



Condensed interim consolidated Financial Statements
(unaudited)

Second quarter of 2019

For the 84 and 168-day periods ended June 15, 2019

(in thousands of Canadian dollars)

Interim Consolidated Statements of Net earnings

(unaudited)

For the 84 and 168-day periods ended June 15, 2019 and June 16, 2018

(in thousands of Canadian dollars, except per share data)

	Notes	84-day		168-day	
		2019	2018	2019	2018
		\$	\$	\$	\$
Sales	3	274,198	273,564	486,979	496,168
Operating expenses, excluding costs not related to current operations, depreciation and amortization	5	266,894	268,241	479,620	492,335
Operating earnings before costs not related to current operations, depreciation and amortization		7,304	5,323	7,359	3,833
Costs not related to current operations	7	178	—	178	—
Depreciation and amortization	6	2,206	2,332	4,401	4,664
Impairment loss on goodwill, intangible assets and property, plant and equipment		49	288	73	415
Operating earnings (loss)		4,871	2,703	2,707	(1,246)
Impairment loss on financial instruments at fair value through profit or loss		—	—	—	118
Financial expenses		1,886	1,853	3,708	3,685
Earnings (loss) before taxes		2,985	850	(1,001)	(5,049)
Income taxes	8	1,607	352	557	(1,198)
Net earnings (loss) from continuing operations		1,378	498	(1,558)	(3,851)
Net earnings from discontinued operations	4	7,661	319	7,863	188
Net earnings (loss) for the period		9,039	817	6,305	(3,663)
Basic and diluted earnings (loss) per share of continuing operations	9	0.01	0.01	(0.02)	(0.04)
Basic and diluted earnings per share of discontinued operations	9	0.08	—	0.08	0.00
Basic and diluted earnings (loss) per share	9	0.09	0.01	0.06	(0.04)

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

Interim Consolidated Statements of Comprehensive income

(unaudited)

For the 84 and 168-day periods ended June 15, 2019 and June 16, 2018

(in thousands of Canadian dollars)

	84-day		168-day	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net earnings (loss) for the period	9,039	817	6,305	(3,663)
Other items that will be subsequently reclassified to net earnings				
Loss on financial instruments at fair value through profit or loss	—	—	—	(118)
Reclassification to net earnings	—	—	—	118
	—	—	—	—
Other comprehensive income (loss) that will not be reclassified to earnings				
Remeasurement of defined benefit pension obligation	(239)	179	(1,122)	256
Taxes on other comprehensive income	63	(48)	299	(69)
	(176)	131	(823)	187
Total comprehensive income (loss) for the period	8,863	948	5,482	(3,476)

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

Interim Consolidated Statements of Changes in Equity

(unaudited)

For the 168-day periods ended June 15, 2019 and June 16, 2018

(in thousands of Canadian dollars)

	Share capital \$	Convertible debenture conversion options \$	Contributed surplus \$	Deficit \$	Total Equity \$
Balance as at December 29, 2018	255,639	1,742	3,891	(168,917)	92,355
Net earnings for the period	—	—	—	6,305	6,305
Other comprehensive income for the period	—	—	—	(823)	(823)
Comprehensive income for the period	—	—	—	5,482	5,482
Stock-based compensation	—	—	(267)	—	(267)
Balance as at June 15, 2019	255,639	1,742	3,624	(163,435)	97,570

	Share capital \$	Convertible debenture conversion options \$	Contributed surplus \$	Deficit \$	Total Equity \$
Balance as at December 30, 2017	258,005	1,742	2,506	(164,691)	97,562
Net earnings (loss) for the period	—	—	—	(3,663)	(3,663)
Other comprehensive income for the period	—	—	—	187	187
Comprehensive income for the period	—	—	—	(3,476)	(3,476)
Shares cancelled	(2,366)	—	—	—	(2,366)
Stock-based compensation	—	—	1,237	—	1,237
Balance as at June 16, 2018	255,639	1,742	3,743	(168,167)	92,957

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

Interim Consolidated Statements of Cash Flows

(unaudited)

For the 84 and 168-day periods ended June 15, 2019 and June 16, 2018

(in thousands of Canadian dollars)

	Notes	84-day		168-day	
		2019	2018	2019	2018
		\$	\$	\$	\$
Cash flows from operating activities					
Net earnings (loss) for the period		1,378	498	(1,558)	(3,851)
Deferred income taxes	8	1,437	(93)	537	(1,314)
Depreciation and amortization	6	2,206	2,332	4,401	4,664
Impairment loss on goodwill, intangible assets and property, plant and equipment		49	288	73	415
Financial expenses		1,886	1,853	3,708	3,685
Other		(336)	(278)	(647)	(530)
		6,620	4,600	6,514	3,069
Net changes in working capital		(11,619)	(8,825)	(11,926)	(7,989)
		(4,999)	(4,225)	(5,412)	(4,920)
Cash flows from investing activities					
Purchase of property, plant and equipment		(613)	(848)	(734)	(1,894)
Proceeds on disposal of property, plant and equipment		219	23	236	38
Purchase of intangible assets		(50)	(129)	(105)	(208)
Other		674	83	560	724
		230	(871)	(43)	(1,340)
Cash flows from financing activities					
Use of the credit facility	10	(5,191)	7,072	(2,184)	11,679
Lease payments	10	(265)	(234)	(517)	(421)
Repayment of subordinated debt	10	(5,000)	—	(5,000)	—
Financial expenses paid		(1,679)	(1,657)	(3,316)	(3,292)
		(12,135)	5,181	(11,017)	7,966
Net change in bank indebtedness of continuing operations		(16,904)	85	(16,472)	1,706
Net change in bank indebtedness of discontinued operations	4	18,362	(67)	18,388	(625)
Bank indebtedness at the beginning		(5,226)	(5,496)	(5,684)	(6,559)
Bank indebtedness at the end		(3,768)	(5,478)	(3,768)	(5,478)

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

Interim Consolidated Statements of Financial Position
(unaudited)

(in thousands of Canadian dollars)

	Notes	As at June 15, 2019 \$	As at December 29, 2018 \$
Assets			
Current assets			
Trade and other receivables		89,616	90,038
Inventory		70,704	78,229
Prepaid expenses		2,969	2,911
Tax receivable		2,213	1,600
Other		46	21
		165,548	172,799
Non-current assets			
Property, plant and equipment		10,249	11,142
Intangible assets		35,005	38,090
Goodwill		70,813	70,813
Deferred tax assets		3,039	4,383
Other		2,241	581
		121,347	125,009
		286,895	297,808
Liabilities			
Current liabilities			
Bank indebtedness		3,768	5,684
Trade and other payables		88,829	96,562
Current portion of long-term debt	10	992	1,027
Other		311	533
		93,900	103,806
Non-current liabilities			
Long-term debt	10	43,527	50,847
Convertible debentures		49,449	49,341
Pension obligations		2,111	1,066
Provisions		140	140
Deferred tax liabilities		198	253
		95,425	101,647
		189,325	205,453
Equity			
Share capital		97,570	92,355
Total liabilities and equity		286,895	297,808

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

Contingency (note 15)

1 Nature of operations

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

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

2 Significant accounting policies

General information

These condensed interim consolidated financial statements of the Company were prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. Some information and note disclosure in the consolidated annual financial statements have not been presented or are summarized when they are not considered essential to understanding the Company's interim financial statements. Therefore, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 29, 2018.

These interim consolidated financial statements have been prepared in accordance with the same accounting policies that have been adopted by the Company in its consolidated financial statements for the year ended December 29, 2018, except for what is disclosed in note 4. Some corresponding figures were restated in order to isolate the discontinued operation's effect from continuing operations. The accounting policies have been applied consistently for all the periods presented.

These interim consolidated financial statements have been prepared on a going concern and historical cost basis, except for certain financial instruments and pension plans' assets that are measured at fair value, and for defined pension obligations and provisions that have been recorded at present value.

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

The net earnings for these interim financial statements are not necessarily indicative of the full-year net earnings. The Company is expecting a significant seasonality factor to be affecting its quarterly earnings. Lower earnings are recorded during the first quarter. The second and third quarters are recording higher earnings than those recorded during the first quarter. Finally, since there are 16 weeks of operations in the last quarter compared to 12 weeks in the previous quarters, the fourth quarter is the most important one.

These interim consolidated financial statements have been approved by the Company's board of directors on July 26, 2019.

(in thousands of Canadian dollars, except number of shares and per share data)

3 Operating segment

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

The Company and its chief operating decision-maker are assessing the performance for each segment based on their segment profit (segment loss), which corresponds to sales minus operating expenses. Depreciation and amortization, financial costs and income taxes are recorded on a consolidated basis, therefore they are not considered in the segment earnings. Inter-segment eliminations and others eliminate all inter-segment transactions included in the operating earnings for each segment and include headquarters' operations. Transactions between segments are recorded at a value agreed upon by both parties.

Segment information can be analyzed as follows:

	84-day periods ended June 15, 2019 and June 16, 2018							
	Distribution segment		Wholesale segment		Intersegment eliminations and others		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	232,494	229,853	57,932	61,609	(16,228)	(17,898)	274,198	273,564
Segment operating expenses	228,366	227,340	52,962	57,426	(14,434)	(16,525)	266,894	268,241
Operating earnings continuing operations	4,128	2,513	4,970	4,183	(1,794)	(1,373)	7,304	5,323

	168-day periods ended June 15, 2019 and June 16, 2018							
	Distribution segment		Wholesale segment		Intersegment eliminations and others		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Sales	414,942	422,765	97,405	103,802	(25,368)	(30,399)	486,979	496,168
Segment operating expenses	410,895	422,920	90,635	96,958	(21,910)	(27,543)	479,620	492,335
Operating earnings continuing operations	4,047	(155)	6,770	6,844	(3,458)	(2,856)	7,359	3,833

(in thousands of Canadian dollars, except number of shares and per share data)

4 Discontinued operations

On May 10th, 2019, the Corporation announced the sale of the assets of the Viandes Décarie division for an amount of \$20,000, subject to certain adjustments, \$17,750 paid at closing and a balance of purchase price of \$2,250. The balance will be payable over a maximum period of 5 years according to the terms of the agreement.

The Company has reclassified as discontinued operations all earnings and cash flows for the current and previous periods, separately from its continuing operations.

The following table presents the gain on disposal and the carrying amount of net assets sold.

	\$
Purchase price	20,000
Carrying amount of assets and liabilities sold :	
Trade and other receivables	7,329
Inventory	7,152
Prepaid expenses	133
Property, plant and equipment	722
Trade and other payables	(3,065)
	12,271
Gain on disposal	7,729

Net earnings from discontinued operations are as follows :

	84-day		168-day	
	2019	2018	2019	2018
	\$	\$	\$	\$
Sales	15,125	26,334	37,392	49,620
Operating expenses, excluding depreciation and amortization	14,729	25,595	36,770	48,593
Operation earnings before depreciation and amortization	396	739	622	1,027
Gain on Business Disposal	(7,729)	—	(7,729)	—
Depreciation and amortization	12	413	29	827
Financial expenses	(1)	7	6	12
Earnings before taxes	8,114	319	8,316	188
Income taxes	453	—	453	—
Net earnings from discontinued operations	7,661	319	7,863	188

The Company's tax attributes do not have any tax effect from the transaction. The only impact is the write-off of deferred tax asset from transferred customer relationships.

(in thousands of Canadian dollars, except number of shares and per share data)

Cash flows from discontinued operation are as follows :

	84 days		168 days	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash flows used in operating activities	589	101	622	154
Cash flows used in investing activities	17,772	(161)	17,772	(767)
Cash flows used in financing activities	1	(7)	(6)	(12)
Net change in bank indebtedness of discontinued operations	18,362	(67)	18,388	(625)

5 Operating expenses

	84-day		168-day	
	2019	2018	2019	2018
	\$	\$	\$	\$
Cost of goods sold	239,044	237,732	423,171	431,497
Employee compensation	18,942	20,698	37,439	40,774
Other expenses	8,908	9,811	19,010	20,064
	266,894	268,241	479,620	492,335

6 Depreciation and amortization

	84-day		168-day	
	2019	2018	2019	2018
	\$	\$	\$	\$
Depreciation of tangible assets	620	756	1,234	1,486
Depreciation of intangible assets	1,586	1,576	3,167	3,178
	2,206	2,332	4,401	4,664

7 Costs not related to current operations

During the 84 and 168-day periods ended June 15, 2019, costs not related to current operations of \$178 were incurred in an effort of workforce rationalization to optimize the operations.

(in thousands of Canadian dollars, except number of shares and per share data)

8 Income tax

	84-day		168-day	
	2019	2018	2019	2018
	\$	\$	\$	\$
Current	170	445	20	116
Deferred	1,437	(93)	537	(1,314)
	1,607	352	557	(1,198)

9 Per-share data

Earnings (loss) per share

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

	84-day		168-day	
	2019	2018	2019	2018
	\$	\$	\$	\$
Net earnings (loss) from continuing operations	1,378	498	(1,558)	(3,851)
Net earnings from discontinued operations	7,661	319	7,863	188
Net earnings (loss) for the period	9,039	817	6,305	(3,663)
Weighted average number of outstanding shares	101,139,418	101,139,418	101,139,418	101,222,891
Effect of dilutive stock options	265,179	—	132,589	—
Weighted average number of diluted outstanding shares	101,404,597	101,139,418	101,272,007	101,222,891
Basic and diluted earnings (loss) per share of continuing operations	0.01	0.01	(0.02)	(0.04)
Basic and diluted earnings per share of discontinued operations	0.08	—	0.08	—
Basic and diluted earnings (loss) per share for the period	0.09	0.01	0.06	(0.04)

Shares hypothetically issued as a result of the conversion of the convertible debentures (20,000,000 shares in 2019 and 2018) were not included in the calculation of diluted earnings per share for the periods ended June 15, 2019 and June 16, 2018 because of an anti-dilutive effect.

For the 84-day and 168-day periods ended June 15, 2019, 3,493,304 (5,078,852 in 2018) stock options were excluded of the diluted earnings per share calculation, because the options' exercise price was greater than the average market price of all outstanding shares.

(in thousands of Canadian dollars, except number of shares and per share data)

10 Long-term debt

	As at June 15, 2019 \$	As at December 29, 2018 \$
Credit facility ^(a)	20,347	22,530
Subordinated Debt ^(b)	20,000	25,000
Obligations arising from leases	4,450	4,905
	44,797	52,435
Less: Unamortized financing costs	278	562
Less: Current portion of long-term debt	992	1,027
	43,527	50,846

^(a) Credit facility

On October 13, 2016, the Company reached an agreement with its lenders to extend its credit facility in a maximum amount of \$140,000 for a three-year term. On August 31, 2018, the Company obtained a one-year extension of the credit facility on the same terms, expiring on October 13, 2020. By mutual agreement, the credit facility may be increased by an additional \$30,000.

^(b) Subordinated Debt

The subordinated debt has a nominal value of \$25,000 maturing on April 13, 2021. During the second quarter ended June 15, 2019, the Company has reimbursed a lump sum of \$5,000, decreasing the nominal value to \$20,000. Under the terms of the agreement, the interest on the debt is payable monthly at a prime rate of 8.0% in 2019 (7.0% in 2018).

(in thousands of Canadian dollars, except number of shares and per share data)

11 Share-capital

Authorized

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

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

Issued and fully paid common shares

	As at June 15, 2019		As at June 16, 2018	
	Number	Amount \$	Number	Amount \$
Outstanding, beginning of the period	101,177,932	255,639	102,112,832	258,004
Cancelled during the period	—	—	(934,900)	(2,365)
Outstanding, end of the period	101,177,932	255,639	101,177,932	255,639

There were no outstanding preferred shares during the periods covered.

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

(in thousands of Canadian dollars, except number of shares and per share data)

12 Employee compensation

Stock-based compensation

Stock option plan

During the second quarter, the Company has attributed 975,000 stock-options of the Group's common shares. The weighted average fair value of the options granted has been estimated at the award date using a binomial option pricing model based on the following weighted average assumptions for options granted during the period:

	2019
	Period ended
	June 15, 2019
Weighted average fair value of the options	\$ 0.34
Risk-free interest rate	1.57 %
Expected volatility of shares	60 %
Expected annual dividend	—
Expected term	6.25 years
Weighted average share price at date of grant	\$ 0.68
Weighted average exercise price at date of grant	\$ 0.67
Exercise period	4 years

	2019		2018	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding, beginning of year	4,218,943	1.69	5,550,420	1.79
Awarded	975,000	0.67	1,000,000	0.88
Forfeiture	(323,889)	1.46	(2,125,727)	1.38
Expired	(701,750)	3.94	(205,750)	3.72
Outstanding, end of year	4,168,304	1.08	4,218,943	1.69
Exercisable options	789,600	1.71	1,463,850	2.74

(in thousands of Canadian dollars, except number of shares and per share data)

13 Fair value of financial instruments

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

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

	As at June 15, 2019		As at December 29, 2018	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Financial liabilities				
Non-current				
Credit facility	20,151	20,151	22,106	22,106
Subordinated debt	19,918	19,934	24,862	24,929
Convertible debentures	49,449	42,500	49,341	31,500
	89,518	82,585	96,309	78,535

The fair value of the financial instruments at fair value through profit or loss was primarily determined using the bid price on the closing date for the underlying asset.

The fair value of the non-current portion of bank borrowings is equivalent to the carrying amount.

The fair value of subordinated debt was determined by discounting future cash flows at 8.0% (7.0% as at December 29, 2018), the current rate of subordinated debt.

The fair value of the liability component of the convertible debentures was determined based on the trading price on June 15, 2019.

Financial instruments measured at fair value

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

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

(in thousands of Canadian dollars, except number of shares and per share data)

The Company's financial instruments measured at fair value consisted of the equity investment in Colabor Investments Inc. (Level 2) during the periods of 2017. Following the liquidation of Colabor Investments Inc. in the first quarter of 2018, the Company no longer holds financial assets measured at fair value (level 2) as at June 15, 2019. The Company's financial liabilities are as follows: Credit facility (Level 1), Debenture (Level 1), Subordinated debt (Level 2).

14 Related party transactions

The Company's related party transactions are composed of sales concluded with Dubé & Loiselle Inc., an entity owned by one of the Company's directors. The transactions were carried out in accordance with various contracts governing relations between the Company and Dubé & Loiselle Inc., in the normal course of operations.

The following table presents transactions between the Company and Dubé & Loiselle Inc:

	84-day		168-day	
	2019	2018	2019	2018
	\$	\$	\$	\$
Sales	5,726	7,870	11,019	12,790
Trade and other receivables, net of remittances			774	1,748
Dubé & Loiselle Inc. Stock option ^(a)			500	500

^(a) As part of the recapitalization transaction carried out in October 2016, the Company paid an amount of \$0.5 M to Robraye Management Ltd. in consideration for the option to acquire Dubé & Loiselle Inc. in the three years following the closing of the recapitalization transaction. The Company believes that it has neither the control nor the influence to consolidate this entity in its financial statements; rather, Dubé & Loiselle Inc. is considered a related party of the Company.

15 Contingency

During the second quarter of 2019, a lawsuit of \$ 7,700 has been initiated by a client against the Company alleging a default to the terms of the agreement. The Company believes that this lawsuit is without merit and intends to defend itself vigorously.