COLABOR

Interim consolidated Financial Statements
(unaudited)
First quarter of 2018
(in thousands of Canadian dollars)

COLABOR

Interim Consolidated Statements of Earnings

(unaudited)

For the 84-day periods ended March 24, 2018 and March 25, 2017

(in thousands of Canadian dollars, except per-share amounts)

	Notes	2018 $	2017 $
Sales	3	245,890	267,187
Operating expenses, excluding costs not related to current operations, depreciation and amortization		247,092	266,287
Operating earnings before costs not related to current operations, depreciation and amortization		(1,202)	900
Costs not related to current operations	4	—	869
Depreciation and amortization		2,746	2,540
Impairment loss on goodwill, intangible assets and property, plant and equipment		127	—
		2,873	3,409
Operating earnings (loss)	3	(4,075)	(2,509)
Impairment loss on available-for-sale financial asset		118	—
Financial expenses		1,837	1,813
		1,955	1,813
Earnings (loss) before taxes		(6,030)	(4,322)
Income taxes expense (recovery)		(1,550)	(876)
Net earnings (loss)		(4,480)	(3,446)
Basic and diluted earnings (loss) per share	5	(0.04)	(0.03)

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

Interim Consolidated Statements of Comprehensive income
(unaudited)

For the 84-day periods ended March 24, 2018 and March 25, 2017

(in thousands of Canadian dollars, except per-share amounts)

	2018 $	2017 $
Net earnings (loss)	(4,480)	(3,446)
Other comprehensive income (loss) that will be subsequently reclassified to earnings		
Gain (loss) on available-for-sale financial asset	(118)	(176)
Reclassification to earnings	118	—
Taxes on other comprehensive income (loss)	—	23
	—	(153)
Other comprehensive income (loss) that will not be reclassified to earnings		
Remeasurement of pension obligation	77	—
Taxes on other comprehensive income (loss)	(21)	—
	56	—
Total other comprehensive income (loss)	56	(153)
Total comprehensive income (loss)	(4,424)	(3,599)

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Interim Consolidated Statements of Changes in Equity
(unaudited)
For the 84-day periods ended March 24, 2018 and March 25, 2017

(in thousands of Canadian dollars, except per-share amounts)

	Share capital	Convertible debenture conversion options	Contributed surplus	Other comprehensive income (loss)	Deficit	Total Equity
	$	$	$	$	$	$
Balance as at December 30, 2017	258,005	1,742	2,506	—	(164,691)	97,562
Net earnings (loss) for the period	—	—	—	—	(4,480)	(4,480)
Other comprehensive income (loss)	—	—	—	—	56	56
Total comprehensive loss	—	—	—	—	(4,424)	(4,424)
Shares issued (cancelled) during the period	(2,365)	—	—	—	—	(2,365)
Stock-based compensation	—	—	1,168	—	—	1,168
Balance as at March 24, 2018	255,640	1,742	3,674	—	(169,115)	91,941

	Share capital	Convertible debenture conversion options	Contributed surplus	Other comprehensive income (loss)	Deficit	Total Equity
	$	$	$	$	$	$
Balance as at December 31, 2016	258,000	1,742	2,168	175	(145,632)	116,453
Net earnings (loss) for the period	—	—	—	—	(3,446)	(3,446)
Other comprehensive income (loss)	—	—	—	(153)	—	(153)
Total comprehensive income	—	—	—	(153)	(3,446)	(3,599)
Shares issued (cancelled) during the period	5	—	—	—	—	5
Stock-based compensation	—	—	(222)	—	—	(222)
Balance as at March 25, 2017	258,005	1,742	1,946	22	(149,078)	112,637

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

COLABOR

Interim Consolidated Statements of Cash Flows
(unaudited)
For the 84-day periods ended March 24, 2018 and March 25, 2017

(in thousands of Canadian dollars, except per-share amounts)

	2018 $	2017 $
Operating activities		
Net earnings (loss)	(4,480)	(3,446)
Deferred income taxes	(1,221)	(876)
Depreciation and amortization	2,746	2,540
Impairment loss on goodwill, intangible assets and property, plant and equipment	127	—
Financial expenses	1,837	1,813
Other	(252)	(472)
	(1,243)	(441)
Net changes in working capital	601	(4,093)
Cash flows used in operating activities	(642)	(4,534)
Investing activities		
Purchase of property, plant and equipment	(1,062)	(320)
Disposal of property, plant and equipment	15	13
Purchase of intangible assets	(79)	(116)
Other	51	22
Cash flows used in investing activities	(1,075)	(401)
Financing activities		
Use of the credit facility	4,607	6,863
Lease payments	(187)	(137)
Share issuance, net of related expenses	—	5
Financial expenses paid	(1,640)	(1,611)
Cash flows used in financing activities	2,780	5,120
Net change in bank overdraft	1,063	185
Bank overdraft at the beginning of the period	(6,559)	(7,468)
Bank overdraft at the end of the period	(5,496)	(7,283)

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

COLABOR

Interim Consolidated Statements of Financial Position
(unaudited)

(in thousands of Canadian dollars, except per-share amounts)

	Notes	As at March 24, 2018 $	As at December 30, 2017 $
Assets			
Current			
Trade and other receivables		83,727	94,651
Inventory		74,189	78,663
Prepaid expenses		4,217	3,636
Other		1,799	1,124
Current assets		163,932	178,074
Non-current			
Property, plant and equipment		12,351	11,140
Intangible assets		44,314	46,228
Goodwill		70,813	70,813
Deferred tax assets		4,656	3,382
Other		525	1,452
Non-current assets		132,659	133,015
Total assets		296,591	311,089
Liabilities			
Current			
Bank overdraft		5,496	6,559
Trade and other payables		84,439	97,787
Current portion of long-term debt	6	853	758
Other		1,343	982
Current liabilities		92,131	106,086
Non-current			
Long-term debt	6	59,359	54,129
Convertible debentures		49,160	49,105
Pension obligations		1,224	1,301
Provisions		2,064	2,267
Deferred tax liabilities		712	639
Non-current liabilities		112,519	107,441
Total liabilities		204,650	213,527
Equity			
Share capital		91,941	97,562
Total liabilities and equity		296,591	311,089

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 with effect as of May 2, 2018.

On behalf of the Board,

/s/ Raymond Paré, Director /s/Robert Cloutier, Director

1 Nature of operations

Groupe Colabor Inc. (hereinafter the “Group”) and its wholly owned subsidiaries (hereinafter collectively the “Company”) distribute and market food and food-related products in Canada.

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

2 Significant accounting policies

General information

These interim consolidated financial statements of the Company were prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, of the International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), taking into account the accounting policies adopted by the Company for its consolidated financial statements for the year ended December 30, 2017. The accounting policies have been applied consistently for all the periods presented. They do not include all the information required by the IFRS for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 30, 2017.

IFRS 9, Financial Instruments

In July 2014, the IASB published IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement (IAS39). IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected credit loss" impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

The company adopted IFRS 9, « Financial Instruments » effective December 31, 2017. The adoption of this standard resulted in changes in accounting policies but no adjustment to the amounts recognized in the consolidated financial statements. Below is the Company’s new method of accounting for financial instruments under IFRS 9.

a) Classification

The Company determines the classification of financial instruments at initial recognition and classifies them in the following categories for valuation purposes:

- instruments that will be subsequently measured at fair value, either at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVTOCI)
- instruments that will be measured at amortized cost.

The classification of debt instruments is derived from the Company’s business model for the management of financial assets and the contractual cash flow characteristics of those assets. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Equity instruments that are held for trading (including all equity derivative) are classified as at FVTPL.

As for the other equity instruments, the Company may make the irrevocable election (instrument by instrument), on the day of acquisition, to designate them at FVTOCI. Financial liabilities are measured at amortized cost, unless they should be evaluated as at FVTPL (such as held-for-trading instruments or derivatives) or the Company has chosen to evaluate them at FVTPL.

Financial instruments comprising embedded derivatives are fully considered to determine whether their cash flows are solely for principal repayments and interest payments.

The Company has made a detailed assessment of its financial assets and liabilities as at December 31, 2017. The following table presents the initial classification under IAS39 and the new classification under IFRS 9:

Financial assets & liabilities	**Initial classification under IAS 39**	**New classification under IFRS 9**
Trade and other receivables	Loans and receivables (amortized cost)	Amortized cost
Bank overdraft	Other liabilities	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Convertible debentures	Other liabilities	Amortized cost

b) Assessment

Financial instruments at amortized cost

Financial instruments at amortized cost are initially recognized at fair value, and subsequently at amortized cost, less any impairment loss.

Financial instruments at FVTPL

Financial instruments at FVTPL are initially recognized at fair value and the transaction costs are expensed in the consolidated statements of earnings. Realized and unrealized gains and losses arising from changes in the fair value of financial assets and liabilities held by the FVTPL are included in the consolidated statements of earnings in the period in which they occur. When management has elected to record a financial liability at FVTPL, changes in the Company's own credit risk will be recognized in the consolidated statements of earnings.

c) Depreciation

Since December 31, 2017, the Company has been prospectively evaluating expected credit losses related to debt instruments recognized at amortized cost and at FVTOCI. The depreciation method applied varies depending on whether or not there is a significant increase in credit risk. For customers, the Company applies the simplified method permitted by IFRS 9, which requires expected losses on lifetime to be recognized from the initial recognition of customers.

d) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights on cash flows from financial assets reach expiry, or when it transfers financial assets and substantially all risks and rewards of ownership to another entity. Gains and losses from derecognition are generally recognized in the consolidated statements of comprehensive income.

(in thousands of Canadian dollars, except per-share amounts)

Financial liabilities

The Company derecognizes financial liabilities only when the resulting obligations are discharged, canceled or expired. The difference between the carrying amount of a derecognized financial liability and the consideration paid or payable, including non-monetary assets transferred or liabilities assumed, is recognized in the consolidated statements of earnings.

3 Segment reporting

The Company has two reportable segments: distribution to mostly food service enterprises (the Distribution segment) and sales to food distributors (the Wholesale segment). These operating segments are monitored and strategic decisions are made on the basis of segment operating earnings. Management does not take assets and liabilities into account when analyzing individual segments.

Segment information can be analyzed as follows:

	84-day period ended March 24, 2018			84-day period ended March 25, 2017		
	Distribution Segment	Wholesale Segment	Total	Distribution Segment	Wholesale Segment	Total
	$	$	$	$	$	$
Segment sales	192,912	71,530	264,442	206,689	80,845	287,534
Segment operating expenses						
Cost of goods sold	168,476	65,253	233,729	180,471	75,901	256,372
Employee compensation	17,735	2,248	19,983	16,599	2,120	18,719
Other expenses	9,369	1,079	10,448	9,186	956	10,142
	195,580	68,580	264,160	206,256	78,977	285,233
Segment earnings	(2,668)	2,950	282	433	1,868	2,301

(in thousands of Canadian dollars, except per-share amounts)

The following table presents a reconciliation of the results of the Company's operating segments with key financial figures presented in its consolidated financial statements:

	84 days	
	2018	**2017**
	$	**$**
Sales		
Total segment sales	264,442	287,534
Elimination of intersegment sales	(18,552)	(20,347)
Company sales	245,890	267,187
Earnings		
Total segment earnings	282	2,301
Employee compensation not allocated	1,075	1,010
Other expenses (revenue) not allocated	409	391
Costs not related to current operations	—	869
Depreciation and amortization	2,746	2,540
Impairment loss on goodwill, intangible assets and property, plant and equipment	127	—
Company earnings (loss)	(4,075)	(2,509)

(in thousands of Canadian dollars, except per-share amounts)

4 Costs not related to current operations

	84 days	
	2018	**2017**
	$	**$**
Costs of internal restructuring of operations		
Costs for warehouse closure [a]	—	809
Severance allowances	—	94
Change in provision for onerous contracts	—	(34)
	—	869

The Company has disbursed an amount of $682 ($532 in 2017) during the 84-day period ended March 24, 2018.

[a] **Costs for warehouse closure**

On January 31, 2017, the Company announced the closure of the Vaughan warehouse, effective on April 30, 2017. A provision for closure expenses of $809, including severances, was accounted in 2017.

5 Per-share data

Earnings (loss) per share

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

	84 days	
	2018	**2017**
	$	**$**
Net earnings (loss)	(4,480)	(3,446)
Weighted average number of outstanding shares used to calculate the basic and diluted earnings per share	101,306,364	102,074,139
Basic and diluted earnings (loss) per share	(0.04)	(0.03)

Shares hypothetically issued as a result of the conversion of the convertible debentures (20,000,000 shares) and the exercise of stock options (5,550,420 shares) were not included in the calculation of diluted earnings per share because of an anti-dilutive effect.

(in thousands of Canadian dollars, except per-share amounts)

6 Long-term debt

	As at March 24, 2018 $	As at December 30, 2017 $
Credit facility	32,744	28,137
Subordinated Debt, face value of $25 M, maturing on October 13, 2020, bearing interest at 7.0% (6.5% as at December 30, 2017)	25,000	25,000
Obligations arising from leases	3,363	2,767
	61,107	55,904
Less: Unamortized financing costs	895	1,017
Total long-term debt	60,212	54,887
Less: Current portion of long-term debt	853	758
	59,359	54,129

7 Share-capital

Issued and fully paid common shares

	2018		2017	
	Number	Amount $	Number	Amount $
Outstanding, beginning of the period	102,112,832	258,005	102,107,832	258,000
Issued (cancelled) during the period	(934,900)	(2,365)	5,000	5
Outstanding, end of the period	101,177,932	255,640	102,112,832	258,005

There were no outstanding preferred shares during the periods covered.

On January 15, 2018, Colabor announced the reduction in the number of its outstanding shares resulting from the ongoing liquidation and dissolution of Investments Colabor Inc., an investment company in which Colabor was a shareholder. Colabor received its proportionate allocation of the shares, being 934,900 shares or just under 1% of its outstanding shares, which were automatically canceled. The number of outstanding shares was reduced from 102,112,832 to 101,177,932 at the date of this announcement.

On January 4, 2017, 5,000 new shares were issued in connection with the conversion of stock options, for an amount of $5.

(in thousands of Canadian dollars, except per-share amounts)

8 Employee compensation

Stock option plan

On February 5, 2018, the Company issued 1 000 000 stock options for common shares of the Group. The weighted average fair value of the options granted has been estimated at the award date using a binomial option pricing model based on the following weighted average assumptions for options granted during the period:

Weighted average fair value of the options	$ 0.31
Risk-free interest rate	2.20 %
Expected volatility of shares	55 %
Expected annual dividend	-
Expected term	5.5 years
Share price at date of grant	$ 0.72
Exercise price at date of grant	$ 0.88
Exercise period	5 years

The underlying expected volatility has been determined on the basis of historical data relating to the Group's common shares since 2012.

(in thousands of Canadian dollars, except per-share amounts)

9 Fair value of financial instruments

The fair value of the trade and other receivables, the loans receivable, the bank overdraft, the trade and other payables (excluding taxes and salaries payable) as well as the short-term portion of bank borrowing, is equivalent to the carrying amount due to their short-term maturity. Therefore, the time value of money is non-significant.

The carrying amount and fair value of the other financial instruments in the consolidated statements of financial position are as follows:

	As at March 24, 2018		As at December 30, 2017	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial assets				
Non-current				
Available-for-sale financial asset	—	—	847	847
Financial liabilities				
Current				
Obligations arising from leases	853	853	758	758
Non-current				
Credit facility	32,015	32,015	27,301	27,301
Obligations arising from leases	2,510	2,143	2,009	1,733
Subordinated debt	24,834	24,930	24,819	24,931
Convertible debentures	49,160	40,500	49,105	44,000
	108,519	99,588	103,234	97,965

The fair value of the available-for-sale financial asset 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 is equivalent to the carrying amount.

The fair value of the current portion of obligations under finance leases is comparable to the carrying amount since they were entered into in 2015, 2016 and 2017.

The fair value of subordinated debt was determined by discounting future cash flows at 7.0% (6.5% as at December 30, 2017), the current rate of subordinated debt.

The fair value of the liability component of the convertible debentures was determined based on the trading price on March 24, 2018.

(in thousands of Canadian dollars, except per-share amounts)

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 in 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). There were no transfers between Level 1 and Level 2 during the years.