

Hartco

Q3

**THIRD QUARTER
UNAUDITED FINANCIAL STATEMENTS**
For the quarter and nine-month period ended
September 30, 2011

NOTICE OF NO AUDITOR REVIEW OF UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(unaudited)

For the quarters and nine months ended September 30

(in thousands of dollars except for per share amounts)

	Quarter ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenues (Note 4)	99,315	111,524	330,124	346,702
Cost of sales (Note 11)	83,877	97,177	286,075	300,485
Gross Profit	15,438	14,347	44,049	46,217
Direct expenses	3,159	3,663	10,114	11,514
Marketing and selling expenses	5,708	5,653	17,709	17,223
General and administrative expenses	3,704	3,965	11,916	11,170
Other operating expenses	176	600	1,693	2,011
Gain on disposal of a service contract (Note 6)	-	-	(1,044)	-
Total operating expenses	12,747	13,881	40,388	41,918
Operating income	2,691	466	3,661	4,299
Financial income	(66)	(95)	(190)	(165)
Financial expenses	171	470	623	1,019
Net financial costs (Note 7)	105	375	433	854
Share of results of equity investments (net of income tax)	192	412	1,235	907
Earnings before income tax	2,778	503	4,463	4,352
Current income tax expense	935	415	633	587
Deferred tax expense (recovery)	(157)	(349)	590	734
Total Income tax expense	778	66	1,223	1,321
Net earnings and comprehensive income	2,000	437	3,240	3,031
Net earnings and comprehensive income attributable to:				
Equity holders of the company	2,000	437	3,240	3,031
Earnings per share (Note 8)				
Basic	0.15	0.03	0.24	0.23
Diluted	0.14	0.03	0.23	0.22

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

For the nine months ended September 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 nine-month period ended September 30, 2010		-	-	3,031	3,031
Transactions with holders, recorded directly in equity					
Redemption and cancellation of shares (Note 15)		(668)	43	-	(625)
Share based compensation (Note 15)		-	202	-	202
Balance at September 30, 2010		21,562	1,016	42,146	64,724
Balance at January 1, 2011		21,498	1,102	46,189	68,789
Net earnings and comprehensive income for the nine-month period ended September 30, 2011		-	-	3,240	3,240
Transactions with holders, recorded directly in equity					
Redemption and cancellation of shares (Note 15)		(293)	2	-	(291)
Share based compensation (Note 15)		-	177	-	177
Share options exercised (Note 15)		33	-	-	33
Balance at September 30, 2011		21,238	1,281	49,429	71,948

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

For the quarters and nine months ended September 30

(in thousands of dollars)

	Quarter ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash flows provided by (used in):				
Operating activities				
Net earnings	2,000	437	3,240	3,031
Adjustments for:				
Depreciation of property and equipment	207	501	705	1,980
Amortization of intangible assets	40	171	71	557
Write-off of intangible assets	-	-	416	-
Amortization of deferred financing costs	32	31	94	89
Share based compensation expense	63	63	177	202
Deferred income tax expense (recovery)	(157)	(349)	590	734
Current income tax expense	935	415	633	587
Financial income	(66)	(95)	(190)	(165)
Gain on disposal of a service contract (Note 6)	-	-	(1,044)	-
Share of results of equity investments (net of income tax)	(192)	(412)	(1,235)	(907)
	2,862	762	3,457	6,108
Change in non-cash working capital items (Note 9)	9,081	3,860	(7,443)	3,041
Income taxes paid	(6)	187	(116)	99
	11,937	4,809	(4,102)	9,248
Financing activities				
Deferred financing costs	-	-	-	(52)
Redemption of shares (Note 15)	(45)	(197)	(291)	(625)
Share options exercised	-	-	33	-
	(45)	(197)	(258)	(677)
Investing activities				
Additions to property and equipment	(7)	(127)	(165)	(1,184)
Additions to intangible assets	(207)	(2,108)	(1,424)	(4,352)
Proceeds from disposal of a service contract (Note 6)	-	-	1,500	-
Proceeds from disposal of an equity investment (Note 13)	200	-	500	-
Increase in equity investments (note 13)	(6,000)	-	(6,000)	-
Increase in long-term receivable	-	(633)	-	(642)
Decrease in long-term loan receivable (Note 12)	50	-	130	-
Financial income received	66	95	190	165
Dividend received from equity investment	-	-	750	1,000
	(5,898)	(2,773)	(4,519)	(5,013)
Net change in cash	5,994	1,839	(8,879)	3,558
Cash, beginning of period	9,369	23,531	24,242	21,812
Cash, end of period	15,363	25,370	15,363	25,370

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

BALANCE SHEET

(unaudited)


As at

(in thousands of dollars)

	September 30, 2011 \$	December 31, 2010 \$	January 1, 2010 \$
Assets			
Current assets			
Cash	15,363	24,242	21,812
Trade and other receivables (Note 10)	59,803	68,202	60,526
Inventories (Note 11)	10,815	10,197	10,043
	85,981	102,641	92,381
Loans and other assets (Note 12)	1,929	1,830	1,250
Property and equipment	6,914	7,637	8,672
Intangible assets	11,192	10,719	7,038
Equity Investments (Note 13)	8,856	3,517	3,034
Deferred tax assets	-	1,424	953
Total Assets	114,872	127,768	113,328
Liabilities			
Current liabilities			
Trade and other payables	36,238	50,822	46,422
Deferred revenue	4,458	5,612	4,319
Income taxes payable	1,101	584	471
Total Current Liabilities	41,797	57,018	51,212
Deferred tax liabilities	1,127	1,961	-
Equity attributable to equity holders of the Company (Note 15)			
Share Capital	21,238	21,498	22,230
Contributed surplus	1,281	1,102	771
Retained Earnings	49,429	46,189	39,115
Total Equity	71,948	68,789	62,116
Guarantees and contingent liabilities (Note 16)			
Total Liabilities and Equity	114,872	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 September 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 19. 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 November 10, 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

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(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 19).

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 and in another company 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

Notes to the consolidated financial statements

(unaudited)

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

equity investment, after 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.

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(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 [19 (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

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(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

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(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

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(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.

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(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.

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(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.

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(unaudited)

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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		Nine-month period ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Sale of goods	76,021	89,389	259,124	281,522
Consulting and service contracts	22,787	21,580	69,172	63,303
Royalties	507	555	1,828	1,877
Total revenues	99,315	111,524	330,124	346,702

5. EMPLOYEE BENEFITS

	Quarter ended		Nine-month period ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short-term employee benefits	14,849	17,242	52,035	54,116
Termination benefits	139	63	675	675
Share based compensation expense	63	63	177	202
	15,051	17,368	52,887	54,993

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.

Notes to the consolidated financial statements

(unaudited)

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

7. NET FINANCIAL COSTS

	Quarter ended		Nine-month period ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Interest income on loans and receivables	(38)	(72)	(96)	(141)
Interest income on bank deposits	(28)	(23)	(94)	(24)
Financial income	(66)	(95)	(190)	(165)
Interest expense on credit facility	22	19	71	107
Other interest and bank charges	118	378	458	781
Amortization of deferred financing costs	31	73	94	131
Financial expenses	171	470	623	1,019
Net financial costs	105	375	433	854

8. EARNINGS PER SHARE

	Quarter ended		Nine-month period ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Net earnings attributable to common shareholders	2,000	437	3,240	3,031
(in thousands of shares)				
Weighted average number of common shares	13,291	13,379	13,303	13,440
Dilutive effect of stock options	953	427	973	421
Weighted average number of diluted shares	14,244	13,806	14,276	13,861
Number of anti-dilutive stock options excluded from fully diluted earnings per share calculation	-	-	-	-

9. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

	Quarter ended		Nine-month period ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Trade and other receivables	21,874	3,649	8,787	(621)
Inventories	393	2,292	(640)	1,142
Trade and other payables	(12,515)	(2,705)	(14,436)	2,055
Deferred revenues	(671)	624	(1,154)	465
	9,081	3,860	(7,443)	3,041

Notes to the consolidated financial statements

(unaudited)

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

10. TRADE AND OTHER RECEIVABLES

	September 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Trade receivables	44,511	57,172	49,185
Trade receivable - equity investments ⁽¹⁾	1,967	3,060	2,347
Prepayments	951	1,185	1,498
Accrued receivables and other	12,374	6,785	7,496
	59,803	68,202	60,526

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

11. INVENTORIES

	Quarter ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Purchases	65,101	77,247	229,866	249,543
Write-down for obsolescence and aging	130	158	160	303
Net change in inventories	173	2,213	(763)	1,236
Total inventory expense	65,404	79,618	229,263	251,082

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.

12. LOANS AND OTHER ASSETS

	September 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Loan receivable - equity investment company	980	980	980
Long-term receivables	842	649	-
Deferred financing costs	107	201	270
	1,929	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 amounts to \$631,000, bears interest at 4.5% and is receivable in monthly installments of \$10,000. The short term portion amounts to \$128,000 as at September 30, 2011 (\$128,000 in 2010). The balance on disposal of an equity investment amounts to \$647,000 and bears interest at the Bank of Montreal prime rate plus 2%. The short-term portion amounts to \$323,000 as at September 30, 2011. 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.

Notes to the consolidated financial statements

(unaudited)

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

13. EQUITY INVESTMENTS

Equity investments includes two franchisees and one other company in which the Company holds an equity interest.

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

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

	September 30, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Equity Investments Ownership	30% to 50%	50%	50%
Total Assets	19,360	16,519	14,015
Total Liabilities	8,114	9,817	8,276
Revenues	35,536	92,146	N/A
Net Earnings	1,871	2,964	N/A

The cost of the equity investments at the time of purchase amounted to \$7,673,000. Since acquisition, the share of results of the equity investments amounted to \$4,933,000 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 \$647,000 is included in long-term receivables (Note 12) as at September 30, 2011.

In July 2011, Hartco announced a \$6.0 million investment in cash in ScreenScape Networks Inc, representing approximately 30% of the ownership.

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 September 30, 2011 and as 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 at September 30, 2011 and 2010, Hartco Inc. was in compliance with the financial covenants. There was no interest paid during the nine-month period ended September 30, 2011 (nil for 2010).

Notes to the consolidated financial statements

(unaudited)

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

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	(81,810)	(293)
Share options exercised	15,000	33
Balance outstanding as at September 30, 2011	13,270,404	21,238

Redemption and Cancellation of Shares

On August 25, 2011, the Company announced that the Toronto Stock Exchange ("TSX") approved the Company's renewal of its normal course issuer bid ("NCIB") to purchase for cancellation up to 5% of Hartco's issued and outstanding common shares, or 664,099 common shares, through the facilities of the TSX over the twelve-month period starting on August 30, 2011 and ending August 29, 2012.

Previously, on August 26, 2010 the TSX had approved the renewal of Hartco's 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 TSX over the twelve-month period starting on August 30, 2010 and ending on August 29, 2011. For the nine-month period ended September 30, 2011, the Company had repurchased and cancelled 81,810 shares at an average price of \$3.56 per share for a total of \$291,000 compared to 186,825 shares at an average price of \$3.31 for the nine-month period ended September 30, 2010 for a total of \$625,000.

Stock option plan

A summary of the activity and other information related to the Stock Option Plan for the nine-month period ended September 30, 2011 and 2010 is 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)

	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	100,000	\$3.60
Forfeited	(60,000)	\$2.18	(125,000)	\$2.18
Exercised	(15,000)	\$2.18	-	-
Outstanding, end of period	965,740	\$2.46	962,668	\$2.33
Exercisable, end of period	352,952	\$2.31	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:

	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 7 years and 11 months and 9 years and 8 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 \$177,000 for the nine-month period ended September 30, 2011 and \$202,000 during the period ended September 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 September 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 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

Notes to the consolidated financial statements

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

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, 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 62.43% of the Company's shares, Boston Avenue Capital LLC owns 18.25% and officers and directors own 3.98% of the Company's shares. The remaining 15.33% 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 September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Salaries and other short-term employee benefits	850	1,107	3,234	3,369
Termination benefits	250	-	250	-
Share based compensation expense	63	63	177	202
	1,163	1,170	3,661	3,571

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		Nine-month period ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Accounts receivable - equity investments ⁽¹⁾	1,966	4,412	1,966	4,412
Revenue - equity investments ⁽¹⁾	3,507	14,408	10,221	44,665
Interest income - equity investments ⁽¹⁾	28	25	102	90
Accounts receivable - common controlled entity ⁽²⁾	1	87	1	87
Revenue - common controlled entity ⁽²⁾	1	113	15	722

(1) Transactions with equity investments.

Equity investments are franchisees and other companies 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

	September 30, 2011				September 30, 2010			
	Segment				Segment			
	Franchising/ Distribution \$	Commercial \$	Corporate \$	Total \$	Franchising/ Distribution \$	Commercial \$	Corporate \$	Total \$
Revenues	52,635	80,817	-	133,452	62,405	86,711	-	149,116
Royalties	507	-	-	507	555	-	-	555
Inter-segment transactions	(34,644)	-	-	(34,644)	(38,147)	-	-	(38,147)
	18,498	80,817	-	99,315	24,813	86,711	-	111,524
Cost of sales and expenses	51,142	76,563	3,316	131,021	60,748	85,177	2,608	148,533
Inter-segment transactions	(33,944)	1,497	(2,197)	(34,644)	(37,601)	1,443	(1,989)	(38,147)
	17,198	78,060	1,119	96,377	23,147	86,620	619	110,386
Operating income before the undernoted item	1,300	2,757	(1,119)	2,938	1,666	91	(619)	1,138
Depreciation and amortization	88	148	11	247	278	361	33	672
Reportable segment operating income	1,212	2,609	(1,130)	2,691	1,388	(270)	(652)	466
Number of locations								
Beginning and end of quarter	41	9	-	50	43	11	-	54

Nine-month periods ended

	September 30, 2011				September 30, 2010			
	Segment				Segment			
	Franchising/ Distribution \$	Commercial \$	Corporate \$	Total \$	Franchising/ Distribution \$	Commercial \$	Corporate \$	Total \$
Revenues	181,802	265,777	-	447,579	211,717	268,358	-	480,075
Royalties	1,828	-	-	1,828	1,877	-	-	1,877
Inter-segment transactions	(119,283)	-	-	(119,283)	(135,250)	-	-	(135,250)
	64,347	265,777	-	330,124	78,344	268,358	-	346,702
Cost of sales and expenses	177,647	257,188	10,135	444,970	205,942	260,695	8,479	475,116
Inter-segment transactions	(117,184)	4,490	(6,589)	(119,283)	(133,612)	4,329	(5,967)	(135,250)
	60,463	261,678	3,546	325,687	72,330	265,024	2,512	339,866
Operating income before the undernoted item	3,884	4,099	(3,546)	4,437	6,014	3,334	(2,512)	6,836
Depreciation and amortization	282	470	24	776	894	1,563	80	2,537
Reportable segment operating income	3,602	3,629	(3,570)	3,661	5,120	1,771	(2,592)	4,299
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

Notes to the consolidated financial statements

(unaudited)

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

19. 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 nine-month period ended September 30, 2011, the comparative information presented in these interim financial statements for the quarter and nine-month period ended September 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.

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(unaudited)

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

	Note	January 1, 2010			September 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	25,528	(158)	25,370	24,356	(114)	24,242
Trade and other receivables	(b), (m)	60,876	(350)	60,526	63,707	(2,560)	61,147	70,953	(2,751)	68,202
Inventories	(b)	10,599	(556)	10,043	9,293	(392)	8,901	10,584	(387)	10,197
Deferred tax assets	(b), (e)	139	(139)	-	751	(534)	217	8	(8)	-
Current assets - disc. ops		9	(9)	-	-	-	-	-	-	-
		93,750	(1,369)	92,381	99,279	(3,644)	95,635	105,901	(3,260)	102,641
Loans and other assets	(f)	3,188	(1,938)	1,250	3,661	(1,772)	1,889	4,129	(2,299)	1,830
Property and equipment	(b), (i)	7,249	1,423	8,672	6,425	1,411	7,836	6,236	1,401	7,637
Intangible assets	(j)	2,776	4,262	7,038	5,256	4,300	9,556	6,388	4,331	10,719
Deferred tax assets	(d), (e)	1,356	(403)	953	-	-	-	1,978	(554)	1,424
Equity investments	(b), (c), (f)	-	3,034	3,034	-	2,942	2,942	-	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	119,436	(1,578)	117,858	129,447	(1,679)	127,768
Liabilities										
Current liabilities										
Trade and other payables	(b), (m)	45,509	913	46,422	48,161	(968)	47,193	51,993	(1,171)	50,822
Deferred revenues	(b)	5,029	(710)	4,319	5,558	(774)	4,784	6,196	(584)	5,612
Income taxes payable	(b)	358	113	471	1,125	32	1,157	535	49	584
Deferred tax liabilities	(e)	-	-	-	-	-	-	1,961	(1,961)	-
Current liabilities - disc. Ops.		423	(423)	-	-	-	-	-	-	-
		51,319	(107)	51,212	54,844	(1,710)	53,134	60,685	(3,667)	57,018
Deferred tax liabilities	(e)	-	-	-	-	-	-	-	1,961	1,961
Total Liabilities		51,319	(107)	51,212	54,844	(1,710)	53,134	60,685	(1,706)	58,979
Non controlling interest	(b), (g)	826	(826)	-	904	(904)	-	973	(973)	-
Equity										
Share Capital	(k)	48,535	(26,305)	22,230	47,867	(26,305)	21,562	47,803	(26,305)	21,498
Contributed surplus		771	-	771	1,016	-	1,016	1,102	-	1,102
Retained Earnings	(k), (l)	11,683	27,432	39,115	14,805	27,341	42,146	18,884	27,305	46,189
Total equity attributable to equity-holders of the Company		60,989	1,127	62,116	63,688	1,036	64,724	67,789	1,000	68,789
Total Equity		61,815	301	62,116	64,592	132	64,724	68,762	27	68,789
Total Liabilities and Equity		113,134	194	113,328	119,436	(1,578)	117,858	129,447	(1,679)	127,768

Notes to the consolidated financial statements

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

	Note	Quarter ended September 30, 2010			Nine-months period ended September 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)	112,962	(1,438)	111,524	351,473	(4,771)	346,702	471,732	(6,426)	465,306
Cost of sales	(c), (h)	-	97,177	97,177	-	300,485	300,485	-	402,236	402,236
Gross profit		112,962	(98,615)	14,347	351,473	(305,256)	46,217	471,732	(408,662)	63,070
Cost of sales and expenses	(h)	111,687	(111,687)	-	344,325	(344,325)	-	459,969	(459,969)	-
Direct expenses	(h)	-	3,663	3,663	-	11,514	11,514	-	15,567	15,567
Marketing and selling expenses	(h)	-	5,653	5,653	-	17,223	17,223	-	22,686	22,686
General and administrative expenses	(h)	-	3,965	3,965	-	11,170	11,170	-	14,692	14,692
Other operating expenses	(h)	-	600	600	-	2,011	2,011	-	2,073	2,073
Depreciation and amortization	(c), (h)	672	(672)	-	2,541	(2,541)	-	3,203	(3,203)	-
Operating income		603	(137)	466	4,607	(308)	4,299	8,560	(508)	8,052
Financial income	(c)	(95)	-	(95)	(105)	(60)	(165)	(219)	2	(217)
Financial expenses	(c)	482	(12)	470	994	25	1,019	1,222	(44)	1,178
Net financial costs		387	(12)	375	889	(35)	854	1,003	(42)	961
Share of results of equity investments (net of income tax)	(f)	-	412	412	-	907	907	-	1,482	1,482
Earnings before income tax		216	287	503	3,718	634	4,352	7,557	1,016	8,573
Income tax expense	(c), (i)	66	-	66	1,349	(28)	1,321	1,551	(51)	1,500
Share of results of equity investments (net of income tax)	(c), (f)	367	(367)	-	830	(830)	-	1,342	(1,342)	-
Non-controlling interest	(g)	(43)	43	-	(77)	77	-	(147)	147	-
Net earnings and comprehensive income		474	(37)	437	3,122	(91)	3,031	7,201	(128)	7,073
Net earnings and comprehensive income attributable to:										
Equity holders of the company	(g)	431	6	437	3,045	(14)	3,031	7,054	19	7,073
Non-controlling interest	(g)	43	(43)	-	77	(77)	-	147	(147)	-
Net earnings and comprehensive income		474	(37)	437	3,122	(91)	3,031	7,201	(128)	7,073
Earnings per share										
Basic		0.04	(0.01)	0.03	0.23	-	0.23	0.54	(0.01)	0.53
Diluted		0.03	-	0.03	0.23	(0.01)	0.22	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, September 30, 2010 and December 31, 2010:

	Increase (Decrease)		
	January 1, 2010	September 30, 2010	December 31, 2010
	\$	\$	\$
Cash	(315)	(158)	(114)
Trade and other receivables	(2,130)	(4,199)	(2,702)
Inventories	(556)	(392)	(387)
Deferred tax assets	33	33	19
Property and equipment	(279)	(192)	(169)
Equity investments	826	904	967
Goodwill	(283)	(283)	(283)
Trade and other payables	(1,281)	(2,641)	(1,163)
Deferred revenues	(710)	(774)	(584)
Income taxes payable	113	32	51
Non controlling interest	(826)	(904)	(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 nine-month period ended September 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 September 30, 2010 \$	Increase (Decrease) Nine-month period ended September 30, 2010 \$	Increase (Decrease) Year ended December 31, 2010 \$
Revenues	(5,972)	(10,850)	(9,558)
Cost of sales	(4,956)	(7,505)	(4,961)
Gross profit	(1,016)	(3,345)	(4,597)
Direct expenses	(208)	(738)	(1,008)
Marketing and selling expenses	(465)	(1,457)	(1,987)
General and administrative expenses	(206)	(836)	(1,055)
Other operating expenses	(1)	(3)	(37)
Depreciation and amortization	(33)	(102)	(135)
Operating income	(103)	(209)	(375)
Financial income	(12)	(10)	2
Financial expenses	-	(26)	(44)
Net financial costs	(12)	(36)	(42)
Earnings before income tax	(91)	(173)	(333)
Income tax expense	(3)	(19)	(54)
Net earnings and comprehensive income	(88)	(154)	(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, had no effect for the quarter ended September 30, 2010 and decrease the tax expense by \$28,000 for the nine-month period ended September 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.

Notes to the consolidated financial statements

(unaudited)

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

- (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).
- (h) The Company previously classified Depreciation and Amortization of \$ 3,203,000 for the year ended December 31, 2010 and \$672,000 for the quarter ended September 30, 2010 and \$2,541,000 for the nine-month period ended September 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 September 30, 2010 was \$31,000 and was \$93,000 for the nine-month period ended September 30, 2010 and now is \$64,000 and \$192,000 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 \$231,000 at September 30, 2010 and \$201,000 at December 31, 2010.
- (k) The Hartco trust units outstanding prior to the conversion to a Corporation in April 2009 were recorded as equity instruments in accordance with Canadian GAAP, pursuant to EIC 149. Under IFRS, the trust units would have been recorded, pursuant to IAS 32, as a financial liability measured at fair value, principally as a result of the redemption features of the trust units. Accordingly, variations in fair value would have been recorded as a charge or income in the consolidated statement of earnings and comprehensive income. Upon conversion to a corporation, the units were exchanged for common shares. As a consequence, upon transition to IFRS, the fair value of the trust units at that date were reclassified to equity and a cumulative impact to earnings resulting from the variations in fair values was included in the opening retained earnings. 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:

Notes to the consolidated financial statements

(unaudited)

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

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

- (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 incorrectly reported as a reduction of trade and other payables under Canadian GAAP.

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.