousands of dollars for tabular amounts except for number of shares and per share amounts)

The Company has committed to several financial institutions to repurchase inventories of certain franchisees under certain conditions. The repurchase amount to be paid is limited to the lesser of amounts due to the financial institution by the franchisee or the original sale price of the inventories on hand. As at December 31, 2010, the maximum amount that would be payable under the guarantee of all inventories to be repurchased is $1,400,000. In the event that the Company is called upon under these commitments, the inventory would be sold in the normal course of business.

As at December 31, 2010, bank letters of guarantee for service performance contracts for an equivalent value of $5,000 were outstanding.

c) Contingent Liabilities

The Company, in the normal course of business, is party to claims and lawsuits that are currently being contested. Management believes that the resolution of these claims and lawsuits will not have a materially adverse effect on the Company’s financial position, earnings or cash flows.

15. RELATED PARTY TRANSACTIONS

Transactions with related parties occurred within the normal course of business and have been measured at their exchange amount. The transactions and account balances were as follows:

	2010	2009
	$	$
Accounts receivable - equity investments (1)	**1,274**	581
Revenues - equity investments (1)	**35,784**	9,181
Interest income - equity investments (1)	**98**	98
Accounts receivable - common controlled entity (2)	**1**	17
Revenues - common controlled entity (2)	**669**	137

(1) Transactions with equity investments.
Equity investments are franchisees in which the Company or its subsidiaries hold an equity interest. Revenues in the table above represent the sale of product from Hartco under normal terms and conditions, while interest income was earned on interest-bearing loans and advances.

(2) Transactions with common controlled entity.
Hartco is related, through its majority shareholder, to an entity to which it sold products

16. BUSINESS SEGMENTS

The Company operates two business segments in Canada: the Franchising and Distribution segment, and the Commercial segment.

The Franchising and Distribution segment encompasses the Company’s distribution activities operated by Hartco Distribution Limited Partnership (“Hartco Distribution”), the Company’s corporate services, 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 more than 50 locations from coast to coast. Segment revenues are comprised of product sales to franchisees and of royalties earned on franchisee sales. This segment also includes activities and expenses related to the Company corporate services.

(in thousands of dollars for tabular amounts except for number of locations)

The Commercial segment includes the business activities operated by the Company's subsidiary Metafore Technologies Inc. ("Metafore"), and those of a MicroAge franchise accounted for as a Variable Interest Entity ("VIE"). Since January 2010, two previously separate companies in the Commercial segment, Metafore and Microserv, have been operating as one merged company under the Metafore brand.

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

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.

The following is a summary of the segmented information for the Company's continuing operations:

	2010			2009		
	Franchising/ Distribution	**Commercial**	**Total**	Franchising/ Distribution	Commercial	Total
	$	**$**	**$**	$	$	$
Revenues	**277,348**	**386,238**	**663,586**	253,645	358,926	612,571
Royalties	**1,994**	**-**	**1,994**	1,933	-	1,933
Inter-segment transactions	**(193,848)**	**-**	**(193,848)**	(191,942)	-	(191,942)
	85,494	**386,238**	**471,732**	63,636	358,926	422,562
Cost of sales and expenses	**274,816**	**379,001**	**653,817**	254,251	353,398	607,649
Inter-segment transactions	**(193,848)**	**-**	**(193,848)**	(191,942)	-	(191,942)
	80,968	**379,001**	**459,969**	62,309	353,398	415,707
Operating income before the under-noted item	**4,526**	**7,237**	**11,763**	1,327	5,528	6,855
Depreciation and amortization	**1,153**	**2,050**	**3,203**	834	1,541	2,375
Operating income	**3,373**	**5,187**	**8,560**	493	3,987	4,480
Assets	**49,603**	**79,844**	**129,447**	39,159	73,966	113,125
Goodwill	**-**	**4,815**	**4,815**	-	4,815	4,815
Capital expenditures	**6,426**	**445**	**6,871**	475	529	1,004
Number of locations						
Beginning of period	**45**	**15**	**60**	46	15	61
Closed	**(5)**	**(1)**	**(6)**	(1)	-	(1)
End of period	**40**	**14**	**54**	45	15	60

17. CAPITAL MANAGEMENT

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy, while at the same time taking a prudent approach towards financial leverage and management of financial risk.

The Company's capital is comprised of the Shareholders' Equity and a credit facility, net of cash.

The Company's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the Company objectives, to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company has the capacity to purchase shares for cancellation, issue shares, raise debt, negotiate new credit facilities, or raise cash through accounts receivable securitization conduits. The Company is not subject to any external financial covenants other than the covenants related to its credit facility as described in Note 12.

The Company monitors its performance through different ratios such as ROIC (Return on invested capital), ROWC (return on working capital), conversion cycle, DI (days inventory), DSO (days sales outstanding), DPO (days purchases outstanding) and debt: capitalization ratios.

18. FINANCIAL INSTRUMENTS

The Company, through its financial assets and liabilities, is exposed to various financial risks as follows:

a) Credit Risk

The Company's principal financial assets are cash, accounts receivable and loans receivable, which represent the Company's exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior collection and experience and their assessment of the current economic environment. The Company believes that the credit risk of accounts receivable is limited due to the following factors:

- A broad client base dispersed across varying industries, between public and private sectors, and geographic locations.
- No accounts receivable, net of allowance for doubtful accounts, for a single customer represent more than 4% of the total accounts receivable, same as last year.
- Approximately 73% (70% in 2009) of trade receivables are current, 17% (22% in 2009) past due less than 60 days and 10% (8% in 2009) past due over 60 days, net of allowance for doubtful accounts.
- The Company has established various internal controls designed to reduce credit risks, including a dedicated credit function. This function is responsible for analyzing and recommending customer credit limits. The Company also performs periodic reviews of customer credit worthiness.
- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable. Following the review of the current situation, a provision of $222,000 was taken during the year 2010; while a provision of $300,000 was taken during the year ended December 31, 2009.

The credit risk on cash is limited because the counterparty is a Canadian chartered bank.

b) Market Risks

i) Foreign Exchange Risk

The Company's results are subject to fluctuations as a result of exchange rate variations for the transactions made in currencies other than the Canadian dollar. The Company considers this risk to be relatively limited and therefore does not hedge its foreign exchange risk since the volume and the amounts of such transactions are very low. The effect on net earnings from existing foreign denominated exposures of 10% increase or decrease in the foreign exchange rate is not significant.

ii) Interest Rate Risk

The Company is exposed to interest rate risk with respect to its cash, credit facility and interest rate on loans receivable.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fulfill its financial obligations as they become due. The Company manages liquidity risk through the management of its capital structure and financial leverage. It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's revenues and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals for acquisitions or other major investments or divestitures. In recent years, the Company has financed its capacity expansion and sales growth mainly through internally generated funds, with a revolving credit facility (Note 12) being used periodically to finance the cash conversion cycle and seasonal peak working capital requirements.

d) Fair value

Financial instruments recorded at fair value on the Consolidated Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices;

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level hierarchy for which a significant input has been considered in measuring fair value.

The Company has a long-term receivable recorded at fair value in the Consolidated Balance Sheet, was using level 2 valuation techniques.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

Five Year Financial Review (1)

(in thousands of dollars except per share amounts)

For the year ended	**31-Dec-10**	31-Dec-09	31-Dec-08	31-Dec-07	31-Dec-06
	$	$	$	$	$
Revenues	**471,732**	422,562	468,789	495,928	548,639
EBITDA(2)	**11,763**	6,855	13,926	12,142	15,538
Depreciation and amortization	**3,203**	2,375	2,147	2,260	2,043
Operating Income	**8,560**	4,480	11,779	9,882	13,495
Financial expenses	**1,003**	694	642	1,144	812
Earnings from continuing operations before income taxes, share of results of equity investments and non-controlling interest	**7,557**	3,786	11,137	8,738	12,683
Income taxes	**1,551**	1,380	3,683	3,482	4,067
Earnings before share of results of equity investments and non-controlling interest	**6,006**	2,406	7,454	5,256	8,616
Share of results of equity investments	**1,342**	729	497	587	338
Non-controlling interest	**(147)**	(124)	158	(259)	1
Net earnings from continuing operations	**7,201**	3,011	8,109	5,584	8,955
Per share/unit amounts:					
Earnings per share from continuing operations:					
Basic	**0.54**	0.22	n/a	n/a	n/a
Diluted	**0.50**	0.21	n/a	n/a	n/a
Earnings per unit from continuing operations	**n/a**	n/a	0.60	0.41	0.66
Book value per share:	**5.08**	4.50	n/a	n/a	n/a
Book value per unit:	**n/a**	n/a	4.42	4.41	5.20
Average number of shares outstanding	**13,415,840**	13,585,597	n/a	n/a	n/a
Average number of units outstanding	**n/a**	n/a	13,598,803	13,588,427	13,569,301

(1) Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

(2) Earnings before financial expenses, depreciation and amortization, income taxes, share of results of equity investments and non-controlling interest.

Company Information

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Corporate Director
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Richmond Hill, Ontario

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Chairman and
Chief Executive Officer
Hartco Inc.
Montreal, Quebec

Nina Hart
Corporate Director
Montreal, Quebec

Gérard Limoges, CM, FCA
Corporate Director
Westmount, Quebec

Patrick Waid
President and
Chief Operating Officer
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OFFICERS

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President and
Chief Operating Officer

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Vice-President, Human
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Annie Dickey, CA
Corporate Controller

Michael Lemieux
Secretary Treasurer

Mario Lussier
Vice-President, Information
Technology

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Service Canada
Metafore Technologies Inc.

Bryant Jackson
Vice-President and General
Manager (West)
Metafore Technologies Inc.

Michel Lacasse
Vice-Président and General
Manager (East)
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Listings of shares
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Further Information
Shareholders requiring information concerning Hartco Inc. should contact the Investor Relations Department of Hartco or send an email to information2@hartco.com.

Forward-looking statement contained in this Annual Report involve known and unknown risks, uncertainties or other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

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