COLABOR

Consolidated Financial Statements

**December 30, 2017**

(in thousands of Canadian dollars)

February 21, 2018

## Independent Auditor's Report

**To the Shareholders of**
**Groupe Colabor Inc.**

We have audited the accompanying consolidated financial statements of Groupe Colabor Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 30, 2017 and December 31, 2016 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise 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, 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 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 Groupe Colabor Inc. and its subsidiaries as at December 30, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy Permit No. A126402

COLABOR

Consolidated Statements of Earnings

**For the years ended December 30, 2017 and December 31, 2016**

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

| | Notes | 2017 (52 weeks) $ | 2016 (53 weeks) $ |
|---|---|---|---|
| **Sales** | 4 | 1,319,450 | 1,399,435 |
| Operating expenses, excluding costs not related to current operations, depreciation and amortization | 5 | 1,294,793 | 1,369,168 |
| **Operating earnings before costs not related to current operations, depreciation and amortization** | | 24,657 | 30,267 |
| Costs not related to current operations | 6 | 8,297 | 5,276 |
| Depreciation and amortization | 8, 9 | 11,271 | 11,509 |
| Impairment loss on goodwill, intangible assets and property, plant and equipment | 11 | 16,440 | — |
| | | 36,008 | 16,785 |
| **Operating earnings (loss)** | 4 | (11,351) | 13,482 |
| Impairment loss on the available-for-sale asset | | 224 | — |
| Financial expenses | 20 | 7,571 | 11,973 |
| | | 7,795 | 11,973 |
| **Earnings (loss) before taxes** | | (19,146) | 1,509 |
| Income taxes expense (recovery) | 12 | (554) | 1,186 |
| **Net earnings (loss)** | | (18,592) | 323 |
| **Basic and diluted earnings (loss) per share** | 21 | (0.18) | 0.01 |

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

Consolidated Statements of Comprehensive income

**For the years ended December 30, 2017 and December 31, 2016**

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

| | Notes | 2017 (52 weeks) $ | 2016 (53 weeks) $ |
|---|---|---|---|
| **Net earnings (loss) for the period** | | (18,592) | 323 |
| Other comprehensive income (loss) that will be subsequently reclassified to earnings | | | |
| Gain (loss) on financial asset available-for-sale | | (399) | 320 |
| Reclassification to earnings | | 224 | — |
| Taxes on other comprehensive income (loss) | 12 | — | (19) |
| | | (175) | 301 |
| Other comprehensive income (loss) that will not be reclassified to earnings | | | |
| Remeasurement of pension obligation | 19 | (637) | (230) |
| Taxes on other comprehensive income (loss) | 12 | 170 | 45 |
| | | (467) | (185) |
| **Total other comprehensive income (loss)** | | (642) | 116 |
| **Total comprehensive income (loss)** | | (19,234) | 439 |

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

Consolidated Statements of Changes in Equity

**For the years ended December 30, 2017 and December 31, 2016**

(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 31, 2016** | 258,000 | 1,742 | 2,168 | 175 | (145,632) | 116,453 |
| Net loss for the year | — | — | — | — | (18,592) | (18,592) |
| Other comprehensive loss | — | — | — | (175) | (467) | (642) |
| **Total comprehensive loss** | — | — | — | (175) | (19,059) | (19,234) |
| Shares issued during the year (Note 17) | 5 | — | — | — | — | 5 |
| Stock-based compensation plan (Note 19) | — | — | 338 | — | — | 338 |
| **Balance as at December 30, 2017** | 258,005 | 1,742 | 2,506 | — | (164,691) | 97,562 |

| | Share capital $ | Convertible debenture conversion options $ | Contributed surplus $ | Other comprehensive income (loss) $ | Deficit $ | Total Equity $ |
|---|---|---|---|---|---|---|
| **Balance as at December 26, 2015** | 209,591 | 1,742 | 1,880 | (126) | (145,770) | 67,317 |
| Net earnings for the year | — | — | — | — | 323 | 323 |
| Other comprehensive income (loss) | — | — | — | 301 | (185) | 116 |
| **Total comprehensive income** | — | — | — | 301 | 138 | 439 |
| Shares issued during the year (Note 17) | 48,409 | | | | | 48,409 |
| Stock-based compensation plan (Note 19) | — | — | 288 | — | — | 288 |
| **Balance as at December 31, 2016** | 258,000 | 1,742 | 2,168 | 175 | (145,632) | 116,453 |

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

COLABOR

Consolidated Statements of Cash Flows

**For the years ended December 30, 2017 and December 31, 2016**

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

| | Notes | 2017 (52 weeks) $ | 2016 (53 weeks) $ |
|---|---|---|---|
| **Operating activities** | | | |
| Net earnings (loss) | | (18,592) | 323 |
| Deferred income taxes | 12 | (1,075) | 621 |
| Depreciation and amortization | 8, 9 | 11,271 | 11,509 |
| Impairment loss on goodwill, property, plant and equipment and intangible assets | 11 | 16,440 | — |
| Financial expenses | 20 | 7,571 | 11,973 |
| Other | | (554) | (1,433) |
| | | 15,061 | 22,993 |
| Net changes in working capital | 22 | 3,056 | 10,151 |
| **Cash flows from operating activities** | | 18,117 | 33,144 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (1,851) | (966) |
| Disposal of property, plant and equipment | | 330 | 235 |
| Purchase of intangible assets | | (490) | (461) |
| Other | | (58) | 147 |
| **Cash flows used in investing activities** | | (2,069) | (1,045) |
| **Financing activities** | | | |
| Repayment of the credit facility | 14 | (7,784) | (54,050) |
| Lease payments | 14 | (658) | (499) |
| Share issuance, net of related expenses | 17 | 5 | 47,831 |
| Repayment of subordinated debt | | — | (17,500) |
| Refinancing cost paid | | — | (947) |
| Financial expenses paid | 20 | (6,702) | (10,296) |
| **Cash flows used in financing activities** | | (15,139) | (35,461) |
| **Net change in bank overdraft** | | 909 | (3,362) |
| **Bank overdraft at the beginning of the period** | | (7,468) | (4,106) |
| **Bank overdraft at the end of the period** | | (6,559) | (7,468) |

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

COLABOR

Consolidated Statements of Financial Position

**As at December 30, 2017 and December 31, 2016**

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

| | Notes | As at December 30, 2017 $ | As at December 31, 2016 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Trade and other receivables | 7 | 94,651 | 99,981 |
| Inventory | | 78,663 | 83,246 |
| Prepaid expenses | | 3,636 | 3,081 |
| Other | | 1,124 | 1,830 |
| Current assets | | 178,074 | 188,138 |
| **Non-current** | | | |
| Property, plant and equipment | 8 | 11,140 | 13,128 |
| Intangible assets | 9 | 46,228 | 55,593 |
| Goodwill | 10 | 70,813 | 84,130 |
| Deferred tax assets | 12 | 3,382 | 2,015 |
| Other | | 1,452 | 1,693 |
| Non-current assets | | 133,015 | 156,559 |
| **Total assets** | | 311,089 | 344,697 |
| **Liabilities** | | | |
| **Current** | | | |
| Bank overdraft | | 6,559 | 7,468 |
| Trade and other payables | 13 | 97,787 | 105,314 |
| Current portion of long-term debt | 14 | 758 | 550 |
| Other | | 982 | 654 |
| Current liabilities | | 106,086 | 113,986 |
| **Non-current** | | | |
| Long-term debt | 14 | 54,129 | 61,211 |
| Convertible debentures | 15 | 49,105 | 48,870 |
| Pension obligations | 19 | 1,301 | 662 |
| Provisions | 16 | 2,267 | 2,998 |
| Deferred tax liabilities | 12 | 639 | 517 |
| Non-current liabilities | | 107,441 | 114,258 |
| **Total liabilities** | | 213,527 | 228,244 |
| **Equity** | | | |
| Share capital | | 97,562 | 116,453 |
| **Total liabilities and equity** | | 311,089 | 344,697 |

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 February 21, 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).

The Company's year-end is the last Saturday of December. The years ended December 30, 2017 and December 31, 2016 comprised 52 and 53 weeks, respectively.

# 2 Significant accounting policies

**General information**

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

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

**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 accrued pension obligation less the fair value of the pension plan assets.

**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. The subsidiaries are consolidated from the date the Company acquires control until the date control ends.

The consolidated financial statements include the accounts of the Group 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.

**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) the fair value of the 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 acquired. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. the gain on a bargain purchase) is recognized in profit or loss immediately.

**Revenue recognition**

Sales of goods are the only significant source of revenue. Sales of goods in the consolidated statements of earnings are recognized by the Company when control of the goods has been transferred, being when the goods are delivered to customers and when all obligations have been fulfilled. The amounts recognized as sales of goods represent the fair values of the considerations received or receivable from third parties on the sales of goods to customers, net of goods and services taxes and less returns, rebates and discounts, at which time there are no conditions for the payment to become due other than the passage of time.

The Company recognizes customer rebates as a decrease in the selling price in the consolidated statements of earnings. These rebates are recognized when they are considered probable and can be reasonably estimated. A contract liability is recognized for the estimated rebates payable to customers.

**Supplier rebates**

The Company recognizes supplier rebates as a decrease in the prices 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. Additionally, the Corporation recognizes as revenues the supplier rebates obtained with respect to direct sales to customers.

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.

**Functional and presentation currency**

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

**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 related to equity, which are deducted from equity.

Current income tax assets or liabilities comprise those obligations to, or claims from, tax authorities related 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.

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.

**Earnings or losses per share**

Basic 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 or losses 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 convertible debentures, the performance stock unit (PSU) plan and the stock options.

**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 related 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 mostly food service enterprises (the Distribution segment) and sales to food distributors (the Wholesale segment).

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

- Corporate expenses (employee compensation and other unallocated amounts);
- Finance costs;
- Depreciation of property, plant and equipment and amortization of intangible assets;

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

- Costs not related to current operations;
- Impairment loss of equity investments, goodwill and intangible assets;
- Income tax expense.

**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 inventory 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.

**Property, plant and equipment**

Property, plant and equipment are recognized at the acquisition cost less accumulated depreciation 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. The useful lives are as follows:

| | |
|---|---|
| Furniture, warehouse equipment and vehicles | From 5 to 15 years |
| Road vehicles and road vehicles under finance leases | From 7 to 10 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, considering the nature of the asset, its expected use and technological developments.

Assets are depreciated once they are available for use.

Depreciation is recognized in consolidated statements of earnings in "Depreciation and amortization."

The profit or loss on the disposal of an item of property, plant and equipment is the difference between the proceeds and the carrying amount of the asset and is recognized in results in operating expenses.

**Intangible assets**

Distribution software, signing bonuses and customer relationships

The intangible assets are recognized at the acquisition cost 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.

The signing bonuses are incurred in connection with the renewal of distribution agreements and are amortized from the date the agreement comes into effect.

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 | From 4 to 7 years |
| Signing bonuses | From 5 to 7 years |
| Customer relationships | From 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.

Amortization is recognized in the consolidated statements of earnings in "Depreciation and amortization."

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.

**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.

**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 the level of the cash-generating unit (CGU). Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent, for the Company, the lowest level at which management monitors goodwill.

CGUs 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 in "Impairment of goodwill and intangible assets" for the amount by which the asset's or the CGU’s carrying amount exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use. To determine fair value, management estimates expected future cash flows from each asset or CGU and determines a before-tax 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 CGU and reflect their respective risk profiles as assessed by management.

Impairment losses for CGUs reduce first the carrying amount of any goodwill allocated to that CGU. Any remaining impairment loss is charged pro rata to the other assets in the CGU.

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.

**Leased property**

Leases where the Company assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. On initial recognition, the assets held under finance leases are recognized in “Property, plant and equipment” at the lower of fair value or the present value of the minimum lease payments. A corresponding liability is recognized as an obligation under finance leases. In subsequent periods, interest related to the obligation is recognized under “Finance costs” on the consolidated statements of earnings.

Other leases are operating leases and the leased assets are not recognized on the Company's consolidated statement of financial position. Payments under operating leases are recognized in earnings on a straight-line basis over the lease term. Related expenses, such as maintenance and insurance, are recognized as an expense as they are incurred.

**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 they 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 and loans receivable.

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.

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 “Other comprehensive income” in the consolidated statements of changes 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 in "Impairment loss on the available-for-sale financial asset" in the consolidated statements of earnings.

c) Impairment of financial assets

All financial assets are tested 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:

- a 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 a 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, rebates payable, obligations arising from leases, credit facility, subordinated debt and convertible debentures.

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.

### 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 debenture 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.

**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 a present obligation is considered improbable or unlikely, no liability is recognized, unless it was assumed in the course of a business combination.

**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.

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

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

**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.

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 as well as 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.

**Standards, changes and interpretations issued but not yet effective**

IFRS 9, *Financial Instruments*

In July 2014, the IASB published IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 introduces improvements which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected 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. Earlier application is permitted. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

IFRS 16, *Leases*

In January 2016, the IASB published IFRS 16 which will replace IAS 17, *Leases*. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position. An exemption is permitted for leases of low-value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and the liability (including complexities such as non-lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements, largely retains the approach to lessor accounting in IAS 17, and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier adoption is permitted in certain circumstances. The Company believes that this new standard will increase the value of property, plant and equipment and the obligations arising under leases, reduce operating expenses, and increase depreciation and amortization and finance costs. The impact approximates the amounts presented in note 18 on operating leases and commitments.

# 3 Significant estimates and judgments

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.

**Estimates**

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 item of trade and other receivables with reference to losses incurred in prior periods, collection experience and the impact of the current and expected economic conditions.

### Supplier rebates

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

### Impairment of the 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.

### 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.

### 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 the terms of the related pension liability. The estimates are subject to uncertainties, and they may vary significantly in future appraisals of the Company's defined benefit obligations.

**Significant judgments**

### Impairment of trademarks and goodwill

An impairment loss is recognized for the amount by which an asset's or CGU’s carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or CGU 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 in the next financial years.

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

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.

Option to acquire Dubé & Loiselle Inc.

During fiscal 2016, the Company bought an option to acquire Dubé & Loiselle Inc., an entity owned by one of the Company's directors. This purchase option is valid for a period of three years. The Company, believing that it has neither the control nor the influence required over the decisions of Dubé & Loiselle Inc. to consolidate this entity in its financial statements, considers it a related party.

# 4 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:

| | | | **2017** | | | **2016** |
|---|---|---|---|---|---|---|
| | **Distribution Segment** | **Wholesale Segment** | **Total** | **Distribution Segment** | **Wholesale Segment** | **Total** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **Segment sales** | 1,007,199 | 413,009 | 1,420,208 | 1,060,706 | 458,622 | 1,519,328 |
| **Segment operating expenses** | | | | | | |
| Cost of goods sold | 877,994 | 382,113 | 1,260,107 | 929,054 | 423,271 | 1,352,325 |
| Employee compensation | 75,256 | 9,386 | 84,642 | 74,191 | 9,461 | 83,652 |
| Other expenses | 39,972 | 4,775 | 44,747 | 41,461 | 5,172 | 46,633 |
| | 993,222 | 396,274 | 1,389,496 | 1,044,706 | 437,904 | 1,482,610 |
| **Segment earnings** | 13,977 | 16,735 | 30,712 | 16,000 | 20,718 | 36,718 |

(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:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Sales** | | |
| Total segment sales | 1,420,208 | 1,519,328 |
| Elimination of intersegment sales | (100,758) | (119,893) |
| Company sales | 1,319,450 | 1,399,435 |
| **Earnings** | | |
| Total segment earnings | 30,712 | 36,718 |
| Employee compensation not allocated | 4,336 | 5,865 |
| Other expenses (revenue) not allocated | 1,719 | 586 |
| Costs not related to current operations | 8,297 | 5,276 |
| Depreciation and amortization | 11,271 | 11,509 |
| Impairment loss on goodwill, intangible assets and property, plant and equipment | 16,440 | — |
| **Company earnings (loss)** | (11,351) | 13,482 |

# 5 Operating expenses, excluding costs not related to current operations, depreciation and amortization

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Purchases of goods | 1,154,766 | 1,228,396 |
| Employee benefit expense (Note 19) | 88,978 | 89,517 |
| Other expenses | 51,049 | 51,255 |
| | 1,294,793 | 1,369,168 |

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

# 6 Costs not related to current operations

| | **2017** **$** | **2016** **$** |
|---|---|---|
| Fees related to tobacco notice [a] | 6,500 | — |
| Costs of internal restructuring of operations | | |
| Costs for warehouse closure [b] | 1,484 | 850 |
| Severance and other costs | 125 | 3,637 |
| Severance allowances | 174 | 626 |
| Change in provision for onerous contracts | 14 | (115) |
| Other | — | 278 |
| | 8,297 | 5,276 |

In fiscal 2017, the Company disbursed an amount of $8,176 ($3,778 in 2016).

**[a] Fees related to tobacco notice**

During the third quarter of 2017, Colabor received a preliminary assessment advice (the "Advice") from the Ontario Ministry of Finance related to commercial activities concerning the sale of tobacco products on First Nation territory which took place between September 2013 and 2016 at a division in Ontario. The Advice related mainly to sales that took place during a short period of time between 2013 and 2014 with one customer in particular and for which the Ontario Ministry of Finance considers that sales taxes should have been collected and remitted. The Advice led to the recognition of a provision for Assessment Advice on the Corporation's interim financial statements for the third quarter of 2017. During the fourth quarter, Colabor received an assessment advice (the "Assessment") of $6.4M which it paid from its available liquidities during the quarter. The Corporation subsequently filed a Notice of Objection in accordance to the procedure.

**[b] Costs for warehouse closure**

On January 31, 2017, the Company announced the closure of the Vaughan warehouse, effective on April 30, 2017.

# 7 Trade and other receivables

| | **2017** **$** | **2016** **$** |
|---|---|---|
| Trade accounts | 76,370 | 80,486 |
| Supplier rebates receivable | 13,347 | 15,118 |
| Other | 4,934 | 4,377 |
| | 94,651 | 99,981 |

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

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. The aging of trade accounts receivable that had not been impaired was as follows:

| | **2017**<br>**$** | **2016**<br>**$** |
|---|---|---|
| Current (from 0 to 60 days) | 75,174 | 79,537 |
| Overdue from 61 to 90 days | 1,196 | 892 |
| Overdue more than 90 days | — | 57 |
| | 76,370 | 80,486 |

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

| | **2017**<br>**$** | **2016**<br>**$** |
|---|---|---|
| Balance, beginning of year | 1,347 | 1,974 |
| Expenses for the year | 799 | 989 |
| Writes-offs | (606) | (1,616) |
| Balance, end of year | 1,540 | 1,347 |

The Company's maximum exposure to credit risk on the date of disclosure approaches the carrying amount for each of the above-mentioned classes of receivables.

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

# 8 Property, plant and equipment

| | Furniture, warehouse equipment and vehicules | Road vehicules | Computer equipment | Leasehold improvements | Road vehicules under capital leases | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Year ended December 30, 2017** | | | | | | |
| Opening net book amount | 4,153 | 1,602 | 751 | 4,107 | 2,515 | 13,128 |
| Acquisitions | 732 | 546 | 424 | 265 | 1,040 | 3,007 |
| Transfers | — | — | 60 | — | — | 60 |
| Disposals | (266) | (116) | — | — | (1) | (383) |
| Depreciation | (980) | (489) | (458) | (782) | (615) | (3,324) |
| Impairment loss (Note 11) | (823) | (224) | (254) | (47) | — | (1,348) |
| **Closing net book amount** | 2,816 | 1,319 | 523 | 3,543 | 2,939 | 11,140 |
| **As at December 30, 2017** | | | | | | |
| Cost | 16,949 | 9,353 | 5,889 | 11,869 | 4,428 | 48,488 |
| Accumulated depreciation and impairment | (14,132) | (8,034) | (5,367) | (8,326) | (1,489) | (37,348) |
| **Net book amount** | 2,817 | 1,319 | 522 | 3,543 | 2,939 | 11,140 |

| | Land | Furniture, warehouse equipment and vehicules | Road vehicules | Computer equipment | Leasehold improvements | Road vehicules under capital leases | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **Year ended December 31, 2016** | | | | | | | |
| Opening net book amount | 63 | 5,047 | 1,877 | 973 | 4,895 | 2,980 | 15,835 |
| Acquisitions | — | 297 | 374 | 221 | 249 | 12 | 1,153 |
| Disposals | (63) | (4) | (37) | (12) | — | — | (116) |
| Depreciation | — | (1,187) | (612) | (431) | (1,037) | (477) | (3,744) |
| **Closing net book amount** | — | 4,153 | 1,602 | 751 | 4,107 | 2,515 | 13,128 |
| **As at December 31, 2016** | | | | | | | |
| Cost | — | 16,502 | 10,120 | 5,407 | 11,604 | 3,387 | 47,020 |
| Accumulated depreciation and impairment | — | (12,349) | (8,518) | (4,656) | (7,497) | (872) | (33,892) |
| **Net book amount** | — | 4,153 | 1,602 | 751 | 4,107 | 2,515 | 13,128 |

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

# 9 Intangible assets

| | Distribution software | Signing bonuses | Customer relationships | Trademarks | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Year ended December 30, 2017** | | | | | |
| Opening net book amount | 2,283 | 3,600 | 41,168 | 8,542 | 55,593 |
| Acquisitions | 382 | 110 | — | — | 492 |
| Transfers | (60) | (75) | — | — | (135) |
| Amortization | (554) | (799) | (6,594) | — | (7,947) |
| Impairment loss (Note 11) | (359) | (1,416) | — | — | (1,775) |
| **Closing net book amount** | 1,692 | 1,420 | 34,574 | 8,542 | 46,228 |
| **As at December 30, 2017** | | | | | |
| Cost | 10,195 | 2,999 | 95,089 | 8,542 | 116,825 |
| Accumulated depreciation and impairment | (8,503) | (1,579) | (60,515) | — | (70,597) |
| **Net book amount** | 1,692 | 1,420 | 34,574 | 8,542 | 46,228 |

| | Distribution software | Signing bonuses | Customer relationships | Trademarks | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Year ended December 31, 2016** | | | | | |
| Opening net book amount | 2,650 | 4,270 | 47,382 | 8,542 | 62,844 |
| Acquisitions | 339 | 175 | — | — | 514 |
| Amortization | (706) | (845) | (6,214) | — | (7,765) |
| **Closing net book amount** | 2,283 | 3,600 | 41,168 | 8,542 | 55,593 |
| **As at December 31, 2016** | | | | | |
| Cost | 9,872 | 4,965 | 95,089 | 8,542 | 118,468 |
| Accumulated depreciation and impairment | (7,589) | (1,365) | (53,921) | — | (62,875) |
| **Net book amount** | 2,283 | 3,600 | 41,168 | 8,542 | 55,593 |

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

# 10 Goodwill

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Balance, beginning of year** | 84,130 | 84,130 |
| Impairment loss (Note 11) | (13,317) | — |
| **Balance, end of year** | 70,813 | 84,130 |

# 11 Impairment

**Impairment testing of goodwill and trademarks**

The following table presents the carrying value of goodwill and trademarks by CGU:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Goodwill**<br>**$** | **Trademarks**<br>**$** | **Goodwill**<br>**$** | **Trademarks**<br>**$** |
| Boucherville Division | 50,359 | 6,700 | 63,676 | 6,700 |
| Norref Division | 20,454 | 1,842 | 20,454 | 1,842 |
| | 70,813 | 8,542 | 84,130 | 8,542 |

Goodwill and the trademarks are tested for impairment at each year-end using the method of fair value less costs to sell. To measure the recoverable amount of CGUs, 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 expected by the Company as well as certain key assumptions:

a) In 2017, the Company used average growth rates ranging from 0.9% to 3.3% (2016 - 0.6% to 3.8%). These growth rates are based primarily on the Consumer Price Index as well as observable market data in which the CGUs are evolving.

b) In 2017, the Company used discount rates ranging from 10.8% to 11.3% (2016 - 11.1% to 15%). These discount rates represent the weighted average cost of capital for companies operating in the same line of business as the CGUs.

The Company recorded an asset impairment charge without effect on its liquidities of $13,317 which relates primarily to the impairment of goodwill at the Boucherville division, in the Wholesale segment, and to certain tangible and intangible assets of the Summit division, in the Distribution segment. The goodwill impairment reflects the recent loss of volume and the revision of growth prospects at the Summit division, which also have an impact on future procurement synergies that could be realized at the Boucherville division.

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

**Tangible and intangible assets**

Depreciable long-term assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

The Company recorded an asset impairment charge without effect on its liquidities of $3,123 which relates primarily to the impairment of tangible and intangible assets of the Summit division, in the Distribution segment. The following table presents those impairment :

| | Net book value before impairment charge | Impairment charge | Net book value as at December 30, 2017 |
|---|---|---|---|
| | $ | $ | $ |
| **Ontario Division** | | | |
| Tangible assets | 1,697 | 1,348 | 349 |
| Intangible assets | 1,775 | 1,775 | — |
| | 3,472 | 3,123 | 349 |

**2016**

The Company has concluded that the recoverable amount of CGUs, based on value-in-use, was greater than the carrying amounts for the Boucherville Division and the Norref Division. Consequently, no impairment needed to be recorded.

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

# 12 Deferred income tax assets and liabilities

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

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

| | | | | 2017 |
|---|---|---|---|---|
| | Balance, beginning of year<br>$ | Earnings<br>$ | Other comprehensive income<br>$ | Balance, end of year<br>$ |
| Deferred non-capital losses | 2,612 | (118) | — | 2,494 |
| Property, plant and equipment | (625) | 38 | — | (587) |
| Intangible assets | (3,938) | 1,069 | — | (2,869) |
| Goodwill | 327 | 1,081 | — | 1,408 |
| Share and debenture issue expenses | 731 | (415) | — | 316 |
| Provisions | 1,997 | (1,142) | — | 855 |
| Other | 394 | 562 | 170 | 1,126 |
| Deferred income tax assets (liabilities) | 1,498 | 1,075 | 170 | 2,743 |

| | | | | | 2016 |
|---|---|---|---|---|---|
| | Balance, beginning of year<br>$ | Earnings<br>$ | Other comprehensive income<br>$ | Other<br>$ | Balance, end of year<br>$ |
| Deferred non-capital losses | 3,085 | (473) | — | — | 2,612 |
| Property, plant and equipment | (1,272) | 532 | — | 115 | (625) |
| Intangible assets | (1,660) | (7) | — | (2,271) | (3,938) |
| Available-for-sale financial asset | 464 | (445) | (19) | — | — |
| Goodwill | (1,478) | — | — | 1,805 | 327 |
| Share and debenture issue expenses | 168 | 3 | — | 560 | 731 |
| Provisions | 1,334 | 663 | — | — | 1,997 |
| Other | 875 | (894) | 45 | 368 | 394 |
| Deferred income tax assets (liabilities) | 1,516 | (621) | 26 | 577 | 1,498 |

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

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Income before income taxes | (19,146) | 1,509 |
| Combined federal and provincial income tax rate | 26.68 % | 26.74 % |
| Expected tax expense | (5,108) | 403 |
| Non-tax deductible items | 2,020 | 239 |
| Adjustment of tax attributes | 200 | 212 |
| Impairment loss on goodwill | 2,228 | 422 |
| Other | 106 | (90) |
| Tax expense | (554) | 1,186 |

As at December 30, 2017, the Company had capital losses amounting to $4,612 ($4,612 in 2016) for which no deferred tax asset had been recognized.

# 13 Trade and other payables

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Trade payables | 78,168 | 82,389 |
| Priority payables | 8,034 | 7,238 |
| Other | 11,585 | 15,687 |
| | 97,787 | 105,314 |

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

# 14 Long-term debt

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Credit facility | 28,137 | 35,921 |
| Subordinated debt, face value of $25 M, maturing on October 13, 2020, bearing interest at 6.5% (7.5% as at December 31, 2016) | 25,000 | 25,000 |
| Obligations arising from leases | 2,767 | 2,385 |
| | 55,904 | 63,306 |
| Less: Unamortized financing costs | 1,017 | 1,545 |
| Total long-term debt | 54,887 | 61,761 |
| Less: Current portion of long-term debt | 758 | 550 |
| | 54,129 | 61,211 |

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Borrowing - with variable maturity | 61,446 | 69,229 |
| | 61,446 | 69,229 |
| Gross debt - fixed interest rates | 26,749 | 25,839 |
| Gross debt - variable interest rates | 34,697 | 43,390 |
| Net debt [(a)] | 61,446 | 69,229 |

[(a)] Net debt is the long-term debt added to the bank overdraft.

| | | Liabilities from financing activities | | | |
|---|---|---|---|---|---|
| | Cash/bank overdraft | Finance leases due within 1 year | Finance leases due after 1 year | Borrow due after 1 year | Total |
| | $ | $ | $ | $ | $ |
| **Net debt as at December 31, 2016** | 7,468 | 550 | 1,835 | 59,376 | 69,229 |
| Cash flows | (909) | (658) | — | (7,784) | (9,351) |
| Acquisitions - finance leases | — | — | 1,040 | — | 1,040 |
| Other non-cash mouvements | — | 866 | (866) | 528 | 528 |
| **Net debt as at December 30, 2017** | 6,559 | 758 | 2,009 | 52,120 | 61,446 |

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

**a) Credit facility**

On October 13, 2016, the Company reached an agreement with its lenders to extend its credit facility in a maximum amount of $140,000 for a three-year term. By mutual agreement, the credit facility may be increased by an additional $30,000. It matures on October 13, 2019 and is secured by a first-ranking hypothec on the Company's present and future assets. Amounts borrowed from the credit facility may take various forms and the interest rate varies based on the type of loan. As at December 30, 2017, the facility consisted of a loan and banker's acceptances bearing interest at rates varying between 2.86% and 3.20% (between 2.72% and 3.20% as at December 31, 2016). In 2016, refinancing costs of $1,388 were capitalized through bank borrowings.

As part of a recapitalization transaction finalized on October 13, 2016, the Company repaid an amount of $27,576 on its credit facility.

The Company is required to respect a fixed charges coverage ratio. As at December 30, 2017, this ratio had been respected.

As at December 30, 2017, letters of guarantee amounting to $1,764 ($1,764 as at December 31, 2016) had been used to support the leasing of one of the Company's distribution centers and the line of credit with a supplier.

**b) Subordinated debt**

As part of a recapitalization transaction finalized on October 13, 2016, the Company signed an agreement to extend and amend the loan agreement for a total amount of $25,000. The loan agreement was signed with a single lender from the banking syndicate formed for the previous agreement (2014). The refinancing transaction resulted in the repayment of $17,500 in long-term debt. Under the terms of the agreement, interest on the debt is payable monthly at a prime rate of 6.5% in 2017 (7.5% in 2016). In 2016, costs for refinancing the long-term debt in an amount of $260 were recognized against long-term debt.

# 15 Debentures

| | **2017** <br> **$** | **2016** <br> **$** |
|---|---|---|
| Convertible debentures, par value of $50 M, maturing on October 13, 2021, bearing interest at 6.0% (6.0% in 2016) | 50,000 | 50,000 |
| Less: Unamortized finance costs | 895 | 1,130 |
| | 49,105 | 48,870 |

On October 13, 2016, the Company entered into an agreement to amend conditions concerning the convertible debentures issued on April 27, 2010. The interest rate on the debentures is at 6.0% in 2017 (6.0% in 2016). The effective interest rate on the debentures is 6.55% (6.55% in 2016). The debentures are convertible at the holder's option into shares at a conversion rate of 400 shares per $1,000 of debenture capital, for a conversion price of $2.50 per share ($2.50 in 2016). Under certain circumstances, the Company could have redeemed some or all of the debentures in advance after April 30, 2015. There were no advance redemptions during the year ended December 30, 2017. In 2016, the cost of renewing the debentures contract in an amount of $687 was recognized against debentures.

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

# 16 Provisions

Following an internal restructuring of operations in 2013, the Company recognized provisions for onerous contracts related to non-cancellable operating leases for the distribution centres whose operations were discontinued. The remaining term of the leases in question ranges from 3 to 6 years.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Balance, beginning of year** | 4,004 | 4,990 |
| Changes to assumptions | 14 | (115) |
| Accretion expense | 106 | 126 |
| Provisions used during the year | (928) | (997) |
| **Balance, end of year** | 3,196 | 4,004 |
| Current | 929 | 1,006 |
| Non-current | 2,267 | 2,998 |

# 17 Share-capital

**Authorized**

Unlimited number of participating, voting common shares without par value.

Unlimited number of preferred shares that may be issued in series, whose designation, rights, restrictions and conditions related to each series shall be established at their time of issue.

**Issued and fully paid common shares**

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number | Amount<br>$ | Number | Amount<br>$ |
| **Outstanding, beginning of year** | 102,107,832 | 258,000 | 27,480,966 | 209,591 |
| Issued during the year | 5,000 | 5 | 74,626,866 | 48,409 |
| **Outstanding, end of year** | 102,112,832 | 258,005 | 102,107,832 | 258,000 |

There were no outstanding preferred shares during the periods covered.

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)

On October 13, 2016, the Company carried out a recapitalization transaction to reduce indebtedness and enhance the capital structure. This transaction resulted in the issuance of share capital in a total amount of $50,000, or 74,626,866 shares. The proceeds from this issuance were used as follows:

| | **2016**<br>**$** |
|---|---|
| Issuance of capital stock, net of $2,169 in transaction costs | 47 831 |
| Issuance of long-term debt, net of $260 in transaction costs | 24 740 |
| Repayment of long-term debt | (42,500) |
| Reduction in bank borrowings, net of $1,328 in transaction costs | (27,556) |
| Transaction costs related to renewing convertible debentures | (687) |
| Purchase of an option to acquire Dubé & Loiselle Inc. | (500) |

# 18 Operating leases and commitments

The Company has entered into various leases expiring through to January 2028, which call for minimum lease payments of $66,156. The Company's obligation under one of these leases is secured by a $1,014 letter of guarantee. Minimum lease payments under the Company's operating leases are as follows:

| | **2017**<br>**$** | **2016**<br>**$** |
|---|---|---|
| Less than 1 year | 16,099 | 12,307 |
| From 1 to 5 years | 38,243 | 38,775 |
| Over 5 years | 11,814 | 13,010 |
| | 66,156 | 64,092 |

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

# 19 Employee compensation

**Employee benefit expense**

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Salaries | 69,393 | 71,154 |
| Fringe benefit costs | 14,685 | 14,250 |
| Expenses for stock-based compensation plans | 338 | 288 |
| Pensions – defined benefit plans | 23 | (481) |
| Pensions – defined contribution plans | 1,373 | 1,670 |
| Pensions – government defined contribution plans | 3,166 | 2,636 |
| | 88,978 | 89,517 |

**Stock-based compensation**

Stock option plan

The Company adopted a stock option plan (hereinafter the "Option Plan") authorizing its Board of Directors to issue stock options entitling its directors, officers and employees to acquire common shares of the Company (hereinafter 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 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 Company every three years from the date of the Annual Meeting of the Company.

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 (hereinafter an "Optionee") in four equal tranches on the first, second, third and fourth anniversaries of the 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 (hereinafter the "Expiry Date") and all unexercised options shall expire and terminate and be of no further force or effect whatsoever following such Expiry Date.

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 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.

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

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:

| | **2016** | |
|---|---|---|
| | **Granted October 19** | **Granted December 15** |
| Weighted average fair value of the options | $ 0.42 | $ 0.53 |
| Risk-free interest rate | 0,86 % | 1,46 % |
| Expected volatility of shares | 50 % | 50 % |
| Expected annual dividend | - | - |
| Expected term | 5.5 years | 5.5 years |
| Share price at date of grant | $ 0.96 | $ 1.30 |
| Exercise price at date of grant | $ 0.88 | $ 1.36 |
| Exercise period | 5 years | 5 years |

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

| | **2017** | | **2016** | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price $** | **Number of options** | **Weighted average exercise price $** |
| **Outstanding, beginning of year** | 5,721,920 | 1.15 | 1,844,400 | 7.05 |
| Awarded | — | — | 4,123,920 | 1.24 |
| Expired | (171,500) | 5.01 | (246,400) | 2.03 |
| **Outstanding, end of year** | 5,550,420 | 1.79 | 5,721,920 | 1.15 |
| **Exercisable options** | 1,239,000 | 3.48 | 741,900 | 5.17 |

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

The following table presents information related to the outstanding stock options as at December 30, 2017:

| Exercise price | Expiration date | Number of options outstanding | Number of exercisable options |
|---|---|---|---|
| $ | | | |
| 7.59 | May 2, 2019 | 131,100 | 131,100 |
| 7.75 | March 23, 2020 | 200,400 | 200,400 |
| 4.43 | July 29, 2020 | 20,000 | 20,000 |
| 3.70 | May 1, 2021 | 400,000 | 300,000 |
| 1.04 | June 2, 2022 | 675,000 | 337,500 |
| 0.88 | October 19, 2026 | 1,000,000 | 250,000 |
| 1.36 | December 14, 2026 | 3,123,920 | — |
| | | 5,550,420 | 1,239,000 |

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.

As at December 30, 2017, no common shares may be acquired by plan participants at the share bid price. In 2017, no performance stock was issued.

**Pension obligation and employee future benefits**

As at December 30, 2017, the Company had a defined benefit pension plan and contributed to group defined contribution plans.

The defined benefit pension plan is offered to 54 employees only and is 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.

In 2016, the Company decided that, beginning on March 1, 2017, active members of the plan will stop accumulating benefits. A curtailment gain of $778 was recognized in 2016.

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

Information about the defined benefit pension plan is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Accrued benefit obligation** | | |
| Balance, beginning of year | 9,026 | 9,156 |
| Current service costs | 36 | 234 |
| Finance costs | 347 | 377 |
| Employee contributions | 19 | 67 |
| Benefits paid | (590) | (204) |
| Actuarial gains or losses | 826 | 174 |
| Curtailment gain | — | (778) |
| **Balance, end of year** | 9,664 | 9,026 |

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Plan assets** | | |
| Fair value, beginning of year | 8,364 | 7,885 |
| Interest income | 321 | 324 |
| Actual return in excess of interest income | 189 | (57) |
| Employer contributions | 121 | 349 |
| Employee contributions | 19 | 67 |
| Administrative expenses | (61) | — |
| Benefits paid | (590) | (204) |
| **Fair value, end of year** | 8,363 | 8,364 |
| **Funded status - Pension plan deficit** | (1,301) | (662) |

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

The plan assets are composed of the following for fiscal 2017 and 2016:

| | | | | **2017** |
|---|---|---|---|---|
| | **Listed** **$** | **Unlisted** **$** | **Total** **$** | **Total** **%** |
| **Cash and cash equivalents** | 417 | — | 417 | 5.0 |
| **Equity instruments - Level 1** | | | | |
| Canada | 1,004 | — | 1,004 | |
| International | 1,924 | — | 1,924 | |
| | 2,928 | — | 2,928 | 35.0 |
| **Debt instruments - Level 2** | | | | |
| Corporate bonds | 4,602 | — | 4,602 | 55.0 |
| **Real estate - Level 3** | — | 416 | 416 | 5.0 |
| **Total assets** | 7,947 | 416 | 8,363 | 100.0 |

| | | | | **2016** |
|---|---|---|---|---|
| | **Listed** **$** | **Unlisted** **$** | **Total** **$** | **Total** **%** |
| **Cash and cash equivalents** | 411 | — | 411 | 4.9 |
| **Equity instruments - Level 1** | | | | |
| Canada | 3,049 | — | 3,049 | |
| International | 2,100 | — | 2,100 | |
| | 5,149 | — | 5,149 | 61.6 |
| **Debt instruments - Level 2** | | | | |
| Corporate bonds | 2,414 | — | 2,414 | 28.9 |
| **Real estate - Level 3** | — | 390 | 390 | 4.6 |
| **Total assets** | 7,974 | 390 | 8,364 | 100 |

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

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Current service costs | 36 | 234 |
| Curtailment gain | — | (778) |
| Net interest | 26 | 54 |
| Administrative expenses | 61 | — |
| **Amount recognized in earnings** | 123 | (490) |

The remeasurement of the pension obligation is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Actuarial gains or losses** | | |
| Change in financial assumptions | (826) | (174) |
| Actual return in excess of interest income | 189 | (56) |
| **Amount recognized in other comprehensive income** | (637) | (230) |

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

| | 2017 | 2016 |
|---|---|---|
| **Fringe benefit costs** | | |
| Discount rate | 3.95 % | 4.05 % |
| Rate of compensation increase | 2.75 % | 2.75 % |
| **Accrued benefit obligation** | | |
| Discount rate | 3.45 % | 3.95 % |
| Rate of compensation increase | n/a | 2.75 % |

The assumption on the mortality rate is based on the Canadian Private Sector Mortality Table (CPM2014Priv), published by the Canadian Institute of Actuaries (CIA).

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

A change of 0.5% in the discount rate used in the actuarial assumptions would have had the following impacts on the pension obligation, leaving all other actuarial assumptions unchanged:

| | **2017** **$** | **2016** **$** |
|---|---|---|
| Increase of 0.5% in the discount rate | (790) | (742) |
| Decrease of 0.5% in the discount rate | 895 | 841 |

# 20 Finance costs and finance costs paid

| | **2017** **$** | **2016** **$** |
|---|---|---|
| Interest on bank borrowings | 2,140 | 3,574 |
| Interest on subordinated debt | 1,685 | 3,984 |
| Effective interest on debentures | 3,227 | 3,620 |
| Accretion expense on onerous contracts provision | 106 | 126 |
| Other | 413 | 669 |
| Finance costs | 7,571 | 11,973 |
| Effective interest on long-term debt and accretion expense on onerous contracts provision | (406) | (1,043) |
| Amortization of finance costs | (463) | (634) |
| Finance costs paid | 6,702 | 10,296 |

# 21 Per-share data

**Earnings (loss) per share**

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

| | **2017** **$** | **2016** **$** |
|---|---|---|
| Net earnings (loss) | (18,592) | 323 |
| Weighted average number of outstanding shares used to calculate the basic and diluted earnings per share | 102,074,277 | 43,534,499 |
| Basic and diluted earnings (loss) per share | (0.18) | 0.01 |

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

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.

# 22 Net change in working capital

The following table presents the net change in working capital between the two year-ends, taking into account items of working capital assumed during business combinations and the disposal of a wholly owned subsidiary:

| | **2017**<br>**$** | **2016**<br>**$** |
|---|---|---|
| Trade and other receivables | 5,330 | 4,370 |
| Inventories | 4,583 | 4,036 |
| Prepaid expenses | (555) | (145) |
| Other assets | 657 | (149) |
| Trade and other payables | (7,366) | 3,255 |
| Pension obligation | 2 | (349) |
| Other liabilities | 405 | (867) |
| | 3,056 | 10,151 |

# 23 Economic dependence

One customer in the Distribution segment accounted for 20% of the Company’s sales in 2017 (20% in 2016).

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

# 24 Related party transactions

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

**Transactions with Dubé & Loiselle Inc., an entity owned by a member of the Company's Board of Directors**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Consolidated statements of earnings** | | |
| Sales | 29,651 | 26,931 |
| **Consolidated statements of financial position** | | |
| Trade and other receivables less rebates payable [(a)] | 1,604 | 442 |
| Call option from Dubé & Loiselle Inc. [(b)] | 500 | 500 |

(a) In 2017, the rebates of $607 (833$ in 2016) were made in accordance with various contracts governing relations between the Company and Dubé & Loiselle Inc., in the normal course of business, and were recognized against merchandise sales.

(b) As part of the recapitalization transaction carried out in October 2016, the Company paid $500 to Robraye Management Ltd. in consideration of the option to acquire Dubé & Loiselle Inc. within three years of the closure of the recapitalization transaction. This option was recognized in prepaid expenses;

**Transactions with key management personnel**

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Short-term employee benefits** | | |
| Salaries, including bonuses and special allocations | 3,926 | 3,330 |
| Directors' fees | 333 | 450 |
| Fringe benefit costs | 230 | 233 |
| **Total short-term employee benefits** | 4,489 | 4,013 |
| Defined contribution pension plans | 157 | 152 |
| Share-based payments | 712 | 217 |
| **Total compensation** | 5,358 | 4,382 |

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

# 25 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 value of cash in time is non-significant.

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | |
| Non-current | | | | |
| Available-for-sale financial asset | 847 | 847 | 1,246 | 1,246 |
| **Financial liabilities** | | | | |
| Current | | | | |
| Obligations arising from leases | 758 | 758 | 550 | 550 |
| Non-current | | | | |
| Credit facility | 27,301 | 27,301 | 34,622 | 34,622 |
| Obligations arising from leases | 2,009 | 1,733 | 1,835 | 1,571 |
| Subordinated debt | 24,819 | 24,931 | 24,754 | 24,940 |
| Convertible debentures | 49,105 | 44,000 | 48,870 | 49,750 |
| | 103,234 | 97,965 | 110,081 | 110,883 |

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 6.5% (7.5% as at December 31, 2016), 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 December 30, 2017.

(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.

# 26 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 2016, the Company's capital is composed of the bank overdraft, bank borrowings, long-term debt, debentures and shareholders' equity. In addition to its conservative approach to safeguarding the statement of financial position, 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.

# 27 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:

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

### Interest rate risk

The bank borrowings bear interest at variable rates, and this exposes the Company to the cash flow risks resulting from interest rate fluctuations. 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 an $427 impact on earnings in 2017 ($819 in 2016).

### Credit risk

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

The Company's credit risk is primarily attributable to its trade accounts receivable and loans receivable. The credit risk related to trade accounts receivable is generally diversified. The Company requires a guarantee or letter of credit from some of its customers. Additionally, certain more risky customers are insured. As at December 30, 2017, the Company had guarantees for 1% of its trade accounts receivable (3% as at December 31, 2016) and 8% of its trade accounts receivable were insured (7% on December 31, 2016).

The Company's policy is to have each customer undergo a credit check.

The credit risk related to loans receivable is not diversified. For some of its loans, the Company has a movable hypothec on the assets held by the borrower.

### 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 estimates and cash flow forecasts 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.

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

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

| | | | | | | 2017 |
|---|---|---|---|---|---|---|
| | **Carrying amount** | **Maturing in less than 12 months** | **Maturing in 1 to 3 years** | **Maturing in 3 to 5 years** | **Maturing in more than 5 years** | **Total** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| Bank overdraft | 6,559 | 6,559 | — | — | — | 6,559 |
| Trade and other payables | 85,694 | 85,694 | — | — | — | 85,694 |
| Credit facility | 28,137 | 907 | 28,870 | — | — | 29,777 |
| Obligations under leases | 2,767 | 875 | 1,258 | 957 | — | 3,090 |
| Subordinated debt | 25,000 | 1,750 | 28,125 | — | — | 29,875 |
| Convertible debentures | 50,000 | 2,992 | 5,984 | 52,392 | — | 61,368 |
| | 198,157 | 98,777 | 64,237 | 53,349 | — | 216,363 |

| | | | | | | 2016 |
|---|---|---|---|---|---|---|
| | **Carrying amount** | **Maturing in less than 12 months** | **Maturing in 1 to 3 years** | **Maturing in 3 to 5 years** | **Maturing in more than 5 years** | **Total** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| Bank overdraft | 7,468 | 7,468 | — | — | — | 7,468 |
| Trade and other payables | 98,076 | 98,076 | — | — | — | 98,076 |
| Credit facility | 35,921 | 1,090 | 37,891 | — | — | 38,981 |
| Obligations under leases | 2,385 | 636 | 1,054 | 706 | 257 | 2,653 |
| Subordinated debt | 25,000 | 1,625 | 3,250 | 26,277 | — | 31,152 |
| Convertible debentures | 50,000 | 2,992 | 5,984 | 55,384 | — | 64,360 |
| | 218,850 | 111,887 | 48,179 | 82,367 | 257 | 242,690 |

# 28 Subsequent event

On January 15, 2018, Colabor announced the reduction in the number of its outstanding shares resulting from the 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.