

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PERIOD OF REFERENCE

The following Management Discussion and Analysis ("MD&A") provides a review of the consolidated financial condition and results of operations of Hartco Inc. ("the Company" or "Hartco") for the quarter and the nine-month period ended September 30, 2011, compared to the quarter and the nine-month period ended September 30, 2010.

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

FORWARD-LOOKING STATEMENTS

Except for historical information contained herein, the statements in this document are forward-looking. Forward-looking statements involve known and unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results. Those risks include, among others, changes in customer demand for information technology products or services, changes in supplier pricing actions or terms, customer orders, pricing actions by competitors, changes in laws and regulations, and general changes in economic conditions. Risks that could cause our results to differ materially from our expectations are discussed in the risks and uncertainties section of our annual Management Discussion and Analysis.

COMPANY PROFILE

Hartco operates in three reportable segments in Canada: the Franchising and Distribution segment, the Commercial segment, and Corporate Services, for which the Company presents results separately.

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 Metafore Technologies Inc. ("Metafore") subsidiary. 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.

REVIEW OF BUSINESS PRIORITIES

The Company has established the following priorities for 2011:

1. Grow market share
2. Increase return on sales (i.e., earnings)
3. Harmonize and optimize business processes and information systems to increase operating efficiency
4. Enhance organizational effectiveness and efficiency, and develop capabilities for long-term success

The Company plans to grow its market share in the Canadian information technology (IT) industry and increase earnings. The Company is focused on developing its offering portfolio, including solutions and services pertaining to the life cycle management of IT assets. In April, the Company had announced that Metafore had been ranked 2nd on the Canadian Dealer News (CDN) Top 100 IT Solutions Providers list for 2010, up from 4th position on the 2009 list. The Company also announced that Metafore had been ranked 61st on the CRN VAR500, which lists the 500 largest value added resellers (VARs) in North America.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company continues to ensure effective management of inventory, accounts receivables and accounts payable to maximize return on invested capital (ROIC) and generate cash flow. At the close of the second quarter, Hartco sold its 50% investment in NWD Systems (Montreal) Ltd., a MicroAge franchise that operated independently from the Company.

In July 2011, Hartco announced a \$6.0 million investment in ScreenScape Networks Inc. ("ScreenScape"), an online service for engaging audiences in public places through the use of Internet-enabled digital displays. The investment will allow ScreenScape to accelerate the development of its solution and increase marketing activities to a critical mass of customers. ScreenScape has the potential to revolutionize digital place-based media with its innovative network-centric platform. Hartco is very enthusiastic about ScreenScape's future prospects, particularly given the company's world-class talent and industry leading technology.

The Company maintains a strong focus on reviewing and optimizing its operating model to maximize synergies and productivity across the organization. The harmonization and optimization of business processes and information systems is an on-going area of focus in 2011.

The Company is in the process of implementing a common, integrated enterprise resource planning ("ERP") solution for all its businesses, which is expected to contribute to higher productivity, greater process automation and enhanced customer service capabilities, along with greater scalability to support future growth. The Company expects to implement its new ERP solution during the first half of 2012.

Hartco believes that talent will be its most vital source of competitive differentiation in the future and initiatives have been undertaken to improve organizational effectiveness, efficiency and capabilities. Moreover, the Company is striving to improve its recruiting, development, retention and succession planning practices, and has harmonized performance management practices across all segments and divisions. The Company strengthened its senior leadership team during 2011, and greater emphasis has been placed on driving accountability and performance.

SEASONALITY

The Company's revenues are typically stronger during its first and fourth quarters and slower in the second and third quarters. This trend is tied to increased government purchasing activities during the quarter ending March 31st, and increased purchasing activities on the part of businesses during the quarter ending December 31st.

ADOPTION OF IFRS

The Company recently adopted the *International Financial Reporting Standards* (IFRS) and the financial information presented and discussed in this Management's Discussion and Analysis (MD&A) is prepared in accordance with IFRS and all comparisons of results for the periods ended September 30, 2011 and 2010. All comparative figures for 2010 were restated in accordance with IFRS.

CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2011, COMPARED TO THE THIRD QUARTER ENDED SEPTEMBER 30, 2010

Consolidated net earnings for the third quarter ended September 30, 2011 amounted to \$2.0 million or \$0.15 per share (\$0.14 diluted) compared to net earnings of \$0.4 million or \$0.03 per share (basic and diluted) for the corresponding period ended September 30, 2010.

Consolidated revenues amounted to \$99.3 million for the quarter ended September 30, 2011 compared to \$111.5 million for the quarter ended September 30, 2010, a decrease of \$12.2 million, or 10.9%. Net revenues in the Franchising and Distribution segment decreased by \$6.3 million, or 25.5%, while the Commercial segment's revenues decreased by \$5.9 million, or 6.8%. The Commercial segment decrease is largely related to a

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

decrease of \$7.1 million, or 10.9%, in product revenues while service revenues increased by \$1.2 million or 5.6%.

Consolidated cost of goods sold stood at \$83.9 million for the quarter ended September 30, 2011, compared to \$97.2 million for the quarter ended September 30, 2010. This decline of \$13.3 million or 13.7%, is attributable to a decrease in product volume partially offset by an increase in the cost of services.

Consolidated gross profit amounted to \$15.4 million for the quarter ended September 30, 2011, compared to \$14.3 million for the quarter ended September 30, 2010. This increase of \$1.1 million, or 7.6%, is attributable to increased sales incentive on products and the impact of revenue mix.

Operating expenses were \$12.7 million for the quarter ended September 30, 2011, compared to \$13.9 million for the quarter ended September 30, 2010, a decrease of \$1.1 million, or 8.2%. Direct expenses decreased by \$0.5 million, or 13.7%, mainly due to lower headcount. Marketing and selling expenses increased by \$0.1 million, or 1.0%, mainly due to an increase in sales compensation and a decrease in the marketing development funds received from business partners. General and administrative expenses decreased by \$0.3 million mainly due to a decline in variable compensation. Other operating expenses are mainly non-recurring costs related to the Company's ERP project and severance charges in the Corporate services incurred for the quarter ended September 30, 2011. These items and other variances are explained in the segment analysis.

Net financial costs stood at \$0.1 million for the quarter ended September 30, 2011, compared to \$0.4 million for the quarter ended September 30, 2010. The financial expenses consist mostly of bank fees for the quarter ended September 30, 2011 while the quarter ended September 30, 2010 included interest expenses pertaining to a sales and corporate tax audits for the years 2005 to 2010.

The share of results in equity investments amounted to \$0.2 million for the quarter ended September 30, 2011 compared to \$0.4 million for the comparable quarter ended September 30, 2010, and reflects Hartco's participation in the results of a MicroAge franchisee and of ScreenScape that both operated independently from the Company.

The income tax expense recognized during the current quarter amounted to \$0.8 million, compared to an expense of \$0.1 million recorded in the quarter ended September 30, 2010. The variance of \$0.7 million is explained by higher pre-tax earnings.

Segment review

Franchising and Distribution

Franchising and Distribution net revenues, excluding royalties, stood at \$18.0 million for the quarter ended September 30, 2011 compared to \$24.3 million for the quarter ended September 30, 2010. This decrease is explained mainly by lower volume from the MicroAge network related to a non-recurring PC renewal project from a large customer in 2010. The impact of this non-recurring project in 2010 is expected to affect the comparability of the performance of the Franchising and Distribution revenues throughout 2011.

Royalty revenues totalled \$0.5 million for the quarter ended September 30, 2011, compared to \$0.6 million for the quarter ended September 30, 2010. This decrease is consistent with the decrease in franchisee revenues on which royalties are charged.

EBITDA stood at \$1.3 million for the current quarter, compared to \$1.7 million for the corresponding quarter in 2010. Higher margins from additional sales incentives and a richer sales mix had a positive impact of \$0.2 million, while lower volume had a negative impact of \$0.8 million on EBITDA. Lower operating expenses of \$0.2 million are related to a refund on electricity cost overcharges during the years 2005 to 2011.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Commercial

The Commercial segment had revenues of \$80.8 million for the quarter ended September 30, 2011, compared to \$86.7 million for the quarter ended September 30, 2010. This decrease in revenues of \$5.9 million, or 6.8%, is mainly explained by lower product revenues in Quebec, which were partially offset by higher revenues in Western Canada.

EBITDA for the quarter ended September 30, 2011 stood at \$2.8 million, an increase of \$ 2.7 million, compared to \$0.1 million for the same period last year. Higher margins had a positive impact of \$ 2.3 million, while lower volumes had a negative impact of \$0.8 million on EBITDA. Operating expenses were lower than last year due to lower direct costs, lower general and administrative expenses and lower non-recurring expenses related to severances, reflecting the cost improvements implemented during the second quarter of 2011.

Corporate services

The Corporate Services expenses, before inter-segment allocations, were \$3.3 million for the quarter ended September 30, 2011, compared to \$2.6 million for the quarter ended September 30, 2010. This \$0.7 million, or 27.0% increase in expenses is mainly explained by higher salaries and headcount in IT and HR pertaining to the Company's ERP project, related change management processes, non-recurring severances, as well as investments in resources to recruit, develop and retain talent.

SUMMARY OF CONSOLIDATED QUARTERLY RESULTS

(in thousands of dollars, except per share amounts)

Quarter ended	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
	\$ ⁽¹⁾	\$ ⁽¹⁾	\$ ⁽¹⁾	\$ ⁽¹⁾
Revenues	99,315	115,460	115,349	118,605
Operating income	2,691	807	164	3,756
Net earnings				
Continuing operations	2,000	879	360	4,034
Discontinued operations	-	-	-	-
Net earnings	2,000	879	360	4,034
Diluted earnings per share	0.14	0.06	0.03	0.29

Quarter ended	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
	\$ ⁽¹⁾	\$ ⁽¹⁾	\$ ⁽¹⁾	\$ ⁽¹⁾
Revenues	111,524	114,322	120,856	105,556
Operating income	466	1,400	2,432	985
Net earnings				
Continuing operations	437	743	1,854	434
Discontinued operations	-	-	-	246
Net earnings	437	743	1,854	680
Diluted earnings per share	0.03	0.05	0.14	0.05

(1) Quarters ranging from March 31, 2010 to September 30, 2011 are presented in accordance with IFRS while December 31, 2009 quarter is presented using Canadian Generally Accepted Accounting Principles.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CONSOLIDATED RESULTS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011, COMPARED TO THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2010

Consolidated net earnings for the nine-month period ended September 30, 2011 amounted to \$3.2 million or \$0.24 per share (\$0.23 per share diluted) compared to net earnings of \$3.0 million or \$0.23 per share (\$0.22 per share diluted) for the corresponding nine-month period ended September 30, 2010.

Consolidated revenues amounted to \$330.1 million for the nine-month period ended September 30, 2011, a decrease of \$16.6 million, or 4.8%, compared to \$346.7 million for the nine-month period ended September 30, 2010. Net revenues in the Franchising and Distribution segment decreased by \$14.0 million, or 17.9%, while the Commercial segment's revenues decreased by \$2.6 million, or 1.0%.

Consolidated cost of goods sold stood at \$286.1 million for the nine-month period ended September 30, 2011, compared to \$300.5 million for the nine-month period ended September 30, 2010. This decrease of \$14.4 million, or 4.8%, is mainly attributable to a decline in product volume that was partially offset by the increase in the cost of services, in line with the revenues.

Consolidated gross profit amounted to \$44.0 million for the nine-month period ended September 30, 2011, compared to \$46.2 million for the nine-month period ended September 30, 2010. This decrease of \$2.2 million, or 4.7%, is attributable to reduced product volume, as well as declining product and services margins.

Operating expenses were \$40.4 million for the nine-month period ended September 30, 2011, a decrease of \$1.5 million, or 3.7%, compared to \$41.9 million for the nine-month period ended September 30, 2010. Direct expenses decreased by \$1.4 million, or 12.2%, mainly due to lower headcount and related expenses. Marketing and selling expenses increased by \$0.5 million, or 2.8%, mainly due to an increase in sales compensation and a decrease in the marketing development funds received from business partners. General and administrative expenses increased by \$0.7 million, or 6.7%, due to increased headcount. Other operating expenses are mainly non-recurring costs related to the Company's ERP project and severance charges for the nine-month period ended September 30, 2011. Operating expenses include a non-recurring gain of \$1.0 million related to a sale of an advanced connectivity service contract. These items and other variances are explained in the segment analysis.

Net financial costs stood at \$0.4 million for the nine-month period ended September 30, 2011, compared to \$0.9 million for the nine-month period ended September 30, 2010. In 2011, the financial expenses consist mostly of bank fees and reflect the low level of borrowings. The financial expenses for the nine-month period ended September 30, 2010 consisted mostly of bank fees and interest pertaining to sales and corporate tax audits related to the years 2005 to 2010.

The share of results in equity investments amounted to \$1.2 million for the nine-month period ended September 30, 2011, compared to \$0.9 million for the comparable nine-month period ended September 30, 2010, and reflects the Hartco's participation in the results of two MicroAge franchisees and of ScreenScape that operated independently from the Company.

The income tax expense recognized during the current nine-month period amounted to \$1.2 million, compared to an expense of \$1.3 million recorded in the nine-month period ended September 30, 2010. The variance of \$0.1 million is explained by a decrease in the corporate tax rates.

Segment review

Franchising and Distribution

Franchising and Distribution net revenues, excluding royalties, stood at \$62.5 million for the nine-month period ended September 30, 2011, compared to \$76.4 million for the nine-month period ended September 30, 2010. This decrease is mainly explained by lower sales volume from the MicroAge network related to a non-recurring

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PC renewal project from a large customer in 2010. The impact of this non-recurring project in 2010 is expected to affect the comparability of the Franchising and Distribution segment revenues throughout 2011.

Royalty revenues totalled \$1.8 million for the nine-month period ended September 30, 2011, while they totalled \$1.9 million for the same period ended September 30, 2010.

EBITDA was \$3.9 million for the current nine-month period, compared to \$6.0 million for the corresponding nine-month period in 2010. Lower volumes had a \$1.8 million negative impact on EBITDA, while higher expenses of \$0.3 million are related to lower discretionary and marketing funds received from business partners.

Commercial

The Commercial segment had revenues of \$265.8 million for the nine-month period ended September 30, 2011, compared to \$268.4 million for the nine-month period ended September 30, 2010. This \$2.6 million, or 1.0%, decrease in revenues is mainly explained by lower product revenues of \$8.5 million, or 4.1%, mainly in the province of Quebec, partially offset by higher volumes in the provinces of Ontario and Alberta. Services revenues increased by \$5.9 million, or 9.3%.

EBITDA for the nine-month period ended September 30, 2011 stood at \$4.1 million, an increase of \$0.8 million, or 23.0%, compared to \$3.3 million for the same period last year. Lower volumes had a negative impact of \$0.4 million, while lower margins had a negative impact of \$1.1 million on EBITDA. Operating expenses declined due to a non-recurring gain on the sale of an advanced connectivity service contract, reductions in direct operating expenses and non-recurring severances, partially offset by higher selling and administrative expenses. The resulting higher headcount is explained by the Company's investment in technical resources to address new opportunities.

Corporate services

The Corporate Services expenses before inter-segment allocations were \$10.2 million for the nine-month period ended September 30, 2011, compared to \$8.5 million for the nine-month period ended September 30, 2010. This \$1.7 million, or 19.6% increase is mainly explained by higher salaries and headcount in IT and HR pertaining to the Company's ERP project, related change management processes, non-recurring severances, as well as investments in resources to recruit, develop and retain talent.

LIQUIDITY AND FINANCIAL CONDITION

During the nine-month period ended September 30, 2011, the net negative change in cash amounted to \$8.9 million, a decrease of \$12.5 million, compared to a cash flow of \$3.6 million for the nine-month period ended September 30, 2010.

Operating activities, before changes in non-cash working capital items and income tax paid, generated cash flows of \$3.5 million during the nine-month period ended September 30, 2011, a decrease of \$2.6 million, compared to a cash flow of \$6.1 million for the nine-month period ended September 30, 2010. This decrease in cash flow is mainly explained by lower results from operations. The cash outflow from the non-cash working capital totalled \$7.5 million in the current period, compared to a cash flow of \$3.0 million in the nine-month period ended September 30, 2010, due mainly to a decrease in accounts payable in 2011, due to a change in payment policy with a supplier from which the Company takes significant prompt pay discounts.

For the nine-month period ended September 30, 2011, inventories, trade and other payables, and deferred revenues had a negative impact on cash flow from non-cash working capital of \$0.6 million, \$14.4 million, and \$1.2 million respectively while the trade and other receivables had a positive impact of \$8.8 million. For the same period last year, inventories, trade and other payables as well as deferred revenues had a favourable impact on cash flow from non-cash working capital of \$1.1 million, \$2.1 million and \$0.5 million respectively while trade and other receivables had an unfavourable effect on cash flow from non-cash working capital of

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

\$0.6 million. The Company's policy is to take advantage of prompt-pay discounts on trade payable, while temporarily financing accounts receivable through the completion of the cash conversion cycle.

Borrowings under the revolving credit facilities were nil as at September 30, 2011, and have been nil since December 2007.

Cash flows used for investing activities totalled \$4.5 million during the nine-month period ended September 30, 2011, compared to \$5.0 million for the nine-month period ended September 30, 2010. Additions to property and equipment and intangible assets reached \$1.6 million for the nine-month period ended September 30, 2011, compared to \$5.5 million for the nine-month period ended September 30, 2010. Current capital expenditures are mainly related to improvements to the Company's information systems. Other than the project to integrate virtually all of its legacy business critical applications into one integrated solution, the Company is not required to invest significantly in property and equipment. Proceeds on a disposal of a service contract and of an equity investment were \$1.5 million and \$0.5 million respectively for the nine-month period ended September 30, 2011 while they were nil for the same period in 2010. The increase of equity investment of \$6.0 million for the nine-month period ended September 30, 2011 is related to the ScreenScape investment announced in July 2011. The Company received \$0.8 million of dividends from one of its equity investment during the nine-month period ended September 30, 2011 while it received \$1.0 million for the same period last year.

Cash flow used by financing activities totalled \$0.3 million for the nine-month period ended September 30, 2011, compared to \$0.7 million for the same period last year. For both periods, the financing activities consisted mostly of redemption of shares pertaining to the Normal Course Issuer Bid ("NCIB").

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The calculation for the periods under review is as follows:

Standardized free cash flow and Adjusted free cash flow <i>(in thousands of dollars)</i>	Quarter ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash flow provided by (used for) continuing operating activities	11,937	4,809	(4,102)	9,248
Financial income received	66	95	190	165
Proceeds from disposal of a service contract	-	-	1,500	-
Additions to property and equipment and intangible assets	(214)	(2,235)	(1,589)	(5,536)
Deferred financing costs	-	-	-	(52)
Standardized Free Cash Flow (deficiency)	11,789	2,669	(4,001)	3,825
Proceeds from disposal of an equity investment	200	-	500	-
Dividends received from equity investments	-	-	750	1,000
Additions to equity investments	(6,000)	-	(6,000)	-
Net decrease (increase) of loans and other assets	50	(633)	130	(642)
Adjusted Free Cash Flow (deficiency)	6,039	2,036	(8,621)	4,183

EBITDA is a non-IFRS financial measure. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other entities.

The Company defines EBITDA as earnings from continuing operations before net financial costs, depreciation and amortization, income tax expense, and share of results of equity investments. EBITDA for the nine-month period ended September 30, 2011 stood at \$4.4 million (\$6.8 million for the nine-month period ended September 30, 2010). The reporting of EBITDA is intended to assist readers in reviewing the performance of financial analysis.

The reconciliation of EBITDA from net earnings from continuing operations is as follows:

<i>(in thousands of dollars)</i>	Quarter ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Net earnings and comprehensive income	2,000	437	3,240	3,031
Add back:				
Income tax expense	778	66	1,223	1,321
Share of results of equity investments (net of income tax)	(192)	(412)	(1,235)	(907)
Net financial costs	105	375	433	854
Depreciation and amortization	247	672	776	2,537
EBITDA	2,938	1,138	4,437	6,836

CASH DISTRIBUTIONS AND DIVIDEND POLICY

In 2009, the Board of Directors adopted a dividend policy with the primary objective of maintaining a high equity ratio. Accordingly, no dividend has been declared in 2010 or in 2011, and the Board of Directors has no plans to do so at the present time.

CAPITAL RESOURCES

The Company has a credit facility of \$45.0 million that consists of a \$25.0 million three-year committed ever-green revolving credit facility which can be extended for an additional year prior to each anniversary date, and

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

two demand revolving credit facilities in the principal amount of \$10.0 million each. The Company recently obtained the extension for an additional year until July 29th, 2014 as outlined in the credit agreement. The credit facility bears interest at various rates based on the prime rate or bankers' acceptance plus a premium varying on the level of key financial ratios achieved. In addition, the Company is subject to maintain the usual debt to tangible net worth and fixed charge coverage ratios as well as certain other conditions. As at September 30, 2011, no amount was outstanding under the Credit Facility.

The Company's debt capitalization ratio stood at 0:100 as at September 30, 2011. Debt is calculated net of cash. As at September 30, 2011, Hartco Inc. was in compliance with all its key financial and coverage ratios.

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

OUTSTANDING SHARE DATA

A summary of the changes to Hartco's share capital during the period ended September 30, 2011 is as follows:

Common Shares	Number of shares	Thousands of dollars
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

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

	Quarter ended September 30		Nine-month period ended September 30	
	2011	2010	2011	2010
<i>(in thousands of dollars)</i>	\$	\$	\$	\$
Net earnings attributable to common shareholders	2,000	437	3,240	3,031
<i>(in thousands of shares)</i>				
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

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties occurred within the normal course of business and have been measured at their exchange amount. These transactions were as follows:

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	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 product 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

MANAGEMENT'S CONCLUSION ON THE DISCLOSURE CONTROLS, PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

a) Disclosure Controls and Procedures

The Company's Management is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is communicated to the Chief Executive Officer and the Chief Financial Officer and that such information is recorded, processed, summarized and reported within the time periods specified.

As of September 30, 2011, Management has evaluated the design and operation of the Company's disclosure controls and procedures and has concluded that such disclosure controls and procedures are effective.

b) Internal Control over Financial Reporting

Management of the Company is responsible for designing and evaluating the effectiveness of internal controls over financial reporting as defined in National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Management has used the Internal Control-Integrated Framework to evaluate the effectiveness of internal controls over reporting, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Because of their inherent limitations, internal controls over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Company's internal controls over financial reporting as at December 31, 2010, and has concluded that such internal controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

There has been no change in the Company's internal control over financial reporting that occurred since the December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

Accounts Receivable

As of September 30, 2011, accounts receivable totalled \$59.8 million. Management follows conservative practices in granting trade credit and diligently practices several credit risk minimizing techniques. Management regularly reviews the Company's entire accounts receivable portfolio and, based on the most current available information, updates its estimate of unrecoverable amounts. These amounts form the basis of the Company's allowance for doubtful accounts.

Inventory

As at September 30, 2011, inventories totalled \$10.8 million. Inventories are valued at the lower of cost and net realizable value. Appropriate provisions have been made for slow-moving and obsolete inventories. As a result of the high rate of technological change, management closely monitors the quality and profile of inventories to identify items which may present a risk.

Once identified, various strategies are developed to maximize the realizable value of goods, such as returns to manufacturers, promotional activities (advertising, markdowns, etc.) and finally, liquidation. Management reviews inventory item profiles on an ongoing basis, which minimizes overall risk, and updates the estimates of the amount required to reflect such risk. Estimated unrecoverable amounts are charged to earnings in the period in which the risk is identified.

Impairment of Long-Lived Assets

The Company assesses long-lived assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of the loss is determined by deducting the asset's fair value from its carrying value.

Impairment of goodwill

Goodwill is not amortized but it is tested for impairment annually, or more frequently, if events or changes in circumstances indicate a possible impairment. The Company compares the reporting unit's carrying value to its market value determined through a discounted cash flow analysis. In preparing the analysis, the Company uses its judgment in estimating future profitability, growth, capital spending and discount rate. If the carrying value of the reporting unit exceeds the market value, the Company would then determine the amount of the impairment loss by comparing the fair value of the goodwill to its carrying amount.

CHANGES IN ACCOUNTING POLICIES

These consolidated financial statements were prepared by the Company and its subsidiaries in accordance with IFRS as published by the International Accounting Standards Board (IASB), particularly IAS 34 Interim Financial Reporting and IFRS 1 First-time Adoption of International Financial Reporting Standards. The consolidated financial statements do not include all of the information required for full annual financial statements. The first application date for IFRS is January 1, 2010. In compliance with IFRS, the Company has:

- Provided comparative financial information;
- Used the same accounting policies throughout all reporting periods;

Management's Discussion and Analysis

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- Applied retrospectively all IFRS that will ultimately be effective as at December 31, 2011 as required;
- Applied certain optional exemptions and certain mandatory exceptions concerning first-time adopters of IFRS.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted principles (GAAP). Canadian GAAP differ from IFRS in certain aspects. When preparing these IFRS financial statements, management made changes to certain recognition, measurement and consolidation methods that it had previously applied to prepare financial statements according to Canadian GAAP. Note 19 includes a reconciliation of equity, net income and comprehensive income under Canadian GAAP and IFRS, as well as a description of the impact of the changeover from Canadian GAAP to IFRS on these items. Note 19 also presents a reconciliation of each of the balance sheet items as at January 1, 2010, September 30, 2010 and for the year ended December 31, 2010.

These financial statements have been prepared on a going concern assumption and the historical cost method of accounting with the exception of financial assets and financial liabilities that are revalued at fair value through profit and comprehensive income. The preparation of IFRS financial statements calls for critical accounting estimates. It also requires management to exercise judgment in the use of accounting policies chosen by the Company. Note 3 describes the areas that are particularly complex and requiring sound judgment as well as those where assumptions and estimates have a significant impact on financial statements.

FUTURE ACCOUNTING CHANGES

The new IFRS 9 changes guidance relating to classification and measurement presented in IAS 30 as regards to 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 eliminated 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 considers that the adoption of this standard will not have a significant impact on its consolidated financial statements.

ADDITIONAL INFORMATION

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

Montreal, Canada
November 10, 2011