Consolidated Financial Statements
December 31, 2012 and 2011

Raymond Chabot Grant Thornton

Independent Auditor's Report

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To the Shareholders of
Colabor Group Inc.

We have audited the accompanying consolidated financial statements of Colabor Group Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011 and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Colabor Group Inc. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

/S/ Raymond Chabot Grant Thornton LLP [1]

Montréal
March 25, 2013

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

Colabor Group Inc.
Consolidated Statements of Earnings
Years ended December 31, 2012 and 2011
(in thousands of Canadian dollars, except data per share)

	Notes	2012	2011
		$	$
Sales of goods	6	1,466,848	1,313,251
Operating expenses excluding costs not relating to current operations, depreciation and amortization	7	1,427,742	1,275,053
Operating earnings before costs not relating to current operations, depreciation and amortization		39,106	38,198
Costs not relating to current operations	8	6,639	3,618
Depreciation of property, plant and equipment	10	4,634	4,063
Amortization of intangible assets	11	14,150	13,562
		25,423	21,243
Operating earnings		13,683	16,955
Finance costs	21	9,977	8,511
Earnings before tax		3,706	8,444
Income taxes			
Current	13	–	–
Deferred	13	497	1,616
		497	1,616
Earnings		3,209	6,828
After-tax cash flows per share	22	$ 1.23	$ 1.15
Basic and diluted earnings per share	22	$ 0.14	$ 0.30

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

Colabor Group Inc.
Consolidated Statements of Comprehensive Income
Years ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	2012	2011
	$	$
Earnings	3,209	6,828
Other comprehensive income		
Available-for-sale financial asset – loss for the year	(2,478)	(952)
Cash flow hedges – gain (loss) for the year	551	(618)
Taxes on other comprehensive income	177	285
Total other comprehensive income	(1,750)	(1,285)
Total comprehensive income	1,459	5,543

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

Colabor Group Inc.
Consolidated Statements of Changes in Equity
Years ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Share capital	Convertible debenture conversion options	Contributed surplus	Shares held under stock-based compensation plans	Available-for-sale financial asset	Cash flow hedges	Retained earnings (deficit)	Total equity
	$	$	$	$	$	$	$	$
Balance as at January 1, 2012	**179,652**	**1,742**	**1,206**	**(622)**	**1,154**	**(457)**	**(6,661)**	**176,014**
Earnings for the year							3,209	3,209
Other comprehensive income								
Loss on available-for-sale financial asset					(2,478)			(2,478)
Gain on cash flow hedges						551		551
Taxes on other comprehensive income					321	(144)		177
Total comprehensive income	–	–	–	–	(2,157)	407	3,209	1,459
Dividends declared							(16,644)	(16,644)
Stock-based compensation plan expenses			171					171
Shares released for stock-based compensation plans			(241)	241				
Transactions with owners	–	–	(70)	241	–	–	(16,644)	(16,473)
Balance as at December 31, 2012	**179,652**	**1,742**	**1,136**	**(381)**	**(1,003)**	**(50)**	**(20,096)**	**161,000**
Balance as at January 1, 2011	**177,960**	**2,415**	**771**	**(936)**	**1,982**	**–**	**11,789**	**193,981**
Earnings for the year							6,828	6,828
Other comprehensive income								
Loss on available-for-sale financial asset					(952)			(952)
Loss on cash flow hedges						(618)		(618)
Taxes on other comprehensive income					124	161		285
Total comprehensive income	–	–	–	–	(828)	(457)	6,828	5,543
Dividends declared							(24,806)	(24,806)
Normal-course issuer bid	(2,722)						(472)	(3,194)
Conversion of convertible debentures	4,414	(200)						4,214
Exchange of convertible debentures		(473)	473					
Stock-based compensation plan expenses			417					417
Purchase of shares held by the Company for stock-based compensation plans				(141)				(141)
Shares released for stock-based compensation plans			(455)	455				
Transactions with owners	1,692	(673)	435	314	–	–	(25,278)	(23,510)
Balance as at December 31, 2011	**179,652**	**1,742**	**1,206**	**(622)**	**1,154**	**(457)**	**(6,661)**	**176,014**

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

Colabor Group Inc.
Consolidated Statements of Cash Flows
Years ended December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Notes	2012	2011
		$	$
Operating activities			
Earnings before income taxes		3,706	8,444
Depreciation of property, plant and equipment	10	4,634	4,063
Amortization of intangible assets	11	14,150	13,562
Write-off of property, plant and equipment included in the costs of internal restructuring of operations	8	397	
Loss on the disposal of a wholly-owned subsidiary	8	519	
Write-off of a client relationship following the loss of a client	8	1,181	
Finance costs	21	9,977	8,511
Stock-based compensation plan expenses	20	171	417
Purchase of shares held by the Company for stock-based compensation plans	20		(141)
		34,735	34,856
Income tax recovery (withholdings)		(379)	856
Net changes in working capital	23	16,358	11,553
Cash flows from operating activities		50,714	47,265
Investing activities			
Business acquisitions, net of cash acquired	3	(6,069)	(79,069)
Disposal of a wholly-owned subsidiary	8	85	
Purchase of property, plant and equipment	10	(3,158)	(3,700)
Purchase of intangible assets	11	(509)	(918)
Cash flows from investing activities		(9,651)	(83,687)
Financing activities			
Bank borrowings		(8,140)	72,454
Advance received on dividends to be declared from Colabor Investments Inc.		1,722	
Normal course issue bid			(3,194)
New long-term debt	17		14,598
Repayment of long-term debt			(307)
Redemption of convertible debentures	18		(10,028)
Dividends paid		(18,703)	(24,790)
Payment of balances of purchase price		(2,479)	(3,564)
Finance costs paid	21	(9,306)	(8,189)
Cash flows from financing activities		(36,906)	36,980
Net change in bank overdraft		4,157	558
Bank overdraft, beginning of year		(10,151)	(10,709)
Bank overdraft, end of year		(5,994)	(10,151)

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

Colabor Group Inc.
Consolidated Statements of Financial Position
December 31, 2012 and 2011
(in thousands of Canadian dollars)

	Notes	2012	2011
		$	$
ASSETS			
Current			
Trade and other receivables	9	113,495	108,164
Recoverable tax assets		2,800	2,421
Inventory		85,167	76,632
Prepaid expenses		3,143	2,596
Current assets		204,605	189,813
Non-current			
Equity investment in Colabor Investments Inc.	26	9,932	12,410
Property, plant and equipment	10	15,930	17,319
Intangible assets	11	142,358	154,845
Goodwill	12	115,065	114,775
Non-current assets		283,285	299,349
Total assets		487,890	489,162
LIABILITIES AND EQUITY			
LIABILITIES			
Current			
Bank overdraft		5,994	10,151
Trade and other payables		134,670	105,575
Dividends payable		4,161	6,220
Rebates payable		11,738	11,783
Balances of purchase price payable	15	10,735	12,560
Deferred revenue		477	344
Current liabilities		167,775	146,633
Non-current			
Bank borrowings	16	88,008	96,167
Derivative financial instrument	16 and 26	67	618
Balances of purchase price payable	15	404	250
Long-term debt	17	14,665	14,598
Convertible debentures	18	46,703	46,080
Pension obligation	20.3	342	448
Deferred income tax liabilities	13	8,926	8,354
Non-current liabilities		159,115	166,515
Total liabilities		326,890	313,148
EQUITY			
Share capital	19	179,652	179,652
Deficit		(20,096)	(6,661)
Other components of equity		1,444	3,023
Total equity		161,000	176,014
Total liabilities and equity		487,890	489,162

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

The Board of Directors approved and authorized the publication of the consolidated financial statements on March 25, 2013.

On behalf of the Board,

/S/ Jacques Landreville
Director

/S/ Robert Panet-Raymond
Director

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

1. *NATURE OF OPERATIONS*

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

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

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

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

3. *BUSINESS COMBINATIONS*

3.1 Acquisition completed in 2012

Acquisition of Les Viandes Décarie Inc.

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

The purchase price allocation is determined as follows:

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

3. *BUSINESS COMBINATIONS (Continued)*

Business acquisition-related costs amounting to $90,000 are not included as part of acquisition cost and have been recognized as costs not relating to current operations in the prior year's consolidated statements of earnings.

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

Trade and other receivables

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

Goodwill

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

3.2 Acquisitions completed in 2011

Acquisition of Les Pêcheries Norref Québec Inc.

On February 28, 2011, the Company acquired all of the outstanding shares of Les Pêcheries Norref Québec Inc. (hereafter "Norref"), a company operating in the Distribution Segment in Quebec. The acquisition of Norref reflects Colabor's strategic objectives to broaden its product offering and client base, while making it possible to occupy a dominant position in a profitable and growing commercial segment.

Acquisition of Edfrex Inc. assets

On March 30, 2011, the Company acquired substantially all of the assets of Edfrex Inc. (hereafter "Edfrex"), a distributor affiliated with Colabor in New Brunswick. The assets acquired include, among others, a 2.49% interest in Colabor Investments Inc. Edfrex operates in the Distribution Segment primarily in New Brunswick. The Edfrex acquisition is consistent with Colabor's objective of expanding its geographic scope and clientele.

Acquisition of The Skor Food Group Inc.

On May 9, 2011, the Company acquired substantially all of the outstanding shares of The Skor Food Group Inc. (hereafter "Skor"), which operates in the Distribution Segment in Ontario. The Skor acquisition meets Colabor's objective of broadening its client base.

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

3. *BUSINESS COMBINATIONS (Continued)*

The purchase price allocations were determined as follows:

	Value recognized on the acquisition date			
	Norref	**Edfrex**	**Skor**	**Total**
	$	$	$	$
Cash	169		4,596	4,765
Trade and other receivables	7,429	2,236	5,149	14,814
Recoverable tax assets	117		466	583
Inventory	2,424	1,653	8,069	12,146
Prepaid expenses	12		982	994
Equity investment in Colabor Investments Inc.		1,928		1,928
Property, plant and equipment	3,334	856	2,572	6,762
Intangible assets	21,727		8,767	30,494
Goodwill	20,455	773	15,275	36,503
Trade and other payables	(5,613)	(1,255)	(8,915)	(15,783)
Deferred tax assets	(5,967)		(1,410)	(7,377)
Acquisition cost and fair value of consideration transferred	44,087	6,191	35,551	85,829
Portion settled as balances of purchase price	(1,087)	(908)		(1,995)
Cash acquired	(169)		(4,596)	(4,765)
Net cash flows on acquisition and fair value of portion transferred to cash	42,831	5,283	30,955	79,069

Business acquisition-related costs amounting to $1,795,000 are not included as part of acquisition cost and have been recognized as costs not relating to current operations in the consolidated statements of earnings for the 2011 year.

Since their acquisition, the acquired companies have contributed a total of $200,341,000 to the Company's sales of goods and $3,546,000 to operating earnings for the period between the acquisition date and December 31, 2011. Management estimates that, if the acquisitions had occurred on January 1, 2011, additional sales of goods would have been $63,743,000 but cannot estimate the additional operating earnings because of the lack of detail in the acquired companies' management systems prior to the acquisition.

Trade and other receivables

The gross contractual amount of trade and other receivables amounts to $15,380,000. At the acquisition date, the best estimate of contractual cash flows that is not expected to be recovered is $566,000.

3. *BUSINESS COMBINATIONS (Continued)*

Goodwill

Goodwill primarily relates to forecasted growth, future profitability, expertise and significant employee competencies as well as expected cost synergies. Goodwill from these business combinations, other than that related to Edfrex, is not expected to be deductible for tax purposes.

4. *SIGNIFICANT ACCOUNTING POLICIES*

4.1 General information

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

4.2 Basis of measurement

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

4.3 Basis of consolidation

The consolidated financial statements include the accounts of the parent company and all the companies in which it exercises control through more than half of the voting rights. The parent company has control when it has the power to control the financial and operating policies of entities. These entities are consolidated from the date the Company acquires control until the date control ends.

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

4.4 Business combinations

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

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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

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

4.5 Revenue recognition

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

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

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

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

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

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

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

4.6 Customer rebates

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

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

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

4.7 Supplier rebates

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

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

4.8 Functional and presentation currency

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

4.9 Income taxes

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

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

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.

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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.

4.10 Earnings per share

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

4.11 Operating segments

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

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

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

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

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

4.12 Inventory

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

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

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

4.13 Property, plant and equipment

Property, plant and equipment are recognized at historical cost less accumulated depreciation and amortization and accumulated impairment losses. Historical 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.

Useful lives are as follows:

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

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

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

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

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

4.14 Intangible assets

4.14.1 Distribution software and customer relationships

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

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

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

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

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

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

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

4.14.2 Trademarks

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

Any impairment is recognized in consolidated statements of earnings.

4.15 Goodwill

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

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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

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

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

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

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

4.17 Leased assets

In accordance with IAS 17 *Leases,* the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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

The Company does not have any finance leases.

4.18 Financial instruments

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

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

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

Financial assets

a) Loans and receivables

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

b) Available-for-sale financial assets

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

Financial instruments in this class are measured initially at fair value plus transaction costs. Available-for-sale assets are then measured at fair value. Gains and losses are recognized in other comprehensive income and are included in the available-for-sale financial asset category in equity. When the asset is disposed of or is impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified to earnings and the reclassification presented as a reclassification adjustment in the consolidated statements of earnings.

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

c) Impairment of financial assets

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

Objective evidence that a financial asset is impaired could include:

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

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

Financial liabilities

The Company's financial liabilities include the bank overdraft, trade and other payables, dividends payable, rebates payable, balances of purchase price payable, bank borrowings, long-term 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 presented in consolidated statements of earnings within "Finance costs".

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 remains over the term of the related convertible debentures. Convertible debentures issue costs are applied against the two components on a pro rata basis of the allocated proceeds of issue.

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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

Derivative financial instruments, including hedge accounting

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

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

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

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

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

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

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

4.19 Provisions, contingent liabilities and contingent assets

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

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

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

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

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

The Company has not recorded any provision.

4.20 Pension obligation and other employee benefits

The Company provides post employment benefits through a defined benefit plan as well as defined contribution plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The Company contributes to government plans that are considered defined contribution plans. Contributions to the plans are recognized as an expense in the period that relevant employee services are received.

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. The defined benefit plan sponsored by the Company defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary. The legal obligation for any benefits remains with the Company, even if plan assets for funding the defined benefit plan have been set aside.

The liability recognized in the consolidated statements of financial position for the defined benefit plan is the present value of the defined benefit obligation (DBO) at the closing date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses.

Management estimates the DBO annually with the assistance of independent actuaries. The estimate of its post-retirement benefit obligations is based on rates of inflation and mortality which management considers to be reasonable. It also takes into account the Company's specific anticipation of future salary increases. The discount factor is determined at the end of each period-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 those of the DBO.

Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to earnings over the employees' expected average remaining working lives. Past service costs are recognized immediately in earnings, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period. Interest expenses relating to the DBO are expensed in the employee benefit expense.

Short-term employee benefits, including holiday entitlement, are current liabilities included in other payables, measured at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

4.21 Equity

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

Debenture conversion options represent the equity component of convertible debentures.

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

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

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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

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

Retained earnings include retained earnings for the current and past years.

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

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

4.22 Stock-based compensation

Stock option plan

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

All goods and services received in exchange for the grant of stock options are measured at their fair values unless they cannot be reasonably determined. Where employees are rewarded using stock option grants, the fair values of employees' services 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 and the corresponding stock-based compensation that was previously included in contributed surplus.

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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.

4.23 Standards, amendments and interpretations published but not yet effective

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

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

IFRS 9 Financial Instruments

IAS 39 *Financial Instruments: Recognition and Measurement,* will be replaced. The replacement standard (IFRS 9) is being issued in phases. To date, the sections dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These sections are effective for annual periods beginning on or after January 1, 2015. Further sections dealing with impairment methodology and hedge accounting are still being developed. Management has yet to assess the impact that this new standard is likely to have on the consolidated financial statements of the Company. However, it does not expect to implement the new standards until all chapters of IFRS 9 have been published and it can comprehensively assess the impact of all changes.

Consolidation standards

A series of consolidation standards apply to fiscal periods beginning on or after January 1, 2013. Information on these new standards is presented below. The Company's management does not expect a material impact on the Company's consolidated financial statements.

IFRS 10 Consolidated Financial Statements

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

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

IFRS 13 does not impact items to be measured at fair value, it clarifies the definition of fair value, provides related guidance and requires enhanced disclosures on fair value measurements. This standard applies to annual periods beginning on or after January 1, 2013. The Company's management does not expect a material impact on the Company's consolidated financial statements.

4. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Amendment of IAS 1 Presentation of Financial Statements

The changes to IAS 1 require an entity to present items in other comprehensive income that, based on other IFRS standards, (a) will not be reclassified subsequently to profit or loss and (b) might be reclassified to profit or loss if certain conditions are satisfied. This change applies to annual periods beginning on or after July 1, 2012. The Company's management expects that this standard will have an impact on the current presentation of other comprehensive income, but should not have an impact on the measurement or recognition of these items.

Amendments to IAS 19 Employee Benefits

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

– eliminate the corridor approach and require recognition of gains and losses arising in defined benefit plans in the period in which they occur;
– simplify the presentation of changes in the plan assets and liabilities; and
– improve disclosure requirements, in particular concerning the characteristics of defined benefit plans and the risks arising from those plans.

The amended version of IAS 19 applies for annual periods beginning on or after January 1, 2013 and will apply retrospectively.

The major impacts of the application of the new standard as at December 31, 2012 will be a $2,057,000 increase in the pension obligation and a decrease in equity in the same amount.

5. *SIGNIFICANT ESTIMATES AND JUDGEMENTS*

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

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

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

Impairment of trade and other receivables

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

5. *SIGNIFICANT ESTIMATES AND JUDGEMENTS (Continued)*

Supplier rebates

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

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 times the estimates are made. The quantity, age and condition of inventory are measured and evaluated regularly during the year.

Useful lives of depreciable assets

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

Impairment of trademarks and goodwill

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

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

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. 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.

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

5. *SIGNIFICANT ESTIMATES AND JUDGEMENTS (Continued)*

Business combinations

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

Pension obligation

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

6. *SEGMENT REPORTING*

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

Segment information can be analyzed as follows:

			2012
	Distribution Segment	Wholesale Segment	Total
	$	$	$
Segment sales of goods	1,050,035	627,332	1,677,367
Segment operating expenses			
Cost of goods sold	917,385	590,809	1,508,194
Employee remuneration	73,034	9,406	82,440
Other expenses	36,808	4,923	41,731
	1,027,227	605,138	1,632,365
Segment earnings	22,808	22,194	45,002

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

6. *SEGMENT REPORTING (Continued)*

	2011		
	Distribution Segment	Wholesale Segment	Total
	$	$	$
Segment sales of goods	943,077	525,943	1,469,020
Segment operating expenses			
Cost of goods sold	816,657	497,538	1,314,195
Employee remuneration	66,919	5,708	72,627
Other expenses	34,286	4,282	38,568
	917,862	507,528	1,425,390
Segment earnings	25,215	18,415	43,630

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

	2012	2011
	$	$
Sales of goods		
Total segment earnings	1,677,367	1,469,020
Elimination of intersegment earnings	(210,519)	(155,769)
Company sales of goods	1,466,848	1,313,251

	2012	2011
	$	$
Earnings		
Total segment earnings	45,002	43,630
Employee remuneration not allocated	(3,258)	(2,206)
Other expenses not allocated	(2,653)	(3,135)
Costs not relating to current operations	(6,639)	(3,618)
Depreciation of property, plant and equipment	(4,634)	(4,063)
Amortization of intangible assets	(14,150)	(13,562)
Elimination of intersegment earnings	15	(91)
Company operating earnings	13,683	16,955
Finance costs	(9,977)	(8,511)
Company earnings before taxes	3,706	8,444

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

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

	2012	2011
	$	$
Purchases of goods	1,303,186	1,153,332
Changes in inventory	(5,511)	5,183
Employee remuneration (Note 20.1)	85,698	74,833
Other expenses	44,369	41,705
	1,427,742	1,275,053

8. *COSTS NOT RELATING TO CURRENT OPERATIONS*

	2012	2011
	$	$
Costs of internal restructuring of operations	5,684	
Direct costs relating to realized, unrealized and potential business acquisitions	160	2,547
Write-off of a client relationship following the loss of a client in the Distribution Segment	1,181	
Loss on the disposal of a wholly-owned subsidiary (a)	519	
Special allocations to certain members of management	750	750
Gain realized following an arbitration ruling in connection with the acquisition of Norref	(1,655)	
Direct costs relating to the conversion of the financial statements to IFRS		222
Costs of recruiting a new President and Chief Executive Officer		99
	6,639	3,618

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

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

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

9. *TRADE AND OTHER RECEIVABLES*

	2012	2011
	$	$
Trade accounts		
Customers controlled by directors		483
Other	93,260	85,468
	93,260	85,951
Supplier rebates receivable	15,633	17,935
Other	4,602	4,278
	113,495	108,164

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

10. *PROPERTY, PLANT AND EQUIPMENT*

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

	Land	Furniture, warehouse equipment and vehicles	Road vehicles	Computer equipment	Leasehold improvements	Total
	$	$	$	$	$	$
Gross carrying amount						
Balance as at January 1, 2011	63	9,638	4,594	3,292	4,230	21,817
Acquisitions		925	1,182	187	1,406	3,700
Business combinations		3,225	682	716	2,139	6,762
Disposals		(54)	(802)	–	–	(856)
Balance as at December 31, 2011	63	13,734	5,656	4,195	7,775	31,423
Depreciation						
Balance as at January 1, 2011		4,995	2,300	1,665	1,937	10,897
Disposals		(54)	(802)	–	–	(856)
Depreciation		1,490	1,073	604	896	4,063
Balance as at December 31, 2011	–	6,431	2,571	2,269	2,833	14,104
Net carrying amount as at December 31, 2011	63	7,303	3,085	1,926	4,942	17,319

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

11. *INTANGIBLE ASSETS*

	Distribution software	Trademarks	Customer relations	Total
	$	$	$	$
Gross carrying amount				
Balance as at January 1, 2012	6,035	29,697	174,501	210,233
Acquisitions	509			509
Business combinations			2,335	2,335
Outflow	(424)		(2,937)	(3,361)
Balance as at December 31, 2012	6,120	29,697	173,899	209,716
Amortization				
Balance as at January 1, 2012	2,972		52,416	55,388
Amortization	811		13,339	14,150
Outflow	(424)		(1,756)	(2,180)
Balance as at December 31, 2012	3,359	–	63,999	69,538
Net carrying amount as at December 31, 2012	2,761	29,697	109,900	142,358
Gross carrying amount				
Balance as at January 1, 2011	4,773	27,855	146,193	178,821
Acquisitions	918			918
Business combinations	344	1,842	28,308	30,494
Balance as at December 31, 2011	6,035	29,697	174,501	210,233
Amortization				
Balance as at January 1, 2011	2,042		39,784	41,826
Amortization	930		12,632	13,562
Balance as at December 31, 2011	2,972	–	52,416	55,388
Net carrying amount as at December 31, 2011	3,063	29,697	122,085	154,845

The net carrying amount of one of the customer relationships is $16,757,000 as at December 31, 2012 ($18,614,000 as at December 31, 2011) and the remaining amortization period is 9 years.

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

12. *GOODWILL AND TRADEMARKS*

	2012	2011
	$	$
Goodwill		
Balance, beginning of year	114,775	78,272
Business combinations (Note 3)	290	36,503
Balance, end of year	115,065	114,775

12.1 Impairment testing of goodwill and trademarks

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

	2012		2011	
	Goodwill	Trademarks	Goodwill	Trademarks
	$	$	$	$
Boucherville Division	71,921	7,200	71,921	7,200
Summit Division	14,771	9,387	14,771	9,387
Eastern Quebec and Maritimes Division	7,629	11,268	7,629	11,268
Norref Division	20,454	1,842	20,454	1,842
Décarie Division	290			
	115,065	29,697	114,775	29,697

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

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

	2012		2011	
	Average for first 5 years	Following years	Average for first 5 years	Following years
Growth rate				
Boucherville Division	2.0%	2.0%	2.0%	2.0%
Summit Division	0.4%	2.0%	2.8%	2.0%
Eastern Quebec and Maritimes Division	0.9%	2.0%	2.9%	2.0%
Norref Division	10.8%	2.0%	13.1%	2.0%
Décarie Division	8.0%	2.0%	–	–

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

12. *GOODWILL AND TRADEMARKS (Continued)*

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

Pre-tax rates of 14.5% to 15.7% (14.8% to 15.9% as at December 31, 2011) were used to discount expected cash flows. These rates reflect the current market assessment of the time value of money and the risks specific to the asset.

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

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

13. *DEFERRED INCOME TAX ASSETS AND LIABILITIES*

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

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

					2012
	Balance, beginning of year	Business combinations	Earnings	Other comprehensive income	Balance, end of year
	$	$	$	$	$
Deferred non-capital losses	19,109		(1,834)		17,275
Property, plant and equipment	(556)		335		(221)
Intangible assets	(23,675)	(181)	2,021		(21,835)
Equity investment in Colabor Investments Inc.	(960)		(104)	321	(743)
Goodwill	(2,214)		(752)		(2,966)
Share and debenture issue expenses	(442)		65		(377)
Other	384	(71)	(228)	(144)	(59)
Deferred income tax assets (liabilities)	(8,354)	(252)	(497)	177	(8,926)

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

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

					2011
	Balance, beginning of year	Business combinations and debenture issue	Earnings	Other comprehensive income	Balance, end of year
	$	$	$	$	$
Deferred non-capital losses	21,995	894	(3,780)		19,109
Property, plant and equipment	(696)	(475)	615		(556)
Intangible assets	(15,372)	(7,796)	(507)		(23,675)
Equity investment in Colabor Investments Inc.	(1,872)		788	124	(960)
Goodwill	(3,498)		1,284		(2,214)
Share and debenture issue expenses	572		(1,014)		(442)
Other	(775)		998	161	384
Deferred income tax assets (liabilities)	354	(7,377)	(1,616)	285	(8,354)

The combined federal and provincial income tax rate is lower than the 2011 rate because of a change in the federal tax rate as of January 1, 2012.

The difference between the effective income tax rate and the regulatory income tax rates in Canada is attributable to the following:

	2012	2011
	$	$
Earnings before income taxes	3,706	8,444
Combined federal and provincial income tax rates	26.68%	28.32%
Expected tax expense	989	2,391
Income tax rate adjustment	598	(21)
Non-taxable items	(370)	
Tax impact of the disposal of a wholly-owned subsidiary	(494)	
Adjustment of Norref's tax basis following an arbitration ruling	(441)	
Non-tax deductible items	677	284
Adjustment of loss balances	(1,079)	
Deferred tax asset not recognized on capital losses	598	
Other	19	(1,038)
Tax expenses	497	1,616

As at December 31, 2012, the Company has capital losses amounting to $2,242,000 for which no deferred tax asset has been recognized.

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

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

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

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

If the CRA were to issue a definitive notice of reassessment, the Company would have to pay 50% of the tax liability claimed by the CRA to stop the collection process. The amount would be about $8,800,000 for 2009, 2010 and 2011 and about $1,300,000 for 2012, once the tax return is filed with the CRA and subject to a subsequent reassessment. The Company would also have to pay 50% of the tax payable according to the CRA for all future tax years if the CRA were to issue a reassessment and the Company were to object. If the CRA does not agree with the objection filed by the Company, the Company would be able to present its case before the courts. The Company anticipates that legal proceedings with various courts could last for several years. If the CRA eventually wins in court, the Company will be obliged to pay the remaining tax balances of approximately $10,100,000 and reverse the deferred tax asset of about $17,000,000 in earnings. Also, interest would be added to all tax amounts payable and be calculated between the date the tax expense was theoretically due and the payment date.

14. *OPERATING LEASES AND COMMITMENTS*

The Company has entered into various leases expiring through to August 2022, which call for minimum lease payments of $91,205,000. The Company's obligation under one of these leases is secured by a $1,014,000 letter of guarantee. Minimum lease payments under the Company's operating leases are as follows:

	2012	2011
	$	$
Less than one year	15,193	16,438
1 to 5 years	46,528	50,475
Over 5 years	29,484	35,067
	91,205	101,980

Operating lease payments recognized in expenses during the year total $16,732,000 ($15,321,000 in 2011). These are the minimum lease payments. No sub-leasing or conditional lease payments have been made or received. No sub-leasing income is expected since all of the assets under lease are for the Company's exclusive use.

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

14. *OPERATING LEASES AND COMMITMENTS (Continued)*

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

15. *BALANCES OF PURCHASE PRICE PAYABLE*

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

	2012	2011
	$	$
Payable on demand, without interest	6,331	6,331
Payable on demand, bearing interest at 4.5%	3,750	3,750
Bearing interest at the prime rate less 1% (i.e. 2 % as at December 31, 2012 and 2011)	250	1,642
Bearing interest at 3%	808	
Bearing interest at 5%		1,087
	11,139	12,810
Instalments due within one year	10,735	12,560
Instalment due in more than one year	404	250

16. *BANK BORROWINGS*

As at December 31, 2012 and 2011, the credit facility is $150,000,000. This credit facility expires in 2016 and is secured by a first ranking hypothec on the Company's present and future assets.

The interest on the credit facility is the prime rate plus 1.75% (i.e. 4.75%) as at December 31, 2012 and the prime rate (i.e. 4%) as at December 31, 2011.

On November 8, 2011, the Company entered into two interest rate swaps. Under these swaps, the variable rate bank loan may be converted to a fixed rate bank loan. These two interest rate swaps have been designated as cash flow hedges. One interest rate swap, which expires on November 28, 2013 for a nominal amount of $20,000,000 sets the interest rate at 1.07% plus banker's acceptance stamping fees (i.e. a total of 3.82% as at December 31, 2012 and 3.07% as at December 31, 2011). The other interest rate swap, which expires on April 28, 2016 for a nominal amount of $50,000,000, sets the interest rate at 1.48% plus banker's acceptance stamping fees (i.e. a total of 4.23% as at December 31, 2012 and 3.48% as at December 31, 2011). There was no hedge ineffectiveness during the 2012 and 2011 years.

The Company is required to comply with certain financial ratios that have an impact on the credit facility interest rates. As at December 31, 2012 and 2011, the Company was in compliance with these ratios.

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

16. *BANK BORROWINGS (Continued)*

As at December 31, 2012, letters of guarantee in the amount of $1,289,000 are used, including $1,014,000 for one commitment.

17. *LONG-TERM DEBT*

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

	Par value	Carrying amount
	$	$
Initial disbursement on December 28, 2011 (net of transaction costs) and balance as at December 31, 2011	15,000	14,598
Non-cash portion of effective interest on long term debt		67
Balance as at December 31, 2012	15,000	14,665

18. *DEBENTURES*

7% convertible debentures, maturing on December 31, 2011, issued on January 4, 2007

The debentures maturing on December 31, 2011 bear interest at the nominal rate of 7% and are payable semi-annually. The effective interest rate is 9.69%. The debentures are convertible at the holder's option into common shares of the Group (the "Shares") at a conversion rate of 97.561 shares per $1,000 of debenture capital, that is a conversion price of $10.25 per share.

5.7% convertible debentures, maturing on October 31, 2017, issued on April 27, 2010

The debentures maturing on October 31, 2017 bear interest at the rate of 5.7% and are payable semi-annually. The effective interest rate is 7.54%. The debentures are convertible at the holder's option into Shares at a conversion rate of 59.347 shares per $1,000 of debenture capital, that is a conversion price of $16.85 per share. Under certain circumstances, the Company may redeem some or all of the debentures in advance after April 30, 2015.

	2012		
		Carrying amount	
	Par value	Debentures	Conversion option
	$	$	$
5.7% convertible debentures, maturing on October 31, 2017, issued on April 27, 2010			
Balance, beginning of year	50,000	46,080	1,742
Non-cash portion of effective interest on debentures		623	
Balance, end of year	50,000	46,703	1,742

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

18. *DEBENTURES (Continued)*

	2011		
		Carrying amount	
	Par value	Debentures	Conversion option
	$	$	$
7% convertible debentures, maturing on December 31, 2011, issued on January 4, 2007			
Balance, beginning of year	14,267	13,905	673
Conversion into 413,557 shares during the year. The carrying amount of the converted debentures and the related conversion option were recognized in share capital	(4,239)	(4,214)	(200)
Non-cash portion of effective interest on debentures		337	
Redeemed by the Company on maturity	(10,028)	(10,028)	(473)
Balance, end of year	–	–	–
5.7% convertible debentures, maturing on October 31, 2017, issued on April 27, 2010			
Balance, beginning of year	50,000	45,500	1,742
Non-cash portion of effective interest on debentures		580	
Balance, end of year	50,000	46,080	1,742
	50,000	46,080	1,742

19. *SHARE CAPITAL*

Authorized

Unlimited number of participating, voting common shares without par value

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

Issued and fully paid common shares

	2012		2011	
	Number	$	Number	$
Outstanding, beginning of year	23,115,321	179,652	23,053,564	177,960
Normal course issuer bid			(351,800)	(2,722)
Conversion of convertible debentures			413,557	4,414
Outstanding, end of year	23,115,321	179,652	23,115,321	179,652

There were no outstanding preferred shares during the periods covered.

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

19. *SHARE CAPITAL (Continued)*

Normal course issuer bid

On October 25, 2010, the Company's Board of Directors authorized a normal course issuer bid program to purchase for cancellation, until October 27, 2011, up to 500,000 common shares, representing about 2.9% of the outstanding common shares. Under the terms of this bid, the shares will be purchased at market price. In 2011, the Company redeemed 351,800 shares under this program for a total cash consideration of $3,194,000.

On October 26, 2011, the Company's Board of Directors authorized a new normal course issuer bid program to purchase for cancellation, until October 27, 2012, up to 500,000 common shares, representing about 2.9% of the outstanding common shares. Under the terms of this bid, the shares will be purchased at market price. No shares have been redeemed under this new program.

20. *EMPLOYEE REMUNERATION*

20.1. Employee benefits expense

	2012	2011
	$	$
Salaries	68,423	59,059
Fringe benefits costs	12,528	11,452
Expenses for stock-based compensation plans	171	417
Pensions – defined benefit plans	275	188
Pensions – defined contribution plans	1,373	1,043
Pensions – government defined contribution plans	2,928	2,674
	85,698	74,833

20.2 Stock-based compensation

Stock option plan

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

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

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

20. *EMPLOYEE REMUNERATION (Continued)*

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 (an "Optionee") in four equal tranches on the first, second, third and fourth anniversary of date of grant. The Optionee may then exercise any vested option at any time no later than the tenth anniversary of the date of grant or such earlier date fixed by the Board of Directors (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 common shares of the Company on the date of exercise, multiplying the difference by the number of Shares of the Company in respect of which the option was otherwise being exercised and then dividing that product by such market price.

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

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

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

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

20. *EMPLOYEE REMUNERATION (Continued)*

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

	2012		2011	
	Options	Weighted Average exercise price	Options	Weighted Average exercise price
	Number		Number	
Outstanding at the beginning	187,500	$ 11.87	187,500	$ 11.87
Attributed	204,700	$ 7.59		
Expired	(32,500)	$ 11.27		
Outstanding at the end	359,700	$ 9.49	187,500	$ 11.87
Exercisable options	85,000	$ 11.74	46,875	$ 11.87

The following table presents the information related to the outstanding stock options as at December 31, 2012:

Exercise price	Maturing date	Outstanding options	Exercisable options
$7.59	May 2, 2019	198,700	2,000
$11.49	March 1, 2017	70,000	35,000
$12.10	April 30, 2017	91,000	48,000
		359,700	85,000

Long-term incentive plan

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

Under the terms of the LTIP, 46,021 common shares were released on February 22, 2011 and 30,172 on May 2, 2012 with a cost of $455,000 and $241,000 respectively.

As at December 31, 2012, all common shares have been released under the LTIP (30,172 common shares have not been released as at December 31, 2011).

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

20. *EMPLOYEE REMUNERATION (Continued)*

Performance stock unit plan

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

On March 23, 2011, under the terms of the PSU plan, the Company granted 11,650 common shares and on March 30, 2011, 11,650 common shares were purchased on the market for that purpose for $141,000. On May 2, 2012, the Company granted 36,600 common shares under the terms of the PSU plan. The PSUs vest after a maximum three-year period, on the basis of target increases in pre-tax earnings per common share. The number of PSUs acquired by participants is determined by multiplying the number of PSUs granted by a maximum factor of 1.5.

Directors' share unit plan

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

No DSUs have been granted under this plan.

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

	2012	2011
	$	$
Expenses – stock option plan	82	70
Expenses – long-term incentive plan	27	305
Expenses – performance stock unit plan	62	42
	171	417

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

20. *EMPLOYEE REMUNERATION (Continued)*

20.3 Pension obligation and employee future benefits

As at December 31, 2012, the Company has a defined benefit pension plan and contributes to group plans.

There is currently a defined benefit pension plan. It is offered to 80 employees only and not available to new employees. Under the terms of this plan, a certain percentage of salary is converted into pension components each year. Pension benefits under this plan are paid when the beneficiary turns 65 years of age.

Information about the defined benefit pension plan is as follows:

	2012	2011
Accrued benefit obligation	$	$
Balance, beginning of year	6,307	5,031
Current service costs	241	180
Finance costs	314	291
Employee contributions	72	92
Benefits paid	(170)	(73)
Actuarial gains or losses	1,108	786
Balance, end of year	7,872	6,307
Plan assets		
Fair value, beginning of year	4,871	4,515
Expected return	301	283
Actuarial gains or losses	19	(329)
Employer contributions	380	383
Employee contributions	72	92
Benefits paid	(170)	(73)
Fair value, end of year	5,473	4,871
Funded status – Deficit	(2,399)	(1,436)
Unamortized net actuarial loss (gain)	2,057	988
Accrued benefit liability for employee benefits	(342)	(448)

	2012	2011
	%	%
Components of plan assets		
Equity interests	57	57
Debt securities	33	35
Real estate	5	5
Cash	5	3
	100	100

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

20. *EMPLOYEE REMUNERATION (Continued)*

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

	2012	2011
	$	$
Current service costs	241	180
Finance costs	314	291
Expected return on plan assets	(301)	(283)
Amortization of actuarial gains or losses	21	
Defined benefit costs recognized	275	188

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

	2012	2011
	%	%
Accrued benefit obligation		
Discount rate	4.00	4.80
Rate of compensation increase	3.20	3.20
Benefit costs for the year		
Discount rate	4.80	5.50
Expected long-term rate of return on plan assets	6.00	6.00
Rate of compensation increase	3.20	3.20

The expected return on plan assets is based on the weighted average expected return of the various assets in the plan and includes a historical analysis of returns and expected future returns. The expected return on plan assets is estimated by external evaluators in cooperation with the Company. The actual return on plan assets was $320,000 in 2012 (negative return of $46,000 in 2011).

The changes in the defined benefit pension plan may be summarized as follows. The amounts prior to the transition to IFRS are not presented because the Company applied the exemption stated in IFRS 1.D.II.

	2012	2011	2010	2010-01-01
	$	$	$	$
Defined benefit pension obligation	7,872	6,307	5,031	4,607
Fair value of plan assets	5,473	4,871	4,515	3,705
Plan deficit	2,399	1,436	516	902
Experience gain (loss)				
Plan assets	19	(329)	126	–
Plan obligation	–	–	(49)	–

Based on historical data, the Company expects contributions in the range of $380,000 to be paid for year 2013.

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

21. *FINANCE COSTS AND FINANCE COSTS PAID*

	2012	2011
	$	$
Interest on balances of purchase price	198	173
Interest on bank borrowings	5,145	3,328
Interest on long-term debt	1,042	3
Effective interest on debentures	3,472	4,706
Other	120	301
Finance charges	9,977	8,511
Non-cash portion of effective interest on long-term debt and debentures included in finance costs	(690)	(917)
Credit facility renewal costs or change in credit facilities	194	734
Amortization of prepaid finance costs included in finance costs	(175)	(139)
Finance costs paid	9,306	8,189

22. *DATA PER SHARE*

After-tax cash flows per share

	2012	2011
	$	$
Cash flows from operating activities before income tax recovery (withholdings) and net changes in working capital	34,735	34,856
Costs not relating to current operations	6,639	3,618
Finance costs	(9,977)	(8,511)
Non-cash portion of the implicit interest on long-term debt and debentures included in finance costs	690	917
Purchase of property, plant and equipment	(3,158)	(3,700)
Purchase of intangible assets	(509)	(918)
	28,420	26,262
Weighted average number of shares outstanding	23,079,252	22,928,311
After-tax cash flows per share	$ 1.23	$ 1.15
Annual dividend declared	$ 0.72	$ 1.08
Ratio of dividends to after-tax cash flows per share	58%	94%

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

22. *DATA PER SHARE (Continued)*

Earnings per share

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

	2012	2011
	$	$
Earnings	3,209	6,828
Weighted average number of shares used to calculate basic and diluted earnings per share	23,079,252	22,928,311
Basic and diluted earnings per share	$ 0.14	$ 0.30

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

Dividends

During the year, the Company declared dividends of $0.18 per share on March 30, June 29, September 30 and December 31, 2012 for a total amount of $16,644,000.

23. *NET CHANGES IN WORKING CAPITAL*

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

	2012	2011
	$	$
Trade and other receivables	(1,388)	(10,810)
Inventory	(5,511)	5,183
Prepaid expenses	(650)	(406)
Trade and other payables	23,924	20,427
Rebates payable	(45)	(2,500)
Deferred revenue	133	(147)
Pension obligation	(105)	(194)
	16,358	11,553

24. *ECONOMIC DEPENDENCE*

The Company has entered into procurement contracts expiring between 2015 and 2020 with customers. Sales to these customers account for 44% of the Company's sales in 2012 (52% in 2011). One customer in the Distribution Segment accounts for 16% of the Company's sales in 2012 (17% in 2011).

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

25. *RELATED PARTY TRANSACTIONS*

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

25.1 Transactions with customers controlled by directors

	2012	2011
	$	$
Sales of goods	–	5,537

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

	2012	2011
	$	$
Consolidated statements of earnings		
Rebates (b)	14,153	14,019
Operating expenses		
Rent	1,611	2,028
Computer services	–	543
Consolidated statements of financial position		
Equity investment in Colabor Investments Inc.	9,932	12,410
Rebates payable	11,349	11,386
Advance on dividends to be declared included in other payables	1,722	–
Distribution software	–	396

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

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

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

25. *RELATED PARTY TRANSACTIONS (Continued)*

25.3 Transactions with key management personnel

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

	2012	2011
	$	$
Short-term employee benefits		
Salaries including bonuses and special allocations	2,679	2,560
Directors' fees	305	358
Fringe benefit costs	136	127
Total short-term employee benefits	3,120	3,045
Defined contribution pension plans	97	68
Share-based payments	125	116
Total remuneration	3,342	3,229

26. *FAIR VALUE OF FINANCIAL INSTRUMENTS*

26.1 Classes of financial assets and liabilities

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

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial assets				
Loans and receivables				
Trade and other receivables	113,495	113,495	108,164	108,164
Available-for-sale financial assets				
Equity investment in Colabor Investments Inc.	9,932	9,932	12,410	12,410

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

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

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial liabilities				
Financial liabilities at amortized cost				
Current				
Bank overdraft	5,994	5,994	10,151	10,151
Trade and other payables	134,670	134,670	105,575	105,575
Dividends payable	4,161	4,161	6,220	6,220
Rebates payable	11,738	11,738	11,783	11,783
Balances of purchase price payable	10,735	10,735	12,560	12,560
	167,298	167,298	146,289	146,289
Non-current				
Bank borrowings	88,008	88,008	96,167	96,167
Balances of purchase price payable	404	404	250	250
Long-term debt	14,665	14,532	14,598	14,598
Convertible debentures	46,703	46,929	46,080	47,092
	149,780	149,873	157,095	158,107
Financial liability at fair value				
Derivative financial instrument	67	67	618	618

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

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

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

As at December 31, 2012, the fair value of the long-term debt was determined by discounting future cash flows at 7.5%, the rate which the Company could obtain for long-term debt with similar terms and conditions and maturities. As at December 31, 2011, the fair value of the long-term debt is comparable to its carrying amount.

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

The fair value of the liability component of the debentures was determined by discounting future cash flows at 7.5% for debentures maturing on April 30, 2017 (7.13% as at December 31, 2011), the rate which the Company could obtain for non-convertible debentures with similar terms and conditions and maturities.

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

26.2 Financial instruments measured at fair value

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

– Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
– Level 3: inputs for the asset or liability that are not based on observable market data.

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

27. *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 2011, the Company's capital is composed of bank borrowings, the long-term debt, debentures and shareholders' equity. In addition to its conservative approach to safeguarding the balance sheet, the Company achieves this objective through the prudent management of internally-generated capital, by optimizing the use of capital at a lower cost and using capital to finance growth initiatives.

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

28. *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 as follows:

Interest rate risk

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

The sensitivity analysis includes items bearing interest at variable rates and indicates that a 1% fluctuation in the bank prime rate would have a $448,000 impact on earnings and equity in 2012 ($691,000 in 2011).

Credit risk

The carrying amount on the consolidated statements of financial position of accounts receivable, net of applicable provisions for losses, represents the maximum amount exposed to credit risk.

The Company's credit risk is primarily attributable to its trade accounts receivable. The credit risk related to trade accounts receivable is generally diversified. The Company requires a guarantee from some of its customers. As at December 31, 2012, the Company has guarantees for 13% of its trade accounts receivable (15% as at December 31, 2011). The Company's policy is to have each customer undergo a credit check.

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

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

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

	2012	2011
	$	$
Current	90,258	84,830
Overdue from 1 to 60 days	2,261	904
Overdue more than 60 days	741	217
	93,260	85,951

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

	2012	2011
	$	$
Balance, beginning of year	1,572	970
Change attributable to business acquisitions and disposals	(246)	566
	1,326	1,536
Expenses for the year	608	618
Write-off of receivables	(815)	(582)
Balance, end of year	1,119	1,572

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

Liquidity risk

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

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

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

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

			2012
	Maturing in less than 12 months	Maturing in 1 to 5 years	Maturing in more than 5 years
	$	$	$
Bank overdraft	5,994		
Trade and other payables	134,670		
Dividends payable	4,161		
Rebates payable	11,738		
Balances of purchase price payable	10,919	404	
Bank borrowings	4,180	97,762	
Long-term debt	975	18,087	
Convertible debentures	2,850	60,925	
	175,487	177,178	–

			2011
	Maturing in less than 12 months	Maturing in 1 to 5 years	Maturing in more than 5 years
	$	$	$
Bank overdraft	10,151		
Trade and other payables	105,575		
Dividends payable	6,220		
Rebates payable	11,783		
Balances of purchase price payable	12,804	266	
Bank borrowings	3,847	108,989	
Derivative financial instrument		618	
Long-term debt	975	3,900	15,162
Convertible debentures	2,850	11,400	50,950
	154,205	125,173	66,112

29. *SUBSEQUENT EVENTS*

On March 4, 2013, the Company issued 3,974,000 common shares for a total cash consideration of $30,003,750.

On the same day, the Company acquired all of the assets of T. Lauzon Ltée ("Lauzon"). Lauzon operates in the Distribution Segment primarily in Quebec. This transaction amounts to about $13,000,000 and is subject to certain post-closure adjustments. The acquisition of Lauzon reflects the Company's strategic objectives to broaden its product offering. The Company financed the Lauzon asset acquisition from the proceeds of the common share issue. The Company has not started determining the purchase price allocation.