Colabor Group Inc.

Consolidated Financial Statements
December 31, 2013 and 2012

Raymond Chabot Grant Thornton

Independent Auditor's Report

Raymond Chabot Grant Thornton LLP
Suite 2000
National Bank Tower
600 De La Gauchetière Street West
Montréal, Quebec H3B 4L8

Telephone: 514-878-2691
Fax: 514-878-2127
www.rcgt.com

To the Shareholders of
Colabor Group Inc.

We have audited the accompanying consolidated financial statements of Colabor Group Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Colabor Group Inc. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

/S/ Raymond Chabot Grant Thornton LLP [1]

Montréal
March 12, 2014

[1] CPA auditor, CA public accountancy permit no. A115028

Colabor Group Inc.
Consolidated Statements of Earnings
Years ended December 31, 2013 and 2012
(In thousands of Canadian dollars, except data per share)

	Notes	2013	2012
		$	$ (Restated)
Sales of goods	6	1,439,470	1,466,848
Operating expenses, excluding costs not relating to current operations, depreciation and amortization	7	1,405,444	1,427,742
Operating earnings before costs not relating to current operations, depreciation and amortization		34,026	39,106
Costs not relating to current operations	8	11,990	6,639
Depreciation of property, plant and equipment	10	4,908	4,634
Amortization of intangible assets	11	14,250	14,150
		31,148	25,423
Operating earnings		2,878	13,683
Finance costs	22	12,286	10,566
Earnings before income taxes		(9,408)	3,117
Income taxes			
Current	13	–	–
Deferred	13	(2,579)	344
		(2,579)	344
Earnings (loss)		(6,829)	2,773
Basic and diluted earnings (loss) per share	23	(0.26)	0.12

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

Colabor Group Inc.
Consolidated Statements of Comprehensive Income
Years ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

	2013	2012
	$	$
		(Restated)
Earnings (loss)	(6,829)	2,773
Other comprehensive income that will be subsequently reclassified to earnings		
Available-for-sale financial asset		
Loss for the year	(4,819)	(2,478)
Reclassification to earnings of cumulative loss	5,971	
Cash flow hedges – gain (loss) for the year	(11)	551
Taxes on other comprehensive income that will be subsequently reclassified to earnings	(145)	177
	996	(1,750)
Other comprehensive income that will not be reclassifed to earnings		
Remeasurement of pension obligation	1,615	(1,068)
Taxes on other comprehensive income that will not be reclassified to earnings	(420)	267
	1,195	(801)
Total other comprehensive income	2,191	(2,551)
Total comprehensive income	(4,638)	222

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

Colabor Group Inc.
Consolidated Statements of Changes in Equity
Years ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

	Share capital	Convertible debenture conversion options	Contributed surplus	Shares held under stock-based compensation plans	Available-for-sale financial asset	Cash flow hedges	Deficit	Total equity
	$	$	$	$	$	$	$	$
Balance as at January 1, 2013 - restated	**179,652**	**1,742**	**1,136**	**(381)**	**(1,003)**	**(50)**	**(23,679)**	**157,417**
Loss for the year							(6,829)	(6,829)
Other comprehensive income								
Loss on available-for-sale financial asset					(4,819)			(4,819)
Reclassification to earnings of cumulative loss on available-for-sale asset					5,971			5,971
Loss on cash flow hedges						(11)		(11)
Remeasurement of pension obligation							1,615	1,615
Taxes on other comprehensive income					(149)	4	(420)	(565)
Total comprehensive income	–	–	–	–	1,003	(7)	(5,634)	(4,638)
Dividends declared							(8,126)	(8,126)
Share issue (Note 5)	28,970							28,970
Stock-based compensation plan expenses			190					190
Transactions with owners	28,970	–	190	–	–	–	(8,126)	21,034
Balance as at December 31, 2013	**208,622**	**1,742**	**1,326**	**(381)**	**–**	**(57)**	**(37,439)**	**173,813**

	Share capital	Convertible debenture conversion options	Contributed surplus	Shares held under stock-based compensation plans	Available-for-sale financial asset	Cash flow hedges	Deficit	Total equity
	$	$	$	$	$	$	$	$
Balance as at January 1, 2012 - restated	**179,652**	**1,742**	**1,206**	**(622)**	**1,154**	**(457)**	**(9,007)**	**173,668**
Earnings for the year							2,773	2,773
Other comprehensive income								
Loss on available-for-sale financial asset					(2,478)			(2,478)
Gain on cash flow hedge						551		551
Remeasurement of pension obligation							(1,068)	(1,068)
Taxes on other comprehensive income					321	(144)	267	444
Total comprehensive income	–	–	–	–	(2,157)	407	1,972	222
Dividends declared							(16,644)	(16,644)
Stock-based compensation plan expenses			171					171
Shares released for stock-based compensation plans			(241)	241				
Transactions with owners	–	–	(70)	241	–	–	(16,644)	(16,473)
Balance as at December 31, 2012 - restated	**179,652**	**1,742**	**1,136**	**(381)**	**(1,003)**	**(50)**	**(23,679)**	**157,417**

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

Colabor Group Inc.
Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012
(In thousands of Canadian dollars)

	Notes	2013	2012
		$	$
			(Restated)
Operating activities			
Earnings (loss) before income taxes		(9,408)	3,117
Depreciation of property, plant and equipment	10	4,908	4,634
Amortization of intangible assets	11	14,250	14,150
Write-off of property, plant and equipment included in the costs of internal restructuring of operations	8		397
Loss on the disposal of a wholly-owned subsidiary	8		519
Write-off of a client relationship following the loss of a client	8		1,181
Changes in provisions	16	5,476	
Dividends from Colabor Investments Inc.	8	(2,342)	
Impairment of equity investment in Colabor Investments Inc.	8	5,971	
Finance charges	22	12,286	10,566
Stock-based compensation plan expenses	21	190	171
		31,331	34,735
Tax deductions		(53)	(379)
Net changes in working capital	24	(40,708)	16,947
Cash flows from operating activities		(9,430)	51,303
Investing activities			
Business acquisitions, net of cash acquired	5	(10,000)	(6,069)
Dividends received from Colabor Investments Inc.	8	2,342	
Disposal of a wholly-owned subsidiary	8		85
Purchase of property, plant and equipment	10	(4,782)	(3,158)
Disposal of property, plant and equipment	10	9	
Purchase of intangible assets	11	(538)	(509)
Cash flows from investing activities		(12,969)	(9,651)
Financing activities			
Bank borrowings		20,645	(8,140)
Share issuance		28,615	
Advance received on dividends to be declared by Colabor Investments Inc.		(1,722)	1,722
Dividends paid		(12,287)	(18,703)
Balances of purchase price		(2,173)	(2,479)
Finance costs paid	22	(11,513)	(9,895)
Cash flows from financing activities		21,565	(37,495)
Net change in bank overdraft		(834)	4,157
Bank overdraft, beginning of year		(5,994)	(10,151)
Bank overdraft, end of year		(6,828)	(5,994)

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

Colabor Group Inc.
Consolidated Statements of Financial Position
December 31, 2013 and 2012
(In thousands of Canadian dollars)

	Notes	2013	2012
		$	$
			(Restated)
ASSETS			
Current			
Trade and other receivables	9	114,803	113,495
Recoverable tax assets		2,853	2,800
Inventory		80,243	85,167
Prepaid expenses		1,996	3,143
Current assets		199,895	204,605
Non-current			
Equity investment in Colabor Investments Inc.	26	5,113	9,932
Property, plant and equipment	10	16,615	15,930
Intangible assets	11	131,112	142,358
Goodwill	12	115,065	115,065
Non-current assets		267,905	283,285
Total assets		467,800	487,890
LIABILITIES AND EQUITY			
LIABILITIES			
Current			
Bank overdraft		6,828	5,994
Trade and other payables		84,684	137,427
Dividends payable			4,161
Rebates payable		8,663	11,738
Balances of purchase price payable	15	11,496	10,735
Deferred revenue		41	477
Provisions	16	1,111	
Current liabilities		112,823	170,532
Non-current			
Bank borrowings	17	108,684	88,008
Derivative financial instrument	17 and 27	78	67
Balances of purchase price payable	15		404
Long-term debt	18	14,737	14,665
Convertible debentures	19	47,373	46,703
Pension obligation	21.3	520	2,399
Provisions	16	4,365	
Deferred income tax liabilities	13	5,407	7,695
Non-current liabilities		181,164	159,941
Total liabilities		293,987	330,473
EQUITY			
Share capital	20	208,622	179,652
Deficit		(37,439)	(23,679)
Other components of equity		2,630	1,444
Total equity		173,813	157,417
Total liabilities and equity		467,800	487,890

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

The Board of Directors approved and authorized the publication of the consolidated financial statements on March 12, 2014.

On behalf of the Board,

/S/ Jacques Landreville
Director

/S/ Robert Panet-Raymond
Director

1. *NATURE OF OPERATIONS*

Colabor Group Inc. (hereafter the "Group") and its wholly-owned subsidiaries (hereafter, collectively the "Company") distribute and market food and food-related products in Canada.

2. *GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS*

These consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS).

Colabor Group Inc., the group’s ultimate parent company, is incorporated under the Canada Business Corporations Act. It is a Canadian company headquartered at 1620 De Montarville Boulevard, Boucherville, Quebec, J4B 8P4. The shares of Colabor Group Inc. and convertible debentures are listed on the Toronto Stock Exchange (TSX: GCL and TSX: GCL.DB.A).

3. *SIGNIFICANT ACCOUNTING POLICIES*

3.1 General information

The consolidated financial statements have been prepared in accordance with the accounting policies described in this note. These accounting policies have been applied consistently throughout the two years.

3.2 Basis of measurement

These consolidated financial statements are presented at historical cost, with the exception of certain financial instruments that are measured at fair value and the pension obligation that is measured at the present value of the pension obligation less the fair value of the plan assets.

3.3 Basis of consolidation

The consolidated financial statements include the accounts of the parent company and its subsidiaries.

The parent company has control of a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. These entities are consolidated from the date the Company acquires control until the date control ends.

The consolidated financial statements include the accounts of the Colabor Group Inc. and its subsidiaries which are all wholly-owned. All transactions and balances between the Group's companies are eliminated on consolidation, including unrealized gains and losses on transactions between the Group's companies.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

3.4 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred by the Company to obtain control of an entity is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognizes identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at the acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognized amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of any existing equity interest that the Company has in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

3.5 Revenue recognition

Sales of goods are the only significant source of revenue. Sales of goods in the consolidated statements of earnings represent the fair value of the consideration received or receivable from third parties on the sales of goods to customers, net of commodity taxes, returns, rebates and discounts.

The Company recognizes revenue when all of the following conditions are satisfied:

(a) The Company has transferred to the buyer the significant risks and rewards of ownership of the goods, that is on delivery of the goods;

(b) The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) The amount of the sales of goods can be measured reliably;

(d) It is probable that the economic benefits associated with the transaction will flow to the Company;

(e) Transaction costs incurred or to be incurred can be measured reliably.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

3.6 Customer rebates

Rebates to customers are recognized as a reduction of the sale price and presented as a reduction of the sales of goods in the consolidated statements of earnings.

These rebates are recognized when they are considered as probable and can be reasonably estimated.

3.7 Supplier rebates

The Company recognizes the consideration received from suppliers as a reduction of the price of suppliers' goods and reduces the purchases of goods and the related inventory in the consolidated statements of earnings and financial position. Some exceptions apply when the cash consideration received is a reimbursement of the additional sales expenses incurred by the reseller, in which case, the rebate is recognized in accordance with the substance of the agreement as a reduction in operating expenses.

These rebates are recognized when they are considered as probable and can be reasonably estimated. Receipt probability and estimates are determined on the basis of goods purchase forecasts and contractual terms. Assumptions are re-assessed each period.

3.8 Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

3.9 Income taxes

The income tax expenses comprise current and deferred taxes and are recognized in the consolidated statements of earnings and comprehensive income, other than taxes relating to equity, which are deducted from equity.

Current income tax assets or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting periods, that are not received or paid at the reporting date. Current income taxes are payable on taxable income, which differs from earnings in the financial statements. Calculation of current taxes is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred taxes are not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting income. Deferred taxes on temporary differences associated with investments in subsidiaries and joint ventures are not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always recognized in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred income tax assets or liabilities are recognized as revenues or expenses, except if they relate to items that have been recognized as other comprehensive income or directly in equity, in which case, the corresponding deferred tax is also recognized in other comprehensive income or in equity.

3.10 Earnings or losses per share

Earnings or losses per share are computed by dividing net earnings or losses attributable to the parent company's common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated taking into account the potentially dilutive effect of common shares on earnings attributable to the parent company's common shareholders and the weighted average number of common shares outstanding. Potentially dilutive common shares are considered to have been converted into common shares at the later of the beginning of the period or the common share issuance date. Potential common shares are related to debentures, the performance stock unit (PSU) plan and the stock options.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

3.11 Operating segments

Segment information is presented in accordance with IFRS 8 *Operating Segments,* using information that is reviewed regularly by management to determine the performance of each segment. The same criteria are used to present operating segments and produce internal reports for management. Performance is evaluated according to segment earnings before costs not relating to current operations, depreciation, amortization, finance costs and taxes. Intersegment transactions that are in the ordinary course of operations are recognized at fair value.

The Company has two operating segments: distribution to food service enterprises (Distribution Segment) and food distributors (Wholesale Segment).

The accounting policies the Company uses for segments are the same as those used in its consolidated financial statements, except that the following are not allocated to segments earnings:

– Corporate expenses (employee compensation and other unallocated amounts);
– Finance costs;
– Depreciation of property, plant and equipment and amortization of intangible assets;
– Costs not relating to current operations;
– Tax expenses.

3.12 Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined by the first in, first out method.

The cost of inventories comprises costs of purchases and other costs incurred in bringing the inventory to its present location and condition, net of suppliers' rebates.

Net realizable value is the estimated selling price in the ordinary course of business less any applicable estimated selling expenses.

3.13 Property, plant and equipment

Property, plant and equipment are recognized at the acquisition cost less accumulated depreciation and amortization and accumulated impairment losses. Acquisition cost includes costs incurred to acquire and install the related assets.

Land is not depreciated. Other property, plant and equipment are depreciated on a straight-line basis on components with homogeneous useful lives to depreciate the initial cost over their estimated useful lives, taking residual values into account.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

The useful lives are as follows:

Furniture, warehouse equipment and vehicles	5 to 15 years
Road vehicles	7 years
Computer equipment	4 years
Leasehold improvements	Lease term, 10 to 20 years

The useful lives, depreciation method and residual values are reviewed each year, taking the nature of the asset, its expected use and technological developments into account. Assets are depreciated once they are available for use.

Depreciation is recognized in consolidated statements of earnings within "Depreciation of property, plant and equipment".

The profit or loss on the disposal of an item of property, plant and equipment is the difference in the proceeds versus the carrying amount of the asset and is recognized in operating expenses or in costs not relating to current operations.

3.14 Intangible assets

3.14.1 Distribution software and customer relationships

These intangible assets are recognized at acquisition less accumulated amortization and accumulated impairment losses.

The acquisition cost of distribution software includes costs incurred to acquire and install the related software.

All customer relationships are attributable to business combinations and satisfy the accounting criteria of intangible assets.

These intangible assets are amortized on a straight-line basis to amortize the initial cost over their estimated useful lives, taking residual values into account. The useful lives are as follows:

Distribution software	4 and 7 years
Customer relationships	2 to 20 years

The useful lives, amortization method and residual values are reviewed each year, taking the nature of the asset, its expected use and technological developments into account. Assets are amortized once they are available for use.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Amortization is recognized in the consolidated statements of earnings within "Amortization of intangible assets".

3.14.2 Trademarks

Trademarks have indefinite useful lives considering that management does not intend to dispose of them. They are recognized using the cost model and are not amortized. They are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they are impaired.

Any impairment is recognized in the consolidated statements of earnings.

3.15 Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses.

3.16 Impairment testing of goodwill, property, plant and equipment and intangible assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level for the Company at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated and trademarks with an indefinite useful life are tested for impairment when an adverse event occurs and at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in the consolidated statements of earnings for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget. Discount factors are determined individually for each asset or cash-generating unit and reflect their respective risk profiles as assessed by management.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. On assets other than goodwill, an impairment charge is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined, net of amortization or depreciation, had no impairment loss been recognized.

3.17 Leased assets

Leases where the lessor retains the risks and rewards of ownership are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company does not have any finance leases.

3.18 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs. After initial recognition these are measured at amortized cost using the effective interest rate method, less a provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company includes in this category trade and other receivables.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Available-for-sale financial assets include the equity investment in Colabor Investments Inc.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Financial instruments in this class are measured initially at fair value plus transaction costs. Available-for-sale assets are then measured at fair value. Gains and losses are recognized in other comprehensive income and are included in the available-for-sale financial asset category in equity. When the asset is disposed of or is impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified to earnings and the reclassification presented as costs not relating to current operations. Dividends are also presented in costs not relating to current operations.

c) Impairment of financial assets

All financial assets except for those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence that a financial asset is impaired could include:

– significant financial difficulty of the issuer or obligor;
– a breach of contract, such as a default or delinquency in interest or principal payments;
– it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry sector. Objective evidence that a financial asset is impaired could include the Company's historical collection experience, an increase in the portfolio recovery period and any domestic or local change in economic conditions in correlation with debtors' failure to pay.

Financial liabilities

The Company's financial liabilities include the bank overdraft, trade and other payables excluding sales taxes to remit and compensation payable, dividends payable, rebates payable, balances of purchase price payable, bank borrowings, convertible debentures and long-term debt.

Financial liabilities in this class are measured initially at fair value less transaction costs. After initial recognition they are measured at amortized cost using the effective interest rate method. They are presented in current liabilities when payable within 12 months of the closing date, otherwise, they are presented as non-current.

Interest expense is included in "Finance costs" in the consolidated statements of earnings.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Convertible debentures

The convertible debentures are separated into their debt and equity components. The value of the debt component of the debentures is determined, at the time of issuance, by discounting the future interest obligations and the principal payment due at maturity, using a discount rate which represents the estimated borrowing rate available to the Company for similar debentures having no conversion rights. The remaining portion of the gross proceeds of the debentures issued is presented as an option to convert debentures in equity net of the tax implications, and the attributed amount is not subsequently reviewed. The attributed amount remains over the term of the related convertible debentures. Convertible debentures issue costs are applied against the two components on a pro rata basis of the allocated proceeds of issue.

The debt component presented in the consolidated statements of financial position increases over the term of the debenture to the full face value of the outstanding debentures at maturity. The difference, that is, the accretion on convertible debentures, is presented as implicit interest expense with the result that adjusted interest expense reflects the effective yield of the debt component of the debentures. Upon conversion of the debentures into common shares by the holders, both of the above-mentioned components are transferred to share capital. If a conversion option is not exercised at the expiry of the convertible debentures, the equity component of the convertible debentures is transferred to contributed surplus.

Derivative financial instruments, including hedge accounting

The Company holds derivative financial instruments to hedge its interest rate risk. The embedded derivatives are separated from the host contract and recognized separately if the economic characteristics, host contract risks and embedded derivative are not closely related.

For the years considered, the Company has designated its interest rate swaps as a hedge of the bank borrowings that is part of cash flow hedges. These contracts were entered into to reduce the cash flow risk from changes in the interest rate on the bank borrowings.

The derivative financial instruments used for hedge accounting are initially recognized at fair value and are subsequently measured at fair value as well in the consolidated statements of financial position.

If a hedge is effective, the changes in fair value of the derivatives designated as hedges in a cash flow hedging relationship are recognized in other comprehensive income and are included in the "Cash flow hedges" reserve under equity. Any ineffective portion of the hedge is immediately recognized in earnings.

Any profit recognized in other comprehensive income is removed from equity and reclassified in earnings if the hedged item affects earnings and is presented as a reclassification in other comprehensive income. However, if a non-financial asset or liability is recognized as a result of a hedging transaction, profit or loss previously recognized in other comprehensive income is included in the initial measurement of the hedged item.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

If it is no longer expected that a transaction will take place or if the hedging instrument becomes ineffective, the related profit or loss recognized with other comprehensive income is immediately reclassified in earnings.

3.19 Provisions, contingent liabilities and contingent assets

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amounts can be reliably estimated. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized in earnings as a finance cost.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized, unless it was assumed in the course of a business combination.

In 2013, the Company recognized provisions for onerous contracts (see Note 16).

3.20 Pension obligation and other employee benefits

The Company provides post-employment benefits through defined contribution plans and a defined benefit plan.

Contributions to the defined contribution plans are recognized as an expense in the period that relevant employee services are received.

The liability recognized in the consolidated statements of financial position for the defined benefit plan is the present value of the defined benefit obligation at the closing date less the fair value of plan assets.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

The remeasurement of the pension obligation, which includes actuarial variances relating to the obligations and the return on plan assets in excess of interest income, is recognized in consolidated other comprehensive income and immediately in the deficit without subsequent reclassification to earnings.

3.21 Equity

Share capital represents the amount received on issued shares less issue costs, net of any underlying income tax benefit of these issue costs.

Debenture conversion options represent the equity component of convertible debentures.

Contributed surplus includes compensation cost for the Company's stock-based compensation plans and the convertible debenture conversion option that expires without being converted.

Shares held under the stock-based compensation plans are shares held for the Company's various stock-based compensation plans.

The available-for-sale financial asset is the cumulative net change in the unrealized fair value of the equity investment in Colabor Investments Inc.

The cash flow hedges are the cumulative net change in the effective portion of the unrealized fair value of a cash flow hedge relating to hedging transactions.

The deficit includes retained earnings for the current and past years.

Unpaid dividends are included in liabilities in the period the payment is approved by the Board of Directors.

All transactions with owners of the parent company are recorded separately within equity.

3.22 Stock-based compensation

Stock option plan

The Company has an equity-settled stock option plan for certain of its officers and employees. This plan does not feature any options for a cash settlement.

All goods and services received in exchange for the grant of stock options are measured at their fair values unless they cannot be reasonably determined. If the Company is not able to reliably estimate the fair values of goods or services received, the values are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Stock-based compensation is ultimately recognized as an expense in the consolidated statements of earnings with a corresponding credit to contributed surplus.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options that ultimately vest are different from that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are credited to share capital and the corresponding stock-based compensation that was previously included in contributed surplus.

Performance stock unit plan

The Company has a performance stock unit (PSU) plan for certain officers and employees. The PSUs vest after a maximum three-year period, on the basis of performance targets. The compensation cost is measured on the award date at the fair value of the shares and recognized over the related service period with a corresponding increase in contributed surplus. The Company recognizes the plan expense based on the expected attainment of performance targets. The impact of any change in the number of PSUs to be acquired is recognized in the period the estimate is revised.

Under the PSU plan, shares purchased on the open market on behalf of plan members are recognized at cost as a reduction of equity. If the fair market value of the shares on the award date is greater than the acquisition price paid by the Company, the difference is recognized as contributed surplus. If the fair market value of the shares on the award date is less than the acquisition price paid by the Company, the difference is applied against retained earnings.

Directors' share unit plan

Members of the Company's Board of Directors may elect to receive some or all of their annual fees in the form of Directors' share units (DSUs). The accrued DSU compensation liability is measured at each closing date on the basis of the number of outstanding share units and the market price of the Company's common shares. Changes in the liability are recognized as a compensation expense and the liability is included in trade and other payables.

Employee stock ownership plan

The Company has an employee stock ownership plan. Under the terms of this plan, the Company pays contributions calculated on the basis of percentages provided in the plan, in consideration of employee contributions. These contributions are recognized when employees agree to pay their share.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

3.23 Amendments to accounting policies and other change

Consolidation standards

A series of consolidation standards apply to fiscal periods beginning on or after January 1, 2013. Information on these new standards is presented below. There has been no material impact on the Company's consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements,* and SIC-12 *Consolidation – Special Purpose Entities.* It modifies the definition of control and the related guidance to identify an interest in a subsidiary. However, consolidation requirements and mechanisms and the recognition of a non-controlling interest and any change in control remain unchanged.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 incorporates and enhances the consistency of disclosure requirements for various interests, in particular, unconsolidated structured entities. It enhances the disclosure requirements regarding an entity's exposure to risk associated with its interest in a structured entity.

Fair value measurement

IFRS 13 *Fair Value Measurement*

IFRS 13 does not impact items to be measured at fair value, but it clarifies the definition of fair value, provides related guidance and requires enhanced disclosures on fair value measurements. There was no material impact on the Company's consolidated financial statements.

Presentation of financial statements

Amendments to IAS 1 *Presentation of Financial Statements*

The amendments to IAS 1 require an entity to include items presented in other comprehensive income with items that, based on other IFRS standards, will not be reclassified subsequently to earnings and will be reclassified to earnings if certain conditions are satisfied. This change had an impact on the presentation of other comprehensive income, but did not have any impact on the measurement or recognition of these items.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Employee benefits

Amendments to IAS 19 *Employee Benefits*

The amendments published in 2011 include a number of specific changes to the standard, the most significant of which are related to defined benefit plans. These changes:

– eliminate the corridor approach and require recognition of gains and losses arising in defined benefit plans in the period in which they occur;

– simplify the recognition of changes in the plan assets and liabilities.

The changes to IAS 19 are effective for annual periods beginning on or after January 1, 2013 and apply retrospectively.

IAS 19 was also amended in November 2013 to clarify the recognition of benefits that will be paid by employees or third parties to a defined benefit plan and that do not depend on the number of years of service. The amendments are effective for annual periods beginning on or after July 1, 2014 and earlier adoption is permitted. The Company has early adopted this amendment.

The major impacts of the application of the standard amended in 2011 and 2013 is a $2,057,000 increase in the pension obligation, a $514,000 decrease in deferred tax liabilities as at December 31, 2012 and a $1,543,000 and $742,000 decrease in equity as at December 31, 2012 and January 1, 2012.

Other change

As a result of a Superior Court decision regarding an acquisition in 2008 and the revision of the acquisition contract, the Company should have recognized interest on balances of purchase price payable. For the years ended December 31, 2013 and 2012 respectively, this change led to an increase in finance costs of $746,000 and $589,000 and a decrease in the deferred tax expense of $194,000 and $153,000 and earnings of $552,000 and $436,000. Additionally, for the years ended December 31, 2013 and 2012, this change led to a decrease in net earnings per share of $0.02 and $0.02 respectively. Furthermore, as at December 31, 2012 and 2011 respectively, this change led to an increase in accrued liabilities of $2,757,000 and $2,168,000, a decrease in deferred tax liabilities of $717,000 and $564,000 and an increase in the deficit of $2,040,000 and $1,604,000.

Impairment of assets

In May 2013, the International Accounting Standards Board (IASB) issued amendments to IAS 36 *Impairment of Assets* requiring additional disclosures about the recoverable amount of impaired non-financial assets if that amount is based on fair value less costs to sell. These amendments are effective for annual periods beginning on or after January 1, 2014 with earlier adoption permitted. The Company adopted this amendment as at January 1, 2013 and the change did not have any impact on the Company's consolidated financial statements.

3. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

3.24 Standards, amendments and current interpretations that are not yet effective

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company. Management anticipates that the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 9 *Financial Instruments*

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities as well as the chapter dealing with hedge accounting have been published. Other chapters dealing with impairment methodology are still being developed. In November 2013, the IASB decided to defer to a date to be announced the implementation of IFRS 9. Company management has yet to assess the impact of this new standard on the Company's consolidated financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

4. *SIGNIFICANT ESTIMATES AND JUDGEMENTS*

When preparing the consolidated financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results are likely to differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about the significant judgements, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below.

Impairment of trade and other receivables

The amount recognized as impairment of trade and other receivables is based on management's assessment of the risks associated with each trade and other receivable with reference to losses incurred in prior periods, collection experience and the impact of the current and expected economic conditions.

4. *SIGNIFICANT ESTIMATES AND JUDGEMENTS (Continued)*

Supplier rebates

Supplier rebates recognized are estimated on the basis that the necessary conditions for obtaining the rebates are satisfied.

Impairment of available-for-sale financial asset

Management assesses whether there are any indications of impairment of the available-for-sale financial asset at each reporting date. When management determines that the asset is impaired, the cumulative loss recognized in other comprehensive income is reclassified to earnings.

Inventory valuation

Inventory is measured at the lower of cost and net realizable value. In estimating net realizable value, management takes into account the most reliable evidence available at the time the estimates are made. The quantity, age and condition of inventory are measured and evaluated regularly during the year.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence, particularly for distribution software and computer hardware.

Impairment of trademarks and goodwill

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial years.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss. If a positive forecast of taxable income indicates the probable use of deferred tax assets, especially when it can be utilized without a time limit, those deferred tax assets are usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

4. *SIGNIFICANT ESTIMATES AND JUDGEMENTS (Continued)*

Business combinations

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated statements of financial position at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as an adjustment in the measurement period. Any other change would be recognized in the consolidated statement of earnings in the subsequent period.

Pension obligation

Management estimates the pension obligation annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its pension obligation is based on rates of inflation and mortality that management considers to be reasonable. It also takes into account the Company's specific anticipation of future salary increases, retirement ages of employees and other actuarial factors. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist, which may vary significantly in future appraisals of the Company's defined benefit obligations.

5. *BUSINESS COMBINATIONS*

5.1 Acquisition in 2013

Acquisition of T. Lauzon Ltd. assets

On March 4, 2013, the Company acquired substantially all of the assets of T. Lauzon Ltd. (hereafter "Lauzon"), a company operating in the Distribution and Wholesale Segments primarily in Quebec. The results of operation are included in the consolidated statement of earnings since the acquisition date. The acquisition of Lauzon reflects Colabor’s strategic objective to broaden its product offering.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

5. *BUSINESS COMBINATIONS (Continued)*

The preliminary purchase price allocation is determined as follows:

	Value recognized on the acquisition date
	$
Trade and other receivables	4,122
Inventory	7,960
Prepaid expenses	38
Property, plant and equipment	1,071
Intangible assets	2,215
Trade and other payables	(2,795)
Deferred tax liabilities	(81)
Acquisition cost and fair value of consideration transferred	12,530
Portion paid in balances of purchase price	(2,530)
Net cash flows on acquisition and fair value of portion transferred to cash	10,000

Business acquisition-related costs amounting to $247,000 are not included as part of acquisition cost and have been recognized as costs not relating to current operations in the consolidated statements of earnings.

Lauzon has contributed a total of $86,844,000 to the Company's sale of goods and $1,159,000 to the operating loss before depreciation and amortization for the period between the acquisition date and the end of the year. Management estimates that, if the acquisition had occurred on January 1, 2013, additional sales of goods would have been $12,897,000 but cannot estimate the additional operating earnings because of the lack of detail in the acquired company's management systems prior to the acquisition.

Trade and other receivables

The contractual amount of trade and other receivables amounts to $4,122,000 at the acquisition date. Based on the best estimate of contractual cash flows, all amounts are expected to be recovered.

Issuance of shares

To finance the acquisition of Lauzon, the Company issued 3,974,000 common shares at $7.55 per share for a total of $30,004,000. The $188,000 in share issue costs and $1,201,000 in underwriters' compensation are applied against the shares issued while a $355,000 deferred income tax asset was recognized as an increase in the shares issued.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

5. *BUSINESS COMBINATIONS (Continued)*

5.2 Acquisition in 2012

Acquisition of Viandes Décarie Inc.

On January 1, 2012, the Company acquired substantially all of the assets of Viandes Décarie Inc. (hereafter "Décarie"), a company which operates in the Wholesale Segment primarily in Quebec. The results of operation are included in the consolidated statement of earnings since the acquisition date. The acquisition of Décarie reflects Colabor's strategic objective to broaden its product offering.

The purchase price allocation is determined as follows:

	Value recognized on the acquisition date
	$
Trade and other receivables	4,449
Inventory	3,426
Prepaid expenses	9
Property, plant and equipment	966
Intangible assets	2,335
Goodwill	290
Trade and other payables	(4,346)
Deferred tax liabilities	(252)
Acquisition cost and fair value of cash consideration transferred	6,877
Portion paid in balances of purchase price	(808)
Net cash flows on acquisition and fair value of portion transferred to cash	6,069

Business acquisition-related costs amounting to $90,000 are not included as part of acquisition cost and have been expensed.

Décarie has contributed a total of $65,635,000 to the Company's sale of goods and $916,000 to operating results before depreciation and amortization for the period between the date of acquisition and December 31, 2012.

Trade and other receivables

The contractual amount of trade and other receivables amounts to $4,449,000 at the acquisition date. Based on the best estimate of contractual cash flows, all amounts are expected to be recovered.

Goodwill

Goodwill primarily relates to forecasted growth, future profitability, expertise and significant employee competencies as well as expected cost synergies. Goodwill from this business combination is expected to be deductible for tax purposes.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

6. *SEGMENT REPORTING*

The Company has two reportable segments: distribution to food service enterprises (Distribution Segment) and distribution to food distributors (Wholesale Segment). These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results. Management does not take assets and liabilities into account in the analysis of the various segments.

Segment information can be analyzed as follows:

			2013
	Distribution Segment	Wholesale Segment	Total
	$	$	$
Segment sales of goods	979,182	657,127	1,636,309
Segment operating expenses			
Cost of goods sold	849,360	620,514	1,469,874
Employee remuneration	71,468	10,394	81,862
Other expenses	39,299	6,125	45,424
	960,127	637,033	1,597,160
Segment earnings	19,055	20,094	39,149

			2012
	Distribution Segment	Wholesale Segment	Total
	$	$	$
Segment sales of goods	1,050,035	627,332	1,677,367
Segment operating expenses			
Cost of goods sold	912,801	595,393	1,508,194
Employee remuneration	73,034	9,406	82,440
Other expenses	36,808	4,923	41,731
	1,022,643	609,722	1,632,365
Segment earnings	27,392	17,610	45,002

The totals presented for the Company's operating segments reconcile to key financial figures as presented in its consolidated financial statements as follows:

	2013	2012
	$	$
Sales of goods		
Total segment earnings	1,636,309	1,677,367
Elimination of intersegment earnings	(196,839)	(210,519)
Company sales of goods	1,439,470	1,466,848

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

6. *SEGMENT REPORTING (Continued)*

	2013	2012
	$	$
Earnings		
Total segment earnings	39,149	45,002
Employee remuneration not allocated	(4,968)	(3,258)
Other expenses not allocated	(322)	(2,653)
Costs not relating to current operations	(11,990)	(6,639)
Depreciation of property, plant and equipment	(4,908)	(4,634)
Amortization of intangible assets	(14,250)	(14,150)
Elimination of intersegment earnings	167	15
Company operating earnings	2,878	13,683
Finance costs	(12,286)	(10,566)
Company earnings before taxes	(9,408)	3,117

7. *OPERATING EXPENSES, EXCLUDING COSTS NOT RELATING TO CURRENT OPERATIONS, DEPRECIATION AND AMORTIZATION*

	2013	2012
	$	$
Purchases of goods	1,259,985	1,303,186
Changes in inventory	12,884	(5,511)
Employee benefits expense (Note 21.1)	86,830	85,698
Other expenses	45,745	44,369
	1,405,444	1,427,742

8. *COSTS NOT RELATING TO CURRENT OPERATIONS*

	2013	2012
	$	$
Costs of internal restructuring of operations		
Disbursed costs	1,020	5,287
Provisions for onerous contracts (Note 16)	7,094	
Write-off of property, plant and equipment		397
Direct costs relating to realized, unrealized and potential business acquisitions	247	160
Write-off of a client relationship following the loss of a client in the Distribution Segment		1,181
Loss on the disposal of a wholly-owned subsidiary (a)		519
Special allocations to certain members of management		750
Gain realized following an arbitration ruling in connection with the acquisition of Norref		(1,655)
Dividends received from Colabor Investments Inc.	(2,342)	
Reclassification of cumulative loss on available-for-sale asset to earnings	5,971	
	11,990	6,639

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

8. *COSTS NOT RELATING TO CURRENT OPERATIONS (Continued)*

(a) On December 24, 2012, the Company disposed of a wholly-owned subsidiary for a cash consideration of $85,000. The loss on the disposal of a wholly-owned subsidiary represents the difference between the net assets disposed of and the consideration received. The net assets disposed of are detailed as follows:

	$
Trade and other receivables	507
Inventory	402
Prepaid expenses	114
Property, plant and equipment	482
Trade and other payables	(901)
	604
Consideration received	85
Loss on the disposal of a wholly-owned subsidiary	519

9. *TRADE AND OTHER RECEIVABLES*

	2013	2012
	$	$
Trade accounts	92,741	93,260
Supplier rebates receivable	16,886	15,633
Other	5,176	4,602
	114,803	113,495

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

10. *PROPERTY, PLANT AND EQUIPMENT*

	Land	Furniture, warehouse equipment and vehicles	Road vehicles	Computer equipment	Leasehold improvements	Total
	$	$	$	$	$	$
Gross carrying amount						
Balance as at January 1, 2013	63	12,701	5,968	4,478	7,527	30,737
Acquisitions		1,336	264	720	2,462	4,782
Business combinations		992	48	29	2	1,071
Transfers		(282)	(76)	(531)	279	(610)
Disposals		(9)	(225)	(1)		(235)
Balance as at December 31, 2013	63	14,738	5,979	4,695	10,270	35,745
Depreciation						
Balance as at January 1, 2013		6,411	2,918	2,612	2,866	14,807
Depreciation		2,167	894	675	1,172	4,908
Transfers		(355)	(3)	(1)		(359)
Disposals		(1)	(224)	(1)		(226)
Balance as at December 31, 2013	–	8,222	3,585	3,285	4,038	19,130
Net carrying amount as at December 31, 2013	63	6,516	2,394	1,410	6,232	16,615

	Land	Furniture, warehouse equipment and vehicles	Road vehicles	Computer equipment	Leasehold improvements	Total
	$	$	$	$	$	$
Gross carrying amount						
Balance as at January 1, 2012	63	13,734	5,656	4,195	7,775	31,423
Acquisitions		743	748	895	772	3,158
Business combinations		448	414	97	7	966
Disposal of a business		(474)	(143)	(60)	(153)	(830)
Disposals		(1,750)	(707)	(649)	(874)	(3,980)
Balance as at December 31, 2012	63	12,701	5,968	4,478	7,527	30,737
Depreciation						
Balance as at January 1, 2012		6,431	2,571	2,269	2,833	14,104
Disposal of a business		(101)	(141)	(38)	(68)	(348)
Depreciation		1,738	1,195	778	923	4,634
Disposals		(1,657)	(707)	(397)	(822)	(3,583)
Balance as at December 31, 2012		6,411	2,918	2,612	2,866	14,807
Net carrying amount as at December 31, 2012	63	6,290	3,050	1,866	4,661	15,930

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

11. *INTANGIBLE ASSETS*

	Distribution software	Trademarks	Customer relations	Total
	$	$	$	$
Gross carrying amount				
Balance as at January 1, 2013	6,120	29,697	173,899	209,716
Acquisitions	538			538
Business combinations			2,215	2,215
Transfers	251			251
Balance as at December 31, 2013	6,909	29,697	176,114	212,720
Amortization				
Balance as at January 1, 2013	3,359		63,999	67,358
Amortization	991		13,259	14,250
Balance as at December 31, 2013	4,350	–	77,258	81,608
Net carrying amount as at December 31, 2013	2,559	29,697	98,856	131,112
Gross carrying amount				
Balance as at January 1, 2012	6,035	29,697	174,501	210,233
Acquisitions	509			509
Business combinations			2,335	2,335
Disposals	(424)		(2,937)	(3,361)
Balance as at December 31, 2012	6,120	29,697	173,899	209,716
Amortization				
Balance as at January 1, 2012	2,972		52,416	55,388
Amortization	811		13,339	14,150
Disposals	(424)		(1,756)	(2,180)
Balance as at December 31, 2012	3,359	–	63,999	67,358
Net carrying amount as at December 31, 2012	2,761	29,697	109,900	142,358

The net carrying amount of one of the customer relationships is $14,900,000 as at December 31, 2013 ($16,757,000 as at December 31, 2012) and the remaining amortization period is eight years.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

12. *GOODWILL AND TRADEMARKS*

	2013	2012
	$	$
Goodwill		
Balance, beginning of year	115,065	114,775
Business combinations (Note 5)		290
Balance, end of year	115,065	115,065

12.1 Impairment testing of goodwill and trademarks

For the purpose of annual impairment testing, goodwill and the trademarks have been attached to the following cash-generating units (CGU), that is the units that are expected to benefit from the synergies of the business combinations.

	2013		2012	
	Goodwill	Trademarks	Goodwill	Trademarks
	$	$	$	$
Boucherville Division	71,921	7,200	71,921	7,200
Summit Division	14,771	9,387	14,771	9,387
Eastern Quebec and Maritimes Division	7,629	11,268	7,629	11,268
Norref Division	20,454	1,842	20,454	1,842
Décarie Division	290		290	
	115,065	29,697	115,065	29,697

Goodwill and the trademarks are tested for impairment at each year-end. The recoverable amount of the CGUs is determined using their value in use. To measure value in use, the Company established cash flow projections for the first five years on the basis of budgets and the strategic plan approved by the Board of Directors. Cash flow projections beyond the period covered by the budgets and the strategic plan were determined using a steady growth rate for subsequent years; this growth rate does not exceed the long-term average growth rate for the Company's segments. These projections have been prepared using both historical data and future trends which the Company expects.

Management's retained assumptions in performing the impairment tests were based on the growth rates in the sales of the various divisions, as shown below:

	2013		2012	
	Average for first 5 years	Following years	Average for first 5 years	Following years
Growth rate				
Boucherville Division	2.7 %	2.0 %	2.0 %	2.0 %
Summit Division	1.9 %	2.0 %	0.4 %	2.0 %
Eastern Quebec and Maritimes	2.6 %	2.0 %	0.9 %	2.0 %
Norref Division	6.7 %	2.0 %	10.8 %	2.0 %
Décarie Division	4.3 %	2.0 %	8.0 %	2.0 %

12. *GOODWILL AND TRADEMARKS (Continued)*

The Company's valuation model also takes into account of changes in working capital and the necessary investments in property, plant and equipment to maintain the assets in each of the CGU groups.

Pre-tax rates of 14.7% to 15.9% (14.5% to 15.7% as at December 31, 2012) were used to discount expected cash flows. These rates reflect the current market assessment of the time value of money and the risks specific to the asset.

The Company regularly reviews the allocation of net assets and corporate assets between CGUs based on changes in its strategic plan. Based on this review, no changes were considered necessary.

The fair value of the CGUs exceeded their carrying amount, and no impairment was recognized. Based on a sensitivity analysis, no reasonably possible change in the assumptions would have caused a CGU's carrying amount to exceed its recoverable amount.

13. *DEFERRED INCOME TAX ASSETS AND LIABILITIES*

Deferred income tax assets and liabilities relating to the deductible and taxable temporary differences and the unused tax losses have been recognized in the consolidated statements of financial position.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

13. *DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)*

The changes in deferred income tax assets and liabilities, without giving effect to offsetting balances for the same taxing authorities, are as follows:

	2013				
	Balance, beginning of year	Business combinations and share issue	Earnings	Other comprehensive income	Balance, end of year
	$	$	$	$	$
Deferred non-capital losses	17,992		(779)		17,213
Property, plant and equipment	(221)		355		134
Intangible assets	(21,835)	(81)	1,703		(20,213)
Equity investment in Colabor Investments Inc.	(743)		797	(149)	(95)
Goodwill	(2,966)		(356)		(3,322)
Share and debenture issue expenses	(377)	355	(255)		(277)
Provisions			1,461		1,461
Other	455		(347)	(416)	(308)
Deferred income tax assets (liabilities)	(7,695)	274	2,579	(565)	(5,407)

	2012				
	Balance, beginning of year	Business combinations and debenture issue	Earnings	Other comprehensive income	Balance, end of year
	$	$	$	$	$
Deferred non-capital losses	19,673		(1,681)		17,992
Property, plant and equipment	(556)		335		(221)
Intangible assets	(23,675)	(181)	2,021		(21,835)
Equity investment in Colabor Investments Inc.	(960)		(104)	321	(743)
Goodwill	(2,214)		(752)		(2,966)
Share and debenture issue expenses	(442)		65		(377)
Other	631	(71)	(228)	123	455
Deferred income tax assets (liabilities)	(7,543)	(252)	(344)	444	(7,695)

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

13. *DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)*

The difference between the effective income tax rate and the combined federal and provincial income tax rate in Canada is attributable to the following:

	2013	2012
	$	$
Earnings before income taxes	(9,408)	3,117
Combined federal and provincial income tax rate	26.68%	26.68%
Expected tax expense	(2,510)	832
Income tax rate adjustment		598
Non-taxable items	(833)	(370)
Tax impact of the disposal of a wholly-owned subsidiary		(494)
Adjustment of Norref's tax basis following an arbitration ruling		(441)
Non-tax deductible items	105	677
Adjustment of tax attributes	(176)	(1,079)
Deferred tax asset not recognized on capital losses		598
Non-deductible portion of the loss on investment	797	
Other	38	23
Tax expenses	(2,579)	344

As at December 31, 2013, the Company has capital losses amounting to $2,375,000 for which no deferred tax asset has been recognized.

In 2013, the Company received a draft notice of reassessment from the Canada Revenue Agency (CRA) contesting the tax consequences of its conversion from an income trust structure to a corporation in August 2009 (hereafter the "Conversion").

The Company remains convinced of the soundness of its position with respect to the filing of its tax returns and the expected tax consequences of its Conversion and will defend this position on the administrative front and subsequently if it receives a definitive notice of reassessment from the CRA. At the date the financial statements were produced, the Company and the CRA were discussing the draft notice of reassessment.

If the CRA were to issue a definitive notice of reassessment, the Company would have to pay 50% of the tax liability claimed by the CRA to stop the collection process. The amount would be about $10,500,000 for 2009 to 2013. The Company would also have to pay 50% of the tax payable according to the CRA for all future tax years if the CRA were to issue a reassessment and the Company were to object. If the CRA does not agree with the objection filed by the Company, the Company would be able to present its case before the courts. The Company anticipates that legal proceedings with various courts could last for several years. If the CRA eventually wins in court, the Company will be obliged to pay the remaining tax balances of approximately $10,500,000 and reverse the deferred tax asset of about $17,000,000 in earnings. Also, interest would be added to all tax amounts payable and be calculated between the date the tax expense was theoretically due and the payment date.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

14. *OPERATING LEASES AND COMMITMENTS*

The Company has entered into various leases expiring through to April 2023, which call for minimum lease payments of $74,196,000. The Company's obligation under one of these leases is secured by a $1,014,000 letter of guarantee. Minimum lease payments under the Company's operating leases are as follows:

	2013	2012
	$	$
Less than 1 year	14,156	15,193
1 to 5 years	37,722	46,528
Over 5 years	22,318	29,484
	74,196	91,205

Operating lease payments recognized in expenses during the year total $15,738,000 ($16,732,000 in 2012). These are the minimum lease payments. No sub-leasing or conditional lease payments have been made or received. No sub-leasing income is expected since all of the assets under lease are for the Company's exclusive use.

The Company's operating leases do not include any contingent rent clauses, nor are there any purchase options, escalation clauses or restrictions, such as those concerning dividends, additional debt and further leasing.

15. *BALANCES OF PURCHASE PRICE PAYABLE*

Balances of purchase price relating to business acquisitions are detailed as follows:

	2013	2012
	$	$
Payable on demand, bearing interest at 4.5%	10,081	10,081
Bearing interest at the prime rate less 1% (i.e. 2 % as at December 31, 2013 and 2012)	1,011	250
Bearing interest at 3%	404	808
	11,496	11,139
Instalments due within one year	11,496	10,735
Instalments due in more than one year	–	404

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

16. *PROVISIONS*

	$
Provisions for onerous contracts taken during the period	7,094
Revision of assumptions	(165)
Provisions used during the period	(1,453)
	5,476
Current	1,111
Non-current	4,365

Following an internal restructuring of operations in 2013, the Company recognized provisions for onerous contracts using an average weighted discounting rate of 5% in respect of non-cancellable operating leases for the distribution centres whose operations were discontinued. The provisions were estimated on the basis of contractual obligations at the time they were taken and sub-leasing income assumptions using market data. The remaining term of the leases in question ranges from 7 to 10 years.

17. *BANK BORROWINGS*

17.1 Credit facility

As at December 31, 2013 and 2012, the credit facility is $130,000,000 and $150,000,000 respectively. This credit facility expires in 2015 and is secured by a first ranking hypothec on the Company's present and future assets.

The interest on the credit facility is the prime rate plus 3.5% (i.e. 6.5%) as at December 31, 2013 and the prime rate plus 1.75% (i.e. 4.75%) as at December 31, 2012.

On January 31, 2014, the Company finalized two agreements to refinance its credit facilities and long-term debt (see Note 31).

On November 8, 2011, the Company entered into two interest rate swaps. Under these swaps, the variable rate bank loan may be converted to a fixed rate bank loan. These two interest rate swaps have been designated as cash flow hedges. One interest rate swap, which expired on November 28, 2013 for a nominal amount of $20,000,000 set the interest rate at 1.07% plus banker's acceptance stamping fees (3.82% as at December 31, 2012). The other interest rate swap, which expires on April 28, 2016 for a nominal amount of $50,000,000, sets the interest rate at 1.48% plus banker's acceptance stamping fees (i.e. a total of 4.23% as at December 31, 2013 and 4.23% as at December 31, 2012). There was no hedge ineffectiveness during the 2013 and 2012 years.

As at December 31, 2013 and 2012, the Company was required to comply with certain covenants or financial ratios that have an impact on the credit facility interest rates. As at December 31, 2013 and 2012, the Company was in compliance with these ratios or covenants.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

17. *BANK BORROWINGS (Continued)*

As at December 31, 2013, letters of guarantee in the amount of $1,039,000 are used, including $1,014,000 for one commitment.

17.2 Average bank loan

Based on the nature of its commercial agreements, the Company is subject to significant fluctuations in its daily bank loan. The average daily bank loan was a measure used in the past to comply with certain ratios and covenants. For the years ended December 31, 2013 and 2012, the average bank loan was $113,363,000 and $129,224,000 respectively.

18. *LONG-TERM DEBT*

Unsecured debt, maturing on February 28, 2017, bearing interest at a nominal rate of 6.5% payable semi-annually. The effective rate of the long-term debt is 7.13%.

		2013
	Par value	Carrying amount
	$	$
Unsecured debt, 6.5%, maturing on February 28, 2017, issued on December 28, 2011		
Balance, beginning of year	15,000	14,665
Non-cash portion of effective interest on long-term debt		72
Balance, end of year (Note 31)	15,000	14,737

		2012
	Par value	Carrying amount
	$	$
Balance, beginning of year	15,000	14,598
Non-cash portion of effective interest on long- term debt		67
Balance, end of year	15,000	14,665

19. *DEBENTURES*

5.7% convertible debentures, maturing on April 30, 2017, issued on April 27, 2010

The debentures maturing on April 30, 2017 bear interest at the rate of 5.7% and are payable semi-annually. The effective interest rate is 7.54%. The debentures are convertible at the holder's option into Shares at a conversion rate of 59.347 shares per $1,000 of debenture capital, that is a conversion price of $16.85 per share. Under certain circumstances, the Company may redeem some or all of the debentures in advance after April 30, 2015.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

19. *DEBENTURES (Continued)*

	2013		
		Carrying amount	
	Par value	Debentures	Conversion option
	$	$	$
5.7% convertible debentures, maturing on April 30, 2017, issued on April 27, 2010			
Balance, beginning of year	50,000	46,703	1,742
Non-cash portion of effective interest on debentures		670	
Balance, end of year	50,000	47,373	1,742

	2012		
		Carrying amount	
	Par value	Debentures	Conversion option
	$	$	$
5.7% convertible debentures, maturing on April 30, 2017, issued on April 27, 2010			
Balance, beginning of year	50,000	46,080	1,742
Non-cash portion of effective interest on debentures		623	
Balance, end of year	50,000	46,703	1,742

20. *SHARE CAPITAL*

Authorized

Unlimited number of participating, voting common shares without par value

Unlimited number of preferred shares issuable in series, whose designation, rights, restrictions and conditions related to each series shall be established at issue time

Issued and fully paid common shares

	2013		2012	
	Number	$	Number	$
Outstanding, beginning of year	23,115,321	179,652	23,115,321	179,652
Issued in connection with an acquisition (see Note 5)	3,974,000	28,970		
Outstanding, end of year	27,089,321	208,622	23,115,321	179,652

There were no outstanding preferred shares during the periods covered.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

21. *EMPLOYEE REMUNERATION*

21.1 Employee benefits expense

	2013	2012
	$	$
Salaries	68,258	68,423
Fringe benefits costs	14,175	12,528
Expenses for stock-based compensation plans	190	171
Pensions – defined benefit plans	143	275
Pensions – defined contribution plans	1,312	1,373
Pensions – government defined contribution plans	2,752	2,928
	86,830	85,698

21.2 Stock-based compensation

Stock option plan

The Company adopted a stock option plan (hereafter the "Option Plan") authorizing its Board of Directors to issue stock options entitling its directors, officers and employees to acquire common shares of the Group (hereafter the "Shares"). The Company's Board of Directors implemented this plan in 2010.

The maximum number of Shares of the Company that can be issued pursuant to options awarded under the Option Plan is equivalent to 10% of the number of the Company's outstanding Shares at the time of the award, and the total number of Shares of the Company reserved to award options to a single person cannot be greater than 5% of the issued and outstanding Shares of the Company. Since the Option Plan does not provide for a set maximum number of Shares of the Company that can be issued thereunder, it will have to be re-approved by the shareholders of the Group every three years from the date of the Annual Meeting of the Group.

The price for which the Shares of the Company may be subscribed pursuant to any option granted under the Option Plan of the Company is the market price. For the purposes of the Option Plan, "market price" means the volume weighted average trading price for the Shares of the Company during five trading days on the TSX prior to the applicable date of grant.

Unless the Board of Directors of the Company determines otherwise on the date of grant, any option granted will be vested and become exercisable by the eligible participant who has been granted an option (hereafter an "Optionee") in four equal tranches on the first, second, third and fourth anniversary of date of grant. The Optionee may then exercise any vested option at any time no later than the tenth anniversary of the date of grant or such earlier date fixed by the Board of Directors (hereafter the "Expiry Date") and all unexercised options shall expire and terminate and be of no further force or effect whatsoever following such Expiry Date.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

21. *EMPLOYEE REMUNERATION (Continued)*

If approved by the Board of Directors of the Company, in lieu of paying the applicable exercise price, an Optionee may elect to acquire the number of Shares of the Company determined by subtracting the applicable exercise price from the market price of the common shares of the Company on the date of exercise, multiplying the difference by the number of Shares of the Company in respect of which the option was otherwise being exercised and then dividing that product by such market price.

The weighted average fair value of the options granted in 2013 of $0.69 per option has been estimated at the award date using a binomial option pricing model using the following weighted average assumptions for options granted during the period:

Risk-free interest rate	1.38 %
Expected volatility of shares	29%
Expected annual dividend	$0.67
Expected term	5.5 years
Share price at date of grant	$7.32
Exercise price at date of grant	$7.38

The underlying expected volatility was determined by reference to historical data of the Shares over a period of time since 2008.

The weighted average fair value of the options granted in 2012 of $0.58 per option has been estimated at the award date using a binomial option pricing model using the following weighted average assumptions for options granted during the period:

Risk-free interest rate	1.59%
Expected volatility of shares	27%
Expected annual dividend	$0.72
Expected term	5.5 years
Share price at date of grant	$7.41
Exercise price at date of grant	$7.59

The underlying expected volatility was determined by reference to historical data of the Shares over a period of time since its listing on the TSX in June 2005.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

21. *EMPLOYEE REMUNERATION (Continued)*

A summary of the Company's stock option plan and the changes occurred during the years is presented in the following table:

	2013		2012	
	Options	Weighted average exercise price	Options	Weighted average exercise price
	Number		Number	
Outstanding at the beginning	359,700	9.49 $	187,500	11.87 $
Awarded	355,500	7.38 $	204,700	7.59 $
Expired	(131,200)	8.06 $	(32,500)	11.27 $
Outstanding at the end	584,000	8.53 $	359,700	9.49 $
Exercisable options	170,825	10.75 $	85,000	11.74 $

The following table presents the information related to the outstanding stock options as at December 31, 2013:

Exercise price	Maturing date	Number of outstanding options	Number of exercisable options
$7.59	May 2, 2019	156,300	42,450
$11.49	March 1, 2017	65,000	65,000
$12.10	April 30, 2017	84,500	63,375
$7.75	March 23, 2020	238,200	
$4.43	July 29, 2020	40,000	
		584,000	170,825

Long-term incentive plan

Under the terms of the Company's long-term incentive plan (LTIP), common shares were granted to certain employees based on certain financial targets. The Company would purchase common shares in the market and hold them until such time as ownership is vested to each participant. LTIP participants are entitled to receive dividends on all common shares held on their account prior to the applicable vesting date. Unvested common shares held by the Company for a LTIP participant are forfeited if the participant resigns for a reason other than his retirement or is terminated for just cause prior to the applicable vesting date. In such an event, these common shares are sold and the proceeds returned to the Company. Dividends on these common shares are also remitted to the Company. Since August 25, 2009, the LTIP has ceased all new issues.

Under the terms of the LTIP, 30,172 common shares were released on May 2, 2012 with a cost of $241,000.

As at December 31, 2012, all common shares have been released under the LTIP.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

21. *EMPLOYEE REMUNERATION (Continued)*

Performance stock unit plan

Under the terms of the Company's performance stock unit (PSU) plan, introduced on April 28, 2010, common shares may be granted to certain employees of the Company. A trustee appointed to administer the PSU plan purchases common shares on the market as necessary and holds them until such time as ownership is vested to each participant. The common shares vest after a maximum three-year period, on the basis of incentive targets. On the vesting date, PSU plan participants will receive dividends on all common shares held on their account between the grant date and the applicable vesting date. Unvested common shares will be forfeited if the participant resigns for a reason other than his retirement or is terminated for just cause prior to the applicable vesting date. In such an event, these common shares will be sold and the proceeds returned to the Company. Dividends on these common shares will also be remitted to the Company.

On May 2, 2012 and March 23, 2013, the Company granted 36,600 and 77,800 common shares under the terms of the PSU plan. The PSUs vest after a maximum three-year period, on the basis of target increases in pre-tax earnings per common share. The number of PSUs acquired by participants is determined by multiplying the number of PSUs granted by a maximum factor of 1.5.

As at December 31, 2013, 101,250 common shares may be acquired by plan participants at the share bid price.

Directors' share unit plan

Since April 28, 2010, the Company has a directors' share unit (DSU) plan for its external directors. Under the terms of this plan, the directors may elect to receive 50%, 75% or 100% of their fees receivable as directors in the form of DSUs. When a director opts for this plan, the Company credits to the director's account the number of units corresponding to the deferred compensation, divided by the average closing market price of the common shares during the five days immediately preceding the last day of each of the Company's quarters. DSUs granted under the DSU plan are redeemable and their value is payable only when the DSU holder has ceased to be a director of the Company.

No DSUs have been granted under this plan.

The compensation cost expensed pursuant to these plans is detailed as follows:

	2013	2012
	$	$
Expenses – stock option plan	159	82
Expenses – long-term incentive plan		27
Expenses – performance stock unit plan	31	62
	190	171

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

21. *EMPLOYEE REMUNERATION (Continued)*

21.3 Pension obligation and employee future benefits

As at December 31, 2013, the Company has a defined benefit pension plan and contributes to group defined contribution plans.

The defined benefit pension plan is offered to 80 employees only and not available to new employees. Under the terms of this plan, a certain percentage of salary is converted into pension components each year. Pension benefits under this plan are paid when the beneficiary reaches retirement age.

Information about the defined benefit pension plan is as follows:

	2013	2012
Accrued benefit obligation	$	$
Balance, beginning of year	7,872	6,307
Current service costs	277	241
Finance costs	185	266
Employee contributions	82	72
Benefits paid	(395)	(170)
Actuarial gains or losses		
Change in demographic assumptions	103	
Change in financial assumptions	(1,298)	1,156
Balance, end of year	6,826	7,872
Plan assets		
Fair value, beginning of year	5,473	4,871
Interest income	321	240
Actual return in excess of interest income	420	88
Employer contributions	407	380
Employee contributions	82	72
Administrative expenses	(2)	(8)
Benefits paid	(395)	(170)
Fair value, end of year	6,306	5,473
Funded status – Deficit and pension obligation	(520)	(2,399)

	2013	2012
	%	%
Components of plan assets		
Equity interests	59	57
Debt securities	30	33
Real estate	5	5
Cash	6	5
	100	100

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

21. *EMPLOYEE REMUNERATION (Continued)*

The net pension expense of the defined benefit pension plan is as follows:

	2013	2012
	$	$
Current service costs	277	241
Net interest	(136)	26
Administrative expenses	2	8
Amount recognized in earnings	143	275

The remeasurement of the pension obligation is as follows:

	2013	2012
Actuarial variance	$	$
Change in demographic assumptions	(103)	
Change in financial assumptions	1,298	(1,156)
Actual return in excess of interest income	420	88
Amount recognized in other comprehensive income	1,615	(1,068)

The significant actuarial assumptions used by the Company are as follows:

	2013	2012
	%	%
Accrued benefit obligation		
Discount rate	5.00	4.00
Rate of compensation increase	3.20	3.20

The mortality rate assumption is based on mortality tables published in Canada, that is the CPMRPP2014 mortality table for the private sector (UP94 mortality table in 2012).

Based on historical data, the Company expects contributions in the range of $400,000 to be paid for year 2014.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

22. *FINANCE COSTS AND FINANCE COSTS PAID*

	2013	2012
	$	$
Interest on balances of purchase price	770	787
Interest on bank borrowings	6,794	5,145
Interest on long-term debt	1,046	1,042
Effective interest on debentures	3,520	3,472
Other	156	120
Finance charges	12,286	10,566
Non-cash portion of effective interest on long-term debt and debentures included in finance costs	(742)	(690)
Credit facility renewal costs or change in credit facilities	933	194
Amortization of prepaid finance costs included in finance costs	(964)	(175)
Finance costs paid	11,513	9,895

23. *DATA PER SHARE*

Earnings (loss) per share

The following table presents the basic and diluted earnings per share:

	2013	2012
	$	$
Earnings (loss)	(6,829)	2,773
Weighted average number of shares used to calculate basic and diluted earnings per share	26,387,279	23,079,252
Basic and diluted earnings per share	$ (0.26)	$ 0.12

Shares that were hypothetically issued after the conversion of convertible debentures, the exercise of stock options and the release of the shares regarding the LTIP and the PSU plans were not included in the calculation of diluted net earnings (loss) per share because they had an antidilutive effect.

Dividends

During the year, the Company declared dividends of $0.18 per share on March 19, 2013. On July 17, and October 11, 2013, a dividend of $0.06 per share was declared for a total amount of $8,126,000 in 2013.

On June 17, 2013, the Company changed its dividend policy in order to declare its dividends at the same time as the publication of its quarterly or annual financial results. As a result, for the year ended December 31, 2013, only three dividends were declared.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

24. *NET CHANGE IN WORKING CAPITAL*

Net change in working capital between the two year-ends taking into account the working capital assumed on the business combinations and disposal of a wholly-owned subsidiary:

	2013	2012
	$	$
Trade and other receivables	2,814	(1,388)
Inventory	12,884	(5,511)
Prepaid expenses	1,185	(650)
Trade and other payables	(53,816)	24,513
Rebates payable	(3,075)	(45)
Deferred revenue	(436)	133
Pension obligation	(264)	(105)
	(40,708)	16,947

25. *ECONOMIC DEPENDENCE*

One customer in the Distribution Segment accounts for 15% of the Company's sales in 2013 (16% in 2012).

26. *RELATED PARTY TRANSACTIONS*

The Company's related party transactions include transactions with Colabor Investments Inc. and with the Company's key management and directors. Unless otherwise indicated, none of the transactions comprise special characteristics or terms and conditions and no guarantee has been provided. The balances are generally paid in cash.

26.1 Transactions with Colabor Investments Inc., an entity with significant influence over the Company (a)

	2013	2012
	$	$
Consolidated statements of earnings		
Rebates (b)	13,609	14,153
Rent	–	1,611
Consolidated statements of financial position		
Equity investment in Colabor Investments Inc.	5,113	9,932
Rebates payable	8,324	11,349
Advance on dividends to be declared included in other payables	–	1,722

(a) Colabor Investments Inc. holds 5,087,439 common shares of the Group.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

26. *RELATED PARTY TRANSACTIONS (Continued)*

(b) Rebates equal 3% of sales to preferred customers and shareholders of Colabor Investments Inc., in accordance with various contracts governing the relationships between the Company and Colabor Investments Inc. since the Company's initial public offering in 2005, and are deducted from the cost of goods sold.

26.2 Transactions with key management personnel

Key management personnel of the Company are members of the Board of Directors and the Executive Committee. Key management personnel remuneration includes the following expenses:

	2013	2012
	$	$
Short-term employee benefits		
Salaries, including bonuses and special allocations	2,521	2,679
Directors' fees	331	305
Fringe benefit costs	151	136
Total short-term employee benefits	3,003	3,120
Defined contribution pension plans	120	97
Share-based payments	150	125
Total remuneration	3,273	3,342

27. *FAIR VALUE OF FINANCIAL INSTRUMENTS*

27.1 Classes of financial assets and liabilities

The carrying amount and fair value of the financial instruments in the consolidated statements of financial position relate to the following classes of assets and liabilities:

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
Loans and receivables				
Trade and other receivables	114,803	114,803	113,495	113,495
Available-for-sale financial asset				
Equity investment in Colabor Investments Inc.	5,113	5,113	9,932	9,932

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

27. *FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)*

	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial liabilities				
Financial liabilities at amortized cost				
Current				
Bank overdraft	6,828	6,828	5,994	5,994
Trade and other payables	78,100	78,100	127,434	127,434
Dividends payable			4,161	4,161
Rebates payable	8,663	8,663	11,738	11,738
Balances of purchase price payable	11,496	11,496	10,735	10,735
	105,087	105,087	160,062	160,062
Non-current				
Bank borrowings	108,684	108,684	88,008	88,008
Balances of purchase price payable			404	404
Long-term debt	14,737	13,505	14,665	14,532
Convertible debentures	47,373	43,690	46,703	46,929
	170,794	165,879	149,780	149,873
Financial liability at fair value				
Derivative financial instrument	78	78	67	67

The fair value of trade and other receivables, the bank overdraft, trade and other payables (excluding sales taxes to remit and compensation payable), dividends payable, rebates payable and the current portion of balances of purchase price payable is comparable to the carrying amount given the short period to maturity, i.e. the time value of money is not significant.

The fair value of the equity investment in Colabor Investments Inc. was primarily determined using the bid price on the closing date for the underlying asset.

The fair value of the non-current portion of bank borrowings and balances of purchase price payable is equivalent to the carrying amount. The fair value was established by discounting the future cash flows using rates that the Company could currently obtain for financial liabilities with similar terms and conditions and maturities.

27. *FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)*

The fair value of long-term debt and the liability component of the convertible debentures was determined by discounting future cash flows at 10.5% (7.5% as at December 31, 2012), the rate which the Company could currently obtain for non-convertible debentures with similar terms and conditions and maturities (classified in level 2 of the fair value hierarchy).

The fair value of the derivative financial instrument was determined using observable marketplace data, that is market interest rates.

27.2 Financial instruments measured at fair value

Financial assets and liabilities measured at fair value are presented using a three-level fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements of these items. The three fair value hierarchy levels are as follows:

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

– Level 3: inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments measured at fair value consist of the equity investment in Colabor Investments Inc. (Level 2) and the derivative financial instrument (Level 2). There were no transfers between Level 1 and Level 2 during the years.

28. *CAPITAL MANAGEMENT*

The Company's objective when managing its capital is to safeguard its assets and its ability to continue as a going concern, while maximizing its growth and providing a return to shareholders. As was the case in 2012, the Company's capital is composed of bank borrowings, the long-term debt, debentures and shareholders' equity. In addition to its conservative approach to safeguarding the balance sheet, the Company achieves this objective through the prudent management of internally-generated capital, by optimizing the use of capital at a lower cost and using capital to finance growth initiatives.

The Company intends to maintain a flexible capital structure that is consistent with the above objectives and in order to make adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may acquire shares for cancellation in connection with a normal course issuer bid, issue new shares, raise capital through debt instruments (secured, unsecured, convertible or other) or refinance current debt through various instruments with different characteristics.

29. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FINANCIAL RISKS*

Financial risk management objectives and policies

The Company is exposed to various financial risks resulting from its operating, investing and financing activities. The Company's management manages financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial risks

The Company's main financial risk exposure and its financial risk management policies are detailed as follows.

Interest rate risk

The bank borrowings bear interest at variable rates and the Company is, therefore, exposed to the cash flow risks resulting from interest rate fluctuations. However, a derivative financial instrument relating to the bank borrowings was acquired to minimize the cash flow risks relating to fluctuating interest rates. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest at variable rates. The Company manages its interest rate risk exposure through an appropriate mix of fixed-rate and variable-rate financial liabilities.

The sensitivity analysis includes items bearing interest at variable rates and indicates that a reasonably possible 1% fluctuation in the bank prime rate based on current market conditions would have a $346,000 impact on earnings and equity in 2013 ($448,000 in 2012).

Credit risk

The carrying amount on the consolidated statements of financial position of trade and other accounts receivable represents the maximum amount exposed to credit risk.

The Company's credit risk is primarily attributable to its trade accounts receivable. The credit risk related to trade accounts receivable is generally diversified. The Company requires a guarantee and letter of credit from some of its customers. As at December 31, 2013, the Company has guarantees for 16% of its trade accounts receivable (13% as at December 31, 2012). The Company's policy is to have each customer undergo a credit check.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

29. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FINANCIAL RISKS (Continued)*

The Company examined its trade accounts receivable to detect any indications of impairment. It was determined that some trade accounts receivable were impaired and, accordingly, an allowance was recognized. Customers whose accounts are impaired are experiencing financial difficulties. The aging of trade accounts receivable was as follows:

	2013	2012
	$	$
Current	87,692	90,258
Overdue from 1 to 60 days	3,645	2,261
Overdue more than 60 days	1,404	741
	92,741	93,260

The changes in the allowance for doubtful accounts recorded for trade accounts receivable are as follows:

	2013	2012
	$	$
Balance, beginning of year	1,119	1,572
Change attributable to business acquisitions and disposals	30	(246)
	1,149	1,326
Expenses for the year	1,299	608
Write-off of receivables	(796)	(815)
Balance, end of year	1,652	1,119

The Company's management considers that the credit quality of all financial assets described above that are not impaired or overdue is good.

Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and sources of financing in the form of authorized bank loans. The Company establishes budget and cash estimates to ensure it has the necessary funds to fulfil its obligations. In light of the cash sources available to the Company, management believes that the liquidity risk is low.

(Amounts in the tables are in thousands of Canadian dollars, except data per share.)

29. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FINANCIAL RISKS (Continued)*

Undiscounted cash flows (including capital and interest) related to the Company's liabilities expire as follows:

			2013
	Maturing in less than 12 months	Maturing in 1 to 5 years	Maturing in more than 5 years
	$	$	$
Bank overdraft	6,828		
Trade and other payables	78,100		
Rebates payable	8,663		
Balances of purchase price payable	11,496		
Bank borrowings	7,336	111,129	
Long-term debt	975	17,110	
Convertible debentures	2,850	56,645	
	116,248	184,884	–

			2012
	Maturing in less than 12 months	Maturing in 1 to 5 years	Maturing in more than 5 years
	$	$	$
Bank overdraft	5,994		
Trade and other payables	127,434		
Dividends payable	4,161		
Rebates payable	11,738		
Balances of purchase price payable	10,919	404	
Bank borrowings	4,180	97,762	
Long-term debt	975	18,087	
Convertible debentures	2,850	60,925	
	168,251	177,178	–

30. *CONTINGENT LIABILITIES*

A petition has been filed against the Company for the partial cancellation of a June 2009 arbitration award in the amount of about $5,700,000 and an appeal has been filed regarding the Superior Court ruling rendered in December 2013 in the amount of $1,900,000. In the opinion of management, these petitions are unfounded and, accordingly, no provision has been recognized in the accounts in this respect.

31. *SUBSEQUENT EVENTS*

On January 31, 2014, the Company finalized two agreements to refinance its current credit facilities and long-term debt.

First, a bank syndicate has made available to the Company a credit facility for a maximum amount of $140,000,000 for a term of three years. In addition, the Company was also made available term credit facilities for a maximum amount of $18,000,000 that can be used for specific purposes and are repayable over a 24-month period from the time they are used, should this occur.

Second, the Company concluded a loan agreement for a total principal amount of $42,500,000, $15,000,000 of which will be used to repay the current long-term debt. The balance will be used for working capital purposes.