

Hartco

Q3

THIRD QUARTER REPORT
For the period ended September 30, 2010

Hartco

metafore



MESSAGE TO SHAREHOLDERS

DEAR SHAREHOLDERS,

As detailed in the following Management Discussion and Analysis ("MD&A"), Hartco Inc. ("Hartco") posted consolidated revenues of \$113.0 million and net earnings of \$0.5 million, or \$0.03 per share on a diluted basis for the third quarter ended September 30, 2010, compared to revenues of \$99.0 million and earnings of \$1.6 million, or \$0.11 per share, for the corresponding quarter last year.

The encouraging demand trends which we experienced in the first half of 2010 persisted during the third quarter and had a positive impact on our third quarter revenues. During the recent quarter, Hartco's Commercial segment achieved revenues of \$91.8 million, a 6.8% increase compared to the third quarter last year. The Distribution and Franchising segment recorded gross revenues of \$62.9 million for the third quarter, a 12.6% increase compared to the same period last year.

Various non-recurring expenses composed mainly of corporate and sales tax assessments, as well as low gross margins in the Commercial segment prevented us from capitalizing on our revenue growth, resulting in disappointing earnings for the recent quarter.

For the nine month period ended September 30, 2010, Hartco posted consolidated revenues of \$351.5 million and net earnings of \$3.1 million, or \$0.23 per share on a diluted basis, compared to revenues of \$317.0 million and earnings of \$2.6 million, or \$0.19 per share, for the corresponding nine month period last year.

Through the first nine months of 2010, Hartco's Commercial segment achieved EBITDA of \$4.0 million on revenues of \$285.9 million, a 6.4% revenue increase compared to the same nine month period last year. The Distribution and Franchising segment recorded EBITDA of \$3.2 million on gross revenues of \$213.3 million for the third quarter, an 11.3% revenue increase compared to the same nine month period last year.

Effective management of our non-cash working capital enabled Hartco to end the third quarter of 2010 in a strong financial position, with \$25.5 million of cash and no debt.

Hartco's priorities for the remainder of 2010 will be to maximize our operating performance, to prepare for the implementation of a new integrated enterprise resource planning solution in the first quarter of 2011 to replace our legacy business systems and improve operational efficiency, and further develop the organization's talent to ensure future success.

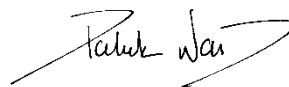
In spite of enduring economic uncertainty, we anticipate demand to remain strong and we expect our positive momentum to carry on through the final quarter of 2010. We will maintain a clear focus on operating our business successfully and improve cost controls to maximize profitability.

Hartco's strong financial position provides us the ability to invest in business development strategies, as well as operational and organizational improvements.

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 and the nine-month period ended September 30, 2010 compared to the quarter and nine-month period ended September 30, 2009. 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

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

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

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

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 operate under the banners of Metafore™ and MicroAge®, which together include more than 50 locations from coast to coast. Segment revenues are comprised of product sales to franchisees and of royalties earned on franchisee 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"). Since January 2010, two previously separate companies in the Commercial segment, Metafore and Microserv, have been operating as one merged company under the Metafore brand. Metafore is one of the largest IT Solution providers in Canada, with operations across the country.

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

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OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company emerged from the 2009 recession with the objective to profitably grow revenues and capture additional market share in the Canadian IT industry. In addition, 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). During the nine-month period, the Company, increased revenues and earnings as well as its cash position compared to the same period last year.

Following the announcement of the Metafore and Microserv merger, the Company launched a number of initiatives to review and optimize its operating model and maximize synergies across the organization. Certain 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 remainder of 2010 and during early 2011, following the harmonization of business processes and information systems. During the third quarter, the Company announced executive appointments for Metafore to further strengthen its management team and to develop the organization for long-term success.

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

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

SEASONALITY

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

CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2010 COMPARED TO THE THIRD QUARTER ENDED SEPTEMBER 30, 2009

Consolidated net earnings for the third quarter ended September 30, 2010 amounted to \$0.5 million, or \$0.04 per share (\$0.03 on a diluted basis), compared to net earnings of \$1.6 million, or \$0.12 per share (\$0.11 on a diluted basis) for the corresponding quarter ended September 30, 2009.

Consolidated revenues amounted to \$113.0 million for the quarter ended September 30, 2010, compared to \$99.0 million for the quarter ended September 30, 2009, an increase of \$14.0 million or 14.1%. Net revenues in the Franchising and Distribution segment increased by \$8.0 million or 61.3%, while the Commercial segment's revenues increased by \$5.9 million or 6.8%.

Consolidated cost of goods sold and operating expenses stood at \$111.7 million for the quarter ended September 30, 2010, compared to \$96.4 million for the quarter ended September 30, 2009. This increase of \$15.3 million or 15.9% is attributable to a higher volume and higher related operating expenses across the businesses as well as non-recurring expenses related to various items.

Consolidated EBITDA was \$1.3 million for the quarter ended September 30, 2010 compared to \$2.7 million for the quarter ended September 30, 2009, a decrease of \$1.4 million or 52.4%. The lower levels of gross profit and EBITDA are mainly attributable to lower margins in both segments as well as the non-recurring items partially compensated by higher volumes. The higher volume had a positive impact of \$2.3 million on consolidated EBITDA and was offset by higher operating expenses with a negative impact of \$0.8 million, including non-recurring items of \$0.5 million. Margins were negatively impacted by \$2.9 million due to the erosion of average selling prices. These variances are explained in the segment analysis.

Management's Discussion and Analysis

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Consolidated depreciation and amortization for the quarter ended September 30, 2010 stood at \$0.7 million compared to \$0.5 million for the quarter ended September 30, 2009. The increase represents accelerated depreciation and amortization on currently deployed information systems that will be replaced by a new integrated ERP solution in early 2011.

Net financial expenses stood at \$0.4 million for the quarter ended September 30, 2010 compared to \$0.1 million for the quarter ended September 30, 2009. The financial expenses for the quarter ended September 30, 2010 consisted mostly of interest on sales and corporate tax assessments, while financial expenses consisted mostly of bank fees for the quarter ended September 30, 2009. The Company had minimal interest expenses due to its low level of borrowings in the past two years. The interest on sales and corporate tax assessments relates to tax audits for the years 2005 to 2010 amounting to \$0.3 million.

The income tax expense recognized during the current quarter amounted to \$0.1 million compared to an expense of \$0.3 million recorded in the third quarter ended September 30, 2009. The variance of \$0.2 million is explained by lower pre-tax earnings.

The share of results in equity investment amounted to \$0.4 million for the quarter ended September 30, 2010, compared to \$0.1 million during the same quarter ended September 30, 2009, and reflects the Company's participation in the results of a MicroAge franchisee that operates independently from the rest of the Commercial segment.

Non-controlling interest for the current quarter amounted to \$43,000, representing the share of profits for non-controlling shareholders of the Company accounted for as a VIE, compared to \$0.3 million for the corresponding quarter of last year.

Segment review

Franchising and Distribution

Franchising and Distribution net revenues for the quarter ended September 30, 2010, excluding royalties, stood at \$20.7 million, compared to \$12.7 million for the quarter ended September 30, 2009. This increase is explained by higher volume from the MicroAge network.

Royalty revenues totaled \$0.5 million for both the quarter ended September 30, 2010 and for the quarter ended September 30, 2009.

EBITDA was \$1.0 million for the current quarter, compared to \$0.3 million for the corresponding quarter in 2009. Higher volume increased EBITDA by \$1.4 million and was partially offset by lower margins representing \$1.1 million. Cost controls and headcount reductions during the current quarter improved operating expenses by \$0.4 million compared to last year. It should be noted that the Company's corporate expenses are reported in this segment.

Commercial

The Commercial segment had revenues of \$91.8 million for the quarter ended September 30, 2010, compared to \$85.9 million for the quarter ended September 30, 2009. This revenue increase of \$5.9 million, or 6.8%, is mainly explained by increased volume in Ontario and Quebec.

EBITDA for the quarter ended September 30, 2010 was \$0.3 million compared to \$2.4 million for the same period last year, a decrease of \$2.1 million or 87.0%. This EBITDA decrease is explained by lower margins of \$1.8 million and by higher operating expenses of \$1.2 million. These higher expenses were partially compensated by higher volumes representing \$0.9 million.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

(in thousands of dollars, except per share amounts)

Quarter ended	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
	\$	\$	\$	\$
Revenues	112,962	115,882	122,629	105,556
EBITDA ⁽¹⁾	1,275	2,425	3,448	1,868
Net earnings				
Continuing operations	474	766	1,881	434
Discontinued operations	-	-	-	246
Net earnings	474	766	1,881	680
Diluted earnings per share	0.03	0.06	0.14	0.05

	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
	\$	\$	\$	\$
Revenues	99,041	102,705	115,260	119,427
EBITDA ⁽¹⁾	2,679	1,254	1,054	4,644
Net earnings				
Continuing operations	1,614	608	355	2,524
Discontinued operations	-	-	-	-
Net earnings	1,614	608	355	2,524
Diluted earnings per share	0.11	0.04	0.03	0.19

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

CONSOLIDATED RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2010 COMPARED TO THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2009

Consolidated net earnings for the nine-month period ended September 30, 2010 amounted to \$3.1 million, or \$0.23 per share (basic and diluted), compared to \$2.6 million, or \$0.19 per share (basic and diluted), for the corresponding nine-month period ended September 30, 2009.

Consolidated revenues amounted to \$351.5 million for the nine-month period ended September 30, 2010, compared to \$317.0 million for the nine-month period ended September 30, 2009, an increase of \$34.5 million or 10.9%. Net revenues in the Franchising and Distribution segment increased by \$17.2 million or 35.5%, while the Commercial segment's revenues increased by \$17.3 million or 6.4%.

Consolidated cost of sales and operating expenses stood at \$344.3 million for the nine-month period ended September 30, 2010, compared to \$312.0 million for the nine-month period ended September 30, 2009. This increase of \$32.5 million or 10.4% is explained by higher volumes and related expenses.

Consolidated EBITDA was \$7.1 million for the nine-month period ended September 30, 2010 compared to \$5.0 million for the nine-month period ended September 30, 2009, an increase of \$2.1 million or 43.3%. The higher level of gross profit and EBITDA are mainly attributable to higher procurement and service sales volume. Operating expenses were lower by \$0.8 million despite non-recurring expenses of \$2.0 million which are mostly related to sales tax assessments and severances. These variances are explained in the segment analysis.

Consolidated depreciation and amortization for the nine-month period ended September 30, 2010 stood at \$2.5 million, compared to \$1.5 million for the nine-month period ended September 30, 2009. The increase represents accelerated depreciation and amortization on currently deployed information systems that will be replaced by a new integrated ERP solution in early 2011.

Management's Discussion and Analysis

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Net financial expenses stood at \$0.9 million for the nine-month period ended September 30, 2010 while they stood at \$0.5 million for the nine-month period ended September 30, 2009. Financial expenses for the nine-month period ended September 30, 2010 consisted mostly of interest on sales and corporate tax assessments. For the same period ended September 30, 2009, the financial expenses consisted mostly of bank fees and interest on sales tax assessments. The Company had minimal interest expenses due to its low level of borrowings over the past two years. The interest on sales and corporate tax assessments included in the current period amounts to \$0.5 million and relates to tax audits for the years 2005 to 2010.

An income tax expense of \$1.3 million was recognized during the current nine-month period compared to \$0.7 million for the nine-month period ended September 30, 2009. The variance of \$0.6 million is explained by higher pre-tax earnings.

The share of results in equity investments amounted to earnings of \$0.8 million, compared to earnings of \$0.4 million for the nine-month period last year, and reflects the Company's participation in the results of a MicroAge franchisee that operates independently from the rest of the Commercial segment.

Non-controlling interest for the current nine-month period amounted to \$77,000, representing the share of profits for non-controlling shareholders of the Company accounted for as a VIE, compared to \$0.2 million during the nine-month period last year.

Segment review

Franchising and Distribution

Franchising and Distribution net revenues, excluding royalties, stood at \$64.0 million for the nine-month period ended September 30, 2010, compared to \$46.9 million for the nine-month period ended September 30, 2009. This increase is mainly explained by the higher volume from the MicroAge network.

Royalty revenues totaled \$1.5 million for the nine-month period ended September 30, 2010 and for the nine-month period ended September 30, 2009.

For the current nine-month period, EBITDA for the segment was \$3.2 million, compared to EBITDA of \$0.8 million for the corresponding nine-month period last year. Gross profit was positively impacted by higher volumes of \$2.8 million and was partially offset by lower margins of \$2.3 million. EBITDA was positively impacted by \$1.8 million due to lower expenses attributable to improved cost controls and headcount reductions despite \$0.9 million of various non-recurring expenses composed mainly of corporate and sales tax assessments. During the same period last year, operating expenses included a charge of \$0.4 million for sales tax assessments and conversion expenses of \$0.3 million. It should be noted that the Company's corporate expenses are reported in this segment.

Commercial

The Commercial segment recorded revenues of \$285.9 million for the nine-month period ended September 30, 2010, compared to \$268.6 million for the nine-month period ended September 30, 2009. This increase in sales of \$17.3 million, or 6.4%, is explained by higher volumes in Ontario and Québec.

EBITDA for the first nine-months of 2010 stood at \$4.0 million, compared to \$4.2 million for the nine-month period ended September 30, 2009, a decrease of \$0.2 million or 4.3%. This EBITDA decrease is explained by lower margins of \$1.8 million and higher operating expenses of \$1.0 million and was partially compensated by higher volumes of \$2.6 million. The higher level of expenses is largely explained by severances and other non-recurring expenses.

Management's Discussion and Analysis

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LIQUIDITY AND FINANCIAL CONDITION

During the nine-month period ended September 30, 2010, continuing operations generated a cash flow of \$3.8 million compared to \$10.0 million for the nine-month period ended September 30, 2009.

Operating activities, before changes in non-cash working capital items, generated cash flow of \$6.9 million during the nine-month period ended September 30, 2010 compared to \$4.7 million cash flow for the nine-month ended September 30, 2009, an increase of \$2.2 million. This increase in cash flow is mainly explained by higher results from operations. The cash inflow from the non-cash working capital totaled \$3.7 million in the current period, compared to a cash inflow of \$9.6 million in the nine-month period ended September 30, 2009.

For the nine-month period ended September 30, 2010, inventories, accounts payable and accrued liabilities, deferred revenues and income taxes payable had a positive impact of \$1.3 million, \$3.9 million, \$0.5 million and \$0.8 million respectively. Accounts receivable had an unfavorable effect on cash flow from non-cash working capital of \$2.8 million. For the same period last year, accounts receivable, inventory and deferred revenues had a favorable effect on cash flow from non-cash working capital of \$12.1 million, \$7.4 million and \$0.7 million respectively, while accounts payable and accrued liabilities had a negative impact of \$10.3 million. The Company's policy is to take advantage of prompt-pay discounts on trade payable, while temporarily financing its accounts receivable through the completion of the cash conversion cycle.

Borrowings under the revolving credit facilities were nil as at September 30, 2010 and have been nil at the end of every quarter since December 2007. In 2009, when Hartco operated as an income trust, distributions to unit holders and tracking shareholders were \$3.0 million. Redemption of shares had a negative impact on cash flow of \$0.6 million in 2010 and was \$48,000 for the same period last year.

Cash flows used for investing activities totaled \$6.2 million during the nine-month period ended September 30, 2010 compared to \$0.9 million for the nine-month period ended September 30, 2009. Additions to property and equipment reached \$1.2 million for the nine-month period ended September 30, 2010 compared to \$0.5 million for the same period last year, while intangible assets additions represent \$4.4 million for the current nine-month period compared to \$0.4 million for the same period last year. Current capital expenditures are mainly related to improvements to the Company's information systems, including a project to integrate virtually all of its legacy business critical applications into one integrated enterprise resource planning solution. Otherwise, the Company is not required to invest significantly in property and equipment. The Company also has a long-term receivable of \$0.6 million with one of its customers as part of its normal operations.

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

The calculation for the periods under review is as follows:

Standardized free cash flow and Adjusted free cash flow <i>(in thousands of dollars)</i>	Quarter		Nine-month period	
	ended September 30	ended September 30	ended September 30	ended September 30
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash flow provided by continuing operating activities	4,983	4,521	10,646	14,282
Additions to property and equipment and intangible assets	(2,231)	(406)	(5,512)	(893)
Deferred financing costs	-	(209)	(52)	(296)
Cash flow used for discontinued operations	-	(193)	(414)	(188)
Standardized Free Cash Flow	2,752	3,713	4,668	12,905
Proceeds on disposal of property and equipment	-	-	-	-
Net collection of long term receivables	(642)	-	(642)	-
Adjusted Free Cash Flow	2,110	3,713	4,026	12,905

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 nine-month period ended September 30, 2010 stood at \$7.1 million (\$5.0 million for the same period ended in 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:

EBITDA reconciliation <i>(in thousands of dollars)</i>	Quarter		Nine-month period	
	ended September 30	ended September 30	ended September 30	ended September 30
	2010	2009	2010	2009
	\$	\$	\$	\$
Net earnings	474	1,614	3,122	2,577
Add back:				
Non-controlling interest	43	271	77	153
Share of results of equity investments	(367)	(122)	(830)	(409)
Income taxes	66	347	1,349	655
Financial expenses	387	118	889	522
Depreciation and amortization	672	451	2,541	1,490
EBITDA	1,275	2,679	7,148	4,988

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 nine-month period ended September 30, 2009 amounted to \$3.0 million, of which \$2.2 million was attributed to unitholders and \$0.8 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

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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.

For the first half of 2009, the Company had declared distributions to its unitholders and tracking shareholders as follows:

Unitholders

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

Distribution to Tracking Shareholders

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

Total

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

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 Company recently obtained the extension for an additional year as outlined in the credit agreement. The credit facility bears interest at various rates based on the prime rate or bankers' acceptances plus a premium varying with the level of key financial ratios achieved. In addition, the Company is subject to maintaining the usual debt to tangible net worth and fixed charge coverage ratios as well as certain other conditions. As at September 30, 2010 no amount was outstanding under the Credit Facility.

The Company's debt capitalization ratio stood at 0:100 as at September 30, 2010. Debt is calculated net of cash, and capital includes non-controlling interest. As at September 30, 2010, Hartco Inc. was in compliance with all its key financial and coverage ratios.

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

OUTSTANDING SHARE DATA

A summary of the changes to Hartco's share capital during the nine-month period ended September 30, 2010 is as follows:

Common Shares	Number of shares	Thousands of dollars
Balance outstanding as at December 31, 2009	13,540,690	48,535
Redeemed and cancelled shares	(186,825)	(668)
Balance outstanding as at September 30, 2010	13,353,865	47,867

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

	Quarter ended September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net earnings	474	1,614	3,122	2,577
Weighted average number of shares outstanding				
- basic	13,379,726	13,595,685	13,439,749	13,597,818
- diluted	13,806,408	14,116,652	13,860,647	13,772,112

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 September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
<i>(in thousands of dollars)</i>				
Accounts receivable - equity investments ⁽¹⁾	2,771	1,267	2,771	1,267
Revenues - equity investments ⁽¹⁾	10,743	1,801	27,241	6,822
Interest income - equity investments ⁽¹⁾	21	-	70	74
Accounts receivable - common controlled entity ⁽²⁾	-	4	-	4
Revenues - common controlled entity ⁽²⁾	60	4	667	94

(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 equity to which it sold products

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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 September 30, 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 September 30, 2010 and has concluded that such internal controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

There has been no change in the Company's internal control over financial reporting that occurred since the year ended December 31, 2009 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 September 30, 2010 accounts receivable totaled \$63.7 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 September 30, 2010 inventories totaled \$9.3 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. 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.

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. This section establishes standards for the preparation of 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. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

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 will

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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's 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 4th 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 were 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 (Cont'd)	Milestones/deadlines (Cont'd)	Effort accomplished/remaining effort to complete (Cont'd)
<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
Business Combinations and Basis of consolidation	<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>	The Company has finalized impact calculations of business combinations and basis of consolidation and based on preliminary analysis will no longer consolidate its VIE and will use equity accounting. This would have the impact of reducing revenues and EBITDA slightly but with no impact on net income
Property, plant and equipment	IFRS requires separate amortization of major components of an asset. This requirement being less explicit under Canadian GAAP, we identified a greater number of major components that will be amortized separately under IFRS	The Company has determined that it will re-evaluate its building and land at fair value and it will become its deemed cost. The Company has determined that there will be no significant impacts on the annual depreciation expense

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
November 11, 2010

Consolidated Statements of Earnings and Comprehensive Earnings

(unaudited)

For the quarters and nine-month periods ended September 30

(in thousands of dollars, except per share amounts)

	Quarter		Nine-month period	
	ended September 30		ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenues	112,962	99,041	351,473	317,005
Cost of sales and expenses (Note 3)	111,687	96,362	344,325	312,017
Earnings before the under-noted items	1,275	2,679	7,148	4,988
Depreciation and amortization	672	451	2,541	1,490
Operating income	603	2,228	4,607	3,498
Financial expenses (Note 4)	387	118	889	522
Earnings before income taxes, share of results of equity investments and non-controlling interest	216	2,110	3,718	2,976
Income tax expenses				
Current	3	74	606	74
Future	63	273	743	581
	66	347	1,349	655
Earnings before share of results of equity investments and non-controlling interest	150	1,763	2,369	2,321
Share of results of equity investments	367	122	830	409
Non-controlling interest	(43)	(271)	(77)	(153)
Net earnings and comprehensive income	474	1,614	3,122	2,577
Earnings per share (Note 6)				
Basic	0.04	0.12	0.23	0.19
Diluted	0.03	0.11	0.23	0.19

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

Consolidated Statements of Shareholders' Equity

(unaudited)

For the nine-month periods ended September 30

(in thousands of dollars)

	Shareholders' Capital (Note 9)	Contributed Surplus	Retained Earnings	2010 Shareholders' Equity Total
Balance at December 31, 2009	48,535	771	11,683	60,989
Net earnings for the nine-month period ended September 30, 2010	-	-	3,122	3,122
Stock based compensation (Note 9)	-	202	-	202
Redemption and cancellation of shares (Note 9)	(668)	43	-	(625)
Balance at September 30, 2010	47,867	1,016	14,805	63,688

	Shareholders' Capital (Note 9)	Contributed Surplus	Retained Earnings	2009 Shareholders' Equity Total
Balance at December 31, 2008	48,743	661	10,759	60,163
Net earnings for the nine-month period ended September 30, 2009	-	-	2,577	2,577
Stock based compensation (Note 9)	-	14	-	14
Redemption and cancellation of shares (Note 9)	(79)	31	-	(48)
Distributions				
Unitholders	-	-	(1,748)	(1,748)
Tracking shareholders	-	-	(585)	(585)
Balance at September 30, 2009	48,664	706	11,003	60,373

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

Consolidated Statements of Cash Flows

(unaudited)

For the quarters and nine-month periods ended September 30

(in thousands of dollars)

	Quarter ended September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash flows provided by (used in):				
Operating activities				
Net earnings	474	1,614	3,122	2,577
Adjustments for:				
Depreciation of property and equipment	501	360	1,984	1,100
Amortization of intangible assets	171	91	557	390
Amortisation of deferred financing costs	32	-	89	-
Loss on disposal of property and equipment	-	33	-	33
Stock based compensation expense (Note 9)	63	14	202	(4)
Future income taxes	63	273	743	581
Share of results of equity investments, net of dividends received	(367)	(122)	169	(159)
Non-controlling interest	43	271	77	153
	980	2,534	6,943	4,671
Change in non-cash working capital items (Note 7)	4,003	1,987	3,703	9,611
	4,983	4,521	10,646	14,282
Financing activities				
Distributions to unitholders and tracking shareholders (Note 9)	-	-	-	(3,000)
Deferred financing costs	-	(209)	(52)	(296)
Redemption of shares (Note 9)	(197)	(48)	(625)	(48)
	(197)	(257)	(677)	(3,344)
Investing activities				
Additions to property and equipment	(122)	(335)	(1,160)	(481)
Additions to intangible and other assets	(2,109)	(71)	(4,352)	(412)
Increase in long-term receivable	(642)	-	(642)	-
	(2,873)	(406)	(6,154)	(893)
Cash flow from continuing operations	1,913	3,858	3,815	10,045
Cash outflow from discontinued operations (Note 5)	-	(193)	(414)	(188)
Net change in cash	1,913	3,665	3,401	9,857
Cash, beginning of period	23,615	12,970	22,127	6,778
Cash, end of period	25,528	16,635	25,528	16,635

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

Consolidated Balance Sheets

(unaudited)
(in thousands of dollars)

	September 30, 2010 \$	December 31, 2009 \$	September 30, 2009 \$
Assets			
Current assets			
Cash	25,528	22,127	16,635
Accounts receivable	63,707	60,876	56,304
Inventories (Note 3)	9,293	10,599	11,212
Future income taxes	751	139	1,222
Current assets - discontinued operations (Note 5)	-	9	9
	99,279	93,750	85,382
Investments and long-term receivable	3,661	3,188	2,933
Property and equipment	6,425	7,249	7,881
Intangible and other assets	5,256	2,776	1,561
Future income taxes	-	1,356	819
Goodwill	4,815	4,815	4,815
	119,436	113,134	103,391
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	48,161	45,509	36,256
Deferred revenues	5,558	5,029	4,869
Income taxes payable	1,125	358	372
Current liabilities - discontinued operations (Note 5)	-	423	666
	54,844	51,319	42,163
Non-controlling interest	904	826	855
Guarantees and contingent liabilities (Note 10)			
Shareholders' Equity (Note 9)	63,688	60,989	60,373
	119,436	113,134	103,391

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 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.

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

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

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. 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.

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. This section establishes standards for the preparation of consolidated financial statements.

Notes to the Consolidated Financial Statements

(unaudited)

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

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. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

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 and nine-month periods ended September 30, 2010 and 2009, the following amounts of inventory were expensed:

	Quarter ended September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Purchases	78,168	71,161	252,988	227,095
Writedown for obsolescence and aging	151	343	277	881
Net change in inventories	2,364	(1,378)	1,375	140
Total inventory expense	80,683	70,126	254,640	228,116

The write-down in carrying value for the quarters and nine-month periods ended September 30, 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 September 30		Nine-month period ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Interest expense and other charges on credit facility	19	21	63	110
Other interest and bank charges	414	127	931	497
Interest income	(46)	(30)	(105)	(85)
	387	118	889	522

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.

Notes to the Consolidated Financial Statements

(unaudited)

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

Discontinued operations cash flow items were as follows:

	Quarter		Nine-month period	
	ended September 30		ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash flow used for operating activities	-	(193)	(414)	(188)
Cash flow used in investing activities	-	-	-	-
Cash flow provided by financing activities	-	-	-	-
	-	(193)	(414)	(188)

	September 30,	December 31,	As at
	2010	2009	September 30,
	\$	\$	2009
Assets			\$
Current assets			
Accounts receivable	-	9	9
Current assets of discontinued operations	-	9	9
Liabilities			
Current liabilities			
Vendors and other payable	-	8	19
Lease obligations	-	400	632
Deferred revenues	-	15	15
Current liabilities - discontinued operations	-	423	666
Net liabilities - discontinued operations	-	(414)	(657)

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		Nine-month period	
	ended September 30		ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net earnings	474	1,614	3,122	2,577
Weighted average number of shares outstanding				
- basic	13,379,726	13,595,685	13,439,749	13,597,818
- diluted	13,806,408	14,116,652	13,860,647	13,772,112

Notes to the 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		Nine-month period	
	ended September 30		ended September 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Accounts receivable	3,914	5,062	(2,831)	12,066
Inventories	2,438	2,752	1,306	7,385
Accounts payable and accrued liabilities	(3,020)	(5,847)	3,932	(10,344)
Deferred revenues	528	114	529	677
Income taxes payable	143	(94)	767	(173)
	4,003	1,987	3,703	9,611

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 September 30, 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 September 30, 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 nine-month periods ended September 30, 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	-	-

Common Shares	Number of shares	Thousands of dollars
Balance outstanding as at December 31, 2009	13,540,690	48,535
Redeemed and cancelled shares	(186,825)	(668)
Balance outstanding as at September 30, 2010	13,353,865	47,867

Notes to the Consolidated Financial Statements

(unaudited)

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

Redemption and Cancellation of Shares

During the third quarter of 2009, the Company launched a Normal Course Issuer Bid (“NCIB”). Under the NCIB, Hartco was entitled to repurchase for cancellation up to 679,944 common shares over the twelve-month period starting on August 28, 2009 and ended on August 27, 2010, representing 5% of Hartco’s issued and outstanding common shares. The purchases by Hartco were effected through the facilities of the Toronto Stock Exchange and are made at the market price of the common shares at the time of the purchase. On August 26, 2010 the Toronto Stock Exchange approved the renewal of Hartco’s normal course issuer bid (the “Bid”) to purchase for cancellation up to 5% of Hartco’s issued and outstanding common shares, or 668,554 common shares, through the facilities of the Toronto Stock Exchange over the twelve-month period starting on August 30, 2010 and ending on August 29, 2011. For the nine-month period ended September 30, 2010, the Company had repurchased and cancelled 186,825 shares at an average price of \$3.31 per share for a total of \$625,000. Since the launch of the NCIB on August 28, 2009, the Company repurchased and cancelled 245,025 shares at an average price of \$3.08 per share for a total of \$756,000.

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.

Notes to the Consolidated Financial Statements

(unaudited)

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

A summary of the activity related to the directors, officers and employees participating in the Stock Option Plan for the nine-month period ended September 30, 2010 is as follows:

	2010	
	Number of options	Weighted exercise price
Outstanding, December 31, 2009	987,668	\$2.18
Granted	100,000	\$3.60
Forfeited	(125,000)	\$2.18
Outstanding, September 30, 2010	962,668	\$2.33
Exercisable, September 30, 2010	179,334	\$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	
Grant date	August 10, 2010	August 13, 2009
Share price at grant date	\$3.60	\$2.18
Exercise price	\$3.60	\$2.18
Expected option life in years ⁽¹⁾	5 years	5 years
Risk free interest rate	1.73%	2.85%
Expected volatility	63%	42%
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%
Fair value of option	\$1.95	\$1.22

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

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

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

The resulting fair value is expensed over the service period of five years on the assumption that 0% of the options will lapse over the service period as employees leave the Company.

Stock based compensation expenses of \$202,000 are recorded in the nine-month period ended September 30, 2010 compared to \$14,000 during the nine-month period ended September 30, 2009 and are included in cost of sales and expenses.

Long Term Incentive Plan

In 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. in 2009. 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 nine-month periods ended September 30, 2009. As a result of the decrease of the market unit price, the Company reversed expenses of \$38,000 during the nine-month period ended September 30, 2009.

Notes to the Consolidated Financial Statements

(unaudited)

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

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 September 30, 2010, there were no amounts for which the Company could be called upon. In the event that the Company is called upon for one of the guarantee amounting to \$400,000, the Company may exercise its security against the assets of the franchisee to offset the amounts called under the guarantee. The other guarantee of \$150,000 is unsecured. If an amount becomes payable under one of the guarantees, it will be charged to earnings in the year in which the liability is likely to be incurred, and would correspond to the portion in excess of the net realizable value of the assets under security.

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 September 30, 2010, the maximum amount that would be payable under the guarantee of all inventories to be repurchased is \$1.5 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 September 30, 2010 compared to September 30, 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 the 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 7% of the total accounts receivable, compared to 3% last year.
- Approximately 80% (67% in 2009) of trade receivables are current, 11% (23% in 2009) past due less than 60 days and 9% (10% in 2009) past due over 60 days, net of allowance for doubtful accounts.
- The Company has established various internal controls designed to reduce credit risks, including a dedicated credit function. This function is responsible for analyzing and recommending customer credit limits. The Company also performs periodic reviews of customer credit worthiness.
- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable. Following the review of the current situation, a provision of \$0.2 million was taken during the third quarter of 2010; while a provision of \$0.1 million was taken during the nine-month period ended September 30, 2009.

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

b) Market Risks

i) Foreign Exchange Risk

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

ii) Interest Rate Risk

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

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fulfill its financial obligations as they become due. The Company manages liquidity risk through the management of its capital structure and financial leverage. It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the seasonality of the Company's revenues and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals for acquisitions or other major investments or divestitures. In recent years, the Company has financed its capacity expansion and sales growth mainly through internally generated funds, with a revolving credit facility (Note 8) being used periodically to finance the cash conversion cycle and seasonal peak working capital requirements.

d) Fair value

As at September 30, 2010 and September 30, 2009, the fair value of all financial instruments approximate their carrying values mainly due to their short term maturities.

Notes to the 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™ and MicroAge® which together include more than 50 locations from coast to coast. Segment revenues are comprised of product sales to franchisees and of royalties earned on franchisee sales. This segment also includes activities and expenses related to the Company corporate services.

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

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.

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(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:

Quarters ended September 30

	2010			2009		
	Franchising/ Distribution	Commercial	Total	Franchising/ Distribution	Commercial	Total
	\$	\$	\$	\$	\$	\$
Revenues	62,404	91,816	154,220	55,391	85,931	141,322
Royalties	472	-	472	450	-	450
Inter-segment transactions	(41,730)	-	(41,730)	(42,731)	-	(42,731)
	21,146	91,816	112,962	13,110	85,931	99,041
Cost of sales and expenses	61,911	49,776	111,687	55,550	40,812	96,362
Inter-segment transactions	(41,730)	41,730	-	(42,731)	42,731	-
	20,181	91,506	111,687	12,819	83,543	96,362
Operating income before the under-noted item	965	310	1,275	291	2,388	2,679
Depreciation and amortization	278	394	672	158	293	451
Operating income (loss)	687	(84)	603	133	2,095	2,228
Assets	35,047	84,389	119,436	36,830	66,552	103,382
Goodwill	-	4,815	4,815	-	4,815	4,815
Capital expenditures	2,109	122	2,231	75	331	406
Number of locations						
Beginning of period	40	14	54	45	15	60
Closed	-	-	-	-	-	-
End of period	40	14	54	45	15	60

Nine-month periods ended September 30

Revenues	211,716	285,939	497,655	190,187	268,638	458,825
Royalties	1,547	-	1,547	1,492	-	1,492
Inter-segment transactions	(147,729)	-	(147,729)	(143,312)	-	(143,312)
	65,534	285,939	351,473	48,367	268,638	317,005
Cost of sales and expenses	210,091	134,234	344,325	190,847	121,170	312,017
Inter-segment transactions	(147,729)	147,729	-	(143,312)	143,312	-
	62,362	281,963	344,325	47,535	264,482	312,017
Operating income before the under-noted item	3,172	3,976	7,148	832	4,156	4,988
Depreciation and amortization	876	1,665	2,541	596	894	1,490
Operating income	2,296	2,311	4,607	236	3,262	3,498
Assets	35,047	84,389	119,436	36,830	66,552	103,382
Goodwill	-	4,815	4,815	-	4,815	4,815
Capital expenditures	5,321	191	5,512	507	386	893
Number of locations						
Beginning of period	45	15	60	46	15	61
Opened	-	-	-	-	-	-
Closed	(5)	(1)	(6)	(1)	-	(1)
End of period	40	14	54	45	15	60