COLABOR

Interim consolidated Financial Statements
(unaudited)
First Quarter of 2017
(in thousands of Canadian dollars)

COLABOR

Interim Consolidated Statements of Earnings (loss)

(unaudited)

For the 84-day periods ended March 25, 2017 and March 19, 2016

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

	Notes	2017 $	2016 (Note 8) $
Sales	3	267,187	284,811
Operating expenses, excluding costs not related to current operations, depreciation and amortization		266,287	282,906
Operating earnings before costs not related to current operations, depreciation and amortization		900	1,905
Costs not related to current operations	4	869	3,337
Depreciation and amortization		2,540	2,719
		3,409	6,056
Operating earnings (loss)	3	(2,509)	(4,151)
Finance costs		1,813	2,994
Earnings (loss) before income taxes		(4,322)	(7,145)
Income tax recovery		876	1,847
Net earnings (loss)		(3,446)	(5,298)
Basic and diluted earnings (loss) per share	5	(0.03)	(0.19)

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

COLABOR

Interim Consolidated Statements of Comprehensive income (loss)

(unaudited)

For the 84-day periods ended March 25, 2017 and March 19, 2016

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

	2017 $	2016 $
Net earnings (loss)	(3,446)	(5,298)
Other comprehensive income (loss) that will be subsequently reclassified to earnings		
Available-for-sale financial asset		
Gain (loss) for the period	(176)	40
Income tax on other comprehensive income	23	(5)
	(153)	35
Other income (loss) that will not be reclassified to earnings		
Remeasurement of pension obligation	-	(357)
Income tax on other comprehensive income	-	71
	-	(286)
Total other comprehensive income (loss)	(153)	(251)
Total comprehensive income (loss)	(3,599)	(5,549)

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

COLABOR

Interim Consolidated Statements of Changes in Equity

(unaudited)

For the 84-day periods ended March 25, 2017 and March 19, 2016

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

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

	Share capital $	Convertible debenture conversion options $	Contributed surplus $	Other comprehensive income $	Deficit $	Total equity $
Balance as at December 26, 2015	209,591	1,742	1,880	(126)	(145,770)	67,317
Net earnings (loss) for the period	-	-	-	-	(5,298)	(5,298)
Other comprehensive income (loss)	-	-	-	35	(286)	(251)
Total comprehensive income (loss)	-	-	-	35	(5,584)	(5,549)
Expenses for stock-based compensation plans	-	-	53	-	-	53
Balance as at March 19, 2016	209,591	1,742	1,933	(91)	(151,354)	61,821

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

COLABOR

Interim Consolidated Statements of Cash Flows

(unaudited)

For the 84-day periods ended March 25, 2017 and March 19, 2016

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

	Notes	2017 $	2016 $
Operating activities			
Net earnings (loss)		(3,446)	(5,298)
Deferred income taxes		(876)	(1,847)
Depreciation and amortization		2,540	2,719
Finance costs		1,813	2,994
Other		(472)	(253)
		(441)	(1,685)
Net change in working capital		(4,093)	3,851
Cash flows from (used in) operating activities		(4,534)	2,166
Investing activities			
Purchases of property, plant and equipment		(320)	(75)
Disposals of property, plant and equipment		13	20
Purchases of intangible assets		(116)	(61)
Other		22	20
Cash flows used in investing activities		(401)	(96)
Financing activities			
Long-term debt	6	6,863	(92)
Lease payments		(137)	(81)
Share issuance		5	-
Finance costs paid		(1,611)	(2,626)
Cash flows from (used in) financing activities		5,120	(2,799)
Net change in bank overdraft		185	(729)
Bank overdraft at the beginning of the period		(7,468)	(4,106)
Bank overdraft at the end of the period		(7,283)	(4,835)

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, except per-share amounts)

	Notes	As at March 25, 2017 $	As at December 31, 2016 $
Assets			
Current			
Trade and other receivables		94,586	99,981
Inventories		80,269	83,246
Prepaid expenses		3,802	3,081
Other		2,515	1,830
Current assets		181,172	188,138
Non-current			
Property, plant and equipment		12,807	13,128
Intangible assets		53,931	55,593
Goodwill		84,130	84,130
Deferred tax assets		2,712	2,015
Other		1,497	1,693
Non-current assets		155,077	156,559
Total assets		336,249	344,697
Liabilities			
Current			
Bank overdraft		7,283	7,468
Trade and other payables		93,140	105,314
Current portion of long-term debt	6	572	550
Other		1,551	654
Current liabilities		102,546	113,986
Non-current			
Long-term debt	6	68,136	61,211
Convertible debentures		48,924	48,870
Pension obligation		605	662
Provisions		2,917	2,998
Deferred income tax liabilities		484	517
Non-current liabilities		121,066	114,258
Total liabilities		223,612	228,244
Equity			
Equity attributable to shareholders		112,637	116,453
Total liabilities and equity		336,249	344,697

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

The Board of Directors approved and authorized the publication of the interim consolidated financial statements with effect as of May 5th, 2017.

On behalf of the Board,

/s/Marc Baillargeon, Director /s/Robert Cloutier, Director

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

1 Nature of operations

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

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

2 Significant accounting policies

General information

These interim consolidated financial statements of the Company were prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, of the International Financial Reporting Standards (IFRS, as published by the International Accounting Standards Board (IASB)), taking into account the accounting policies adopted by the Company for its consolidated financial statements for the year ended December 31, 2016. The accounting policies have been applied consistently for all the periods presented. They do not include all the information required by the IFRS for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016.

New standard adopted by the Company during the year

The Company elected for early adoption, in the fiscal year ended December 31, 2016, of IFRS 15, *Revenue from Contracts with Customers,* which was issued in May 2014. Following the transition rules, IFRS 15 was adopted retrospectively, and figures for the period ended March 19, 2016, were restated in order to be comparable.

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

3 Segment reporting

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

Segment information can be analyzed as follows:

			2017
	Distribution Segment $	**Wholesale Segment $**	**Total $**
Segment sales	206,689	80,845	287,534
Segment operating expenses			
Cost of goods sold	180,471	75,901	256,372
Employee compensation	16,599	2,120	18,719
Other expenses	9,186	956	10,142
	206,256	78,977	285,233
Segment earnings	433	1,868	2,301

			2016 (Note 8)
	Distribution Segment $	**Wholesale Segment $**	**Total $**
Segment sales	219,339	90,248	309,587
Segment operating expenses			
Cost of goods sold	193,435	82,981	276,416
Employee compensation	16,952	2,035	18,987
Other expenses	9,811	1,151	10,962
	220,198	86,167	306,365
Segment earnings (loss)	(859)	4,081	3,222

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

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

	2017 $	2016 (Note 8) $
Sales		
Total segment sales	287,534	309,587
Elimination of intersegment sales	(20,347)	(24,776)
Company sales	267,187	284,811
Earnings		
Total segment earnings	2,301	3,222
Employee compensation not allocated	1,010	1,329
Other expenses (revenue) not allocated	391	(12)
Costs not related to current operations	869	3,337
Depreciation and amortization	2,540	2,719
Operating earnings (loss)	(2,509)	(4,151)

4 Costs not related to current operations

	2017 $	2016 $
Costs of internal restructuring of operations		
Provision for warehouse closure [a]	809	-
Severance and other pay [b]	-	3,255
Severance allowances	94	-
Provisions for onerous contracts	(34)	82
	869	3,337

During the first quarter of 2017, the Company disbursed an amount of $532 ($1,758 for the same period in 2016).

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

[b] On January 26, 2016, the Company announced a plan to rationalize and optimize its operations. The plan is intended to further improve the Company operating efficiency and profitability despite difficult business conditions in the foodservice distribution industry, and to complete the integration of its acquisitions of recent years. The plan encompasses most of the Company divisions and consists mainly of centralizing and consolidating certain operations at the head office of the Company or of its divisions. It will entail the elimination of approximately 120 jobs, or 8% of the Company’s headcount.

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

5 Per-share data

Earnings or losses per share

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

	2017 $	2016 $
Net earnings (loss)	(3,446)	(5,298)
Weighted average number of outstanding shares used to calculate basic and diluted earnings (loss) per share	102,074,139	27,453,960
Basic and diluted earnings (loss) per share	$ (0.03)	$ (0.19)

Shares hypothetically issued as a result of the conversion of the convertible debentures, the exercise of stock options and the performance stock unit plan were not included in the calculation of diluted earnings per share because of an anti-dilutive effect.

6 Long-term debt

	As at March 25, 2017 $	As at December 31, 2016 $
Credit facility	42,784	35,921
Debt, face value of $25 million, maturing on October 13, 2020, bearing interest at 6.5% (7.5% as at December 31, 2016)	25,000	25,000
Obligations arising from leases	2,347	2,385
	70,131	63,306
Less: Unamortized financing costs	1,423	1,545
Total long-term debt	68,708	61,761
Less: Current portion of long-term debt	572	550
	68,136	61,211

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

7 Fair value of financial instruments

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

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

	As at March 25, 2017		As at December 31, 2016	
	Carrying amount $	**Fair value $**	**Carrying amount $**	**Fair value $**
Financial assets				
Non-current				
Available-for-sale financial asset	1,071	1,071	1,246	1,246
Financial liabilities				
Non-current				
Long-term debt	68,136	68,056	61,211	61,133
Convertible debentures	48,924	49,505	48,870	49,750
	117,060	117,561	110,081	110,883

The fair value of the available-for-sale financial asset was primarily determined using the bid price on the closing date for the underlying asset.

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

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

The fair value of long-term debt was determined by discounting future cash flows at 6.5% (7.5% as at December 31, 2016), the current rate of long-term debt.

The fair value of the liability component of the convertible debentures was determined based on the trading price on March 24, 2017.

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

Financial instruments measured at fair value

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

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

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

8 Change in accounting policy

As mentioned in Note 2, the Company elected for early adoption of IFRS 15, *Revenue from Contracts with Customers*, which resulted in adjustments to how certain transactions are presented in the financial statements. The main change concerns the recognition of sales involving direct delivery to customers.

Previously, when a supplier delivered products directly to a the Company customer the revenue was recognized as sales net of customer rebates. The cost of goods sold was recognized in operating expenses, net of supplier rebates.

Under IFRS 15, the Company recognizes as sales the supplier rebates received on sales involving direct delivery to customers. The impact of this change is a reduction to sales and an equivalent reduction to operating expenses, such that there is no impact on operating earnings.

For purposes of comparison, the figures for the 84-day period ended March 19, 2016, have been adjusted to reflect the adoption of this standard. The adjustments to comparative figures are as follows:

			2016
	Result presented in 2016 **$**	**Adjustment under IFRS 15** **$**	**Adjusted result** **$**
Sales	307,064	(22,253)	284,811
Operating expenses, excluding costs not related to current operations, depreciation and amortization	305,159	(22,253)	282,906
Operating earnings before costs not related to current operations, depreciation and amortization	1,905	-	1,905