

Hartco

INCOME FUND

Q1

**FIRST QUARTER REPORT
TO UNITHOLDERS**

For the period ended March 31, 2009

Hartco



METAFORE™



microserv®



MESSAGE TO UNITHOLDERS

DEAR UNITHOLDERS,

As detailed in the following pages, for the first quarter ended March 31, 2009 Hartco Income Fund (the "Fund") posted consolidated revenues from continuing operations of \$115.3 million and net earnings of \$0.4 million, or \$0.03 per unit, compared to revenues of \$129.2 million and earnings of \$2.0 million, or \$0.15 per unit, for the corresponding period last year.

The decline in revenues during the first quarter is attributable to lower sales volume from the Fund's Commercial segment, which recorded a 14.4% revenue decline compared to the first quarter last year. The Franchising and Distribution segment recorded a 9.6% increase in net revenues, due primarily to increased sales to certain independent franchise locations. Operating expense reductions were insufficient to compensate for overall sales volume reductions, resulting in lower earnings.

Our first quarter results reflect the impact of challenging economic conditions and reduced demand for information technology products and services across most regions of Canada. Although public sector organizations maintained healthy investment levels in IT solutions throughout the first quarter, most businesses significantly reduced their IT spending.

In response to difficult business conditions, we carried out operating improvements, significantly reduced capital expenditures, and effectively managed working capital. These efforts contributed to a positive cash flow and enabled us to close the first quarter in a debt-free position.

During the first quarter of 2009, we made cash distributions totalling \$2.0 million to the Fund's unitholders and tracking shareholders. On March 15, 2009, the Fund declared a distribution of \$0.05 per unit to unitholders and tracking shareholders of record on March 31, 2009, which was paid on April 15, 2009. Also, on April 15, 2009, a final distribution of \$0.025 per unit was declared and was paid on April 30, 2009.

On April 15, 2009, we completed the conversion of the Fund to Hartco Inc. The conversion to a corporation will enable us to more effectively address the anticipated economic challenges ahead and better position Hartco to pursue future growth opportunities. The conversion will enable Hartco to reinvest a significant portion of its free cash flow into the business and focus on overall earnings and cash flow growth in order to capitalize on any growth opportunities that lie ahead.

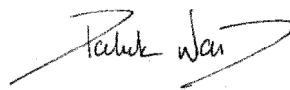
Despite the continuing slowdown in Canada's economy and the resulting challenges faced by many businesses, we remain optimistic that we can operate our business profitably by delivering competitive products and services, and compelling value to our customers.

In keeping with Hartco's corporate priorities for 2009, over the balance of this year the Fund's focus will continue to be on finding innovative ways to capitalize on market opportunities. Internally, we will maintain our focus on driving initiatives to improve the company's profitability and cash flow by maximizing synergies between our operating segments. We will continue to ensure an adequate expense base and maintain our focus on process and systems improvements. We will also continue to place emphasis on strengthening the organization and improving productivity throughout the entire business. These efforts will enable us to effectively withstand the expected weak market conditions and achieve a solid foundation from which to pursue profitable growth in the future.

We would like to thank our management team, associates, vendor partners, and board of trustees for their efforts and commitment to the success of our business. To our unitholders, we extend our gratitude for your continuing support and confidence



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

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 Income Fund (the "Fund" or "Hartco") for the quarter ended March 31, 2009 compared to the quarter ended March 31, 2008.

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

CONVERSION OF THE FUND

On February 24, 2009, Hartco Income Fund announced its intention to convert from an income fund to a corporation. On April 14, 2009, the unitholders of the Fund and shareholders of Hartco Investments Inc., an affiliated corporation, adopted special resolutions approving the previously announced Plan of Arrangement involving the Fund, Hartco Inc., Hartco Investments Inc. and Hartco Operating Trust. On April 15, 2009, following a final order from the Quebec Superior Court, Hartco completed its conversion from an income fund to a corporation. The conversion was implemented pursuant to a plan of arrangement under the *Business Corporations Act* (Canada). Under the Plan of Arrangement, all of the outstanding trust units of the Fund and "tracking share units" of Hartco Investments Inc. have been exchanged for common shares of Hartco Inc. on a one-for-one basis. As a result, there are now 13,598,890 common shares of Hartco Inc. issued and outstanding. The common shares of Hartco Inc. commenced trading on the Toronto Stock Exchange on April 20, 2009 under the stock symbol "HCI". Together with the conversion, the shareholders of Hartco Inc. have approved a new stock option plan.

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 our annual Management Discussion & Analysis.

SUMMARY OF OPERATIONS

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

The Distribution and Franchising segment encompasses the Fund's distribution activities operated by Hartco Limited Partnership ("Hartco LP"), 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™, MicroAge®, Microserv® and Northwest Digital®, which together include more than 60 locations from coast to coast. Segment revenues are comprised of product sales to franchisees and of royalties earned on franchisee revenues. Hartco LP results also include activities and expenses related to the Fund's corporate services.

The Commercial segment includes the business activities operated by the Fund's limited partnerships under the names Metafore LP ("Metafore"), Solutions Technologiques Dorval LP ("Microserv"), and those of a MicroAge franchise, accounted for as a Variable Interest Entity ("VIE").

REVIEW OF BUSINESS PRIORITIES

For 2009, the Fund has established three main priorities for its business units:

1. Maximize return on invested capital.
2. Standardize and optimize processes and systems across all business units.
3. Invest in human capital to better position the organization for long-term success.

With respect to the first priority, the Fund has continued reducing its investment in inventories and judiciously managing its accounts receivable and capital investment budget. The capital investment budget prioritizes projects that have a Fund-wide impact and that should positively impact the productivity and profitability of all business units. Moreover, the Fund has continued investing in marketing and sales activities while investing moderately in resources in 2009 in order to grow the business. In addition, the Board of Trustees has approved the undertaking of the Fund's

Management's Discussion and Analysis

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conversion (see above) to a public corporate entity, which will allow Hartco to preserve cash to support future growth and remain financially strong during the current economic recession.

Hartco will ensure efficient costs structure to adapt to challenging economic and market conditions, and to maximize operating results.

To support the second priority, the Fund is working on a project to replace existing business operating systems with a single, common version for all of its business units. This project requires a review and harmonization of business processes which will be ongoing throughout 2009. Consistent with these system changes, in 2008 the Fund established a shared services approach in the finance and administration areas to support all of its businesses in a more cost efficient manner.

Finally, on the organizational front, a performance management process has been put in place in each business unit to align their 2009 business objectives with those of the Fund, and to standardize practices related to recruiting, compensation and benefits, performance appraisal and career development. The Fund is also investing in harmonized benefit management where practicable and appropriate. The Fund's business units have continued to recruit talent in several areas in order to strengthen leadership and improve competencies.

SEASONALITY

Historically, the Fund'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 FIRST QUARTER ENDED MARCH 31, 2009 COMPARED TO THE FIRST QUARTER ENDED MARCH 31, 2008

Consolidated net earnings for the first quarter ended March 31, 2009 amounted to \$0.4 million, or \$0.03 per unit, compared to \$2.0 million, or \$0.15 per unit, for the corresponding quarter ended March 31, 2008.

Consolidated revenues amounted to \$115.3 million for the quarter ended March 31, 2009 compared to \$129.2 million for the quarter ended March 31, 2008, a decrease of \$13.9 million or 10.8%. Net revenues in the Distribution and Franchising segment increased by \$1.9 million or 9.7%, while the Commercial segment's revenues decreased by \$15.8 million or 14.4%.

Consolidated cost of sales and operating expenses stood at \$114.2 million for the quarter ended March 31, 2009, compared to \$125.9 million for the quarter ended March 31, 2008. This decrease is attributable to a reduction in volume and related expenses.

Consolidated EBITDA was \$1.1 million for the quarter ended March 31, 2009, compared to \$3.2 million for the quarter ended March 31, 2008, a decrease of \$2.1 million or 65.6%. The lower level of gross profit and EBITDA are mainly attributable to lower procurement sales volume in the Commercial business and lower margins in the Distribution and Franchising business. The lower volume had a negative impact of \$1.9 million on consolidated EBITDA while the lower margins had a negative impact of \$0.2 million. Operating expenses were flat despite specific expenses incurred. These items and variances are explained in the segment analysis.

Consolidated depreciation and amortization stood at \$0.6 million for both the quarter ended March 31, 2009 and the quarter ended March 31, 2008.

Net financial expenses stood at \$0.3 million for the current quarter, compared to \$0.2 million for the quarter ended March 31, 2008. The variance is explained by interest on sales tax assessments for the years 2005 to 2008, amounting to \$196,000. Borrowings during the quarter ended March 31, 2009 were minimal compared to the quarter ended March 31, 2008.

The income tax expense recognized during the current quarter amounted to \$0.1 million, which compares to an expense of \$0.6 million recorded in the first quarter ended March 31, 2008. Most of the income tax expense is deferred due to the projected use of tax losses carried forward.

The share of results of equity investments amounted to earnings of \$0.2 million for the quarter ended March 31, 2009 compared to earnings of \$0.1 million for the quarter ended March 31, 2008 and reflects the 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 \$65,000, representing the share of losses for non-controlling shareholders of the company accounted for as a VIE, compared to losses of \$2,000 during the first quarter last year.

Management's Discussion and Analysis

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Discontinued operations

Following the Fund's divestiture of the CompuSmart retail division in 2007, the Fund settled certain lease obligations that were terminated and is currently negotiating to settle the remaining leases.

Segment review

Distribution and Franchising

Distribution and Franchising net revenues, excluding royalties, stood at \$20.8 million for the quarter ended March 31, 2009, compared to \$18.9 million for the quarter ended March 31, 2008. This increase is explained by higher volume from the MicroAge network.

Royalty revenues totalled \$0.5 million for the quarter ended March 31, 2009, the same as reported for the quarter ended March 31, 2008.

EBITDA for the segment was a loss of \$0.2 million for the quarter ended March 31, 2009 compared to an EBITDA of \$0.7 million for the corresponding quarter last year. Gross profit was negatively impacted by lower margins of \$0.8 million and offset partially by higher volume of \$0.3 million. The higher level of operating expenses had an unfavourable impact of \$0.4 million on EBITDA. The higher operating expenses are explained by a charge for sales tax audit assessments for the years 2005 to 2008 of \$0.4 million and conversion expenses of \$0.2 million. It should also be noted that the Fund's corporate expenses are reported in this segment.

Commercial

The Commercial segment had revenues of \$93.9 million for the quarter ended March 31, 2009 compared to \$109.7 million for the quarter ended March 31, 2008, a \$15.8 million or 14.4% decrease. Sales declined across the country largely due to the economic slowdown.

EBITDA for the first quarter of 2009 stood at \$1.2 million, compared to \$2.6 million for the quarter ended March 31, 2008, a decrease of \$1.4 million. EBITDA decreased by \$2.2 million due to lower volume, offset partially by higher margins of \$0.4 million and lower operating expenses of \$0.7 million. Due to difficult economic conditions, the personnel reductions were affected a cost of \$0.3 million. Management continues to consolidate operations and systems and is continuously looking for opportunities to integrate administrative functions, maximize productivity and operational efficiency.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

(in thousands of dollars, except per unit amounts)

| Quarter ended | March 31, 2009 | December 31, 2008 | September 30, 2008 | June 30, 2008 |
|-----------------------|----------------|-------------------|--------------------|---------------|
| | \$ | \$ | \$ | \$ |
| Revenues | 115,260 | 119,427 | 102,500 | 117,686 |
| EBITDA ⁽¹⁾ | 1,054 | 4,644 | 1,517 | 4,520 |
| Net earnings | 355 | 2,524 | 659 | 2,952 |
| Earnings per unit | 0.03 | 0.19 | 0.05 | 0.22 |

| | March 31, 2008 | December 31, 2007 | September 30, 2007 | June 30, 2007 |
|--------------------------|----------------|-------------------|--------------------|---------------|
| | \$ | \$ | \$ | \$ |
| Revenues | 129,176 | 121,180 | 110,807 | 118,252 |
| EBITDA ⁽¹⁾ | 3,245 | 2,806 | 2,711 | 3,084 |
| Net earnings (loss) | | | | |
| Continuing operations | 1,974 | 510 | 1,337 | 1,790 |
| Discontinued operations | - | 399 | - | (5,990) |
| Net earnings (loss) | 1,974 | 909 | 1,337 | (4,200) |
| Earnings per unit from | | | | |
| continuing operations | 0.15 | 0.04 | 0.10 | 0.13 |
| Earnings (loss) per unit | 0.15 | 0.07 | 0.10 | (0.31) |

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

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LIQUIDITY AND FINANCIAL CONDITION

During the quarter ended March 31, 2009, cash flow from continuing operations reached \$3.1 million, compared to a cash outflow of \$2.8 million for the corresponding quarter last year. Discontinued operations impacted cash positively by \$23,000 in 2009, compared to a cash outflow of \$1.0 million in 2008.

Operating activities, before changes in non-cash working capital items, generated cash flow of \$1.0 million during the quarter ended March 31, 2009 compared to \$3.2 million for the quarter ended March 31, 2008. The cash flow from non-cash working capital totalled \$4.4 million for the quarter ended March 31, 2009, compared to a cash outflow of \$5.3 million for the same quarter last year.

For the quarter ended March 31, 2009, inventories, accounts payable and accrued liabilities and deferred revenues had a favourable impact on cash flow from non-cash working capital of \$2.4 million, \$1.8 million and \$0.7 million respectively. Accounts receivable had a negative impact of \$0.5 million. Last year for the same period, inventories and accounts payable and accrued liabilities each had a favourable impact of \$1.4 million and \$1.3 million respectively, while accounts receivable decreased by \$7.7 million. The Fund's policy is to take advantage of prompt-pay discounts on trade payables, while temporarily financing its receivables through the completion of the cash conversion cycle. When compared to March 31, 2008, accounts payable and accrued liabilities as at March 31, 2009 decreased by \$1.9 million and accounts receivable decreased by \$9.9 million.

Borrowings under the revolving credit facility were nil as at March 31, 2009 and as at December 31, 2008. Distributions to unitholders and tracking shareholders during the quarters ended March 31, 2009 and March 31, 2008 amounted to \$2.0 million respectively. Since October 2005, the Fund has maintained monthly distributions of \$0.05 per unit.

Cash flows used for investing activities totalled \$0.4 million during the quarter ended March 31, 2009, compared to cash inflow of \$0.1 million for the quarter ended March 31, 2008. The loans receivable from an equity investment were unchanged during the current quarter compared to a reduction of \$0.3 million for the same quarter last year. Additions to property and equipment and intangible assets reached \$0.3 million for the quarter ended March 31, 2009 compared to \$0.2 million for the same quarter last year. Current capital expenditures are related to improvements to the Fund's information systems and its IT infrastructure. Currently, the Fund is not committed to any significant capital expenditures and due to the nature of its operations, the Fund is not required to invest significantly in property and equipment.

NON-GAAP FINANCIAL MEASURES

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.

In 2007, the Canadian Institute of Chartered Accountants ("CICA") issued guidance for the MD&A preparation and disclosure for Standardized Distributable Cash. Following this issuance, the Fund has implemented this guidance and defines Standardized Distributable Cash as a cash flow from operating activities (as per the Consolidated Statement of Cash Flows), less capital expenditures and operating cash flow provided by (used for) discontinued 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 Standardized Distributable Cash includes proceeds from the disposal of assets and collection of loans receivable.

Standardized Distributable Cash is a GAAP measure while Adjusted Standardized Distributable Cash 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.

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The calculation for the period under review is as follows:

| Distributable cash and Standardized distributable cash <i>(in thousands of dollars)</i> | Quarter ended | |
|---|---------------|---------|
| | March 31 | |
| | 2009 | 2008 |
| Cash flow provided by (used for) continuing operating activities | 5,387 | (2,064) |
| Additions to property and equipment and intangible assets | (321) | (203) |
| Cash flow provided by (used for) discontinued operations | 23 | (954) |
| Standardized distributable cash | 5,089 | (3,221) |
| Collection of loans receivable | - | 256 |
| Adjusted standardized distributable cash | 5,089 | (2,965) |

The Fund 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 quarter ended March 31, 2009 stood at \$1.1 million (\$3.2 million for the quarter ended March 31, 2008) and is the same amount as earnings before the undernoted 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:

| EBITDA reconciliation <i>(in thousands of dollars)</i> | Quarter ended | |
|--|---------------|-------|
| | March 31 | |
| | 2009 | 2008 |
| Net earnings from continuing operations | 355 | 1,974 |
| Add back: | | |
| Non-controlling interest | (65) | (2) |
| Share of results of equity investments | (202) | (130) |
| Income taxes | 62 | 565 |
| Financial expenses | 314 | 213 |
| Depreciation and amortization | 590 | 625 |
| EBITDA | 1,054 | 3,245 |

CASH DISTRIBUTIONS AND DIVIDEND POLICY

Since August 2005, the Fund has made monthly cash distributions to unitholders of record on the last business day of each previous month and to tracking shareholders determined in reference to the annual adjusted standardized distributable cash generated by the Fund. Adjusted standardized distributable cash has been used for debt repayments and cash distributions to unitholders.

Monthly distributions have been paid on a level basis without any consideration for the Fund's normal seasonal fluctuations that occur over the course of a year. Cash distributions during the quarter ended March 31, 2009 amounted to \$2.0 million, of which \$1.5 million was attributed to unitholders and \$0.5 million to tracking shareholders.

After the conversion of the Trust, the Board of directors of Hartco Inc. has adopted a dividend policy with a primary objective of maintaining a high equity ratio. Accordingly, and given current economic conditions, no dividend has been declared since March 31st and the Board of directors has no plans to do so at the present time.

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During the quarter ended March 31, 2009 the Fund declared distributions to its unitholders and tracking shareholders as follows:

a) 2009 Distributions

Distributions to Unitholders

| Payment date | Record date | Distribution per unit | Distribution declared |
|----------------------------|-------------------|-----------------------|-----------------------|
| | | \$ | \$ |
| January 15, 2009 | December 31, 2008 | 0.05 | 499,440 |
| February 15, 2009 | January 31, 2009 | 0.05 | 499,440 |
| March 16, 2009 | February 28, 2009 | 0.05 | 499,440 |
| Total distributions | | 0.15 | 1,498,320 |

Distributions 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 |
| Total distributions | | 0.138 | 501,411 |

Total Distributions

| 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 |
| Total distributions | | 1,999,731 |

In addition, on March 16, 2009, the Fund declared a distribution of \$0.05 per unit to unitholders and tracking shareholders of record as of March 31, 2009. The distribution of \$0.7 million was paid on April 15, 2009 and, accordingly, was accrued as of March 31, 2009.

b) 2008 Distributions

Distributions to Unitholders

| Payment date | Record date | Distribution per unit | Distribution declared |
|----------------------------|-------------------|-----------------------|-----------------------|
| | | \$ | \$ |
| January 15, 2008 | December 31, 2007 | 0.05 | 499,440 |
| February 15, 2008 | January 31, 2008 | 0.05 | 499,440 |
| March 17, 2008 | February 29, 2008 | 0.05 | 499,440 |
| Total distributions | | 0.15 | 1,498,320 |

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Distributions to Tracking Shareholders

| Payment date | Record date | Distribution per tracking share | Distribution declared |
|----------------------------|-------------------|---------------------------------|-----------------------|
| | | \$ | \$ |
| January 15, 2008 | December 31, 2007 | 0.046 | 167,137 |
| February 15, 2008 | January 31, 2008 | 0.046 | 167,137 |
| March 17, 2008 | February 29, 2008 | 0.046 | 167,137 |
| Total distributions | | 0.138 | 501,411 |

Total Distributions

| Payment date | Record date | Distribution declared |
|----------------------------|-------------------|-----------------------|
| | | \$ |
| January 15, 2008 | December 31, 2007 | 666,577 |
| February 15, 2008 | January 31, 2008 | 666,577 |
| March 17, 2008 | February 29, 2008 | 666,577 |
| Total distributions | | 1,999,731 |

c) Cash Distribution Breakdown

The characterization of cash distributions is based on the current profitability of the Fund and the utilization of tax losses carry forward as follows for the quarter ending March 31:

| | 2009 | 2008 |
|--|------------------|------------------|
| Cash distributions - Return of capital | 1,999,731 | 1,999,731 |
| Cash distributions - Results of operations | - | - |
| Total distributions | 1,999,731 | 1,999,731 |

CAPITAL RESOURCES

The Fund has a Credit facility of \$55.0 million for which the term extends to December 31, 2009. The only covenant is a requirement to have a minimum excess availability of \$5.5 million after giving effect to any capital transactions. The Fund is currently reviewing financing alternatives for the period after December 31, 2009.

As at March 31, 2009, no amount was outstanding under the Credit facility. The Fund had a debt:capitalization ratio of 0:100 and has maintained this level since June 2008. Debt is calculated net of cash, and capital includes non-controlling interest.

The Fund 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 UNIT DATA

The number of units and special voting units outstanding as at March 31, 2009 has remained the same as December 31, 2008. As at March 31, 2009, there were no units held in treasury for the purpose of distribution.

| <i>(in thousands of dollars except for number of units)</i> | Quarter ended March 31 | |
|---|---------------------------|---------------|
| | 2009 | 2008 |
| Issued: | | |
| 9,989,017 Trust units (9,978,017 in 2008) | 35,804 | 35,804 |
| 3,609,873 Special voting units (3,609,873 in 2008) | 12,939 | 12,939 |
| Total unitholders' capital | 48,743 | 48,743 |

UNITHOLDERS' CAPITAL AND FUTURE INCOME TAXES

In accordance with the conversion arrangement to an income trust in 2005, certain former shareholders of Hartco Corporation elected to indirectly exchange common shares of Hartco Corporation for units (the "Tracking Share Units") consisting of an equal number of tracking shares and common shares of a corporation ("Hartco Investments

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Inc.") which is a subsidiary of the Fund. Holders of Tracking Share Units are entitled to receive dividends paid by Hartco Investments Inc., which, to the greatest extent possible, are equal to distributions paid by the Fund to the holders of its units, net of the income taxes payable on the income earned to make the dividend payments. The Tracking Share Units have substantially the same rights as the Trust Units in terms of distributions, voting and in the event of liquidation. Accordingly, they are effectively trust unit equivalents, and Tracking Share Units issued are included in unitholders' capital on the balance sheet.

Following a reorganization of the legal structure in 2006, all the future income tax assets that remained on the balance sheet at the time of conversion and generated thereafter have been attributed to the tracking share units and trust units. All future income tax assets related to assets transferred to the limited partnerships that were previously written off, except for the 27% relating to the proportion of tracking share units over the total number of units issued, are now available to all unitholders and tracking shareholders.

Future income tax assets related to the unitholders are not recorded in the accounts, as the cash distributions made to unitholders are taxable in their hands.

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:

| <i>(in thousands of dollars)</i> | Quarter ended | |
|---|---------------|-------|
| | March 31 | |
| | 2009 | 2008 |
| Accounts receivable - equity investments ⁽¹⁾ | 3,120 | 533 |
| Revenues - equity investments ⁽¹⁾ | 3,761 | 1,328 |
| Interest income - equity investments ⁽¹⁾ | 25 | 15 |
| Accounts receivable - common controlled entity ⁽²⁾ | 10 | 19 |
| Revenues - common controlled entity ⁽²⁾ | 4 | 6 |

(1) Transactions with equity investments.

Equity investments are franchisees in which the Fund or its subsidiary LPs hold an equity interest. Revenue in the table above represents the sale of product from Hartco LP 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 Fund is responsible for establishing and maintaining disclosure controls and procedures for the Fund 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 Fund, 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 March 31, 2009, Management has evaluated the design and operation of the Fund'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 Fund 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

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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 Fund's internal controls over financial reporting as of March 31, 2009, 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 Fund's internal control over financial reporting that occurred since the year ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

Accounts Receivable

As at March 31, 2009, accounts receivable totalled \$68.8 million. Management follows conservative practices in granting trade credit and diligently practices several credit risk-minimizing techniques. Management regularly reviews the Fund'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 Fund's allowance for doubtful accounts.

Inventory

As at March 31, 2009, inventories totalled \$16.2 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.

NEW ACCOUNTING STANDARDS

On January 1, 2009, the Fund adopted the *CICA Handbook* Section 3064, *Goodwill and intangible assets*, which replaces Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. Various changes have been made to other sections of the *CICA Handbook* for consistency purposes. The new section, issued in February 2008, is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Fund adopted this new Section with no material impact on its consolidated financial statements.

NEW ACCOUNTING STANDARDS TO BE ADOPTED IN FUTURE YEARS

International Financial Reporting Standards. The Accounting Standards Board of Canada (AcSB) will converge Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards ("IFRS") over a transition period that will end effective January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Fund 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 our staff. The Fund completed the scoping and diagnostic phase in the last quarter of 2008 and is now in the impact analysis and design phase. The Fund's analysis of IFRS's in comparison to Canadian GAAP has identified a number of differences. At this time, the impact on the Fund's future financial position and results of operations is not reasonably determinable or estimable. The Fund will continually review and adjust the changeover plan to ensure the implementation process properly addresses the key elements of the plan.

In January 2009, the CICA issued the following three new accounting standards to converge the accounting for business combinations and the reporting of non-controlling interest to IFRS:

Section 1582, *Business Combinations*. This new Section will be applicable to business combinations for which the acquisition date is on or after the Fund's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The Fund has not yet determined the impact of the adoption of this new Section on its consolidated financial statements.

Section 1601, *Consolidated financial statements*. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Fund has not yet determined the impact of the adoption of this new Section on its consolidated financial statements.

Section 1602, *Non-Controlling interests*. This new Section will be applicable to financial statements relating to the Fund's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Fund has not yet determined the impact of the adoption of this Section on its consolidated financial statements.

ADDITIONAL INFORMATION

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

Montreal, Canada
May 14th, 2009

Consolidated Statement of Earnings and Comprehensive Earnings

(unaudited)

For the quarters ended March 31

(in thousands of dollars except for per unit amounts)

| | 2009 | 2008 |
|--|----------------|---------|
| Revenues | 115,260 | 129,176 |
| Cost of sales and expenses (Note 3) | 114,206 | 125,931 |
| Earnings from continuing operations before the undernoted items | 1,054 | 3,245 |
| Depreciation and amortization | 590 | 625 |
| Operating income | 464 | 2,620 |
| Financial expenses (Note 4) | 314 | 213 |
| Earnings from continuing operations before income taxes, share of results of equity investments and non-controlling interest | 150 | 2,407 |
| Income taxes | | |
| Current | - | 6 |
| Future | 62 | 559 |
| | 62 | 565 |
| Earnings from continuing operations before share of results of equity investments and non-controlling interest | 88 | 1,842 |
| Share of results of equity investments | 202 | 130 |
| Non-controlling interest | 65 | 2 |
| Net earnings and comprehensive earnings | 355 | 1,974 |
| | | |
| Earnings per unit (Note 6) | 0.03 | 0.15 |

Consolidated Statements of Unitholders' Equity

(unaudited)

For the quarters ended March 31

(in thousands of dollars)

| | 2009 | | | | |
|--|-------------------------|------------------------|-------------------------|------------------------------|---------------|
| | Unitholders' Capital | Contributed Surplus | Accumulated Earnings | Accumulated Distributions | Total |
| Balance at December 31, 2008 | 48,743 | 661 | 37,422 | (26,663) | 60,163 |
| Net earnings for the quarter ended March 31, 2009 | - | - | 355 | - | 355 |
| Distributions | | | | | |
| Unitholders | - | - | - | (1,499) | (1,499) |
| Tracking shareholders | - | - | - | (501) | (501) |
| Balance at March 31, 2009 | 48,743 | 661 | 37,777 | (28,663) | 58,518 |

| | 2008 | | | | |
|--|-------------------------|------------------------|-------------------------|------------------------------|---------------|
| | Unitholders' Capital | Contributed Surplus | Accumulated Earnings | Accumulated Distributions | Total |
| Balance at December 31, 2007 | 48,728 | 633 | 29,313 | (18,664) | 60,010 |
| Net earnings for the quarter ended March 31, 2008 | - | - | 1,974 | - | 1,974 |
| Distribution of units (Note 8) | 15 | (1) | - | - | 14 |
| Distributions | | | | | |
| Unitholders | - | - | - | (1,499) | (1,499) |
| Tracking shareholders | - | - | - | (501) | (501) |
| Balance at March 31, 2008 | 48,743 | 632 | 31,287 | (20,664) | 59,998 |

Consolidated Statements of Cash Flows

(unaudited)

For the quarters ended March 31

(in thousands of dollars)

| | 2009 | 2008 |
|--|----------------|----------------|
| Cash flows provided by (used in): | | |
| Operating activities | | |
| Net earnings from continuing operations | 355 | 1,974 |
| Adjustments for: | | |
| Depreciation of property and equipment | 376 | 496 |
| Amortization of intangible assets | 214 | 129 |
| Unit based compensation expense | 20 | (63) |
| Future income taxes | 62 | 559 |
| Share of results of equity investments, net of dividends received | 48 | 120 |
| Non-controlling interest | (65) | (2) |
| | 1,010 | 3,213 |
| Change in non-cash working capital items (Note 7) | 4,377 | (5,277) |
| | 5,387 | (2,064) |
| Financing activities | | |
| Increase in the usage of credit facilities | - | 1,211 |
| Distributions to unitholders and tracking shareholders | (2,000) | (2,000) |
| | (2,000) | (789) |
| Investing activities | | |
| Additions to property and equipment | (116) | (154) |
| Additions to intangible assets | (205) | (49) |
| Decrease in loans receivable - other | - | 256 |
| | (321) | 53 |
| Cash flows provided by (used for) continuing operations | 3,066 | (2,800) |
| Cash flows provided by (used for) discontinued operations (Note 5) | 23 | (954) |
| Net change in cash | 3,089 | (3,754) |
| Cash, beginning of period | 6,778 | 3,754 |
| Cash, end of period | 9,867 | - |

Consolidated Balance Sheets

(in thousands of dollars)

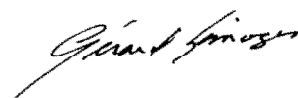
| | March 31, 2009 | December 31, 2008 | As at March 31, 2008 |
|---|----------------|-------------------|-------------------------|
| | (unaudited) | (audited) | (unaudited) |
| Assets | | | |
| Current assets | | | |
| Cash | 9,867 | 6,778 | - |
| Accounts receivable | 68,847 | 68,370 | 78,659 |
| Inventories (Note 3) | 16,152 | 18,597 | 18,101 |
| Future income taxes | 2,070 | 2,086 | 2,369 |
| Current assets of discontinued operations (Note 5) | 9 | 45 | 31 |
| | 96,945 | 95,876 | 99,160 |
| Investments | 2,726 | 2,774 | 2,434 |
| Property and equipment | 8,273 | 8,533 | 9,804 |
| Intangible assets | 1,234 | 1,243 | 1,030 |
| Future income taxes | 490 | 536 | 3,444 |
| Goodwill | 4,815 | 4,815 | 4,815 |
| | 114,483 | 113,777 | 120,687 |
| Liabilities | | | |
| Current liabilities | | | |
| Credit facilities | - | - | 1,211 |
| Accounts payable and accrued liabilities | 48,448 | 46,618 | 50,386 |
| Deferred revenues | 4,849 | 4,192 | 3,360 |
| Distributions payable | 667 | 667 | 667 |
| Income taxes payable | 487 | 545 | 1,537 |
| Current liabilities of discontinued operations (Note 5) | 877 | 890 | 2,545 |
| | 55,328 | 52,912 | 59,706 |
| Non-controlling interest | 637 | 702 | 983 |
| Unitholders' Equity (Note 8) | | | |
| Unitholders' capital | 48,743 | 48,743 | 48,743 |
| Contributed surplus | 661 | 661 | 632 |
| Accumulated earnings | 37,777 | 37,422 | 31,287 |
| Accumulated distributions | (28,663) | (26,663) | (20,664) |
| | 58,518 | 60,163 | 59,998 |
| Commitments, guarantees and contingent liabilities (Note 9) | 114,483 | 113,777 | 120,687 |

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

On behalf of the Board



Harry Hart, Director



Gérard A. Limoges, Director

Notes to the Consolidated Financial Statements

(unaudited)

(in thousands of dollars for tabular amounts except for number of units and per unit amounts)

1. DESCRIPTION OF BUSINESS AND SEASONAL NATURE OF OPERATIONS

Hartco Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario. Hartco Income Fund has been a leader in the Canadian information technology business for more than thirty years. Through its operating divisions, which together include more than 60 locations across Canada under the banners of Metafore™, MicroAge®, Microserv® and Northwest Digital®, the Fund delivers IT infrastructure solutions to private and public organizations of every size.

Historically, the Fund'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.

Effective April 15, 2009, the Fund converted from an income trust to a corporation (see Note 13).

2. NEW ACCOUNTING STANDARDS

On January 1, 2009, the Fund adopted the *CICA Handbook* Section 3064, *Goodwill and intangible assets*, which replaces Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. Various changes have been made to other sections of the *CICA Handbook* for consistency purposes. The new section, issued in February 2008, is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Fund adopted this new Section with no material impact on its consolidated financial statements.

3. 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 complete and to sell the goods. The inventory purchase cost 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 is recorded in the cost of goods sold as recognized.

For the quarter ended March 31, 2009 and 2008, the following amounts of inventory were expensed:

| | Quarter ended March 31 | |
|--------------------------------------|---------------------------|--------|
| | 2009 | 2008 |
| Purchases | 87,477 | 95,608 |
| Writedown for obsolescence and aging | 96 | 284 |
| Net change in inventories | (2,996) | 671 |
| Total inventory expenses | 84,577 | 96,563 |

The write-down in carrying value for the quarter ended March 31, 2009 and for the quarter ended March 31, 2008 was for slow-moving inventory.

4. FINANCIAL EXPENSES

| | Quarter ended March 31 | |
|-------------------------------------|---------------------------|-------|
| | 2009 | 2008 |
| Interest expense on credit facility | 6 | 184 |
| Other interest and bank charges | 335 | 144 |
| Interest income | (27) | (115) |
| | 314 | 213 |

Notes to the Consolidated Financial Statements (cont'd)

(unaudited)

(in thousands of dollars for tabular amounts except for number of units and per unit amounts)

5. DISCONTINUED OPERATIONS

Following the Fund's divestiture of the CompuSmart retail division during 2007, the Fund settled certain obligations related to leases that were terminated and is currently negotiating to settle the remaining leases.

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.

The results of discontinued operations presented in the consolidated statements of earnings were nil for both the quarter ended March 31, 2009 and 2008.

Discontinued operations cash flow items were as follows:

| | Quarter ended March 31 | |
|--|---------------------------|-------|
| | 2009 | 2008 |
| Cash flow provided by (used for) operating activities | 23 | (954) |
| Cash flow used for investing activities | - | - |
| Cash flow provided by financing activities | - | - |
| Cash flow provided by (used for) discontinued operations | 23 | (954) |

As at March 31, 2009, all assets and liabilities of the discontinued operations have been segregated from the consolidated balance sheet and are reported on a retroactive basis as "Current assets of discontinued operations" and "Current and long-term liabilities of discontinued operations", as follows:

| Assets | March 31, 2009 | As of | |
|---|----------------|-------------------|----------------|
| | | December 31, 2008 | March 31, 2008 |
| Current assets | | | |
| Accounts receivable | 9 | 45 | 31 |
| Current assets of discontinued operations | 9 | 45 | 31 |
| Liabilities | | | |
| Current liabilities | | | |
| Vendors and other payable | 21 | 27 | 64 |
| Lease obligations | 841 | 848 | 2,458 |
| Deferred revenues | 15 | 15 | 23 |
| Current liabilities - discontinued operations | 877 | 890 | 2,545 |
| Net liabilities - discontinued operations | (868) | (845) | (2,514) |

6. EARNINGS PER UNIT

Earnings per unit is calculated using the weighted average number of units outstanding. Accordingly, the following table provides net earnings and the weighted average number of units used in the calculation of earnings per unit:

| | Quarter ended March 31 | |
|----------------------------------|---------------------------|--------|
| | 2009 | 2008 |
| Net earnings | 355 | 1,974 |
| Weighted average number of units | 13,599 | 13,599 |

Notes to the Consolidated Financial Statements (cont'd)

(unaudited)

(in thousands of dollars for tabular amounts except for number of units and per unit amounts)

7. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

| | Quarter ended March 31 | |
|--|---------------------------|----------------|
| | 2009 | 2008 |
| Accounts receivable | (477) | (7,716) |
| Inventories | 2,445 | 1,391 |
| Accounts payable and accrued liabilities | 1,810 | 1,256 |
| Deferred revenues | 657 | (211) |
| Income taxes payable | (58) | 3 |
| | 4,377 | (5,277) |

8. UNITHOLDERS' EQUITY

The following tables provide the number of units outstanding as at March 31, 2009 and 2008:

| | 2009 |
|---|-------------------|
| Total units outstanding as at December 31, 2008 | 13,598,890 |
| Distribution of units | - |
| Total units outstanding as at March 31, 2009 | 13,598,890 |

| | 2008 |
|---|------------|
| Total units outstanding as at December 31, 2007 | 13,595,356 |
| Distribution of units | 3,534 |
| Total units outstanding as at March 31, 2008 | 13,598,890 |

Long Term Incentive Plan

During 2006, the Board of Trustees of the Fund approved a Long Term Incentive Plan ("LTIP"). The trustees, officers and employees of the Fund and its affiliates are eligible to participate in the Fund's LTIP. Under this plan, units awarded are to be vested over a three-year period from the date of the award. There was no award of units during the first quarter of 2009 or in the same period in 2008. As a result of the decrease of market unit price, the Fund has reversed expenses of \$20,000 during the quarter ended March 31, 2009.

During the first quarter of 2009, the Fund distributed to executives a total of 19,000 units that were vested under the LTIP compared to 13,322 units during the same period in 2008. During the first quarter of 2009, the Fund acquired on the open market and distributed 19,000 units while, in 2008, the Fund distributed 9,788 units that were acquired on the open market and distributed 3,534 units held in treasury during the first quarter.

9. GUARANTEES AND CONTINGENT LIABILITIES

Guarantees

The Fund, through its subsidiary, Hartco LP, has guaranteed a third party financial institution of a franchisee to a maximum of \$400,000. As of March 31, 2009, there were no amounts for which the Fund could be called upon. In the event that the Fund is called upon for this guarantee, the Fund may exercise its security against the assets of the franchisee to offset the amounts called under the guarantee. If an amount becomes payable under this 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.

The Fund 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 March 31, 2009, the maximum amount that would be payable under the guarantee of all inventories to be repurchased is \$1.9 million. In the event that the Fund is called upon under these commitments, the inventory would be sold in the normal course of business.

Notes to the Consolidated Financial Statements (cont'd)

(unaudited)

(in thousands of dollars for tabular amounts except for number of units and per unit amounts)

Contingent Liabilities

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

10. CAPITAL MANAGEMENT

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

The Fund's capital is composed of the Unitholders' Equity and a credit facility net of cash.

The Fund's financial strategy is designed and formulated to maintain a flexible capital structure consistent with the Fund 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 Fund has the capacity to purchase units for cancellation, issue new units, raise debt (secured, unsecured, convertible and/or other types of available debt instruments), negotiate a new credit facility with different characteristics, or raise cash through accounts receivable securitization conduits. The Fund is not subject to any external financial covenants other than the covenants related to its credit facility.

The Fund 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.

11. FINANCIAL INSTRUMENTS

The Fund, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at March 31, 2009.

a) *Credit Risk*

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

The Fund'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 Fund's management based on prior collection and experience and their assessment of the current economic environment. The Fund 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 represent more than 3% of the total accounts receivable.
- Approximately 71% of trade receivables are current, 23% past due less than 60 days and 6% past due over 60 days.
- The Fund has established various internal controls designed to reduce credit risks, including a dedicated credit function. This department is responsible for analyzing and recommending customer credit limits. The Fund also performs periodic reviews of its customer credit worthiness.
- The Fund 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 \$0.2 million was taken during the first quarter of 2009.

The credit risk on cash is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

b) *Market Risks*

i) *Foreign Exchange Risk*

The Fund'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 Fund considers this risk to be relatively limited and therefore does not

Notes to the Consolidated Financial Statements (cont'd)

(unaudited)

(in thousands of dollars for tabular amounts except for number of units and per unit amounts)

hedge its foreign exchange risk since the volume and the amounts of such transactions are very low. The effect of net earnings from existing foreign denominated exposures of one point increase or decrease in the foreign exchange rate is not significant.

ii) Interest Rate Risk

The Fund is exposed to interest rate risk with regard to the cash credit facility and interest rate on loans receivable.

c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to fulfill its cash distributions or its financial obligations as they become due. The Fund 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 Fund's sales and receipts and matching the maturity profile of financial assets and liabilities. The Board of Trustees reviews and approves the Fund's operating and capital budgets, the distribution to unitholders, 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 Fund has financed its capacity expansion and sales growth mainly through internally-generated funds, with a revolving credit facility being used periodically to finance the cash conversion cycle and seasonal peak working capital requirements.

The Fund has a revolving credit facility that is secured by all assets of Hartco Investment LP, except real estate, and matures on December 31, 2009. The maximum availability is \$55.0 million, to be drawn by the Fund at any time, based upon advance formulas applicable to qualifying accounts receivable and inventories. The only financial covenant is a requirement to have a minimum excess availability of \$5.5 million after giving effect to any capital transactions. The Fund was in compliance with this covenant as at March 31, 2009.

d) Fair Value

As at March 31, 2009, the fair value of all financial instruments approximate their carrying values mainly due to their short term maturities.

12. COMPARATIVE FIGURES

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

13. SUBSEQUENT EVENT – CONVERSION OF THE FUND

On April 14, 2009, the unitholders of the Fund and shareholders of Hartco Investments Inc., an affiliated corporation, adopted special resolutions approving the previously announced Plan of Arrangement involving the Fund, Hartco Inc., Hartco Investments Inc. and Hartco Operating Trust. On April 15, 2009, following a final order from the Quebec Superior Court, Hartco completed its conversion from an income trust to a corporation. The conversion was implemented pursuant to a Plan of Arrangement under the *Business Corporations Act* (Canada). Under the Plan of Arrangement, all of the outstanding trust units of the Fund and "tracking share units" of Hartco Investments Inc. have been exchanged for common shares of Hartco Inc. on a one-for-one basis. As a result, there are now 13,598,890 common shares of Hartco Inc. issued and outstanding. The common shares of Hartco Inc. commenced trading on the Toronto Stock Exchange on April 20, 2009 under the stock symbol "HCI". Together with the conversion, the shareholders of Hartco Inc. have approved a new stock option plan.

14. BUSINESS SEGMENTS

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

The Distribution and Franchising segment encompasses the Fund's distribution activities operated by Hartco Limited Partnership ("Hartco LP"), the Fund'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™, MicroAge®, Microserv® and Northwest Digital®, which together include more than 60 locations from coast to coast. Segment revenues are comprised of product sales to franchisees and of royalties earned on franchisee sales.

Notes to the Consolidated Financial Statements

(unaudited)

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

The **Commercial** segment includes the business activities operated by the Fund's limited partnerships under the names of Metafore LP ("Metafore"), Solutions Technologiques Dorval LP ("Microserv"), and those of a MicroAge franchise, accounted for as a Variable Interest Entity ("VIE").

These segments are managed separately, since they all require specific market strategies. The Fund 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 fair market value, which approximates that prevailing in the market. 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 Fund's continuing operations:

| | Quarter ended March 31, 2009 | | | Quarter ended March 31, 2008 | | |
|---|------------------------------|------------|----------|------------------------------|------------|----------|
| | Segment | | | Segment | | |
| | Franchising/ Distribution | Commercial | Total | Franchising/ Distribution | Commercial | Total |
| Revenues | 73,630 | 93,893 | 167,523 | 84,944 | 109,686 | 194,630 |
| Royalties | 534 | - | 534 | 546 | - | 546 |
| Inter-segment transactions | (52,797) | - | (52,797) | (66,000) | - | (66,000) |
| | 21,367 | 93,893 | 115,260 | 19,490 | 109,686 | 129,176 |
| Cost of sales and expenses | 74,345 | 39,861 | 114,206 | 84,833 | 41,098 | 125,931 |
| Inter-segment transactions | (52,797) | 52,797 | - | (66,000) | 66,000 | - |
| | 21,548 | 92,658 | 114,206 | 18,833 | 107,098 | 125,931 |
| Operating income (loss) before the undernoted item | (181) | 1,235 | 1,054 | 657 | 2,588 | 3,245 |
| Depreciation and amortization | 282 | 308 | 590 | 230 | 395 | 625 |
| Operating income (loss) | (463) | 927 | 464 | 427 | 2,193 | 2,620 |
| Assets | 37,193 | 77,281 | 114,474 | 28,044 | 92,612 | 120,656 |
| Goodwill | - | 4,815 | 4,815 | - | 4,815 | 4,815 |
| Capital expenditures | 161 | 160 | 321 | 49 | 154 | 203 |
| Number of locations | | | | | | |
| Beginning of quarter | 46 | 17 | 63 | 47 | 18 | 65 |
| Opened | - | - | - | 1 | - | 1 |
| Closed | (1) | - | (1) | - | - | - |
| End of quarter | 45 | 17 | 62 | 48 | 18 | 66 |

Hartco

INCOME FUND

w w w . h a r t c o . c o m

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