COLABOR

Condensed interim consolidated Financial Statements
(unaudited)
Third quarter of 2019
84 and 252-day periods ended September 7, 2019
(in thousands of Canadian dollars)

COLABOR

Interim Consolidated Statements of Net earnings

(unaudited)

For the 84 and 252-day periods ended September 7, 2019 and September 8, 2018

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

		84 days		252 days	
		2019	2018	2019	2018
	Notes	$	$	$	$
Sales	3	261,541	265,504	748,520	761,672
Operating expenses, excluding costs not related to current operations, depreciation and amortization	5	255,295	258,645	734,915	750,980
Operating earnings before costs not related to current operations, depreciation and amortization		6,246	6,859	13,605	10,692
Depreciation and amortization	6	2,341	2,601	6,742	7,265
Costs not related to current operations	7	—	(1,194)	178	(1,194)
Impairment loss on goodwill, intangible assets and property, plant and equipment		—	2,369	73	2,784
Operating earnings		3,905	3,083	6,612	1,837
Impairment loss on financial instruments at fair value through net earnings		—	—	—	118
Financial expenses		1,601	1,764	5,309	5,449
Earnings (loss) before taxes		2,304	1,319	1,303	(3,730)
Income taxes	8	664	496	1,221	(702)
Net earnings (loss) from continuing operations		1,640	823	82	(3,028)
Net earnings from discontinued operations	4	70	357	7,933	545
Net earnings (loss) for the period		1,710	1,180	8,015	(2,483)
Basic and diluted net earnings (loss) per share of continuing operations	9	0.02	0.01	—	(0.03)
Basic and diluted net earnings per share of discontinued operations	9	—	—	0.08	0.01
Basic and diluted net earnings (loss) per share for the period	9	0.02	0.01	0.08	(0.02)

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

COLABOR

Interim Consolidated Statements of Comprehensive income

(unaudited)

For the 84 and 252-day periods ended September 7, 2019 and September 8, 2018

(in thousands of Canadian dollars)

	84 days		252 days	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Net earnings (loss) for the period	1,710	1,180	8,015	(2,483)
Other items that will be subsequently reclassified to net earnings				
Loss on financial instruments at fair value through net earnings	—	—	—	(118)
Reclassification to net earnings	—	—	—	118
	—	—	—	—
Items that will not be reclassified to net earnings				
Remeasurement of defined benefit pension obligation	(269)	162	(1,391)	418
Taxes on other comprehensive income	72	(43)	371	(112)
	(197)	119	(1,020)	306
Total comprehensive income (loss) for the period	1,513	1,299	6,995	(2,177)

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

Interim Consolidated Statements of Changes in Equity
(unaudited)
For the 84 and 252-day periods ended September 7, 2019 and September 8, 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	—	—	—	8,015	8,015
Other comprehensive income for the period	—	—	—	(1,020)	(1,020)
Comprehensive income for the period	—	—	—	6,995	6,995
Stock-based compensation	—	—	(24)	—	(24)
Stock options exercised	657	—	(217)	—	440
Balance as at September 7, 2019	256,296	1,742	3,650	(161,922)	99,766

	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 loss for the period	—	—	—	(2,483)	(2,483)
Other comprehensive income for the period	—	—	—	306	306
Comprehensive income for the period	—	—	—	(2,177)	(2,177)
Shares cancelled	(2,365)	—	1,316	—	(1,049)
Stock-based compensation	—	—	78	—	78
Balance as at September 8, 2018	255,640	1,742	3,900	(166,868)	94,414

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

COLABOR

Interim Consolidated Statements of Cash Flows

(unaudited)

For the 84 and 252-day periods ended September 7, 2019 and September 8, 2018

(in thousands of Canadian dollars)

		84 days		252 days	
		2019	2018	2019	2018
	Notes	$	$	$	$
Cash flows from operating activities					
Net earnings (loss) for the period		1,640	823	82	(3,028)
Deferred income taxes	8	1,243	482	1,780	(832)
Depreciation and amortization	6	2,341	2,601	6,742	7,265
Impairment loss on goodwill, intangible assets and property, plant and equipment		—	2,369	73	2,784
Financial expenses		1,601	1,764	5,309	5,449
Other		139	(1,792)	(508)	(2,322)
		6,964	6,247	13,478	9,316
Net changes in working capital		14,260	4,650	2,838	(3,339)
		21,224	10,897	16,316	5,977
Cash flows from investing activities					
Acquisitions of property, plant and equipment		(1,298)	(1,323)	(2,032)	(3,217)
Proceeds on disposals of property, plant and equipment		40	41	276	79
Acquisitions of intangible assets		(74)	(114)	(179)	(322)
Other		—	1,054	56	1,778
		(1,332)	(342)	(1,879)	(1,682)
Cash flows from financing activities					
Net increase (decrease) of the credit facility	10	(12,346)	(7,948)	(14,530)	3,731
Lease payments	10	(235)	(231)	(752)	(652)
Share issued	11	440	—	440	—
Repayment of subordinated debt	10	—	—	(5,000)	—
Financial expenses paid		(1,419)	(1,576)	(4,735)	(4,869)
		(13,560)	(9,755)	(24,577)	(1,790)
Net change in cash from continuing operations		6,332	800	(10,140)	2,505
Net change in cash from discontinued operations	4	—	10	18,388	(614)
Cash net of the bank indebtedness at the beginning		(3,768)	(5,478)	(5,684)	(6,559)
Cash net of the bank indebtedness at the end		2,564	(4,668)	2,564	(4,668)

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

COLABOR

Interim Consolidated Statements of Financial Position
(unaudited)

(in thousands of Canadian dollars)

	Notes	As at September 7, 2019 $	As at December 29, 2018 $
Assets			
Current assets			
Cash		2,564	—
Trade and other receivables		80,803	90,038
Inventories		66,325	78,229
Prepaid expenses		3,950	2,911
Tax receivable		1,175	1,600
Other		25	21
		154,842	172,799
Non-current assets			
Property, plant and equipment		10,738	11,142
Intangible assets		33,537	38,090
Goodwill		70,813	70,813
Deferred tax assets		2,608	4,383
Other		2,104	581
		119,800	125,009
		274,642	297,808
Liabilities			
Current liabilities			
Bank indebtedness		—	5,684
Trade and other payables		90,297	96,562
Current portion of long-term debt	10	1,001	1,027
Other		209	533
		91,507	103,806
Non-current liabilities			
Long-term debt	10	31,063	50,847
Convertible debentures		49,504	49,341
Pension obligations		2,322	1,066
Provisions		140	140
Deferred tax liabilities		340	253
		83,369	101,647
		174,876	205,453
Equity			
Equity attributable to shareholders		99,766	92,355
Total liabilities and equity		274,642	297,808

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

Contingency (note 15)

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

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 notes 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 condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 29, 2018.

These condensed 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 impact of the discontinued operation from continuing operations. The accounting policies have been applied consistently for all the periods presented.

The condensed 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.

Financial information is presented in Canadian dollars, which is the Company's functional currency.

The net earnings (loss) for these interim financial statements are not necessarily indicative of the full-year net earnings. The Company expects the seasonal nature to be a significant factor in its quarterly results. 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 condensed interim consolidated financial statements have been approved by the Company's Board of Directors on October 17, 2019.

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

2 Significant accounting policies (Cont'd)

IFRS 16 leases

In January 2016, the IASB published IFRS 16 which will replace IAS 17, Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position.

An exemption is permitted for leases of low-value assets or for short-term leases. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and the liability (including complexities such as non-lease elements, variable lease payments and options periods), changes the accounting for sale and leaseback arrangements, largely retains the approach to lessor accounting in IAS 17, and introduces new disclosure requirements.

IFRS 16 provides practical expedient to simplify the transition, including the choice to not re-evaluate existing contracts to determine whether they meet the lease definition under the new standard. At adoption, the Company has the option to apply IFRS 16 retrospectively for each comparative period disclosed or uses a modified retrospective approach by recognizing the cumulative effect of the initial application of the standard as an adjustment to opening deficit. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, ie from December 29, 2019 for the Company. Early adoption of this standard is permitted under certain conditions, but the Company does not intend to use this choice.

The Company believes that this new standard will increase the value of property, plant and equipment and the obligations arising under leases, reduce operating expenses, and increase depreciation and amortization and finance costs. The Company continues to asses the extent of the impact of this standard on its consolidated financial statements.

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 of each segment based on its segment earnings (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 intersegment 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.

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

3 Operating segment (Cont'd)

Segment information can be analyzed as follows:

	84 days periods ended September 7, 2019 and September 8, 2018							
	Distribution segment		Wholesale segment		Intersegment eliminations and others		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$	$	$
Segment sales	219,045	224,041	57,435	56,422	(14,939)	(14,959)	261,541	265,504
Segment operating expenses	215,727	219,527	52,682	52,559	(13,114)	(13,441)	255,295	258,645
Operating earnings from continuing operations	3,318	4,514	4,753	3,863	(1,825)	(1,518)	6,246	6,859

	252 days periods ended September 7, 2019 and September 8, 2018							
	Distribution segment		Wholesale segment		Intersegment eliminations and others		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$	$	$
Segment sales	633,987	646,806	154,840	160,224	(40,307)	(45,358)	748,520	761,672
Segment operating expenses	626,622	642,447	143,317	149,517	(35,024)	(40,984)	734,915	750,980
Operating earnings from continuing operations	7,365	4,359	11,523	10,707	(5,283)	(4,374)	13,605	10,692

4 Discontinued operations

On May 10, 2019, the Company concluded the sale of the assets of the Viandes Décarie division for an amount of $20,070 including final adjustments related to working capital, of which $17,750 was received at closing. The balance of sale price receivable will be payable over a maximum period of 5 years according to the terms of the agreement. During the 84 and 252-day periods ended September 7, 2019, $108 and $130 were received respectively.

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

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

4 Discontinued operations (Cont'd)

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

	$
Proceeds of disposition	20,070
Carrying amount of assets and liabilities sold:	
Trade and other receivables	7,329
Inventories	7,152
Prepaid expenses	133
Property, plant and equipment	722
Trade and other payables	(3,065)
	12,271
Gain on disposal	7,799

Net earnings from discontinued operations are as follows:

	84 days		**252 days**	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Sales	—	25,502	37,392	75,122
Operating expenses, excluding depreciation and amortization	—	24,733	36,770	73,326
Operation earnings before depreciation and amortization	—	769	622	1,796
Gain on disposal	(70)	—	(7,799)	—
Depreciation and amortization	—	407	29	1,234
Financial expenses	—	5	6	17
Earnings before taxes	70	357	8,386	545
Income taxes	—	—	453	—
Net earnings from discontinued operations	70	357	7,933	545

The Company's tax attributes do not have any tax effect on 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)

4 Discontinued operations (Cont'd)

Cash flows from discontinued operations are as follows:

	84 days		252 days	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cash flows from operating activities	—	1,066	622	1,221
Cash flows from investing activities	—	(1,051)	17,772	(1,818)
Cash flows from financing activities	—	(5)	(6)	(17)
Net change in cash from discontinued operations	—	10	18,388	(614)

5 Operating expenses

	84 days		252 days	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cost of goods sold	225,944	228,716	649,115	660,213
Employee compensation	19,044	19,813	56,483	60,587
Other expenses	10,307	10,116	29,317	30,180
	255,295	258,645	734,915	750,980

6 Depreciation and amortization

	84 days		252 days	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Depreciation of property, plant and equipment	799	1,028	2,033	2,514
Depreciation of intangible assets	1,542	1,573	4,709	4,751
	2,341	2,601	6,742	7,265

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

7 Costs not related to current operations

During the 84 and 252-day periods ended September 7, 2019, costs not related to current operations of $nil and $178 respectively were incurred in an effort of workforce rationalization to optimize the operations. During the same periods of 2018, the Company recorded a gain of $1,194 as a result of the termination of an onerous contract.

8 Income tax

	84 days		252 days	
	2019	2018	2019	2018
	$	$	$	$
Current	(579)	14	(559)	130
Deferred	1,243	482	1,780	(832)
	664	496	1,221	(702)

9 Per share data

Earnings (loss) per share

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

	84 days		252 days	
	2019	2018	2019	2018
	$	$	$	$
Net earnings (loss) from continuing operations	1,640	823	82	(3,028)
Net earnings from discontinued operations	70	357	7,933	545
Net earnings (loss) for the period	1,710	1,180	8,015	(2,483)
Weighted average number of outstanding shares	101,371,561	101,139,418	101,216,799	101,195,067
Effect of dilutive stock options	1,621,429	—	628,869	—
Weighted average number of diluted outstanding shares	102,992,990	101,139,418	101,845,668	101,195,067
Basic and diluted net earnings (loss) per share of continuing operations	0.02	0.01	—	(0.03)
Basic and diluted net earnings per share of discontinued operations	—	—	0.08	0.01
Basic and diluted net earnings (loss) per share for the period	0.02	0.01	0.08	(0.02)

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

9 Per share data (Cont'd)

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 September 7, 2019 and September 8, 2018 because of their anti-dilutive effect.

For the 84 and 252-day periods ended September 7, 2019, 1,283,304 (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.

10 Long-term debt

	As at September 7, 2019 $	As at December 29, 2018 $
Credit facility	8,000	22,530
Subordinated debt [a]	20,000	25,000
Obligations arising from leases	4,215	4,905
	32,215	52,435
Less: Unamortized financing costs	151	562
Less: Current portion of long-term debt	1,001	1,027
	31,063	50,846

[a] 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 September 7, 2019		As at September 8, 2018
	Number	**Amount $**	**Number**	**Amount $**
Outstanding, beginning of the period	101,177,932	255,639	102,112,832	258,005
Issued (cancelled) during the period	500,000	657	(934,900)	(2,365)
Outstanding, end of the period	101,677,932	256,296	101,177,932	255,640

There were no outstanding preferred shares during the periods covered.

On July 31, 2019, 500,000 common shares were issued as part of conversion of stock-options for an amount of $657.

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 common shares or just under 1% of its outstanding shares, which were automatically cancelled.

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

12 Employee compensation

Stock-based compensation

Stock option plan

During the 84 and 252-day periods ended September 7, 2019 , the Company has attributed 240,000 and 1,215,000 stock options of the Group's common shares respectively. 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 252-day period ended September 7, 2019:

Weighted average fair value of stock options	$ 0.36
Risk-free interest rate	1.55 %
Expected volatility of share	60 %
Expected annual dividend	—
Expected term	6.25 years
Weighted average share price at grant date	$ 0.71
Weighted average exercise price at grant date	$ 0.70
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
Granted	1,215,000	0.70	1,000,000	0.88
Exercised	(500,000)	0.88	—	—
Forfeiture	(1,323,889)	1.02	(2,125,727)	1.38
Expired	(701,750)	3.94	(205,750)	3.72
Outstanding, end of year	2,908,304	1.18	4,218,943	1.69
Exercisable options	673,582	2.11	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 cash, the trade and other receivables, the bank indebtedness, the trade and other payables as well as the current portion of long-term debt, 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 September 7, 2019		As at December 29, 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	$	**$**	**$**	**$**
Financial liabilities				
Non-current				
Credit facility	7,917	7,917	22,108	22,108
Subordinated debt	19,932	19,933	24,862	24,929
Convertible debentures	49,504	43,000	49,341	31,500
	77,353	70,850	96,311	78,537

The fair value of the financial instruments accounted at fair value through net earnings was primarily determined using the bid price on the closing date for the underlying asset.

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 September 7, 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.

As at September 7, 2019, the Company has classified the fair value measurement of non-current liabilities presented in the table above as follows: Credit facility (Level 1), Convertible debentures (Level 1) and Subordinated debt (Level 2). There was no transfer between the levels during the 84 and 252-day periods ended September 7, 2019 .

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

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 days		**252 days**	
	2019	**2018**	**2019**	**2018**
	$	**$**	$	**$**
Sales	5,758	6,406	16,777	19,196
Trade and other receivables, net of remittances			1,172	1,474
Dubé & Loiselle Inc. purchase 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.

16 Subsequent event

During the last past months, the Company initiated discussions with Recipe Unlimited (“Recipe”) regarding the terms of its supply agreement. As a result of these discussions, Colabor and Recipe mutually agreed, on October 17, 2019, to the early termination of this supply agreement before its term as set forth in the agreement (December 29, 2022). This supply agreement also included a renewal option for an additional two years at Recipe’s discretion.

The supply agreement with Recipe was mainly a logistics-type contract and was initially entered into in 2007 upon the acquisition by Colabor of the Summit assets. This agreement was renewed in 2015 and currently generates annual sales of approximately $255,000. Under the termination agreement, the supply of Recipe banner restaurants will cease gradually until March 31, 2020. Under the termination agreement, Recipe will purchase the remaining inventory at this date.