

Hartco

Q2

**SECOND QUARTER
UNAUDITED FINANCIAL STATEMENTS**
For the quarter and six-month period ended
June 30, 2011

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(unaudited)

For the quarters and six months ended June 30

(in thousands of dollars except for per share amounts)

	Quarter ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenues (Note 4)	115,460	114,322	230,809	235,178
Cost of sales (Note 11)	100,109	98,573	202,154	202,994
Gross Profit	15,351	15,749	28,655	32,184
Direct expenses	3,326	3,835	7,029	8,005
Marketing and selling expenses	5,982	5,833	11,994	11,553
General and administrative expenses	3,993	3,640	8,186	7,383
Other operating expenses	1,243	1,041	1,518	1,410
Gain on disposal of a service contract (Note 6)	-	-	(1,044)	-
Total operating expenses	14,544	14,349	27,683	28,351
Operating income	807	1,400	972	3,833
Financial income	(80)	(35)	(125)	(70)
Financial expenses	260	414	452	549
Net financial costs (Note 7)	180	379	327	479
Share of results of equity investments (net of income tax)	564	269	1,041	495
Earnings before income tax	1,191	1,290	1,686	3,849
Current income tax expense (recovery)	128	415	(300)	587
Deferred tax expense	184	132	747	668
Total Income tax expense	312	547	447	1,255
Net earnings and comprehensive income	879	743	1,239	2,594
Net earnings and comprehensive income attributable to:				
Equity holders of the company	879	743	1,239	2,594
Earnings per share (Note 8)				
Basic	0.07	0.06	0.09	0.19
Diluted	0.06	0.05	0.09	0.19

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the six months ended June 30

(in thousands of dollars)

Attributable to equity holders of the Company

	Share	Capital	Contributed Surplus	Retained Earnings	Total Equity
		\$	\$	\$	\$
Balance at January 1, 2010		22,230	771	39,115	62,116
Net earnings and comprehensive income for the six-month period ended June 30, 2010		-	-	2,594	2,594
Transactions with holders, recorded directly in equity					
Redemption and cancellation of shares (Note 15)		(466)	38	-	(428)
Share based compensation (Note 15)		-	139	-	139
Balance at June 30, 2010		21,764	948	41,709	64,421
Balance at January 1, 2011		21,498	1,102	46,179	68,779
Net earnings and comprehensive income for the six-month period ended June 30, 2011		-	-	1,239	1,239
Transactions with holders, recorded directly in equity					
Redemption and cancellation of shares (Note 15)		(240)	(6)	-	(246)
Share based compensation (Note 15)		-	117	-	117
Share options exercised (Note 15)		33	-	-	33
Balance at June 30, 2011		21,291	1,213	47,418	69,922

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For the quarters and six months ended June 30

(in thousands of dollars)

	Quarter ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash flows provided by (used in):				
Operating activities				
Net earnings	879	743	1,239	2,594
Adjustments for:				
Depreciation of property and equipment	313	726	498	1,479
Amortization of intangible assets	7	189	31	386
Write-off of intangible assets	416	-	416	-
Amortization of deferred financing costs	31	31	62	58
Share based compensation expense	53	69	117	139
Deferred income tax expense	184	132	747	668
Current income tax expense (recovery)	128	415	(300)	587
Financial income	(80)	(35)	(125)	(70)
Gain on disposal of a service contract (Note 6)	-	-	(1,044)	-
Share of results of equity investments (net of income tax)	(564)	(269)	(1,041)	(495)
	1,367	2,001	600	5,346
Change in non-cash working capital items (Note 9)	(12,167)	689	(16,530)	(819)
Income taxes paid	(36)	(131)	(110)	(88)
	(10,836)	2,559	(16,040)	4,439
Financing activities				
Deferred financing costs	-	(36)	-	(52)
Redemption of shares (Note 15)	(129)	(191)	(246)	(428)
Share options exercised	-	-	33	-
	(129)	(227)	(213)	(480)
Investing activities				
Additions to property and equipment	(47)	(1,046)	(158)	(1,057)
Additions to intangible assets	(376)	(1,463)	(1,217)	(2,244)
Proceeds from disposal of a service contract (Note 6)	-	-	1,500	-
Proceeds from disposal of an equity investment (Note 13)	300	-	300	-
Increase in long-term receivable	-	(9)	-	(9)
Decrease in long-term loan receivable (Note 12)	64	-	80	-
Financial income received	80	35	125	70
Dividend received from equity investment	750	-	750	1,000
	771	(2,483)	1,380	(2,240)
Net change in cash	(10,194)	(151)	(14,873)	1,719
Cash, beginning of period	19,563	23,682	24,242	21,812
Cash, end of period	9,369	23,531	9,369	23,531

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

BALANCE SHEET

(unaudited)

As at

(in thousands of dollars)

	June 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Assets			
Current assets			
Cash	9,369	24,242	21,812
Trade and other receivables (Note 10)	81,877	68,202	60,526
Inventories (Note 11)	11,208	10,197	10,043
	102,454	102,641	92,381
Loans and other assets (Note 12)	2,011	1,830	1,250
Property and equipment	7,267	7,637	8,672
Intangible assets	10,988	10,719	7,038
Equity Investments (Note 13)	2,662	3,517	953
Deferred tax assets	-	1,424	3,034
	125,382	127,768	113,328
Liabilities			
Current liabilities			
Trade and other payables	48,871	50,830	46,422
Deferred revenue	5,129	5,612	4,319
Income taxes payable	176	586	471
	54,176	57,028	51,212
Deferred tax liabilities	1,284	1,961	-
Equity attributable to equity holders of the Company (Note 15)			
Share Capital	21,291	21,498	22,230
Contributed surplus	1,213	1,102	771
Retained Earnings	47,418	46,179	39,115
	69,922	68,779	62,116
Guarantees and contingent liabilities (Note 16)			
	125,382	127,768	113,328

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”) is a company domiciled in Canada, incorporated under the Canada Business Corporations Act on February 17, 2009 and is listed under the symbol HCI on the TSX. Hartco has been in the IT industry for more than 30 years. The address of the Company’s registered office is 9393 Louis H. Lafontaine Blvd, Montreal, Quebec, H1J 1Y8. The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiaries, and the Company’s interest in equity investments (together referred as the “Group” and individually as “Group entities”).

Through its operating divisions, which together include 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. Reportable segments are described in Note 18.

2. BASIS OF PREPARATION

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting. They are prepared in accordance with the accounting policies we expect to adopt in our consolidated financial statements for the year ending December 31, 2011, which are described in note 3 of our interim financial statements for the quarter ended June 30, 2011. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 20. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 11, 2011.

These condensed consolidated interim financial statements have not been reviewed by the Company’s auditors.

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian Dollars, which is the Company’s functional currency.

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the

Notes to the consolidated financial statements

(unaudited)

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

financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements includes:

- Determination of the relationship between the Company and its subsidiary is such that the Company does not control and therefore is no longer consolidated (Note 20).

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the consolidated financial statements is included in Note 3:

- Inventory valuation
- Provisions for uncollectible receivables and loans
- Income tax payable (receivable)
- Valuation of deferred tax assets
- Impairment of property and equipment, and intangible assets
- Revenues
- Useful lives of assets

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

ii) Equity Investments

Equity investments include companies over which the Company has significant influence, but does not have control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

The Company holds an equity interest in two franchisees that are accounted for using the equity method. The Company's investment includes its portion of goodwill identified on acquisition, being the excess of the initial purchase price paid over the fair value of the assets acquired. The consolidated financial statements include the Company's share of the income and expenses and equity movements of the equity investment, after

Notes to the consolidated financial statements

(unaudited)

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

adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

iii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity investments are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Inventories

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

c) Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is an integral part to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are reported net within general and administrative expenses in earnings.

ii) Subsequent Costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of earnings and comprehensive income as incurred.

iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Notes to the consolidated financial statements

(unaudited)

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

Depreciation is recognized in profit or loss on either a straight-line basis over the estimated useful lives of each part of an item of property and equipment, or on a diminishing balance basis, whichever is seen as most closely reflecting the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

The estimated useful lives of the current and comparative periods are as follows:

Building	declining	4%
Furniture and equipment	straight-line	5 years
Rolling stock	straight-line	3 years
Computer equipment	straight-line	3 years

Depreciation methods, useful lives and residual values are reviewed at each financial reporting period and adjusted if appropriate.

d) Intangible assets

i) Goodwill

Acquisitions prior to January 1, 2010

As described in Note [20 (a)], as part of its transition to IFRSs, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Company's previous accounting framework, Canadian GAAP.

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, goodwill represents the excess of the fair value of the consideration transferred over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is not recognized in respect of non-controlling interests. When the excess is negative (negative goodwill), it is recognized immediately in earnings.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

ii) Other intangible assets

Internal use software is recorded at original cost less accumulated amortization and accumulated impairment losses and is amortized using the straight-line method over five

Notes to the consolidated financial statements

(unaudited)

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

years from the date they are available for use. Included in internal use software are costs capitalized related to internally generated intangible assets.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in earnings as incurred.

e) Impairment

i) Financial assets

Financial assets and liabilities are defined in Note 3 o) i).

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in earnings.

ii) Non-Financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year in the fourth quarter.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from

Notes to the consolidated financial statements

(unaudited)

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

continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit, or CGU”). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to a CGU or groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an equity investment is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the equity investment is tested for impairment as a single asset when there is objective evidence that the equity investment may be impaired.

f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as financial income or expense. The Company does not currently have significant provisions recognized in its financial statements.

g) Foreign Currency

Monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars using the reporting date exchange rate. Revenues and expenses are translated at the exchange rate on the day of the transaction. Gains and losses on translation are included in profit or loss.

h) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and customer volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured

Notes to the consolidated financial statements

(unaudited)

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

reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

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

i) Employee Benefits

i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus plan if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

ii) Share-based compensation transactions

The grant date fair value of options granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the number of share options for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of share options that do meet the related service performance conditions at the vesting date.

j) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Leases are operating leases and the leased assets are not recognized in the Company's balance sheet as the Company does not assume substantially all the risks and rewards of ownership of the leased assets.

k) Financial income and expenses

Financial income comprises interest income on loans receivable. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Financial expenses comprise interest expense on the credit facility, impairment losses recognized on financial assets and other interest, bank charges and amortization of deferred financing costs. They are being amortized on a straight-line basis over the estimated life of the credit facility. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in earnings using the effective interest method. The Company did not have any qualifying assets in 2010 and 2011.

Notes to the consolidated financial statements

(unaudited)

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

Foreign currency gains and losses are reported on a net basis in earnings.

l) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and equity investments to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

m) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the total earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for treasury shares. Diluted EPS is determined by adjusting the total earnings attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for treasury shares, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

n) Segment reporting

A reportable segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All reportable segment's operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Notes to the consolidated financial statements

(unaudited)

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

Segment capital expenditure is the total cost incurred during the period to acquire non-current assets, other than financial instruments and deferred tax assets.

o) Financial Instruments

i) Financial assets and liabilities

The Company only has non-derivative financial assets and liabilities. The Company's has the following non-derivative financial assets: financial assets at fair value through profit and loss and loans and receivables. The Company has the following non-derivative financial liabilities: borrowing under the credit facility, trade and other payables, provisions and dividends payable.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise cash, trade and other receivables and loans receivable. The carrying value of these financial assets is reduced by any impairment loss.

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

Transaction costs related to financial assets at fair value through profit and loss are expensed as incurred. Transaction costs related to other liabilities and loans and receivables are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

Accounting for financial income and expenses is discussed in Note 3 k).

ii) Share Capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effect.

Repurchase of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effect, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from equity.

Notes to the consolidated financial statements

(unaudited)

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

p) Adoption of new accounting policies

The new IFRS 9 changes guidance relating to classification and measurement presented in IAS 39 as regards financial assets. An entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of the entity's business model for managing the financial assets and contractual cash flows of the financial asset. A financial asset is measured at amortized cost if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an "accounting mismatch". This standard will be effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company expects to adopt this new standard as from its effective date. The Company considers that the adoption of this standard will not have any significant impact on its consolidated financial statements.

4. REVENUES

	Quarter ended		Six-month period ended	
	June 30		June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Sale of goods	91,929	91,845	183,103	192,133
Consulting and service contracts	22,836	21,865	46,385	41,723
Royalties	695	612	1,321	1,322
Total revenues	115,460	114,322	230,809	235,178

5. EMPLOYEE BENEFITS

	Quarter ended		Six-month period ended	
	June 30		June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short-term employee benefits	17 333	17 835	37 186	36 874
Termination benefits	481	486	586	612
Share based compensation expense	53	69	117	139
	17 867	18 390	37 889	37 625

Notes to the consolidated financial statements

(unaudited)

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

6. GAIN ON DISPOSAL OF A SERVICE CONTRACT

The Company sold an advanced connectivity service contract for \$1,500,000 on March 31, 2011. The gain, net of related expenses and goodwill, is \$1,044,000. The sale agreement provides for an additional sale consideration of \$2,000,000 contingent on specified future events to be confirmed during 2011.

7. NET FINANCIAL COSTS

	Quarter ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Interest income on loans and receivables	(24)	(35)	(58)	(69)
Interest income on bank deposits	(56)	-	(67)	(1)
Financial income	(80)	(35)	(125)	(70)
Interest expense on credit facility	26	67	49	88
Other interest and bank charges	203	316	341	403
Amortization of deferred financing costs	31	31	62	58
Financial expenses	260	414	452	549
Net financial costs	180	379	327	479

8. EARNINGS PER SHARE

	Quarter ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Net earnings attributable to common shareholders	879	743	1,239	2,594
(in thousands of shares)				
Weighted average number of common shares	13,303	13,435	13,315	13,470
Dilutive effect of stock options	968	414	977	418
Weighted average number of diluted shares	14,271	13,849	14,292	13,888
Number of anti-dilutive stock options excluded from fully diluted earnings per share calculation	-	-	-	-

Notes to the consolidated financial statements

(unaudited)

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

9. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Quarter ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Trade and other receivables	(7,964)	7,528	(13,219)	(4,270)
Inventories	(353)	(750)	(1,033)	(1,150)
Trade and other payables	(2,998)	(5,682)	(1,795)	4,760
Deferred revenues	(852)	(407)	(483)	(159)
	(12,167)	689	(16,530)	(819)

10. TRADE AND OTHER RECEIVABLES

	June 30 2011	December 31 2010	January 1, 2010
	\$	\$	\$
Trade receivables	70,469	57,172	49,185
Trade receivable - equity investments ⁽¹⁾	883	3,060	2,347
Prepayments	807	1,185	1,498
Accrued receivables and other	9,718	6,785	7,496
	81,877	68,202	60,526

⁽¹⁾ Refer to related party transactions (Note 17).

11. INVENTORIES

	Quarter ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Purchases	82,175	81,562	164,765	172,296
Write-down for obsolescence and aging	7	62	30	145
Net change in inventories	(434)	712	(936)	(977)
Total inventory expense	81,748	82,336	163,859	171,464

All inventories are stated at the lower of cost and net realizable value.

The write-down in carrying value was for slow-moving inventory. The write-down and reversal are included in cost of sales.

Notes to the consolidated financial statements

(unaudited)

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

12. LOANS AND OTHER ASSETS

	June 30, 2011	December 31, 2010	January 1, 2011
	\$	\$	\$
Loan receivable - equity investment company	980	980	980
Long-term receivables	892	649	-
Deferred financing costs	139	201	270
	2,011	1,830	1,250

The loan receivable from one of its equity investment companies bears interest of 10% and is without specific terms of repayment and is secured by the assets of the equity investment company.

Long-term receivables include an amount due from a customer and a balance on the disposal of an equity investment. The amount due from a customer, as part of its normal operations, bears interest at 4.5% and is receivable in monthly installments of \$10,000. The short term portion amounts to \$128,000 as at June 30, 2011 (nil in 2010). The balance on disposal of an equity investment amounts to \$847,000 and bears interest at the Bank of Montreal prime rate plus 2%. The short-term portion amounts to \$523,000 as at June 30, 2011. An amount of \$200,000 was collected in July 2011 and the balance is receivable on March 30, 2012. The long-term portion amounts to \$323,000 and is receivable on March 29, 2013.

Deferred financing costs include mostly legal fees and are amortized over the renewal period of the credit facility.

13. EQUITY INVESTMENTS

Equity investments are franchisees in which the Company holds an equity interest.

During the sixth-month period ended June 30, 2011, the Company received \$750,000 in dividends (\$1,000,000 for the six-month period ended June 30, 2010) from one of its equity investment.

Summary financial information for equity investments, not adjusted for the percentage ownership held by the Company:

	June 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Equity Investments Ownership	50%	50%	50%
Total Assets	10,643	16,519	14,015
Total Liabilities	5,692	9,817	8,276
Revenues	23,967	92,146	N/A
Net Earnings	1,724	2,964	N/A

The cost of the equity investments at the time of purchase amounted to \$1,673,000. Since acquisition, the share of results of the equity investments amounted to \$4,738,000 and dividends received amounted to \$3,750,000.

As at June 30, 2011, the Company sold its 50% interest in one of its equity investment for \$1,146,000, which represents the equivalent of the investment's book value. The balance of sale of \$847,000 is included in long-term receivables (Note 12) as at June 30, 2011.

Notes to the consolidated financial statements

(unaudited)

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

14. 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 June 30, 2011 and as at June 30, 2010. In addition, the Company is subject to maintain the usual debt to tangible net worth and fixed charge coverage ratios. As at June 30, 2011 and 2010, Hartco Inc. was in compliance with the financial covenants. There was no interest paid during the six-month period ended June 30, 2011 (nil for 2010).

15. EQUITY

Share Capital

Common Shares

Authorized:

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

Preferred Shares

Authorized:

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

Issued:

No preferred shares have been issued

Issued and fully paid:	Number of shares	\$
Balance outstanding as at January 1, 2010	13,540,690	22,230
Redeemed and cancelled shares	(207,070)	(740)
Share options exercised	3,594	8
Balance outstanding as at December 31, 2010	13,337,214	21,498
Redeemed and cancelled shares	(67,095)	(240)
Share options exercised	15,000	33
Balance outstanding as at June 30, 2011	13,285,119	21,291

Redemption and Cancellation of Shares

On August 26, 2010 the Toronto Stock Exchange approved the renewal of Hartco's normal course issuer bid ("NCIB") to purchase for cancellation up to 5% of Hartco's issued and outstanding common shares, or 668,554 common shares, through the facilities of the Toronto Stock Exchange over the twelve-month period starting on August 30, 2010 and ending on August 29, 2011.

For the six-month period ended June 30, 2011, the Company had repurchased and cancelled 67,095 shares at an average price of \$3.66 per share for a total of \$246,000 compared to 131,800 shares at an average price of \$3.25 for the six-month period ended June 30, 2010 for a total of \$428,000.

Notes to the consolidated financial statements

(unaudited)

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

Stock option plan

A summary of the activity and other information related to the Stock Option Plan for the six-month period ended June 30, 2011 and 2010 is as follows:

	2011		2010	
	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Outstanding, beginning of year	990,740	\$2.37	987,668	\$2.18
Granted	50,000	\$3.85	-	-
Forfeited	(60,000)	\$2.18	-	-
Exercised	(15,000)	\$2.18	-	-
Outstanding, end of period	965,740	\$2.46	987,668	\$2.18
Exercisable, end of period	306,548	\$2.29	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:

	Stock Option Plan
Grant date	May 4, 2011
Share price at grant date	\$3.85
Exercise price	\$3.85
Expected option life in years ⁽¹⁾	5 years
Risk free interest rate	1.92%
Expected volatility	25%
Expected dividend yield	0%
Forfeiture rate	0%
Fair value per option	\$1.02

(1) The contractual life of all the options granted is 10 years. The remaining life of these options is between 8 years and 2 months and 9 years and 11 months.

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

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

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

Share based compensation expense amounted to \$117,000 for the period ended June 30, 2011 and \$139,000 during the period ended June 30, 2010 and is included in general and administrative expenses.

16. GUARANTEES AND CONTINGENT LIABILITIES

Guarantees

The Company, through its subsidiary, Hartco Distribution LP, has guaranteed a third party financial institution of a franchisee, to a maximum of \$400,000. At June 30, 2011, there were no amounts for which the Company could be called upon. In the event that the Company is called upon for this guarantee, the

Notes to the consolidated financial statements

(unaudited)

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

Company may exercise its security against the assets of the franchisee to offset the amounts called under the guarantee. If an amount becomes payable under this guarantee, it will be charged to earnings in the year in which the liability is likely to be incurred, and would correspond to the portion in excess of the net realizable value of the assets under security.

The 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 June 30, 2011, the maximum amount that would be payable under the guarantee of all inventories to be repurchased is \$1.4 million. In the event that the Company is called upon under these commitments, the inventory would be sold in the normal course of business.

Contingencies

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.

17. RELATED PARTIES

Parent and ultimate controlling party

The Company is controlled by Consolco Inc., H & N Family Subco Inc. and Ackren Ltd., which own jointly 62.37% of the Company's shares, Boston Avenue Capital LLC owns 18.23% and officers and directors own 4.26% of the Company's shares. The remaining 15.15% is widely held. The ultimate controlling party of the Company is Mr. Harry Hart, the Chairman and CEO of the Company.

Transactions with key management personnel

Key management personnel compensation

Directors and officers participate in the Company's stock option plan (see Note 15).

Key management personnel compensation comprised:

	Quarter ended June 30		Six-month period ended June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and other short-term employee benefits	1,183	1,096	2,324	2,225
Share based compensation expense	53	69	117	139
	1,236	1,165	2,441	2,364

Other Related Party Transactions

Transactions with related parties occurred within the normal course of business and are priced on an arm's length basis and are to be settled in cash normally within 30 days of the reporting date.

These transactions and account balances were as follows:

Notes to the consolidated financial statements

(unaudited)

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

	Quarter ended		Six-month period ended	
	June 30		June 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Accounts receivable - equity investments ⁽¹⁾	883	5,380	883	5,380
Revenue - equity investments ⁽¹⁾	3,326	17,960	6,713	30,245
Interest income - equity investments ⁽¹⁾	46	32	73	65
Accounts receivable - common controlled entity ⁽²⁾	1	98	1	98
Revenue - common controlled entity ⁽²⁾	1	598	14	609

(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 products from Hartco under normal terms and conditions, while interest income was earned on interest bearing loans and advances.

(2) Transactions with common controlled entity.

Hartco is related, through its majority shareholder, to an entity to which it sold products.

18. REPORTABLE SEGMENTS

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

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

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

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

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

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

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

Notes to the consolidated financial statements

(unaudited)

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

Quarters ended

	June 30, 2011				June 30, 2010			
	Segment				Segment			
	Franchising/ Distribution	Commercial	Corporate	Total	Franchising/ Distribution	Commercial	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	65,734	93,553	-	159,287	74,306	87,356	-	161,662
Royalties	695	-	-	695	612	-	-	612
Inter-segment transactions	(44,522)	-	-	(44,522)	(47,952)	-	-	(47,952)
	21,907	93,553	-	115,460	26,966	87,356	-	114,322
Cost of sales and expenses	64,047	91,235	3,573	158,855	72,315	84,472	3,172	159,959
Inter-segment transactions	(43,822)	1,497	(2,197)	(44,522)	(47,406)	1,443	(1,989)	(47,952)
	20,225	92,732	1,376	114,333	24,909	85,915	1,183	112,007
Operating income before the undernoted item	1,682	821	(1,376)	1,127	2,057	1,441	(1,183)	2,315
Depreciation and amortization	94	213	13	320	295	587	33	915
Reportable segment operating income	1,588	608	(1,389)	807	1,762	854	(1,216)	1,400
Number of locations								
Beginning of quarter	42	9	-	51	48	12	-	60
Disposed	(1)	-	-	(1)	(5)	(1)	-	(6)
End of quarter	41	9	-	50	43	11	-	54

Six-month periods ended

	June 30, 2011				June 30, 2010			
	Segment				Segment			
	Franchising/ Distribution	Commercial	Corporate	Total	Franchising/ Distribution	Commercial	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	129,166	184,960	-	314,126	149,312	181,647	-	330,959
Royalties	1,321	-	-	1,321	1,322	-	-	1,322
Inter-segment transactions	(84,638)	-	-	(84,638)	(97,103)	-	-	(97,103)
	45,849	184,960	-	230,809	53,531	181,647	-	235,178
Cost of sales and expenses	126,505	180,620	6,821	313,946	145,193	175,518	5,872	326,583
Inter-segment transactions	(83,239)	2,993	(4,392)	(84,638)	(96,011)	2,886	(3,978)	(97,103)
	43,266	183,613	2,429	229,308	49,182	178,404	1,894	229,480
Operating income before the undernoted item	2,583	1,347	(2,429)	1,501	4,349	3,243	(1,894)	5,698
Depreciation and amortization	194	322	13	529	616	1,202	47	1,865
Reportable segment operating income	2,389	1,025	(2,442)	972	3,733	2,041	(1,941)	3,833
Number of locations								
Beginning of period	42	12	-	54	48	12	-	60
Disposed	(1)	(3)	-	(4)	(5)	(1)	-	(6)
End of period	41	9	-	50	43	11	-	54

19. EVENTS AFTER THE REPORTING DATE

In July 2011, Hartco announced a \$6.0 million investment in cash in ScreenScape Networks Inc. ("ScreenScape"), an online service for engaging audiences in public places through the use of Internet-enabled digital displays.

Notes to the consolidated financial statements

(unaudited)

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

20. ADOPTION OF IFRS

The significant optional exemptions and mandatory exceptions applied for the first time adoption of IFRS are summarized in note 19 of our audited consolidated interim financial statements for the quarter ended March 31, 2011.

The accounting policies set out in Note 3 have been applied in preparing the condensed consolidated interim financial statements for the six-month period ended June 30, 2011, the comparative information presented in these interim financial statements for the quarter and six-month period ended June 30, 2010 and the year ended December 31, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the presentation of the Company's financial position, cash flows and financial performance is set out in the following tables and the notes that accompany the tables.

Notes to the consolidated financial statements

(unaudited)

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

	Note	January 1, 2010			June 30, 2010			December 31, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets										
Current assets										
Cash	(b)	22,127	(315)	21,812	23,615	(84)	23,531	24,356	(114)	24,242
Trade and other receivables	(b), (m)	60,876	(350)	60,526	67,621	(2,825)	64,796	70,953	(2,751)	68,202
Inventories	(b)	10,599	(556)	10,043	11,731	(538)	11,193	10,584	(387)	10,197
Deferred tax assets	(b), (e)	139	(139)	-	-	-	-	8	(8)	-
Current assets - disc. ops		9	(9)	-	-	-	-	-	-	-
		93,750	(1,369)	92,381	102,967	(3,447)	99,520	105,901	(3,260)	102,641
Loans and other assets	(f)	3,188	(1,938)	1,250	2,652	(1,390)	1,262	4,129	(2,299)	1,830
Property and equipment	(b), (i)	7,249	1,423	8,672	6,836	1,412	8,248	6,236	1,401	7,637
Intangible assets	(j)	2,776	4,262	7,038	3,926	4,268	8,194	6,388	4,331	10,719
Deferred tax assets	(d), (e)	1,356	(403)	953	814	(530)	284	1,978	(554)	1,424
Equity investments	(b), (c), (f)	-	3,034	3,034	-	2,532	2,532	-	3,517	3,517
Goodwill	(b), (j)	4,815	(4,815)	-	4,815	(4,815)	-	4,815	(4,815)	-
Total Assets		113,134	194	113,328	122,010	(1,970)	120,040	129,447	(1,679)	127,768
Liabilities										
Current liabilities										
Trade and other payables	(b), (m)	45,509	913	46,422	51,790	(1,301)	50,489	51,993	(1,163)	50,830
Deferred revenues	(b)	5,029	(710)	4,319	5,030	(870)	4,160	6,196	(584)	5,612
Income taxes payable	(b)	358	113	471	982	(12)	970	535	51	586
Deferred tax liabilities	(e)	-	-	-	-	-	-	1,961	(1,961)	-
Current liabilities - disc. Ops.		423	(423)	-	-	-	-	-	-	-
		51,319	(107)	51,212	57,802	(2,183)	55,619	60,685	(3,657)	57,028
Deferred tax liabilities	(e)	-	-	-	-	-	-	-	1,961	1,961
Total Liabilities		51,319	(107)	51,212	57,802	(2,183)	55,619	60,685	(1,696)	58,989
Non controlling interest	(b), (g)	826	(826)	-	860	(860)	-	973	(973)	-
Equity										
Share Capital	(k)	48,535	(26,305)	22,230	48,069	(26,305)	21,764	47,803	(26,305)	21,498
Contributed surplus		771	-	771	948	-	948	1,102	-	1,102
Retained Earnings	(k), (l)	11,683	27,432	39,115	14,331	27,378	41,709	18,884	27,295	46,179
Total equity attributable to equity-holders of the Company		60,989	1,127	62,116	63,348	1,073	64,421	67,789	990	68,779
Total Equity		61,815	301	62,116	64,208	213	64,421	68,762	17	68,779
Total Liabilities and Equity		113,134	194	113,328	122,010	(1,970)	120,040	129,447	(1,679)	127,768

Notes to the consolidated financial statements

(unaudited)

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

	Note	Quarter ended June 30, 2010			Six-months period ended June 30, 2010			Year ended December 31, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	(c), (h)	115,882	(1,560)	114,322	238,511	(3,333)	235,178	471,732	(6,426)	465,306
Cost of sales	(c), (h)	-	98,573	98,573	-	202,994	202,994	-	402,236	402,236
Gross profit		115,882	(100,133)	15,749	238,511	(206,327)	32,184	471,732	(408,662)	63,070
Cost of sales and expenses	(h)	113,457	(113,457)	-	232,637	(232,637)	-	459,969	(459,969)	-
Direct expenses	(h)	-	3,835	3,835	-	8,005	8,005	-	15,567	15,567
Marketing and selling expenses	(h)	-	5,833	5,833	-	11,553	11,553	-	22,686	22,686
General and administrative expenses	(h)	-	3,640	3,640	-	7,383	7,383	-	14,692	14,692
Other operating expenses	(h)	-	1,041	1,041	-	1,410	1,410	-	2,073	2,073
Depreciation and amortization	(c), (h)	916	(916)	-	1,869	(1,869)	-	3,203	(3,203)	-
Operating income		1,509	(109)	1,400	4,005	(172)	3,833	8,560	(508)	8,052
Financial income	(c)	(30)	(5)	(35)	(61)	(9)	(70)	(219)	2	(217)
Financial costs	(c)	422	(8)	414	564	(15)	549	1,222	(44)	1,178
Net finance costs		392	(13)	379	503	(24)	479	1,003	(42)	961
Share of results of equity investments (net of income tax)	(f)	-	269	269	-	495	495	-	1,482	1,482
Earnings before income tax		1,117	173	1,290	3,502	347	3,849	7,557	1,016	8,573
Income tax expense	(c), (i)	581	(34)	547	1,284	(29)	1,255	1,551	(51)	1,500
Share of results of equity investments (net of income tax)	(c), (f)	250	(250)	-	464	(464)	-	1,342	(1,342)	-
Non-controlling interest	(g)	(20)	20	-	(34)	34	-	(147)	147	-
Net earnings and comprehensive income		766	(23)	743	2,648	(54)	2,594	7,201	(128)	7,073
Net earnings and comprehensive income attributable to:										
Equity holders of the company	(g)	746	(3)	743	2,614	(20)	2,594	7,054	19	7,073
Non-controlling interest	(g)	20	(20)	-	34	(34)	-	147	(147)	-
Net earnings and comprehensive income		766	(23)	743	2,648	(54)	2,594	7,201	(128)	7,073
Earnings per share										
Basic		0.06	-	0.06	0.20	(0.01)	0.19	0.54	(0.01)	0.53
Diluted		0.06	(0.01)	0.05	0.19	-	0.19	0.50	(0.01)	0.49

Notes to the consolidated financial statements

(unaudited)

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

Notes to the reconciliation of equity and earnings

The impact on deferred tax of the adjustments described below is set out in note (e).

- (a) The Company has elected under IFRS 1, First time adoption of IFRS (“IFRS 1”) not to apply IFRS 3 Business Combinations (“IFRS 3”) retrospectively to business combinations that occurred prior to January 1, 2010 (the date of transition to IFRS). Accordingly, the Company has continued with the same accounting treatment of the business combinations under Canadian GAAP.
- (b) The Company previously consolidated its interests in a franchisee which was a variable interest entity under Canadian GAAP. Under IFRS, the Company does not control the franchisee and as a result, it is no longer consolidated. The effect is as follows to the balance sheets as at January 1, 2010, June 30, 2010 and December 31, 2010:

	Increase (Decrease)		
	January 1, 2010	June 30, 2010	December 31, 2010
	\$	\$	\$
Cash	(315)	(84)	(114)
Trade and other receivables	(2,130)	(5,005)	(2,702)
Inventories	(556)	(538)	(387)
Deferred tax assets	33	33	19
Property and equipment	(279)	(224)	(169)
Equity investments	826	860	967
Goodwill	(283)	(283)	(283)
Trade and other payables	(1,281)	(3,499)	(1,163)
Deferred revenues	(710)	(870)	(584)
Income taxes payable	113	(12)	51
Non controlling interest	(826)	(860)	(973)

- (c) Equity investments include the investment in a franchisee that was a variable interest entity under Canadian GAAP. Under IFRS the Company does not control the franchisee, and as a result is no longer consolidated. The share of its profits and losses are now accounted for under equity investments. The effect is as follows on the profit and loss for the quarter and six-month period ended June 30, 2010 and for the year ended December 31, 2010;

Notes to the consolidated financial statements

(unaudited)

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

	Increase (Decrease) Quarter ended June 30, 2010 \$	Increase (Decrease) Six-month period ended June 30, 2010 \$	Increase (Decrease) Year ended December 31, 2010 \$
Revenues	(2,349)	(4,878)	(9,558)
Cost of sales	(1,211)	(2,549)	(4,961)
Gross profit	(1,138)	(2,329)	(4,597)
Direct expenses	(246)	(530)	(1,008)
Marketing and selling expenses	(481)	(992)	(1,987)
General and administrative expenses	(298)	(630)	(1,055)
Other operating expenses	(1)	(2)	(37)
Depreciation and amortization	(35)	(69)	(135)
Operating income	(77)	(106)	(375)
Financial income	-	2	2
Financial costs	(13)	(26)	(44)
Net finance costs	(13)	(24)	(42)
Earnings before income tax	(64)	(82)	(333)
Income tax expense	(28)	(16)	(54)
Net earnings and comprehensive income	(36)	(66)	(279)

- (d) The changes described in note (i) and in note (c) decreased the deferred tax asset as follows based on a tax rate of approximately 28 percent:

	<i>Note</i>	January 1, 2010 \$	December 31, 2010 \$
Equity investments	(b)	(203)	(255)
Property and equipment	(i)	(372)	(325)
Decrease in deferred tax asset		(575)	(580)

The effect on the statement of earnings for the year ended December 31, 2010 was to decrease the previously reported tax expense for the year by \$51,000 and increase the tax expense for the quarter ended June 30, 2010 by \$34,000 and \$29,000 for the six month period ended June 30, 2010.

- (e) Under IFRSs, all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary differences and as a result there was a reclass of \$1,961,000 from current deferred tax liability to non-current deferred tax liability at December 31, 2010.

The effect is to reclass \$139,000 at January 1, 2010 and \$8,000 at December 31, 2010 from current deferred tax assets to non-current deferred tax assets.

- (f) Under IFRS, equity investments must be presented as a separate line item on the balance sheet, whereas under Canadian GAAP, equity investments were presented with loans and other assets. Upon transition to IFRS, these items have been reclassified to be shown separately. Under Canadian GAAP, the share of results from equity investment is presented below the tax expense whereas under IFRS it is included in the subtotal earnings before tax. Upon transition to IFRS, this item has been reclassified.
- (g) Under IFRSs, non-controlling interests of nil are presented on the Company's balance sheet and statement of comprehensive income since the Company no longer consolidates its interest in a franchisee (see note (c) above).

Notes to the consolidated financial statements

(unaudited)

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

- (h) The Company previously classified Depreciation and Amortization of \$ 3,203,000 for the year ended December 31, 2010 and \$916,000 for the quarter ended June 30, 2010 and \$1,869,000 for the six-month period ended June 30, 2010 separate from cost of sales, direct, marketing and selling, general and administrative expenses, and other operating expenses under Canadian GAAP. In accordance with IFRSs and the Company's accounting policy which is to classify expenses by function, the depreciation and amortization have been reclassified to cost of sales, direct, marketing and selling, general and administrative expenses, and other expenses. Other items have been reclassified between revenues and cost of sales.
- (i) In accordance with IFRS 1, the Company elected to record the carrying amount of its land and building as deemed cost at fair value at January 1, 2010. The effect was to increase the cost of the building by \$1,444,000 and the land by \$258,000. Previously under Canadian GAAP, depreciation expense for the year ended December 31, 2010 was \$123,000 and is now increased under IFRS to \$255,000. Depreciation expense for the quarter ended June 30, 2010 was \$31,000 and was \$62,000 for the six-month period ended June 30, 2010 and now is \$64,000 and \$128,000 respectively under IFRS. The related income tax recovery has been adjusted accordingly.
- (j) Under Canadian GAAP, goodwill was presented as a separate line item on the Company's balance sheet. Under IFRS, goodwill was reclassified to be presented with intangibles. Under Canadian GAAP, deferred financing costs were presented in intangibles on the Company's balance sheet. Under IFRS, deferred financing costs were reclassified to be presented with Loans and other assets. The effect is a reclassification of \$139,000 at June 30, 2010 and \$201,000 at December 31, 2010.
- (k) Under Canadian GAAP, trust units when Hartco was an income trust before April 2009, were not measured at fair value. Under IFRS, these should have been measured at fair value. The effect of the change is to increase retained earnings and decrease share capital as at January 1, 2010 and December 31, 2010 by \$26,305,000.
- (l) The above changes increased (decreased) retained earnings as follows:

		January 1, 2010	December 31, 2010
	<i>Note</i>	\$	\$
Deferred tax	(d)	(575)	(580)
Property and equipment	(i)	1,702	1,570
Trust units	(k)	26,305	26,305
Increase in retained earnings		27,432	27,295

- (m) Under IFRS, as at January 1, 2010, the Company reclassified sales tax receivable of \$1,780,000 into trade and other receivables when they were previously reported as part of trade and other payables.

Notes to the consolidated financial statements

(unaudited)

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

Explanation of material adjustments to the cash flow statement for 2010

- (n) Consistent with IFRS and the Company's accounting policy, dividends received and interest received and interest paid and income taxes paid are shown separately in operating activities, on the Statement of Cash flows, whereas under Canadian GAAP, these items were classified as operating activities and Interest paid and Income taxes paid were shown as supplemental note disclosure.

There are no other material differences between the cash flow statement presented under IFRSs and the cash flow statement presented under Canadian GAAP.