

Hartco

Q1

**FIRST QUARTER REPORT
TO SHAREHOLDERS**

For the period ended March 31, 2010

Hartco

metafore



Message to our shareholders

DEAR SHAREHOLDERS:

As detailed in the following pages, for the first quarter ended March 31, 2010 Hartco Inc. ("Hartco") posted consolidated revenues of \$122.6 million and net earnings of \$1.9 million, or \$0.14 per share on a diluted basis, compared to revenues of \$115.3 million and earnings of \$0.4 million, or \$0.03 per share, for the corresponding quarter last year.

Our first quarter results reflect improving economic conditions and 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 enabled Hartco to realize immediate operating improvements and synergies across its operating divisions.

During the first quarter, Hartco's Commercial segment achieved EBITDA of \$2.0 million on revenues of \$101.0 million, an 8% revenue increase compared to the same period last year. The Franchising and Distribution segment recorded EBITDA of \$1.4 million on gross revenues of \$75.7 million for the first quarter, a 2% revenue increase compared to the same period last year.

In April 2010, Hartco's franchises were recognized by Canadian Dealer News ("CDN") with Metafore ranked 4th and the MicroAge network ranked 11th on CDN's list of the Top 100 IT Solution Providers in Canada.


Hartco's priorities for the remainder of 2010 will be to maximize our operating performance, successfully complete the Metafore-Microserv merger, implement a new integrated enterprise resource planning solution to replace virtually all of Hartco's legacy business systems and improve operational efficiency, and continue to develop the organization to ensure future success.

The company's strong 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, we will maintain our focus on maximizing our liquidity through effective management of inventories, receivables and payables, while improving sales productivity and operational efficiency.

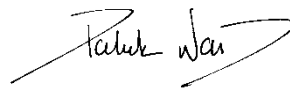
We expect business and IT related investments to improve throughout 2010, although the continued erosion of average selling prices and profit margins, and changing IT consumption models are expected to exert pressure on Hartco's revenues and margins over the coming quarters.

We remain confident in our ability to adapt our business model to effectively address emerging opportunities and challenges, to deliver compelling value to customers, and operate our business successfully.

We would like to thank our customers for their valuable business, and our vendor partners, associates, and board of directors for their efforts and commitment to the success of our business. To our shareholders, we extend our gratitude for your continuing support 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

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 ended March 31, 2010, compared to the quarter ended March 31, 2009, when the Company operated as Hartco Income Fund (the "Fund").

The MD&A should be read in conjunction with the information contained in the 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

A year ago, 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) continues to operate the business of the Fund and there have been no ownership changes. The comparative figures are those of the Fund.

In order to simplify the review of the documents for the period prior to the conversion when Hartco operated as an income trust, we will refer to Hartco or the Company and will refer to shareholders, shares and earnings per share when referring to unitholders, units and earnings per unit.

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 Arrangement..

SUMMARY OF OPERATIONS

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 operated under the banners of Metafore™, MicroAge®, 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 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 subsidiary Metafore Technologies Inc. ("Metafore"), and those of a MicroAge franchise, accounted for as a Variable Interest Entity ("VIE"). In December 2009, Hartco announced the merger of Metafore and Microserv, two of its units operating under the Commercial segment, creating one of the largest IT Solution providers in Canada, with operations across the country that now operate under the Metafore brand.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

REVIEW OF BUSINESS PRIORITIES

For 2010, the Company has 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 is coming out of the recent recession with the objective to profitably grow revenues and capture additional market share in the Canadian IT industry. Additionally, the Company is focused on improving productivity and ensuring effective management of inventory, accounts receivables and accounts payable to maximize return on invested capital (ROIC).

Following the announcement of the Metafore and Microserv merger, the Company has launched a number of initiatives to review and optimize its operating model and maximize synergies across the organization. Certain short-term benefits will be realized 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 the second half of 2010, following the harmonization of business processes and information systems.

The Company is in the process of implementing a common, integrated enterprise resource planning ("ERP") solution for all its businesses. Following the implementation of the new ERP solution towards the end of 2010, the Company is expecting to deliver higher productivity, greater process automation and enhanced customer service capabilities, along with greater scalability to support the Company's future growth.

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 to ensure future success.

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 FIRST QUARTER ENDED MARCH 31, 2010, COMPARED TO THE FIRST QUARTER ENDED MARCH 31, 2009

Consolidated net earnings for the first quarter ended March 31, 2010 amounted to \$1.9 million or \$0.14 per share (basic and diluted) compared to net earnings of \$0.4 million or \$0.03 per share (basic and diluted) for the corresponding period ended March 31, 2009.

Consolidated revenues amounted to \$122.6 million for the quarter ended March 31, 2010 compared to \$115.3 million for the quarter ended March 31, 2009 an increase of \$7.3 million or 6.4%. Net revenues in the Franchising and Distribution segment increased by \$0.3 million or 1.3% while the Commercial segment's revenues increased by \$7.1 million or 7.5%.

Consolidated cost of goods sold and operating expenses stood at \$119.2 million for the quarter ended March 31, 2010 compared to \$114.2 million for the quarter ended March 31, 2009. This increase of \$5.0 million or 4.4% is attributable to a higher volume and was partially compensated by a decrease of operating expenses across the businesses.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Consolidated EBITDA was \$3.4 million for the quarter ended March 31, 2010 compared to \$1.1 million for the quarter ended March 31, 2009, an increase of \$2.4 million or 227.5%. The higher levels of gross profit and EBITDA are mainly attributable to overall higher volume in the Franchising and Distribution segment as well as in the Commercial segment. The higher volume had a positive impact of \$1.0 million on consolidated EBITDA while the lower operating expenses had a positive impact of \$0.9 million and non-recurring charges were lower by \$0.5 million compared to 2009. These items and other variances are explained in the segment analysis.

Consolidated depreciation and amortization for the quarter ended March 31, 2010 stood at \$1.0 million compared to \$0.6 million for the quarter ended March 31, 2009. The increase represents the accelerated depreciation and amortization on currently deployed information systems that will be replaced by the new integrated ERP solution by the end of 2010.

Net financial expenses stood at \$0.1 million for the quarter ended March 31, 2010 compared to \$0.3 million for the quarter ended March 31, 2009. The financial expenses consist mostly of bank fees for the quarters ended March 31, 2010 and 2009 and reflect the low level of borrowings in the past two years. Last year, financial expenses included interest charges of \$0.2 million on sales tax assessments for the year 2005 to 2008.

The income tax expense recognized during the current quarter amounted to \$0.7 million, compared to an expense of \$0.1 million recorded in the first quarter ended March 31, 2009. The variance of \$0.6 million is explained by higher pre-tax earnings.

The share of results in equity investment amounted to \$0.2 million for the quarter ended March 31, 2010 and for the same quarter ended March 31, 2009, 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 \$13,000, representing the share of profits for non-controlling shareholders of the company accounted for as a VIE, compared to losses of \$65,000 during the corresponding quarter of last year.

Discontinued operations

During the first quarter of 2010, the Company finalized the settlement of the remaining lease obligations related to the CompuSmart retail division which was divested in 2007.

Segment review

Franchising and Distribution

Franchising and Distribution net revenues, excluding royalties, for the quarter ended March 31, 2010 stood at \$21.1 million compared to \$20.8 million for the quarter ended March 31, 2009. This increase is explained by higher volume from the MicroAge network.

Royalty revenues totalled \$0.6 million for the quarter ended March 31, 2010, compared to \$0.5 million for the quarter ended March 31, 2009. This increase is consistent with the increase in franchisee revenues on which royalties are charged.

EBITDA was \$1.4 million for the current quarter compared to a loss of \$0.2 million for the corresponding quarter in 2009. Higher margins had a \$0.2 million positive impact on EBITDA. Cost controls and headcount reductions during the current quarter improved operating expenses by \$1.4 million compared to last year, including \$0.5 million from lower non-recurring expenses. It should also be noted that the Company's corporate expenses are reported in this segment.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Commercial

The Commercial segment had revenues of \$101.0 million for the quarter ended March 31, 2010, compared to \$93.9 million for the quarter ended March 31, 2009. This increase in revenues of \$7.1 million, or 7.5%, is mainly explained by an overall volume increase across the country.

EBITDA for the quarter ended March 31, 2010 stood at \$2.0 million, compared to \$1.2 million for the same period last year, an increase of \$0.8 million or 62.4%. The increase in EBITDA is explained by higher volumes representing \$1.0 million, partially offset by lower margins of \$0.2 million. Operating expenses were similar to last year due to increased commission costs related to higher volumes that were offset by cost controls and headcount reductions.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

(in thousands of dollars, except per share amounts)

| Quarter ended | March 31, 2010 | December 31, 2009 | September 30, 2009 | June 30, 2009 |
|----------------------------|----------------|-------------------|--------------------|---------------|
| | \$ | \$ | \$ | \$ |
| Revenues | 122,629 | 105,556 | 99,041 | 102,705 |
| EBITDA ⁽¹⁾ | 3,448 | 1,868 | 2,679 | 1,254 |
| Net earnings | | | | |
| Continuing operations | 1,881 | 434 | 1,614 | 608 |
| Discontinued operations | - | 246 | - | - |
| Net earnings | 1,881 | 680 | 1,614 | 608 |
| Diluted earnings per share | 0.14 | 0.05 | 0.11 | 0.04 |

| | 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 | | | | |
| Continuing operations | 355 | 2,524 | 659 | 2,952 |
| Discontinued operations | - | - | - | - |
| Net earnings | 355 | 2,524 | 659 | 2,952 |
| Diluted earnings per share | 0.03 | 0.19 | 0.05 | 0.22 |

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

LIQUIDITY AND FINANCIAL CONDITION

During the quarter ended March 31, 2010, continuing operations generated a cash flow of \$2.2 million, compared to \$3.1 million for the quarter ended March 31, 2009.

Operating activities, before changes in non-cash working capital items, generated cash flow of \$4.3 million during the quarter ended March 31, 2010, compared to \$1.0 million cash flow for the quarter ended March 31, 2009, an increase of \$3.3 million. This increase in cash flow is mainly explained by higher results from operations. The cash outflow from the non-cash working capital totalled \$1.0 million in the current period, compared to a cash inflow of \$4.4 million in the quarter ended March 31, 2009.

For the quarter ended March 31, 2010, accounts payable and accrued liabilities as well as deferred revenues and income taxes payable had a positive impact of \$12.6 million, \$0.4 million and \$0.2 million respectively. Accounts receivable and inventories had an unfavourable effect on cash flow from non-cash working capital of \$14.0 million and \$0.3 million respectively. For the same period last year, inventories, accounts payable and

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

accrued liabilities and deferred revenues had a favourable effect on cash flow from non-cash working capital of \$2.4 million, \$1.8 million and \$0.7 million respectively. 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. The level of accounts receivable at March 31st, is related to higher activities in the public sector.

Borrowings under the revolving credit facilities were nil as at March 31 2010 and have been nil since December 2007. In 2009, when Hartco operated as an income trust, distributions to unitholders and tracking shareholders were \$2.0 million.

Cash flows used for investing activities totalled \$0.8 million during the quarter ended March 31, 2010, compared to \$0.3 million for the quarter ended March 31, 2009. Additions to property and equipment and intangible assets reached \$0.8 million for the quarter ended March 31, 2010, compared to \$0.3 million for the quarter ended March 31, 2009. Current capital expenditures are mainly related to improvements to the Company's information systems and its IT infrastructure. Other than the project to integrate virtually all of its legacy business critical applications into one integrated solution, the Company is not required to invest significantly in property and equipment.

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.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The calculation for the periods under review is as follows:

| | Quarter ended March 31 | |
|--|---------------------------|--------------|
| | 2010 | 2009 |
| | \$ | \$ |
| Standardized free cash flow and Adjusted free cash flow | | |
| <i>(in thousands of dollars)</i> | | |
| Cash flow provided by continuing operating activities | 3,244 | 5,387 |
| Additions to property and equipment and intangible assets | (802) | (321) |
| Deferred Financing Costs | (16) | - |
| Cash flow provided (used for) discontinued operations | (414) | 23 |
| Standardized Free Cash Flow | 2,012 | 5,089 |
| Proceeds on disposal of property and equipment | - | - |
| Net collection of loans receivable | - | - |
| Adjusted Free Cash Flow | 2,012 | 5,089 |

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 quarter ended March 31, 2010 stood at \$3.4 million (\$1.1 million for the quarter ended March 31, 2009) and is the same amount as earnings 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 March 31 | |
|---|---------------------------|--------------|
| | 2010 | 2009 |
| | \$ | \$ |
| <i>(in thousands of dollars)</i> | | |
| Net earnings from continuing operations | 1,881 | 355 |
| Add back: | | |
| Non-controlling interest | 13 | (65) |
| Share of results of equity investments | (213) | (202) |
| Income taxes | 703 | 62 |
| Financial expenses | 111 | 314 |
| Depreciation and amortization | 953 | 590 |
| EBITDA | 3,448 | 1,054 |

CASH DISTRIBUTIONS AND DIVIDEND POLICY

In 2009, before 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 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 adopted a dividend policy with the primary objective of maintaining a high equity ratio. Accordingly, and given the economic recession in 2009 and growth strategy for the future, no dividend has been declared since April 15th, 2009 and the Board of directors has no plans to do so at the present time.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the first quarter of 2009, the Company had declared distributions to its unitholders and 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 |
| Total distributions | | 0.150 | 1,498,320 |

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 |
| 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 |

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. The credit facility bears interest at various rates based on the prime rate or bankers' acceptance plus a premium varying on the level of key financial ratios achieved. In addition, the Company is subject to maintain the usual debt to tangible net worth and fixed charge coverage ratios as well as certain other conditions. As at March 31, 2010, no amount was outstanding under the Credit Facility.

The Company's debt capitalization ratio stood at 0:100 as at March 31, 2010. Debt is calculated net of cash, and capital includes non-controlling interest. As at March 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.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OUTSTANDING SHARE DATA

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

| Common Shares | Number of shares | \$ |
|---|-------------------------|---------------|
| Balance outstanding as at December 31, 2009 | 13,540,690 | 48,535 |
| Redeemed and cancelled shares | (73,500) | (263) |
| Balance outstanding as at March 31, 2010 | 13,467,190 | 48,272 |

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

| | Quarter ended March 31 | |
|---|---------------------------|--------|
| | 2010 | 2009 |
| <i>(in thousands of dollars)</i> | \$ | \$ |
| Net earnings | 1,881 | 355 |
| Weighted average number of shares outstanding | | |
| - basic | 13,506 | 13,599 |
| - diluted | 13,930 | 13,599 |

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:

| | Quarter ended March 31 | |
|---|---------------------------|-------|
| | 2010 | 2009 |
| <i>(in thousands of dollars)</i> | \$ | \$ |
| Accounts receivable - equity investments ⁽¹⁾ | 4,115 | 3,120 |
| Revenues - equity investments ⁽¹⁾ | 7,401 | 3,761 |
| Interest income - equity investments ⁽¹⁾ | 25 | 25 |
| Accounts receivable - common controlled entity ⁽²⁾ | 6 | 10 |
| Revenues - common controlled entity ⁽²⁾ | 1 | 9 |

(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 Distribution 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 Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 March 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 March 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 quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

Accounts Receivable

As of March 31, 2010, accounts receivable totalled \$74.9 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 March 31, 2010, inventories totalled \$10.9 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

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Section 1582, *Business Combinations*. This new Section will be applicable to business combinations for which the acquisition date is on or after the Company'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 Company 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 Company'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 Company 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 Company'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 Company has not yet determined the impact of the adoption of this Section on its consolidated financial statements.

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 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 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 is now in the impact analysis and design phase. The Company's analysis of IFRS's in comparison to Canadian GAAP has identified a number of differences. The Company will continually review and adjust the changeover plan to ensure the implementation process properly addresses the key elements of the plan.

The following table outlines the remaining key activities of the Company's IFRS changeover plan and its milestones:

| Key activity | Milestones/deadlines | Effort accomplished/remaining effort to complete |
|--|---|---|
| <p>Identification of differences in Canadian GAAP/IFRS accounting policies, choices and financial reporting requirements:</p> <ul style="list-style-type: none"> • Selection of IFRS 1 accounting policy choices and of its quantification • Selection of entity's continuing IFRS policies and new and enhanced IFRS disclosures • Financial statement presentation format | <ul style="list-style-type: none"> • IFRS 1 transition choices and critical continuing accounting policy choices made by end of 2nd quarter 2010 • Maintaining parallel IFRS shell financial statements in 2010 for IFRS comparatives reporting purposes for the year ended 2011 | <ul style="list-style-type: none"> • IFRS 1 transition choices have been presented to senior management and to the Audit Committee • The key accounting policy differences have been identified, assessed and preliminarily quantified • A preliminary draft of the skeleton of IFRS financial statements with notes have been prepared and presented to the Audit Committee • Opening balance sheet as at January 1st, 2010 has been presented to senior management and the Audit Committee • Parallel IFRS financial statements will be prepared throughout 2010 |
| <p>Hartco' Financial Reporting Expertise:</p> <ul style="list-style-type: none"> • Development and education of accounting staff and other non-accounting departments • Senior executive and Board level, including audit committee | <ul style="list-style-type: none"> • Deliver IFRS training to accounting staff and operating personnel • Quarterly reporting to Audit Committee throughout 2010 | <ul style="list-style-type: none"> • Training to be given to accounting staff by the end of 3rd quarter 2010 |
| <p>Information Technology</p> <ul style="list-style-type: none"> • Systematic processing changes • Program upgrades/changes • One-off calculations (IFRS 1) • Disclosure data gathering • Budget/plan/forecast monitoring process | <ul style="list-style-type: none"> • Enable opening financial position to be established under IFRS during the 2nd quarter 2010 • Ready for parallel processing during the 2nd quarter 2010 | <ul style="list-style-type: none"> • Key IFRS disclosures have been identified and disclosure data gathering processes across departments will be initiated in 2nd quarter 2010 • We do not expect a significant impact on our information systems |

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

| Key activity | Milestones/deadlines | Effort accomplished/remaining effort to complete |
|--|--|---|
| <p>Control Environment</p> <ul style="list-style-type: none"> • Controls on accounting policy determination, documentation and implementation • Independent review of applications | <ul style="list-style-type: none"> • Review by senior executives of all significant accounting policy changes by the end of 3rd quarter 2010 | <ul style="list-style-type: none"> • Minimal impact is expected as few differences identified under IFRS vs. Canadian GAAP |
| <p>Business policy assessment</p> <ul style="list-style-type: none"> • Financial covenants and practices • Customer and supplier contract evaluation | <ul style="list-style-type: none"> • Review completed by the end of the 3rd quarter | <ul style="list-style-type: none"> • Minimal impact is expected |

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 |
|---|---|--|
| <p>Business Combinations and Basis of consolidation</p> | <p>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</p> <p>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</p> | <p>The Company has finalized impact calculations of and based on preliminary analysis will no longer consolidate its VIE and use equity accounting. This would have the impact of reducing revenues and EBITDA slightly but with no impact on net income</p> |
| <p>Property, plant and equipment</p> | <p>IFRS requires separate amortization of major components of an asset. This requirement being less explicit under Canadian GAAP, we identified a greater number of major components that will be amortized separately under IFRS</p> | <p>The Company has determined that it will reevaluate 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</p> |

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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
May 14, 2010

Consolidated Statements of Earnings and Comprehensive Earnings

(unaudited)

For the quarters ended March 31

(in thousands of dollars, except per share amounts)

| | 2010 | 2009 |
|---|----------------|---------|
| | \$ | \$ |
| Revenues | 122,629 | 115,260 |
| Cost of sales and expenses (Note 3) | 119,181 | 114,206 |
| Earnings before the under-noted items | 3,448 | 1,054 |
| Depreciation and amortization | 953 | 590 |
| Operating income from operations | 2,495 | 464 |
| Financial expenses (Note 4) | 111 | 314 |
| Earnings before income taxes, share of results of equity investments and non-controlling interest | 2,384 | 150 |
| Income tax expense | | |
| Current | 161 | - |
| Future | 542 | 62 |
| | 703 | 62 |
| Earnings before share of results of equity investments and non-controlling interest | 1,681 | 88 |
| Share of results of equity investments | 213 | 202 |
| Non-controlling interest | (13) | 65 |
| Net earnings and comprehensive income | 1,881 | 355 |
| Earnings per share (Note 6) | | |
| Basic and diluted earnings per share | 0.14 | 0.03 |

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

Consolidated Statements of Shareholders' Equity

(unaudited)

For the quarters ended March 31

(in thousands of dollars)

| | Shareholders' Capital (Note 1) | Contributed Surplus | Retained Earnings | 2010 Shareholders' Equity Total |
|--|-----------------------------------|------------------------|----------------------|--|
| Balance at December 31, 2009 | 48,535 | 771 | 11,683 | 60,989 |
| Net earnings for the quarter ended March 31, 2010 | - | - | 1,881 | 1,881 |
| Stock based compensation (Note 9) | - | 70 | - | 70 |
| Redemption and cancellation of shares (Note 9) | (263) | 26 | - | (237) |
| Balance at March 31, 2010 | 48,272 | 867 | 13,564 | 62,703 |

| | Shareholders' Capital (Note 1) | Contributed Surplus | Retained Earnings | 2009 Shareholders' Equity Total |
|--|-----------------------------------|------------------------|----------------------|--|
| Balance at December 31, 2008 | 48,743 | 661 | 10,759 | 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 | 9,114 | 58,518 |

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

Consolidated Statements of Cash Flows

(unaudited)

For the quarters ended March 31

(in thousands of dollars)

| | 2010 \$ | 2009 \$ |
|---|---------------|--------------|
| Cash flows provided by (used in): | | |
| Operating activities | | |
| Net earnings | 1,881 | 355 |
| Adjustments for: | | |
| Depreciation of property and equipment | 756 | 376 |
| Amortization of intangible assets | 197 | 214 |
| Amortization of deferred financing costs | 27 | - |
| Stock based compensation expense (Note 9) | 70 | 20 |
| Future income taxes | 542 | 62 |
| Share of results of equity investments, net of dividends received | 786 | 48 |
| Non-controlling interest | 13 | (65) |
| | 4,272 | 1,010 |
| Change in non-cash working capital items (Note 7) | (1,028) | 4,377 |
| | 3,244 | 5,387 |
| Financing activities | | |
| Deferred financing costs | (16) | - |
| Distributions to unitholders and tracking shareholders (Note 9) | - | (2,000) |
| Redemption of shares (Note 9) | (237) | - |
| | (253) | (2,000) |
| Investing activities | | |
| Additions to property and equipment | (21) | (116) |
| Additions to intangible and other assets | (781) | (205) |
| | (802) | (321) |
| Cash inflow from continuing operations | 2,189 | 3,066 |
| Cash inflow (outflow) from discontinued operations (Note 5) | (414) | 23 |
| Net change in cash | 1,775 | 3,089 |
| Cash, beginning of period | 22,127 | 6,778 |
| Cash, end of period | 23,902 | 9,867 |

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

Consolidated Balance Sheets

(unaudited)
(in thousands of dollars)

| | March 31, 2010 | Dec. 31, 2009 | March 31, 2009 |
|--|----------------|---------------|----------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash | 23,902 | 22,127 | 9,867 |
| Accounts receivable | 74,864 | 60,876 | 68,847 |
| Inventories (Note 3) | 10,879 | 10,599 | 16,152 |
| Future income taxes | 30 | 139 | 2,070 |
| Current assets - discontinued operations (Note 5) | - | 9 | 9 |
| | 109,675 | 93,750 | 96,945 |
| Investments | 2,402 | 3,188 | 2,726 |
| Property and equipment | 6,514 | 7,249 | 8,273 |
| Intangible and other assets | 2,888 | 2,776 | 1,234 |
| Future income taxes | 923 | 1,356 | 490 |
| Goodwill | 4,815 | 4,815 | 4,815 |
| | 127,217 | 113,134 | 114,483 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 57,621 | 45,509 | 48,448 |
| Deferred revenues | 5,450 | 5,029 | 4,849 |
| Distributions payable | - | - | 667 |
| Income taxes payable | 604 | 358 | 487 |
| Current liabilities - discontinued operations (Note 5) | - | 423 | 877 |
| | 63,675 | 51,319 | 55,328 |
| Non-controlling interest | 839 | 826 | 637 |
| Guarantees and contingent liabilities (Note 10) | | | |
| Shareholders' Equity (Note 9) | 62,703 | 60,989 | 58,518 |
| | 127,217 | 113,134 | 114,483 |

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 Consolidated Financial Statements

(unaudited)

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

1. DESCRIPTION OF BUSINESS

Hartco Inc. (the “Company” or “Hartco”) was incorporated under the Canada Business Corporations Act on February 17, 2009.

On April 14, 2009, Hartco Income Fund (the “Fund”) completed its conversion from an income trust to a corporation.

The conversion has been accounted for as a continuity of interests since Hartco Inc. continues to operate the business of the Fund and there have been no ownership changes. The comparative figures are those of the Fund.

In order to simplify the review of the financial statements for the period prior to the conversion, when Hartco operated as an income trust, we will refer to Hartco or the Company, and will refer to shareholders, shares and earnings per share when referring to unitholders, units and earnings per unit.

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 Arrangement.

Through its operating divisions, which together include more than 60 locations across Canada under the banners of Metafore™, MicroAge®, and Northwest Digital®, 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 units operating under the Commercial Segment, which now operate under the Metafore brand.

2. ACCOUNTING POLICIES

New Accounting standards to be adopted in future periods

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 changeover date is for interim and annual financial statements relating to fiscal years beginning on or after 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 is now in the impact analysis and design phase. The Company’s analysis of IFRS’s in comparison to Canadian GAAP has identified a number of differences. The Company has estimated that there will be no significant impact on its financial position and results of operations. The Company will continually review and adjust the changeover plan to ensure the implementation process properly addresses the key elements of the plan.

The differences identified should not be considered as exhaustive and other changes may result from the Company’s conversion to IFRS. Furthermore, the disclosed impacts of the conversion to IFRS reflects the Company’s most recent assumptions, estimates and expectations, including the Company’s assessment of the IFRS expected to be applicable at the time of conversion. As a result of changes of circumstances, such as economic conditions or operations and the inherent uncertainty from the use of assumptions, the actual impacts of the Company’s conversion to IFRS may be different.

Notes to Consolidated Financial Statements

(unaudited)

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

Section 1582, *Business Combinations*. This new Section will be applicable to business combinations for which the acquisition date is on or after the Company'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 Company 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 Company'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 Company 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 Company'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 Company has not yet determined the impact of the adoption of this Section on its consolidated financial statements.

3. INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a 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 reversal is recorded in the cost of goods sold as recognized.

For the quarters ended March 31, 2010 and 2009, the following amounts of inventory were expensed:

| | Quarter ended March 31 | |
|--------------------------------------|---------------------------|--------|
| | 2010 | 2009 |
| | \$ | \$ |
| Purchases | 92,183 | 83,403 |
| Writedown for obsolescence and aging | 36 | 338 |
| Net change in inventories | (1,567) | 836 |
| Total inventory expense | 90,652 | 84,577 |

The write-down in carrying value for the quarter ended March 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

| | Quarter ended March 31 | |
|---|---------------------------|------|
| | 2010 | 2009 |
| | \$ | \$ |
| Interest expense and charges on credit facility | 20 | 57 |
| Other interest and bank charges | 122 | 284 |
| Interest income | (31) | (27) |
| | 111 | 314 |

Notes to Consolidated Financial Statements

(unaudited)

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

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

Discontinued operations cash flow items were as follows:

| | Quarter ended March 31 | |
|---|---------------------------|------|
| | 2010 | 2009 |
| | \$ | \$ |
| Cash flow provided by (used for) operating activities | (414) | 23 |
| Cash flow used in investing activities | - | - |
| Cash flow provided by financing activities | - | - |
| | (414) | 23 |

| | March 31, 2010 | December 31, 2009 | As at March 31, 2009 |
|--|----------------|-------------------|-------------------------|
| | | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Accounts receivable | - | 9 | 9 |
| Current assets of discontinued operations | - | 9 | 9 |
| Liabilities | | | |
| Current liabilities | | | |
| Vendors and other payables | - | 8 | 21 |
| Lease obligations | - | 400 | 841 |
| Deferred revenues | - | 15 | 15 |
| Current liabilities of discontinued operations | - | 423 | 877 |
| Net liabilities - discontinued operations | - | (414) | (868) |

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.

| | Quarter ended March 31 | |
|---|---------------------------|------------|
| | 2010 | 2009 |
| | \$ | \$ |
| Net earnings | 1,881 | 355 |
| Weighted average number of shares outstanding | | |
| - basic | 13,505,866 | 13,598,803 |
| - diluted | 13,929,604 | 13,598,803 |

Notes to Consolidated Financial Statements

(unaudited)

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

7. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

| | Quarter ended March 31 | |
|--|---------------------------|-------|
| | 2010 | 2009 |
| | \$ | \$ |
| Accounts receivable | (13,988) | (477) |
| Inventories | (280) | 2,445 |
| Accounts payable and accrued liabilities | 12,573 | 1,810 |
| Deferred revenues | 421 | 657 |
| Income taxes payable (receivable) | 246 | (58) |
| | (1,028) | 4,377 |

8. 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 March 31, 2010. In addition, the Company is subject to maintain the usual debt to tangible net worth and fixed charge coverage ratios as well as certain other financial covenants. As of March 31, 2010, Hartco Inc was in compliance with the financial covenants.

9. SHAREHOLDERS' EQUITY

The capital stock of the Company consists of common and preferred shares, as follows:

Common Shares

Authorized:

An unlimited number of 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 quarter ended March 31, 2010 and 2009 is as follows:

| Units | Number of units | \$ |
|---|-----------------|----------|
| 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 outstanding as at December 31, 2009 | - | - |

Notes to Consolidated Financial Statements

(unaudited)

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

| Common Shares | Number of shares | \$ |
|---|-------------------------|---------------|
| 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 | (73,500) | (263) |
| Balance outstanding as at March 31, 2010 | 13,467,190 | 48,272 |

Redemption and Cancellation of Shares

During the third quarter of 2009, the Company launched a Normal Course Issuer Bid (“NCIB”). Under the NCIB, Hartco is entitled to repurchase for cancellation up to 679,944 common shares over the twelve-month period starting on August 28, 2009 and ending on August 27, 2010, representing 5% of Hartco’s issued and outstanding common shares. The purchases by Hartco will be effected through the facilities of the Toronto Stock Exchange and will be made at the market price of the common shares at the time of the purchase. As at March 31, 2010, the Company had repurchased and cancelled 131,700 shares at an average price of \$ 2.77 per share for a total of \$ 364,000.

Stock Option Plan

During the year ended December 31, 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 directors, officers and employees participating in the Stock Option Plan for the quarter ended March 31, 2010 is as follows:

Notes to Consolidated Financial Statements

(unaudited)

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

2010

| | Number of options | Weighted average exercise price |
|---|----------------------|------------------------------------|
| Outstanding at the beginning of the quarter | 987,668 | \$2.18 |
| Granted and outstanding, end of the quarter | 987,668 | \$2.18 |
| Exercisable, end of year | 9,668 | \$2.18 |

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

| | 2010 Stock Option Plan |
|--|---------------------------|
| Grant Date | August 13, 2009 |
| Share Price at grant date | \$2.18 |
| Exercise price | \$2.18 |
| Expected option life in years ⁽¹⁾ | 5 years |
| Risk free interest rate | 2.91% |
| Expected volatility | 60% |
| Expected dividend yield | 0% |
| Forfeiture rate | 0% |

Fair value of option \$1.17

⁽¹⁾ The contractual life of the options granted during the year is 10 years. The remaining life of these options is 9 years and 6 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 0% of the options will lapse over the service period as employees leave the Company.

Stock based compensation expenses of \$70,000 are recorded in the quarter ended March 31, 2010 compared to nil during the quarter ended March 31, 2009 and are included in cost of sales and expenses.

Long Term Incentive Plan

During 2006, the Board of trustees of the Company approved a Long Term Incentive Plan ("LTIP"). The trustees, officers and employees of the Company and its affiliates were eligible to participate in the Company's LTIP until the LTIP's cancellation following the conversion from an income trust to Hartco Inc. Under this plan, units awarded vested over a three-year period from the date of the award. There was no award of units during the quarter ended March 31, 2009. As a result of the decrease of the market unit price, the Fund reversed expenses of \$20,000 during the quarter ended March 31, 2009.

10. GUARANTEES AND CONTINGENT LIABILITIES

a) Guarantees

The Company, through its subsidiaries, Hartco Distribution LP and Metafore Technologies Inc., has guaranteed third party financial institutions of two franchisees for a total of \$ 550,000. As at March 31, 2010,

Notes to Consolidated Financial Statements

(unaudited)

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

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.

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 March 31, 2010, the maximum amount that would be payable under the guarantee of all inventories to be repurchased is \$1.8 million. In the event that the Company is called upon under these commitments, the inventory would be sold in the normal course of business.

b) 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 condition, earnings or cash flows.

11. 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.

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.

12. FINANCIAL INSTRUMENTS

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at March 31, 2010 compared to March 31, 2009.

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.

Notes to Consolidated Financial Statements

(unaudited)

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

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 6% of the total accounts receivable, compared to 3% last year.
- Approximately 75% (71% in 2009) of trade receivables are current, 19% (23% in 2009) past due less than 60 days and 6% (6% 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, no provision was taken during the first quarter of 2010, while a provision of \$0.2 million was taken during the quarter ended March 31, 2009.

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

b) *Market Risks*

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.

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 8) being used periodically to finance the cash conversion cycle and seasonal peak working capital requirements.

d) *Fair value*

As at March 31, 2010 and March 31, 2009, the fair value of all financial instruments approximate their carrying values mainly due to their short term maturities.

Notes to Consolidated Financial Statements

(unaudited)

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

13. COMPARATIVE FIGURES

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

14. 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™, MicroAge® 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. This segment also includes activities and expenses related to the Company corporate services.

The Commercial segment includes the business activities operated by the Company's subsidiary Metafore Technologies Inc. ("Metafore"), and those of a MicroAge franchise, accounted as a Variable Interest Entity ("VIE").

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.

Notes to Consolidated Financial Statements

(unaudited)

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

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 | 75,084 | 100,976 | 176,060 | 73,630 | 93,893 | 167,523 |
| Royalties | 574 | - | 574 | 534 | - | 534 |
| Inter-segment transactions | (54,005) | - | (54,005) | (52,797) | - | (52,797) |
| | 21,653 | 100,976 | 122,629 | 21,367 | 93,893 | 115,260 |
| Cost of sales and expenses | 74,213 | 44,968 | 119,181 | 74,345 | 39,861 | 114,206 |
| Inter-segment transactions | (54,005) | 54,005 | - | (52,797) | 52,797 | - |
| | 20,208 | 98,973 | 119,181 | 21,548 | 92,658 | 114,206 |
| Operating income (loss) before the under-noted item | 1,445 | 2,003 | 3,448 | (181) | 1,235 | 1,054 |
| Depreciation and amortization | 303 | 650 | 953 | 282 | 308 | 590 |
| Operating income (loss) | 1,142 | 1,353 | 2,495 | (463) | 927 | 464 |
| Assets | 47,126 | 80,091 | 127,217 | 37,193 | 77,281 | 114,474 |
| Goodwill | - | 4,815 | 4,815 | - | 4,815 | 4,815 |
| Capital expenditures | 791 | 11 | 802 | 161 | 160 | 321 |
| Number of locations | | | | | | |
| Beginning of year | 45 | 17 | 62 | 46 | 17 | 63 |
| Closed | - | - | - | (1) | - | (1) |
| End of year | 45 | 17 | 62 | 45 | 17 | 62 |