



ANNUAL REPORT 2018

BOARD OF DIRECTORS

YVES DES GROSEILLERS

Chairman, President and Chief
Executive Officer of the Company

MARIE-BERTHE DES GROSEILLERS

Vice President and Chief of Operations
of the Company and Secretary of the
Company

ANDRÉ BÉRARD*/**

Lead director of the Company and director
of companies

LUCIEN BOUCHARD**

Partner
Davies Ward Phillips & Vineberg
LLP (Law firm)

GILLES CRÉPEAU***

Director of companies

CHARLES DES GROSEILLERS

Vice President,
A. Bélanger (Détail) Itée
(Investment Company)

PIERRE OUIMET*/***

Director of companies

GABRIEL CASTIGLIO***

Partner
Fasken Martineau DuMoulin
LLP (Law firm)

TONY FIONDA*/**

Senior VP
Remstar Capital Inc.
(Investment Company)

GENERAL INFORMATION

AUDITORS

Raymond Chabot Grant Thornton LLP

LEGAL ADVISORS

Fasken Martineau DuMoulin LLP
("Fasken")

BANKERS

National Bank of Canada and Desjardins

REGISTRAR AND TRANSFERT AGENT

Computershare Investor Services Inc. The Direct
Registration System (DRS) allows your securities
to be held in "book-entry" form without having a
physical security certificate issued as evidence of
ownership. Instead, your securities are held in your
name and registered electronically in our records,
which are maintained by our transfer agent
Computershare. If you are a registered holder of
Units and wish to convert physical securities to DRS,
go to: www.computershare.com/investorcentrecanada

STOCK LISTING

Common Shares are listed on the Toronto Stock
Exchange under the symbol GBT.TO and CUSIP
number 05561N208.

ANNUAL SHAREHOLDER'S MEETING

The annual meeting of shareholders will be held
on June 7th, 2018 at 2:00 p.m., at the offices of
Fasken in Montreal situated at the Stock
Exchange Tower, 37th floor, 800 Square Victoria,
Montreal, Quebec.

HEAD OFFICE

8500 Place Marien
Montréal-Est (Québec) H1B 5W8
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Fax: (514) 881-4056

* Member of the Audit Committee

** Member of the Human Resources and Corporate Governance Committee

*** Member of the Investment Committee

BMTC Group Inc.

BMTC Group Inc. (the "Company"), is a Company incorporated in accordance with article 140 of the Business Corporations Act (Quebec). Its Common Shares are listed on the Toronto Stock Exchange.

Through its subsidiary, Ameublements Tanguay Inc. and its two divisions, Brault & Martineau and EconoMax, the Company manages and operates one of the largest furniture and household and electronic appliance retail sales networks in Quebec.

FINANCIAL HIGHLIGHTS

For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(In thousands of dollars, except per share amounts)

	<u>January 31, 2018</u>	<u>December 31, 2016</u>
	\$	\$
Operations		
Revenue	810 144	746 649
Net earnings	49 335	43 830
Financial position		
Cash and investments	90 848	84 917
Total assets	312 569	309 483
Equity	204 376	199 681
Per-share Information		
Net earnings	1,36	1,17
Dividends	0,24	0,24
Carrying amount	5,82	5,42
Stock market value		
Period high	18,74	14,40
Period low	10,87	12,50
Number of shares outstanding		
Common Shares	35 120 000	36 860 000

MANAGEMENTS RESPONSIBILITY FOR FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The accompanying consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards, and the other financial information provided in the Annual Report, which is consistent with the financial statements, are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements include some amounts that are based on management's best estimates and judgment and, in their opinion, present fairly, in all material respects, the Company's financial position, financial performance and changes in its cash flows.

The Company's procedures and internal control systems are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets. The Audit Committee is responsible for reviewing the consolidated financial statements and Annual Report and recommending their approval to the Board of Directors. In order to fulfill its responsibilities, the Audit Committee meets with management and external auditors to discuss internal control over the financial reporting process, significant accounting policies, other financial matters and the results of the audit by the independent (proposition) auditors.

These consolidated financial statements have been audited by the external auditors Raymond Chabot Grant Thornton LLP chartered professional accountants, and their report is included herein.

(s) Yves Des Groseillers

Yves Des Groseillers
Chairman of the Board of Directors
President and Chief Executive Officer
April 17th, 2018



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Independent Auditor's Report

To the Shareholders of
BMTC Group Inc.

We have audited the accompanying consolidated financial statements of BMTC Group Inc., which comprise the consolidated statements of financial position as at January 31, 2018 and December 31, 2016 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the thirteen-month period and the twelve-month period respectively 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 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 BMTC Group Inc. as at January 31, 2018 and December 31, 2016 and its financial performance and its cash flows for the periods then ended in accordance with International Financial Reporting Standards (IFRS).

Raymond Chabot Grant Thornton LLP¹

Montréal
April 17, 2018

¹ CPA auditor, CA public accountancy permit no. A120795

Management Report *

Caution regarding forward-looking statements

This annual Management Report contains certain forward-looking statements with respect to the Company. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", as well as the negative of these terms and similar terminology, including references to assumptions.

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons which the Company has identified in the 2018 Annual Information Form under "Narrative Description of the Business - Risk Factors", and other risks detailed from time to time in the Company's continuous disclosure documents.

The reader is cautioned that the factors we refer above are not exhaustive of the factors that may affect any of the Company's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to put undue reliance on forward-looking statements.

The Company made a number of assumptions in making forward-looking statements in this annual Management Report. The Company considers the assumptions on which these forward-looking statements are based to be reasonable.

These statements reflect current expectations regarding future events and operating performance and speak only as of the date of release of this Annual Management Report, and represent the Company's expectations as of that date. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

Non International Financial Reporting Standards (IFRS) financial measures

The Company discloses adjusted net earnings, which includes or excludes certain amounts that are not considered representative of performance measures and financial recurrence of the Company. Management believes that this measure is useful in understanding and analysing the operational performance of the Company and more appropriate to provide additional information.

The Company also discloses same store revenues, which have been realised in stores opened or closed for comparable months. This measure is used by management and is a similar measures presented by other issuers in our industry.

Adjusted net earnings, adjusted operating earnings, adjusted administrative expenses as well as same store revenues are not an earnings measure recognised by IFRS and does not have a standardised meaning prescribed by IFRS. Therefore, adjusted net earnings and same store revenues as discussed in this MD&A may not be compared to similar measures presented by other issuers. This measure of performance should not be considered as an alternative as an indicator of performance calculated according to IFRS, but rather as additional information.

* The financial information is in canadian dollars and has been prepared in accordance with the International Financial Reporting Standards (« IFRS »).

The Company discloses in this MD&A under the section "Results" a reconciliation between net earnings and adjusted net earnings.

Results

For the year ended January 31st, 2018 (a 13 month period), the Company's revenues increased by \$63,495,000 to \$810,144,000, compared to \$746,649,000 recorded for the year ended December 31st, 2016 (a 12 month period). The increase in revenues for the comparable periods would have been 1%. Same store revenues for the comparable periods would have increased by 1%. Net earnings for the year ended January 31st, 2018 (a 13 month period), amounted to \$49,335,000 compared to \$43,830,000 recorded for the year ended December 31st, 2016 (a 12 month period). Basic net earnings per share amounted to \$1.36 compared to \$1.17. The contribution to net earnings for the month of January was \$167,000, which had no impact on net earnings per share.

The \$25,433,000 increase of the gross margin can be explained by the increase of revenues.

The following summarizes the Company's operations as well as the impact of the increase in commercial and administrative expenses as at January 31st, 2018 and December 31st, 2016.

Adjusted retail operating earnings

	(\$ in thousands)		
	Jan. 31, 2018	Dec. 31, 2016	Variation
	<u>(13 months)</u>	<u>(12 months)</u>	
Operating earnings	65 372	51 845	13 527
Adjustment			
Variation of cost of options before tax	241	(44)	285
	<u>65 613</u>	<u>51 801</u>	<u>13 812</u>
Income tax			(3 855)
Variation in adjusted operating earnings			<u>9 957</u>

Commercial expenses

	(\$ in thousands)		
	Jan. 31, 2018	Dec. 31, 2016	Variation
	<u>(13 months)</u>	<u>(12 months)</u>	
Commercial expenses	208 003	198 874	9 129
Variable cost of sales*			10 564
Decrease in amortization			(1 435)
			<u>9 129</u>

* The increase in variable cost of sales is directly related to the increase of \$63,495,000 in revenues.

Adjusted administrative expenses

(\$ in thousands)

	Jan. 31, 2018	Dec. 31, 2016	Variation
	(13 months)	(12 months)	
Administrative expenses	<u>50 176</u>	<u>47 612</u>	2 564
Adjustments			
Variation of cost of options before tax	<u>(241)</u>	<u>44</u>	<u>(285)</u>
Variation in adjusted administrative expenses	<u>49 935</u>	<u>47 656</u>	<u>2 279</u>

The increase in the adjusted administrative expenses of \$ 2,279,000 is explained as followed:

Salary and administration	3 277
Expenses related to pension plans	(2 102)
Expenses related to web and IT	1 548
Other	<u>(444)</u>
Increase in adjusted administrative expenses	<u>2 279</u>

The effect of the cost of options had no impact on basic net earnings per share for the year ended January 31st, 2018 (a 13 month period) and December 31st, 2016 (a 12 month period).

For the year ended January 31st, 2018 (a 13 month period), the share repurchase program contributed to an increase in basic net earnings per share of \$0.03.

Excluding all these effects, the variation to the adjusted net earnings would have been \$5,715,000 or \$0.16 per basic share for the year ended January 31st, 2018 (a 13 month period).

The \$5,715,000 variation in adjusted net earnings is as follows:

	(\$ in thousands)	
	Jan. 31, 2018	Dec. 31, 2016
	13 months	12 months
Net earnings	<u>49 335</u>	<u>43 830</u>
Variation of cost of options (after-tax)	<u>178</u>	<u>(32)</u>
Adjusted net earnings	<u>49 513</u>	<u>43 798</u>
Minus: Adjusted net earnings for 2016	<u>43 798</u>	
Variation	<u>5 715</u>	

This variation in adjusted after-tax income is allocated throughout the quarters as follows:

	(\$ in thousands)		
	Increase (decrease) retail operating earnings	Increase (decrease) investment income	Increase (decrease) adjusted operating earnings
1st quarter	(1 479)	2 424	945
2nd quarter	2 618	(999)	1 619
3rd quarter	5 360	(2 515)	2 845
4th quarter *	3 458	(3 152)	306
Total	9 957	(4 242)	5 715

* A 4 month period ended January 31st, 2018.

Annual Financial Information

(\$ in thousands, except for per share amounts)

	<u>Jan. 31, 2018</u> <u>13 months</u>	<u>Dec. 31, 2016</u> <u>12 months</u>
	\$	\$
Revenue	810 144	746 649
Net Earnings	49 335	43 830
Total Assets	312 569	309 483
Net Earnings Per Share		
Basic	1,36	1,17
Diluted	1,36	1,17
Dividends Per Share	0,24	0,24

Financial Position and Dividends

Cash and investments increased by \$5,931,000 during the year ended January 31st, 2018. Investments consist of bank notes, which at the close of the year had a market value of \$90,848,000 (including cash).

As at January 31st, 2018, the working capital showed a deficit of \$8,331,000 a decrease of \$22,067,000 compared to the year ended December 31st, 2016. The Company's shareholders' equity increased from \$199,681,000 as at December 31st, 2016 to \$204,376,000 as at January 31st, 2018. As of January 31st, 2018, the book value per share stood at \$5.82, compared to \$5.42 as at December 31st, 2016.

Pursuant to the normal course issuer bid put in place on March 14th, 2016, and renewed on March 23rd 2017, accordingly, 1,740,000 Common Shares were repurchased and cancelled by the Company. As a result of this change, the Company had as of January 31st, 2018, 35,120,000 Common Shares issued and outstanding.

During the year ended January 31st, 2018 (a 13 month period), no options were granted or exercised. As at January 31st, 2018, options for 219,000 Common Shares, representing 0.6% of the Company's outstanding shares remain issued and 5,710,864 authorized share options, representing approximately 16.3% of the Company's outstanding shares, may still be granted pursuant to the Plan. The issued and outstanding options may be exercised at a price of \$17.85 per Common Shares.

During the fiscal year ended January 31st, 2018, the Company paid eligible dividends totaling \$0.24 per Common Shares to holders.

Company Pension Plans and treatment of future actuarial gains and losses

As at January 31st, 2018, the Company established the accounting cost of pension benefits according to the International Financial Reporting Standards (IFRS).

The accounting cost of pension benefits earned by employees is determined by actuarial calculations based on management's best estimate assumptions, with the exception of the discount rate used to calculate the present value of projected pension liabilities, which is dictated by IFRS.

In accordance with IFRS, a discount rate of 3.55% was used as at January 31st, 2018, whereas a discount rate of 3.95% was used as at December 31st, 2016. The discount rate must reflect the rate of return of high quality corporate bonds which cash flows match those of the Pension Plans.

According to IFRS, the plans presented a surplus of \$6,767,000 as at January 31st, 2018. In 2016, the surplus was of \$18,042,000. The financial position of the Pension Plans has decreased over the last year. This change is mainly due to the increase of the present value of obligations arising from a decrease in the discount rate.

For the period between January 1, 2017 and January 31, 2018, the pension expense amounted to \$9,011,000 while contributions made by the Company for all plans combined amounted to \$15,505,000, of which \$8,617,000 was for current service and \$6,888,000 for special contributions (compared to a pension expense of \$11,113,000 in 2016).

The current IFRS result in a relatively predictable pension expense. For the year ending January 31st, 2019, the pension expense is estimated to be between \$8,750,000 and \$9,750,000.

An actuarial valuation for funding purposes of the supplemental pension plan as at December 31, 2015, revealed a surplus on a going-concern basis of \$26,197,000 and a deficit on a solvency basis of \$18,872,000. The Company has no special payments to make since there is a surplus on a going-concern basis and the stabilization provision is fully funded. The date of the next actuarial valuation for funding purposes is December 31st, 2018.

As at January 1st, 2016, the supplemental pension plan was modified in a way that any eligible employee hired after December 31st, 2015 is solely entitled to defined contribution benefits.

Related Party Transactions

For the year ended January 31st, 2018 (a 13 month period), the Company paid management fees of \$1,677,433 to Gestion Maurice Tanguay, a company controlled by certain officers of the Company. This management contract started in 1990 and is renewed annually.

During the year ended January 31st, 2018 (a 13 month period), in the normal course of business, the Company incurred total rental expenses of \$966,765 with Gestion Maurice Tanguay that have been recognized at the exchange amount. The Company is committed under leases expiring December 2024 representing total commitments of \$5,448,000 with this related party.

Commitments

Payments due by period (\$ in thousands)

	Total	0-1 year	1-3 years	4-5 years	After 5 years
Operating leases*	41 669	7 077	13 525	10 633	10 434

* The Company is obligated under operating leases to future minimum annual rent for land and building.

Accounting Policies and Accounting Estimates

Accounting principles used in preparing the consolidated financial statements are described in Note 3 to the financial statements. The major accounting estimates pertain to inventory reserves and accrued volume discounts. Inventory reserves are calculated by analyzing all inventories for obsolete or damaged products as well as for low-turnover items. The reserve is based on many years of historic retail experience. For volume discounts, a reasonable estimate of amounts receivable is based on existing agreements with the Company's suppliers. The rebates associated with unsold merchandise are deducted from inventory at the close of the period.

Financial Instruments

The Company operates retail outlets in 34 locations across Quebec. A significant portion of the Company's sales are realized through the offering of financing solutions, by third-party credit providers, to the Company's customers. The cost of financing these sales is assumed by the Company, and is expensed, as the associated sales are realized. The Company assumes no credit risk in these transactions. The Company's working capital is composed primarily of accounts receivable, customer deposits, inventories and cash on hand, while its short-term liabilities are towards suppliers of goods and services, customer deposits as well as the debt relating to the share option plan. The change in working capital reflects the associated fluctuations in all of the constituent accounts incurred during the normal course of the Company's activities. The Company has a positive cash position, which is invested in various financial instruments.

The Company records its investments at market value as indicated in Note 3 and Note 7 to the consolidated financial statements as of January 31st, 2018. The Company has no hedges against its investments in US funds and assumes 100% of any fluctuations in the markets for these investments. Furthermore, the Company assumes the risks interest rate fluctuations have on its fixed-income investments, as well as the risks stock market fluctuations have on the value of investments in publicly traded companies. From an historical perspective, this policy has been wholly beneficial to the Company.

The Company owns most of its stores and distribution centers, such that commitments regarding leasing contracts are relatively insignificant with regard to its overall activities as detailed in Note 9 to the consolidated financial statements as of January 31st, 2018. The Company holds no hedging contracts or any other type of derivative products.

Quarterly Results

(\$ in thousands, except for per share amounts)

	March 31st		June 30th	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue	161 998	154 943	199 314	197 043
Net Earnings	57	(958)	14 014	12 407
Net Earnings Per Share				
Basic	-	(0,02)	0,38	0,32
Diluted	-	(0,02)	0,38	0,32

	September 30th		January 31st	December 31st
	2017	2016	2018	2016
	\$	\$	(4 months)	(3 months)
Revenue	203 722	197 612	245 110	197 051
Net Earnings	17 544	14 708	17 720	17 673
Net Earnings Per Share				
Basic	0,48	0,40	0,50	0,47
Diluted	0,48	0,40	0,50	0,47

For the four month period ended January 31st, 2018, the Company's revenues increased by \$48,059,000 to \$245,110,000, compared to \$197,051,000 recorded for the three month period ended December 31st, 2016. The decrease in revenues for the comparable periods would have been 1%. Same store revenues for the comparable periods would have decreased as well by 1%. Net earnings for the four month period ended January 31st, 2018, amounted to \$17,720,000 compared to net earnings of \$17,673,000 recorded for the three month period ended December 31st, 2016. Basic net earnings per share increased to \$0.50 compared to \$0.47. The contribution to net earnings for the month of January 2018 was \$167,000, which had no impact on net earnings per share.

The effect of the cost of options had no impact on basic net earnings per share for the four month period ended January 31st, 2018, and the three month period ended December 31st, 2016.

For the four month period ended January 31st, 2018, the share repurchase program contributed to an increase in basic net earnings per share of \$0.02.

Excluding all these effects, the variation to the adjusted net earnings would have been \$306,000 or \$0.01 per basic share for the four month period ended January 31st, 2018.

The \$306,000 variation in adjusted net earnings is as follows:

	(\$ in thousands)	
	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	<u>4 months</u>	<u>3 months</u>
Net earnings	17 720	17 673
Variation of cost of options (after-tax)	248	(11)
Adjusted net earnings	<u>17 968</u>	<u>17 662</u>
Minus: Adjusted net earnings for 2016	<u>17 662</u>	
Variation	306	

Operations

BMTC Inc.

The Company proceeded to change its financial year end date from December 31st to January 31st. This change came into effect with the current financial year end, therefore the accounting period of the 2018 consolidated financial statements corresponds to a 13 month period ending January 31st, 2018. Starting February 1st, 2018, the unaudited interim financial statements will correspond to the quarters ending in April 30th, July 31st and October 31st.

The Company continues to restructure all of its websites and the first phase of the implementation of a distinct e-commerce platform for its banner Brault & Martineau and EconoMax is now completed and operational. The process of implementation will continue throughout 2018 and 2019 for the following phases as well as the restructuring for all the other banners of the Company. The Company is also reviewing its IT systems in to order standardise them throughout the banners, as well as to allow them to be more aligned with our e-commerce strategies. Following this evaluation, the Corporation decided to invest and to modify its existing IT systems, the integration and implementation will continue for a 3 to 5 year period. The cost of these modifications are estimated to be \$17,000,000. A portion of these costs, \$8,600,000 were incurred and the balance will be recorded in the subsequent years.

Brault & Martineau Division

The Company concluded the purchase of land at the junction of the Highway 15 and route 117 for the construction of the new 80,000 square foot prototype store that will replace the Ste-Thérèse store. The opening of this new store is scheduled in January 2019. In February 2018, the Company sold the Repentigny store for an amount of \$9,000,000, which resulted in after tax profit of \$4,522,000. The store officially closed its operations on November 6th, 2017. Management believes that our current store network will be able to cover this region and therefore not affect the Company's sales.

The Company proceeded to close the last 2 remaining Sleep Gallery stores on January 31st, 2018, the St-Jérôme and the Mascouche stores. The Company will continue to sell the same wide range of mattresses, box springs and bedding accessories at the best price in its Brault & Martineau stores as it currently does. To that effect, the Sleep Gallery department located inside the Brault & Martineau mega stores will remain in operation. The Company believes that the closure of the six Sleep Gallery stores will not have any material impact on the Company's financial performance.

Risk Factors and Market Tendencies

The Company operates a furniture, electronic and household appliance retail business, and is therefore subject to many risk factors such as:

- Sensitivity to general economic conditions
- Reliance on key personnel
- Investment portfolio risks
- Third-party credit providers for financing solutions to clients
- Labour relations with employees, some of whom are unionized
- Maintaining profitability and managing growth
- Highly competitive nature of the retail industry
- Effectiveness of our marketing programs
- Capacity to anticipate changes in fashion trends and consumer tastes
- Retention of senior management

The Company is also dependent on its management information systems, its distribution operations, as well as its suppliers.

For a number of years, we have seen an increasing presence of strong competitors operating on a national and international level. Furthermore, the Company witnessed a deflationary trend in many products that it sells, forcing it to innovate by introducing new products.

The majority of sales are realized using financing solutions offered by third-party credit providers. A significant increase in interest rates or a tightening of credit conditions could have a significant impact on the Company's sales. There are no guarantees the Company will be able to continue procuring such advantageous financing solutions for its customers, which in the past has permitted the Company to maintain its current growth rates.

It is impossible to isolate and measure the importance of each individual risk to which the Company is exposed. In the past, the Company has managed to adapt to these changes and maintain its market share notably by aggressive marketing campaigns and efficient management.

As at January 31st, 2018, options for 219,000 Common Shares remain outstanding for a total liability of \$427,000. Due to the calculation based on the Black-Scholes method, it is impossible to predict the future value of this liability. As to the liability's redemption, it rests on the willingness of the option holders to exercise their options. The number of months before the remaining options come to maturity is 26 months.

Management Discussion and Outlook for the Future of the Company

The Quebec economy in 2017 has known the most important growth since the last recession in 2008. Consumer spending continues to have an important impact on economic growth and it has increased by 6.2% for all industries during the first semester of the year while the Company's growth was 3%. The unemployment rate is at a historic low in Quebec, which should conjugate with an increase of disposable income, although a survey conducted by the Canadian Association of pay revealed that in Quebec, 34% of people live from one pay check to the other, mainly due to the increase of their debt burden. The continuing trend of interest rate increase during 2018 would certainly risk to further undermine this situation and would therefore have a negative impact on consumer spending.

The retail sector is in complete transformation. The e-commerce and the client's shopping experience are at the heart of this transformation. In fact, the bankruptcy forecast for the traditional brick and mortar retailers south of the border would reach an all-time record. According to Credit Suisse forecast, no less than 8,600 stores would close their operations in 2018.

In Quebec, one person out of ten now shop online with a monthly average basket of \$281, according to the data compiled by CEFRIO. Online sales in retail represent 10%, although influences drive to store up to 56%.

The Company is confident that its market positioning thanks to the different banners, the innovation of its brick and mortar stores and the major investments towards IT systems and e-commerce will permit to respond to the changing reality of the retail sector and allow to maintain its leading market shares.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

BMTC Group Inc.'s management evaluated, as at January 31st, 2018 (a 13 month period), the effectiveness of the design and operation of its disclosure controls and procedures and internal control over financial reporting, as defined under National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings. The evaluation was performed under the supervision of BMTC Group Inc.'s Chairman, President and Chief Executive Officer ("CEO") as well as the Chief Financial Officer ("CFO"). Based on such evaluation of internal control over financial reporting, the Chairman, President and CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as at January 31st, 2018 (a 13 month period).

No changes were made in BMTC Group Inc.'s internal control over financial reporting during the period beginning on October 1st, 2017 and ended January 31st, 2018 (a 4 month period), which have materially affected, or are reasonably likely to materially affect, BMTC Group Inc.'s internal control over financial reporting.

Other Information

This Management Report for the year ended January 31st, 2018 (a 13 month period) provides an analysis of the consolidated results of operations, financial position, and cash flows of BMTC Group Inc. and its subsidiary.

Additional information relating to the Company is available on the Company's website at www.bmtc.ca as well as on SEDAR at www.sedar.com.

This Management Report is intended to assist in the understanding and assessment of significant changes and trends, as well as risks and uncertainties, related to the results of operations and financial position of the Company.

(s) Yves Des Groseillers

Yves Des Groseillers
Chairman, President and Chief Executive Officer
April 17th, 2018

BMTC Group Inc.

Consolidated Statement of Comprehensive Income

For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

	Notes	January 31, 2018	December 31, 2016
		\$	\$
Revenue		810 144	746 649
Cost of sales		<u>(486 679)</u>	<u>(448 617)</u>
Gross profit		323 465	298 032
Other income		86	299
Selling expenses		<u>(208 003)</u>	(198 874)
Administrative expenses		<u>(50 176)</u>	<u>(47 612)</u>
Operating earnings		65 372	51 845
Realized and unrealized change in fair value of financial assets, at fair value	16	<u>(646)</u>	5 460
Investment income	4	<u>2 766</u>	<u>1 541</u>
Earnings before income tax expense		<u>67 492</u>	58 846
Income tax recuperation (expense)	5	<u>(18 157)</u>	<u>(15 016)</u>
Net earnings and comprehensive income		<u>49 335</u>	<u>43 830</u>
Other comprehensive income			
Items that will not be reclassified to earnings			
Remeasurments of defined pension plans	13	<u>(17 770)</u>	7 745
Income tax recovery (expense) relating items		<u>4 788</u>	<u>(2 084)</u>
Other comprehensive income, net of tax		<u>(12 982)</u>	<u>5 661</u>
Total comprehensive income		<u>36 353</u>	<u>49 491</u>
Net earnings per share	17		
Basic		<u>1,36</u>	<u>1,17</u>
Diluted		<u>1,36</u>	<u>1,17</u>

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

BMTC Group Inc.

Consolidated Statement of Changes in Equity

For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars)

	Notes	Capital stock	Retained earnings	Total equity
		\$	\$	\$
Balance as at January 1, 2017		2 913	196 768	199 681
Share redemption		(139)		(139)
Share redemption premium			(22 942)	(22 942)
Dividends			(8 577)	(8 577)
Transactions with owners		(139)	(31 519)	(31 658)
Net earnings			49 335	49 335
Other comprehensive income			(12 982)	(12 982)
Comprehensive income			36 353	36 353
Balance as at January 31, 2018	11	2 774	201 602	204 376

	Notes	Capital stock	Retained earnings	Total equity
		\$	\$	\$
Balance as at January 1, 2016		2 996	169 972	172 968
Share redemption		(83)		(83)
Share redemption premium			(13 832)	(13 832)
Dividends			(8 863)	(8 863)
Transactions with owners		(83)	(22 695)	(22 778)
Net earnings			43 830	43 830
Other comprehensive income			5 661	5 661
Comprehensive income			49 491	49 491
Balance as at December 31, 2016	11	2 913	196 768	199 681

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

BMTC Group Inc.

Consolidated Statement of Cash Flows

For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(In thousands of Canadian dollars)

	Notes	<u>January 31, 2018</u>	<u>December 31, 2016</u>
		\$	\$
OPERATING ACTIVITIES			
Earnings before income tax expense		67 492	58 846
Adjustments	6	(3 058)	(890)
Net changes in working capital	6	(4 269)	4 554
Income taxes paid		(13 378)	(14 557)
Cash flow from operating activities		<u>46 787</u>	<u>47 953</u>
INVESTING ACTIVITIES			
Acquisition of other financial assets		(92 831)	(2 954)
Proceeds from disposal of other financial assets		65 971	1 738
Purchase of property, plant and equipment	8	(12 125)	(10 577)
Proceeds from disposal of property, plant and equipment		161	845
Interest received		527	236
Dividends received		1 555	1 279
Cash flow from investing activities		<u>(36 742)</u>	<u>(9 433)</u>
FINANCING ACTIVITIES			
Payments for share redemption		(23 081)	(13 915)
Dividends		(8 577)	(8 863)
Cash Flow from financing activities		<u>(31 658)</u>	<u>(22 778)</u>
Net change in cash		<u>(21 613)</u>	15 742
Cash, beginning of year		<u>24 485</u>	8 743
Cash, end of year		<u>2 872</u>	<u>24 485</u>

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

BMTC Group Inc.

Consolidated Statement of Financial Position

As at January 31st, 2018 and December 31st, 2016

(In thousands of Canadian dollars)

	Notes	January 31, 2018	December 31, 2016
		\$	\$
ASSETS			
Current			
Cash		2 872	24 485
Trade and other receivables		4 172	3 699
Current tax assets		-	1 858
Inventory		88 734	88 823
Prepaid expenses		3 824	1 135
Total current assets		99 602	120 000
Non-current			
Other financial assets	7	87 976	60 432
Property, plant and equipment	8	116 929	111 009
Defined benefit plan	13	6 767	18 042
Deferred tax asset	5	1 295	-
Total non-current assets		212 967	189 483
Total assets		312 569	309 483
LIABILITIES			
Current			
Trade and other payables	12	104 882	106 078
Current tax liability		2 624	-
Share-based payment liability	11	427	186
Total current liabilities		107 933	106 264
Non-current			
Lease incentive		260	342
Deferred tax liabilities	5	-	3 196
Total non-current liabilities		260	3 538
Total liabilities		108 193	109 802
SHAREHOLDERS' EQUITY			
Capital stock	11	2 774	2 913
Retained earnings		201 602	196 768
Total shareholders' equity		204 376	199 681
Total liabilities and shareholders' equity		312 569	309 483

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

The consolidated financial statements for the year ended January 31st, 2018 (including comparatives) were approved and authorized for publication by the Board of Directors on April 17th, 2018.

On behalf of the Board,

(s) Yves Des Groseillers

Director

(s) Marie-Berthe Des Groseillers

Director

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

BMTC Group Inc. (hereinafter "BMTC"), is a company under the Business Companies Act (Quebec). Its registered office and principal place of business is 8500 Place Marien, Montréal East, Quebec, H1B 5W8. Its Common shares are listed on the Toronto Stock Exchange. BMTC, through its subsidiary Ameublements Tanguay Inc. and its two divisions Brault & Martineau and EconoMax (collectively designated as the "Company") manages and operates a retail network of furniture, household appliances and electronic products in Quebec.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments and the liability relating to share-based payments, which are established at fair value, and post-employment benefit assets or liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets, less an adjustment to reflect application of the asset limit, the case needed.

3. SUMMARY OF ACCOUNTING POLICIES

The accounting policies specified below have been applied consistently throughout all periods presented in the consolidated financial statements.

The Company proceeded to change its financial year end date from December 31st to January 31st. This change came into effect with the current financial year end, therefore the accounting period of the 2018 consolidated financial statements corresponds to a 13 month period ending January 31st, 2018. Starting February 1st, 2018, the unaudited interim financial statements will correspond to the quarters ending in April 30th, July 31st and October 31st.

3.1 Changes in accounting policies

There are no new or modified accounting policies.

3.2 Basis of consolidation

The consolidated financial statements include the accounts of BMTC, the ultimate and those of the wholly-owned subsidiary Ameublements Tanguay Inc. The accounting policies of the parent company, subsidiary are consistent with those adopted by BMTC at financial year end date of January 31st.

Asset and liability balances and revenues and expenses from transactions between group companies, including unrealized gains and losses on transactions between consolidated entities, are eliminated in preparing the consolidated financial statements.

3.3 Foreign currency translation

The consolidated statement of financial position is presented in Canadian dollars, which is also the functional currency of the Company.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

Foreign currency transactions are translated into the Company's functional currency, using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated into the functional currency using the exchange rates in effect at the reporting date. Other foreign currency non-monetary financial assets that are measured at fair value are translated into the functional currency using the exchange rate in effect on the date of determination of fair value. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at the reporting date are recognized in earnings.

The realized and unrealized appreciation of other financial assets designated at fair value through profit or loss recognized directly in profit or loss includes the related exchange component.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction.

3.4 Segment reporting

In accordance with IFRS 8 Operating Segments, the Company presents and discloses information that is regularly reviewed by the President and the Board of Directors in assessing performance. The Company considers its retail activities as a single operating segment.

3.5 Revenue recognition

Revenue from merchandise sales is measured by reference to the fair value of consideration received or receivable by the Company and is presented in earnings net of estimated returns and rebates, and excluding sales taxes. Revenue is recognized when the significant risks and rewards of ownership and effective control of the goods has been transferred to the customer, i.e. upon delivery, the amount of revenue can be measured reliably, when it is probable that the economic benefits will flow to the Company, and the costs incurred or to be incurred can be economic benefits will flow to the Company, and the costs incurred or to be incurred can be measured reliably.

Revenue from extended service contracts is recognized at the time of the sale at the net amount of costs incurred by the Company with the service suppliers who will provide the services required by the Company's customers.

Investment income is recognized using the accrual basis of accounting, as follows:

- Interest is recognized based on the number of days the investment was held during the year and is calculated using the effective interest method;
- Dividends on listed share investments are recognized when the right to receive the payment is established

3.6 Income taxes

The income tax expense comprises the sum of deferred tax and current tax. Income tax is recognized in earnings except to the extent it relates to items recognized in other comprehensive income or directly in equity.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

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 unpaid at the reporting date. Current tax is payable on taxable income, which differs from earnings in the financial statements. Calculation of current tax 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 tax is not provided on the initial recognition of goodwill, or of an asset or liability unless the related transaction is a business combination or affects tax or accounting income.

Deferred tax assets and liabilities are calculated, without discounting, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. 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 liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities levied by the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

3.7 Inventory

Inventory, which is composed almost exclusively of finished goods for retail sale, is valued at the lower of cost and net realizable value. Cost is determined by the weighted average method.

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The net realizable value is estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

3.8 Vendor rebates

Cash considerations received from vendors are a reduction of the price of the vendors' products and are accounted for as a reduction of cost of sales and related inventory respectively in the Company's consolidated statement of comprehensive income and consolidated statement of financial position.

Rebates are recognized when they are considered probable and can be reasonably estimated.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

3.9 Property, plant and equipment

Property, plant and equipment are carried at acquisition cost less any accumulated depreciation and any accumulated impairment losses. Items of property, plant and equipment with different useful lives are depreciated separately. Depreciation commences when an item of property, plant and equipment is available for use using the straight-line method over the following periods, in order to depreciate its cost less the residual value over its estimated useful life.

	<u>Periods</u>
Land	Not depreciated
Parking lots	20 years
Buildings	2 to 50 years
Signs	5 years
Automotive equipment	7 years
Computer equipment	2 to 5 years
Furniture and equipment	5 years
Leasehold improvements	2 to 5 years

The depreciation method, useful lives and residual values are reviewed annually.

3.10 Leases

Leases in which substantially all of the risks and rewards of ownership of the leased property are retained by the lessor are treated as operating leases. Payments in respect of 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.

3.11 Lease incentive

A lease incentive received from a lessor to pay for leasehold improvements is recognized and Associated costs, such as maintenance and insurance, are expensed as incurred. amortized over the lease term and applied against the related rental expense with the unamortized balance being presented in non-current liabilities.

3.12 Impairment of property, plant and equipment

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 a cash-generating unit level.

Individual assets or assets combined into 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 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.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

3.13 Equity

Capital stock is the amount received on issuance and is presented net of the initial share issue income on redeemed shares.

Retained earnings include all current and prior period retained profits, net of share redemption premiums, dividends paid and the costs of share issues.

Dividends payable to shareholders are included in other payables when they have been declared before the reporting date.

3.14 Share-based remuneration

The Company has a share-based remuneration plan for certain directors and officers. According to the plan, an option holder can choose, at any time at the holder's sole discretion, to receive, from the Company, a cash payment equal to the number of shares for which the option is exercised, multiplied by the amount for which the market value of the share exceeds the exercise price, or to subscribe to a number of shares for which the option is exercised. The rights relating to the options are vested at the date of grant, and their maximum life is 10 years.

At the time of the award, these options are compound financial instruments, accordingly, the fair value is the total fair values of the debt and equity components. The Company first measures the fair value of the debt component and then the fair value of the equity component.

The Company recognizes the debt component, i.e. the stock appreciation rights, at fair value, determined using the Black-Scholes model and the fair value is measured on each reporting date. A corresponding remuneration cost is recognized in net earnings under administrative expenses.

At the time of the award, the fair value of the equity component is measured at zero. Accordingly, the fair value of the compound financial instrument is the same as the fair value of the debt component.

At the date of settlement, the Company must remeasure the liability to its fair value. If the Company issues equity instruments on settlement rather than paying cash, the liability is transferred directly to equity, as consideration for the equity instruments issued. If, on settlement, the Company pays in cash rather than by issuing equity instruments, that payment is applied to settle the liability in full.

3.15 Post-employment benefits

The Company provides post-employment benefits through defined benefit pension plans as well as defined contribution pension plans.

Contributions to the defined contribution plans are recognized as an expense in the period that relevant employee services are rendered.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

The Company accrues its obligations under its defined benefit pension plans and the related costs, net of plan assets, as the services are rendered. The Company has adopted the following accounting policies:

The Company's defined benefit plan obligations are measured individually, estimating the amount of future benefits earned by employees for services provided in the current and prior periods. The actuarial valuation of defined benefit obligations uses the projected unit credit method. This determination incorporates management's best estimate of future salary levels, retirement ages of employees, mortality rates and other actuarial assumptions;

The discount rate for defined benefit obligations is determined by reference to the market yield, at year end, on high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability;

Remeasurements, which include actuarial gains and losses on benefit obligations, the return on plan assets in excess of interest income, the effect of the asset ceiling and the impact of minimum funding requirements, are recognized in other consolidated comprehensive income and consolidated retained earnings immediately without any reclassification to consolidated net earnings;

The defined benefit plan amount presented in the statement of consolidated financial position is the difference between the present value of the defined benefit plan obligations and the fair value of the plan assets at the reporting date. The economic benefit available is calculated as the difference between the present value of the accounting value of the current service cost of the employer and the current services cost of the employer on a funded basis. This value cannot, however, be negative. When there is a defined benefit plan asset, the amount of the asset recognized cannot be greater than the present value of any future economic benefit available as a future plan reimbursement or decrease in future plan contributions. Any minimum funding requirements applicable to the Company's plans are taken into account to calculate the present value of economic benefits;

An additional liability is recognized in the amount of the minimum funding requirement for defined benefit plans when the Company does not have an unconditional right to the surplus.

3.16 Provisions, contingent liabilities

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. 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.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

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.

Likely inflows of economic benefits for the Company that do not yet meet the requirements recognition criteria of an assets are considered as contingent assets.

3.17 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 and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

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.

For the purpose of subsequent measurement, financial assets of the Company are classified into the following categories upon initial recognition:

- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Held-to-maturity investments;
- Available-for-sale financial assets.

The following table summarizes the financial instrument classification and valuation methods.

Item	Classification	Valuation method
Cash	Loans and receivables	Amortized cost
Trade and other receivables (a)	Loans and receivables	Amortized cost
Other financial assets	Fair value through profit or loss	Fair value
Trade and other payables (a)	Other financial liabilities	Amortized cost

(a) Excluding taxes receivable and payable and employee benefits which are not financial instruments.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

The category determines subsequent measurement and whether any resulting income and expense is recognized in net earnings or in other comprehensive income.

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

All income and expenses relating to financial assets that are recognized in net earnings are presented within realized and unrealized gains on financial assets at fair value or finance income, except for any impairment of trade receivables which is presented within administrative expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less an allowance for credit losses. Discounting is omitted where the effect of discounting is immaterial.

Individually material trade and other receivables are tested for impairment when they are overdue or there is objective evidence that a particular counterparty will not fulfil its obligations. Trade and other receivables that are not considered to be individually impaired are assessed collectively for impairment based on the industry and region of the counterparties and other known credit risk characteristics. The impairment estimate is then based on the recent history of the counterparty's defaults for each group identified.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition.

Investments presented as other financial assets, excluding the MAV, have been designated at fair value through profit or loss because they are part of a portfolio included in management reports and are measured at fair value by management. Consequently, realized and unrealized gains and losses on these assets are recognized through profit or loss. Transaction costs related to held-for-trading financial assets are expensed as incurred.

Financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

3.18 Judgement, estimates and assumptions

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.

Inventory valuation

The Company uses a high degree of judgement when estimating the effect of certain factors on the net realizable value of inventory, such as obsolescence and damages. The quantity, age and condition of inventory is measured and evaluated regularly during the period.

Estimated returns and vendor rebates

In determining the probability and estimation of returns and vendor rebates receivable, the Company uses actual purchases during the period, the degree of achievement of sales forecasts and contractual terms and conditions.

Useful lives of property, plant and equipment

Management reviews the useful lives of property, plant and equipment at each reporting date based on the expected utility of the assets. Actual results may, however, vary due to technical obsolescence, particularly for software and IT equipment.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available, that is for banker's acceptances, discount notes and MAV.

The carrying amounts of these instruments and a price sensitivity analysis of other financial instruments are presented in Note 16. In applying the valuation techniques, management makes maximum use of observable data, and uses estimates and assumptions that are, as far as possible, consistent with data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses the best information available. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Share-based payment liability

To estimate the share-based payment liability and expense, an appropriate valuation model must be selected and the necessary data for the valuation model must be obtained. The Company has used the Black-Scholes valuation model to estimate the volatility of its shares, their estimated useful life and the exercise period of the stock options awarded. Refer to Note 11 for details on the carrying amount and other information on the stock-based payment liability.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

Provisions and contingent liabilities

Judgment is required to determine whether a past event has led to a liability that should be recognized in the consolidated financial statements or presented as a contingent liability. Judgement and estimates are applied to quantify such liabilities and are based on a variety of factors, such as the nature of the claim or conflict, legal proceedings, the potential amount payable, the advice of legal counsel, prior experience and the likelihood of a loss. Refer to Note 14 for details on the carrying amount and other information on provisions and contingent liabilities.

Defined benefit pension plan cost and obligations

Management estimates the defined benefit obligations annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The defined benefit obligations estimate is based on standard rates of inflation, mortality rates and the Company's specific anticipation of future salary increases. Estimation uncertainties exist particularly with regard to the assumptions, which may vary significantly in future valuations of the Company's defined benefit obligations.

Refer to note 13 for the book value and other information regarding the defined benefit pension plans.

3.19 Standards, modifications and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these consolidated financial statements, certain new standards, modifications 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 new applicable standards will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, modifications and interpretations that are expected to be relevant to the Company's financial statements is provided below.

IFRS 9 Financial Instruments

The IASB recently released IFRS 9 "Financial Instruments", representing the completion of its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. The Company has reviewed its control assessments in accordance with IFRS 9 and has concluded that there is no effect on the classification and measurements of financial assets covered by these financial statements.

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

3. SUMMARY OF ACCOUNTING POLICIES (Continued)

IFRS 15 Revenues from contracts with customers

In May 2014, the IASB and the Financial Accounting Standards Board ("FASB") jointly issued IFRS 15 "Revenues from contracts with customers", a converged standard on the recognition of revenue from contracts with customers. It supersedes the IASB's current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 provides a single principle-based five-step model to use when accounting for revenue arising from contracts with customers. In July 2015, the IASB confirmed a deferral of the effective date of IFRS 15 by one year to January 1, 2018. The Company has not yet assessed the impact of this standard by one year to January 1, 2018. The Company has reviewed its control assessments in accordance with IFRS 9 and has concluded that there is no effect on the recognition of revenue from contracts with customers covered by these financial statements.

IFRS 16 Leases

In January 2016, the IASB published IFRS 16 which will replace IAS 17 *Leases*. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all lease with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16: changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods; changes the accounting for sale and leaseback arrangements; largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has yet to assess the impact of this new standard on its consolidated financial statements.

4. ADDITIONAL INFORMATION ON RESULTS

	<u>January 31, 2018</u>	<u>December 31, 2016</u>
	\$	\$
Employee benefits expense		
Salaries	131 326	123 508
Defined benefit pension plan expense (Note 13)	7 485	9 903
Defined contribution pension plan expense (Note 13)	1 526	1 210
Share-based payment expense (recovery) (Note 11)	241	(44)
Total employee benefits expense	<u>140 578</u>	<u>134 577</u>

BMTC Group Inc.

Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
(in thousands of Canadian dollars, except per share data)

4. ADDITIONAL INFORMATION ON RESULTS (Continued)

	January 31, 2018	December 31, 2016
	\$	\$
Other elements of revenues and expenses		
Depreciation of property, plant and equipment	6 036	7 471
(Gains) or losses on disposals of property, plant and equipment	8	(111)
(Gains) or losses on disposals of financial assets	646	(16)

	January 31, 2018	December 31, 2016
	\$	\$
Investment income		
On financial assets at fair value through profit or loss		
Interest	(1)	2
Dividends	1 555	1 279
On financial assets classified as loans and receivables		
Interest	528	234
Impairment reversal (loss)	684	26
	<u>2 766</u>	<u>1 541</u>

5. INCOME TAXES

The income tax expense is detailed as follows:

	January 31, 2018	December 31, 2016
	\$	\$
Total current tax expense (recovery) for the period	19 601	14 362
Total deferred tax (recovery) expense ⁽¹⁾	(1 444)	654
	<u>18 157</u>	<u>15 016</u>

⁽¹⁾ In 2018 and 2016, the deferred tax liability includes only the impact of changes in temporary differences

BMTC Group Inc.

Notes to the Consolidated Financial Statements

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5. INCOME TAXES (Continued)

The Company's effective income tax rate differs from the combined statutory income tax rate. This difference arises from the following items:

	January 31, 2018	December 31, 2016
	\$	\$
Income tax expense (recovery) for the period based on combined tax rate (federal and provincial of 26.79% in 2018 and 26.9% in 2016)	18 081	15 830
Non-taxable dividends	(247)	(190)
Non-taxable capital (gains)	(5)	(753)
Non-deductible expenses	317	157
Other	11	(28)
	<u>18 157</u>	<u>15 016</u>

The income tax recovery (expense) related to other comprehensive income details as follows:

	January 31, 2018	December 31, 2016
	\$	\$
Total current tax expense (recovery) for the period	1 741	399
Total deferred tax (recovery) expense ⁽¹⁾	3 047	(2 483)
	<u>4 788</u>	<u>(2 084)</u>

⁽¹⁾ In 2018 and 2016, the deferred tax liability includes only the impact of changes in temporary differences

The tax effects of significant components of temporary differences that give rise to the Company's deferred tax assets are as follows:

	Balance as at January 1, 2017	Recognized in earnings	Recognized in other comprehensive income	Balance as at January 31, 2018
	\$	\$	\$	\$
Recognized amounts				
Net unrealized gain or loss on other financial assets	(1 496)	1 597	-	101
Defined benefit plans	(4 756)	(6)	3 047	(1 715)
Liability relating to share-based payments	51	63	-	114
Property, plant and equipment	3 005	(210)	-	2 795
	<u>(3 196)</u>	<u>1 444</u>	<u>3 047</u>	<u>1 295</u>

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

5. INCOME TAXES (Continued)

	Balance as at January 1, 2016	Recognized in earnings	Recognized in other comprehensive income	Balance as at December 31, 2016
	\$	\$	\$	\$
Recognized amounts				
Net unrealized gain or loss on other financial assets	(775)	(721)	-	(1 496)
Defined benefit plans	(2 233)	(40)	(2 483)	(4 756)
Liability relating to share-based payments	63	(12)	-	51
Property, plant and equipment	2 886	119	-	3 005
	<u>(59)</u>	<u>(654)</u>	<u>(2 483)</u>	<u>(3 196)</u>

6. CASH FLOW ADJUSTMENTS AND CHANGES IN WORKING CAPITAL

Adjustments are detailed as follows:

	January 31, 2018	December 31, 2016
	\$	\$
Depreciation of property, plant and equipment	6 036	7 471
Excess of contributions over defined benefit plan expense	(6 495)	(1 486)
Investment income	(2 766)	(1 541)
Unrealized (appreciation) depreciation of financial assets at fair value	-	(5 444)
Lease incentive	-	380
Amortization of lease incentive	(82)	(115)
(Gains) losses on disposal of non-financial assets	8	(111)
Difference between share-based payments and cash consideration paid	241	(44)
	<u>(3 058)</u>	<u>(890)</u>

The net change in working capital is detailed as follows:

	January 31, 2018	December 31, 2016
	\$	\$
Trade and other receivables	(473)	(536)
Inventory	89	(297)
Prepaid expenses	(2 689)	(3)
Trade and other payables	(1 196)	5 390
	<u>(4 269)</u>	<u>4 554</u>

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Notes to the Consolidated Financial Statements

As at January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
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7. OTHER FINANCIAL ASSETS

	January 31, 2018	
	Fair value	Cost
	\$	\$
At fair value through profit or loss		
Banker's acceptances and discounted notes, between 1.30% and 1.35%, maturing no later than 2018	87 976	87 976
Shares of Canadian companies	-	-
Shares of U.S. companies	-	-
Total at fair value through profit or loss	87 976	87 976

	January 31, 2018	
	Amortized cost	Cost
	\$	\$
At amortized cost		
Asset-backed commercial paper (MAV)	-	-
Total other financial assets	87 976	87 976

	December 31, 2016	
	Fair value	Cost
	\$	\$
At fair value through profit or loss		
Banker's acceptances and discounted notes, between 0.75% and 1%, maturing no later than 2017	10 601	10 601
Shares of Canadian companies	20 726	14 136
Shares of U.S. companies	24 705	18 930
Total at fair value through profit or loss	56 032	43 667

	December 31, 2016	
	Amortized cost	Cost
	\$	\$
At amortized cost		
Asset-backed commercial paper (MAV)	4 400	4 884
Total other financial assets	60 432	48 551

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For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month)
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8. PROPERTY, PLANT AND EQUIPMENT

	Land	Parking lots and buildings	Signs	Leasehold improvements	Automotive equipment	Computer equipment	Furniture and equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Gross carrying amount								
Balance as at January 1, 2017	43 163	127 530	416	9 777	4 314	8 313	5 736	199 249
Additions	11 000	713	-	-	122	229	61	12 125
Disposals	-	(245)	-	-	(880)	(588)	-	(1 713)
Balance as at January 31, 2018	<u>54 163</u>	<u>127 998</u>	<u>416</u>	<u>9 777</u>	<u>3 556</u>	<u>7 954</u>	<u>5 797</u>	<u>209 661</u>
Depreciation and impairment								
Balance as at January 1, 2017	-	64 914	282	9 524	2 701	6 546	4 273	88 240
Disposals	-	(182)	-	-	(785)	(577)	-	(1 544)
Depreciation	-	4 279	64	220	427	653	393	6 036
Balance as at January 31, 2018	<u>-</u>	<u>69 011</u>	<u>346</u>	<u>9 744</u>	<u>2 343</u>	<u>6 622</u>	<u>4 666</u>	<u>92 732</u>
Carrying amount as at January 31, 2018	<u>54 163</u>	<u>58 987</u>	<u>70</u>	<u>33</u>	<u>1 213</u>	<u>1 332</u>	<u>1 131</u>	<u>116 929</u>
Gross carrying amount								
Balance as at January 1, 2016	43 767	118 122	416	9 822	4 604	8 185	5 148	190 064
Additions	-	9 506	-	-	190	171	710	10 577
Disposals	(604)	(98)	-	(45)	(480)	(43)	(122)	(1 392)
Balance as at December 31, 2016	<u>43 163</u>	<u>127 530</u>	<u>416</u>	<u>9 777</u>	<u>4 314</u>	<u>8 313</u>	<u>5 736</u>	<u>199 249</u>
Balance as at January 1, 2016	-	60 224	199	8 690	2 679	5 931	3 704	81 427
Disposals	-	(78)	-	(34)	(419)	(42)	(85)	(658)
Depreciation	-	4 768	83	868	441	657	654	7 471
Balance as at December 31, 2016	<u>-</u>	<u>64 914</u>	<u>282</u>	<u>9 524</u>	<u>2 701</u>	<u>6 546</u>	<u>4 273</u>	<u>88 240</u>
Carrying amount as at December 31, 2016	<u>43 163</u>	<u>62 616</u>	<u>134</u>	<u>253</u>	<u>1 613</u>	<u>1 767</u>	<u>1 463</u>	<u>111 009</u>

BMTC Group Inc.

Notes to the Consolidated Financial Statements

For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
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9. LEASE COMMITMENTS

The Company is committed under long-term operating leases principally for stores and warehouses representing commitments of \$41,699 including \$5,448 due to a Company controlled by management. Future minimum lease under non-cancellable operating leases are allocated as follows:

	Minimum lease payments			
	Less than one year	From 1 to 5 years	More than 5 years	Total
	\$	\$	\$	\$
January 31, 2018	7 077	24 158	10 434	41 669
December 31, 2016	7 277	25 255	15 619	48 151

10. BANK BORROWINGS

The Company has an unsecured line of credit in the amount of \$20,000 bearing interest at the prime rate, renewable on June 30th, 2018. This line of credit has no restrictive clauses that need to be complied with.

11. CAPITAL STOCK

Authorized

Unlimited number of shares without par value

First preferred shares, issuable in series.

Second preferred shares, issuable in series.

	January 31, 2018	December 31, 2016
	\$	\$
Issued and fully paid		
35,120,000 Common Shares		
(36,860,000 as at December 31, 2016)	2 774	2 913

	January 31, 2018	December 31, 2016
Issued and fully paid		
Beginning of period	36 860 000	37 913 850
Share redemption	(1 740 000)	(1 053 850)
Issued and fully paid, end of period	35 120 000	36 860 000
Shares authorized for the share option plan	5 710 864	5 710 864
Total shares authorized	40 830 864	42 570 864

BMTC Group Inc.

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For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
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11. CAPITAL STOCK (Continued)

During the year ended January 31st, 2018, the Company redeemed 1,740,000 Common Shares for a total cash consideration of \$23,081. The redemption premium of \$22,942 for the Shares was recognized in retained earnings.

During the year ended December 31st, 2016, the Company redeemed 1,053,850 Common Shares for a total cash consideration of \$13,915. The redemption premium of \$13,832 for the Shares was recognized in retained earnings.

None of the parent's shares were held by any of the Company's subsidiaries.

Share option plan

The Company has a share option plan for certain directors and employees, which provides for the purchase of Common Shares under certain circumstances up to a maximum number of 10,729,106 issuable Common Shares. As at January 31st, 2018, a total of 5,710,864 Common Shares (5,710,864 Common Shares as at December 31st, 2016) remained authorized for issuance under the Company's share based option plan.

To calculate its subsequent liability, management uses the Black-Scholes model at the end of the year, which, as at January 31st, 2018 (a 13 month period), resulted in an increase in the liability and related compensation expense of \$241 (decrease of \$44 as at December 31st, 2016 (a 12 month period)).

The weighted average fair value of options granted and principal assumptions used in applying the Black-Scholes model were as follows.

	<u>January 31, 2018</u>	<u>December 31, 2016</u>
Weighted average of key assumptions		
Share price	16,97 \$	13,35 \$
Exercise price	17,85 \$	17,85 \$
Risk-free interest rate	1,86 %	0,87 %
Dividend rate	0,24 \$	0,24 \$
Volatility factor	23,00 %	24,00 %
Expected life (in months)	26	39
Number of options (number)	219 000	219 000
Weighted average fair value of option	1,95 \$	0,85 \$

The total value of outstanding options granted as at January 31st, 2018 was of \$427 (\$186 at December 31, 2016).

The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The model requires the use of subjective assumptions, considered in setting the assumptions.

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11. CAPITAL STOCK (Continued)

The following tables summarize information about the Company's outstanding stock options and changes that have occurred during the year ended January 31st, 2018 and the year ended December 31st, 2016:

	January 31, 2018		December 31, 2016	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	<u>219 000</u>	\$ 17,85	<u>219 000</u>	\$ 17,85
Outstanding and exercisable, end of period	<u>219 000</u>	17,85	<u>219 000</u>	17,85

January 31, 2018

Exercise price	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$17,85	<u>219 000</u>	26 months	\$ 17,85	<u>219 000</u>	\$ 17,85

December 31, 2016

Exercise price	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
\$17,85	<u>219 000</u>	39 months	\$ 17,85	<u>219 000</u>	\$ 17,85

12. TRADE AND OTHER PAYABLES

The following table analyzes trade and other payables recognized in the statement of financial position:

	January 31, 2018	December 31, 2016
	\$	\$
Trade accounts payable	34 724	30 857
Accrued expenses	13 787	18 064
Employee benefits	15 533	16 539
Customer deposits	40 838	40 618
	<u>104 882</u>	<u>106 078</u>

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For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
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13. POST-EMPLOYMENT BENEFITS

Description of benefit plans

The Company has two funded pension plans which provide most of its employees retirement benefits. The supplemental pension plan (SPP) contains a defined benefit component and a defined contribution component, while the additional supplemental pension plan (APP) is a defined benefit plan. The benefits under the defined benefit component of the SPP are based on the indexed average career salary whereas the APP is based on final average salary.

There are no other benefit plans available to employees.

Since SPP is registered with the Retraite Québec, the governance of the pension plan is within the Pension Committee (the "Committee"). The Committee may delegate some of its functions and / or use of experts, as needed, such as actuaries, custodians and trustees. SPP is also registered with the Canada Revenue Agency.

The investment of the pension fund of the defined benefit component of the SPP and the selection and monitoring of investment performance has been delegated to the Company under the leadership of the Investment Committee, which is a sub-committee of the Board of Directors of the Company. The Company has a responsibility to establish and review the investment policy of the pension plan, where applicable, and monitor on a regular basis the performance of investment managers. The responsibilities of the Company with respect to the defined contribution component is limited to the selection of investment options offered and monitoring the performance of investment managers as investment decisions falls within the responsibility of the participants. The Company uses experienced professionals to assist it in performing its functions and reports its observations / actions to the Committee.

The APP is only registered with the Canada Revenue Agency. Governance of the APP is entirely the responsibility of the Company. A refundable tax account is made to the Canada Revenue Agency for a portion of the assets of the plan. The other portion is invested and responsibilities of the Company are similar to those outlined above for SPP.

Defined benefit pension plans

The most recent actuarial valuations of the pension plans for funding purposes were performed as at December 31st, 2015 (SPP) and as at December 1st, 2017 (APP). The next valuations will be performed as December 31st, 2018 (SPP) and as at December 1st, 2018 (APP).

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Notes to the Consolidated Financial Statements

For the years ended January 31st, 2018 (13-month period) and December 31st, 2016 (12-month period)
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13. POST-EMPLOYMENT BENEFITS (Continued)

Obligations for Defined Benefit Pension Plans

Accrued Benefit Obligations:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Balance, beginning of year	223 611	202 274
Current service costs	8 172	6 672
Employees contributions	1 585	1 431
Interest cost	9 807	8 604
Benefits paid	(8 383)	(6 086)
Cost of past services	-	3 526
Actuarial (gains) / losses		
(Gains) / losses due to changes in demographic assumptions	-	82
(Gains) / losses due to changes in financial assumptions	16 897	9 652
Experience (gains) / losses	2 411	(2 544)
Balance, end of year	<u>254 100</u>	<u>223 611</u>

Breakdown of Accrued Benefit Obligations:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Active participants	196 869	167 693
Retired participants	46 748	46 703
Participants with deferred benefits	9 884	8 664
Voluntary contributions	258	232
Payables	341	319
Total	<u>254 100</u>	<u>223 611</u>

Plan Assets for Defined Benefit Pension Plans

Fair Value of Plan Assets:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Balance, beginning of year	241 653	218 344
Interest income	10 495	9 201
Actual return on plan assets, excluding amounts in interest income	1 538	7 375
Employer contributions	13 979	11 388
Employees contributions	1 585	1 431
Benefits paid	(8 383)	(6 086)
Balance, end of year	<u>260 867</u>	<u>241 653</u>

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Notes to the Consolidated Financial Statements

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13. POST-EMPLOYMENT BENEFITS (Continued)

Composition of plan assets

Asset category	January 31, 2018		December 31, 2016	
	%	\$	%	\$
Equity instruments				
- Canadian shares	30	79 541	33	79 621
- Foreign shares	19	49 111	20	49 075
Fixed income instruments	27	71 533	27	63 893
Other (a)	17	43 500	14	34 149
CRA refundable tax account	7	17 182	6	14 915
Total	100	260 867	100	241 653

(a) Other includes short-term investments and cash.

All assets were listed on an active market, with the exception of the refundable tax account with the CRA.

Unrecognized Balance Due to Asset Ceiling

	Jan. 31, 2018	Dec. 31, 2016
	\$	\$
Balance, beginning of year	-	7 259
Revaluation – Impact of asset ceiling	-	(7 560)
Interest on asset ceiling	-	301
Balance, end of year	-	-

Reconciliation of the funding situation of pension plans to amounts recognized in the Consolidated Statement of Financial Position

	Jan. 31, 2018	Dec. 31, 2016
	\$	\$
Fair value of plan assets	260 867	241 653
Accrued Benefit obligations	254 100	223 611
Plan surplus and asset recognized in the consolidated statement of financial position	6 767	18 042

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13. POST-EMPLOYMENT BENEFITS (Continued)

Pension Expense Recognised in Consolidated Net Earnings:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Current service costs	8 172	6 672
Net interest expense (income)	(687)	(295)
Cost of past services	-	3 526
Pension expense recognised in consolidated net earnings	<u>7 485</u>	<u>9 903</u>

Amounts recognised in Other Consolidated Comprehensive Income:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Actuarial (gains) / losses		
(Gains) / losses due to changes in demographic assumptions	-	82
(Gains) / losses due to changes in financial assumptions	16 897	9 652
Experience (gains) / losses	2 411	(2 544)
Return on plan assets (excluding amounts included in interest income)	(1 538)	(7 375)
Unrecognized asset due to asset ceiling	-	(7 560)
Remeasurements of the net defined benefit liability (asset)	<u>17 770</u>	<u>(7 745)</u>

Principal Assumptions Used to Evaluate the Benefit Obligations are as follows:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
Accrued benefit obligations		
Discount rate	3.55%	3.95%
Escalation rate on credited annuity payments	2.5%	2.5%

The assumption regarding future mortality has been established using the CPM mortality tables, private sector, generationally projected using the B, as published by the Canadian Institute of Actuaries. This translates into an average life expectancy in years for a pensioner retiring at the age of 65 years:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
Retirement at the end of the current year		
- Male	21	21
- Female	24	24
		43

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13. POST-EMPLOYMENT BENEFITS (Continued)

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
Retirement in 20 years after the end of the current year		
- Male	22	22
- Female	25	25

Other demographic assumptions used include the age of retirement and rates of retirement. Concerning the retirement age, the age at which participants must receive an unreduced pension was used for the two pensions. For the retirement rate, a variable rate table depending inversely on the age of the participant was used. As the pension benefit, in the case of retirement, is equal to the value of service costs of the member, in each of the pensions, the effect of this assumption is minimal.

The sensitivity, of the accrued benefit obligations established to changes in significant assumptions is shown below:

	<u>January 31, 2018</u>		
	<u>Change in assumption</u>	<u>Increase in the assumption</u>	<u>Decrease in the assumption</u>
Discount rate	0.50%	Decrease of 9.1%	Increase of 10.4%
Escalation rate on credited annuity payments	0.50%	Increase of 4.9%	Decrease of 4.5%
		<u>Increase in the assumption by one year</u>	<u>Decrease in the assumption by one year</u>
Life expectancy		Increase of 2.9%	Decrease of 3.0%

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13. POST-EMPLOYMENT BENEFITS (Continued)

	December 31, 2016		
	<u>Change in assumption</u>	<u>Increase in the assumption</u>	<u>Decrease in the assumption</u>
Discount rate	0.50%	Decrease of 8.9 %	Increase of 10.2%
Escalation rate on credited annuity payments	0.50%	Increase of 4.2 %	Decrease of 3.9%
		<u>Increase in the assumption by one year</u>	<u>Decrease in the assumption by one year</u>
Life expectancy		Increase of 2.5 %	Decrease of 2.8%

Sensitivity analyses were determined on the basis of reasonable modifications to existing assumptions that would occur at the end of the period. Each sensitivity analysis disclosed is based on the modification of the single assumption, while all other assumptions remain unchanged. In reality, there is expected to be certain interrelationships between assumptions. The analysis above does not take into account the interrelationships between assumptions. The projected credit units method has been used in the sensitivity analysis for changes in significant actuarial assumptions used in the calculation of the benefit obligation.

The defined benefit plan entails certain risks for the Company. The most significant risks are described below:

– **Asset volatility:**

Plan obligations are calculated using a discount rate based on yields of corporate bonds, if the asset underperforms compared to this yield a deficit is created.

Plan assets include a significant proportion of equity instruments, which is assumed to obtain a higher return than corporate bonds in the long term, but cause some risk and volatility in short-term performance.

Nevertheless, given that the plan obligations are rather long term, the Company believes that a certain level of investment in equity instruments is an appropriate element of the strategy of the Company to manage the long-term plan. Plan assets are invested in a diversified mix to minimize the risk of volatility;

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13. POST-EMPLOYMENT BENEFITS (Continued)

– **Change in yield of corporate bonds:**

Because the discount rate assumption is based on the yield of corporate bonds, a decrease of the yield may cause an increase in the plan obligations. However, this increase would be partially offset by an increase in the value of corporate bonds held by the Plan;

– **Life expectancy:**

The majority of corporate bonds held by the Plan are to establish the life expectancy of the participant, so any increase in life expectancy will cause an increase in plan obligations.

The latest mortality tables are used to minimize this risk.

Based on the most recent actuarial valuation of the SPP as of December 31, 2015, shows that the plan has a surplus of \$26,200 under the going-concern basis and a \$18,900 deficit using a solvency basis. There is no past service contributions required since the plan shows a surplus under the going-concern basis and the stabilization provision is fully funded. The solvency deficit no longer requires funding. The contributions for current service cost of the Company including the stabilization provision is equivalent to 452% of employee contributions. The Company pays the minimum required to ensure the plans are fully funded on a minimum funding basis.

The employer contribution is estimated to be \$9,700 for the 2019 fiscal year for all plans.

The following is a maturity analysis of the pension benefits:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Less than one year	3 732	3 560
Between 1 and 2 years	6 711	6 103
Between 2 and 5 years	18 280	15 356
More than five years	407 313	423 710
	<u>436 036</u>	<u>448 729</u>

Defined contributions (DC) pension plan

The total cost of the defined contributions plan for the period between January 1st, 2017 and January 31st, 2018 was \$1,526 (\$1,210 in 2016).

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14. PROVISIONS AND CONTINGENT LIABILITIES

The Company is party to claims and lawsuits in the normal course of business. Management believes that the resolution of these claims and lawsuits will not have a materially adverse effect on the Company's financial position.

15. RELATED PARTIES

The following transactions have been concluded with a Company controlled by directors. Unless otherwise indicated, no transaction has special terms or characteristics and no guarantees have been given or received.

	<u>January 31, 2018</u>	<u>December 31, 2016</u>
	\$	\$
Rent	967	854
Management fees	1 677	1 507

The services of certain senior officers and staff of the subsidiary are provided through a management company controlled by these officers. The management agreement provides for management of subsidiary's activities, in particular, personnel management, purchasing supervision and ensuring sales growth. The agreement is renewed for an additional 12 month period on maturity each year unless either parties provide a notice to the contrary.

Compensation of the key officers and directors includes the following expenses:

	<u>January 31, 2018</u>	<u>December 31, 2016</u>
	\$	\$
Short-term benefits	2 310	2 071
Share-based payments	527	527
Option-based benefits	241	(44)
Management fees	1 677	1 507
	<u>4 755</u>	<u>4 061</u>

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16. FINANCIAL INSTRUMENTS

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Financial Assets		
Financial assets at fair value through profit and loss	<u>87 976</u>	<u>56 032</u>
Loans and receivables		
Cash	2 872	24 485
Trade and other receivables	4 172	3 699
Asset-backed commercial paper (MAV)	-	4 400
	<u>7 044</u>	<u>32 584</u>
Financial Liabilities		
Other financial liabilities		
Trade (excluding employee benefits) and other payables	<u>89 349</u>	<u>89 539</u>

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Short-term benefits

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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16. FINANCIAL INSTRUMENTS (Continued)

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities hierarchy as follows:

	January 31, 2018		
	Level 1	Level 2	Level 3
	\$	\$	\$
Financial assets at Fair value			
Banker's acceptances and discounted notes		87 976	
Shares of Canadian companies	-		
Shares of U.S. companies	-		
Financial assets at amortized cost			
Asset-backed commercial paper (MAV)		-	

	December 31, 2016		
	Level 1	Level 2	Level 3
	\$	\$	\$
Financial assets at Fair value			
Banker's acceptances and discounted notes		10 601	
Shares of Canadian companies	20 726		
Shares of U.S. companies	24 705		
Financial assets at amortized cost			
Asset-backed commercial paper (MAV)		4 400	

Fair value measurement

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

The fair value of a financial instrument is generally the consideration for with the instrument would be exchanged in an arm's length transaction, between knowledgeable, willing parties who are under no compulsion to act.

The existence of published price quotations in an active market is the best evidence of fair value. The fair value of shares and bonds is established based on the most recent closing date market price, based on the bid price at the period end. If a security is not actively traded, the fair value is determined by a valuation technique using observable market data to the extent possible.

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16. FINANCIAL INSTRUMENTS (Continued)

The fair value of MAV was estimated based on the last transaction value on securities held by the Company.

	Jan. 31, 2018	Dec. 31, 2016
	\$	\$
Gains (losses) on assets held at the close of the reporting period	-	5 444
Gains (losses) on assets not held at the close of the reporting period	<u>(646)</u>	<u>16</u>
Gains (losses) realized and unrealized on financial assets, fair value	<u><u>(646)</u></u>	<u><u>5 460</u></u>

Financial instrument risks

The Company's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the availability of the Company's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial instruments are managed to generate lasting returns.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

Market risk

Market risk encompasses many types of risk. The variation of the types of risk, such as interest rate risk and other factors impacting all similar publicly traded financial instruments has an impact on the fair value of the financial assets classified at fair value through profit or loss. To minimize market risk, the Company ensures that the type of investments and individual investments in its investment portfolio are diversified. Additionally, a significant portion of its investments is in financial instrument with short maturity dates, in particular banker's acceptances and discount notes.

Price risk sensitivity

The following table illustrates the sensitivity of income and equity in regards to changes in the market price all other things being equal. It assumes a $\pm 5\%$ change of the market price for the year ended January 31st, 2018 and December 31st, 2016.

	Jan. 31, 2018	Dec. 31, 2016
	\$	\$
Variation		
Income for the period and equity	-	2 615

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16. FINANCIAL INSTRUMENTS (Continued)

Exchange risk and foreign currency sensitivity

The Company is exposed to exchange risk, because a part of its purchases of inventory is made in currencies other than Canadian dollars. The Company also owns U.S. dollar equity investments in U.S. companies.

The Company does not enter into foreign exchange forward contracts to mitigate the exposure to foreign currency risk.

Foreign currency denominated financial assets and liabilities which expose the Company to currency risk are disclosed below. The amounts shown are those reported to key management translated into Canadian dollars at the closing rate:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Shares of U.S. companies	-	24 705
Trade and other payables in U.S. dollars	<u>(4 665)</u>	<u>(3 944)</u>
Total exposure	<u><u>(4 665)</u></u>	<u><u>20 761</u></u>

The following table illustrates the sensitivity of income and equity in regards to the Company's financial assets and financial liabilities and the U.S. dollar/Canadian dollar exchange rate all other things being equal. It assumes a $\pm 5\%$ change of the Canadian dollar exchange rate for the year ended January 31st, 2018 and December 31st, 2016.

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Variation		
Income for the year and equity	171	925

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation towards the Company. The Company is exposed to this risk as a result of various financial instruments, for example, its deposits, investments in bonds, etc. The Company's maximum credit risk exposure is limited to the carrying amount of certain financial assets recognized on the reporting date, as summarized in the following table:

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
Financial asset categories – carrying amounts	\$	\$
Cash	2 872	24 485
Trade and other receivables	4 172	3 699
Other financial assets		
Banker's acceptances and discount notes	87 976	10 601
Asset-backed commercial paper (MAV)	-	4 400
	<u><u>95 020</u></u>	<u><u>43 185</u></u>

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16. FINANCIAL INSTRUMENTS (Continued)

The Company's management considers that the credit quality of the above financial assets that are not impaired or in default at the reporting date is good. No significant unimpaired trade and other receivables are in default at the reporting date.

Credit risk in respect of cash, banker's acceptances and discount notes, amounts receivable on credit and debit cards is considered negligible because the counterparties are reputable bank with quality external credit ratings.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations. The Company manages its liquidities by monitoring forecasted cash receipts and disbursements in the course of daily activities. Net cash requirements are compared with available cash, investments and credit facility to ascertain if they are sufficient for the period in question. The Company also considers expected cash resources from sales and its financial assets in managing the liquidity risk.

Capital management

The Company's capital management objectives are to safeguard its assets, while maximizing the Company's growth and providing an adequate return to its shareholders. In addition to a conservative approach with respect to safeguarding the financial position, the Company achieves its objective through sound management of internally-generated capital and using capital when necessary to finance its growth initiatives.

17. EARNINGS PER SHARE AND DIVIDENDS

Both the basic and diluted earnings per share have been calculated using the income attributable to shareholders of the parent company as the numerator.

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

	<u>Jan. 31, 2018</u>	<u>Dec. 31, 2016</u>
	\$	\$
Net income	<u>49 335</u>	<u>43 830</u>
Weighted average number of shares used to calculate basic net earnings per share	36 315 571	37 360 857
Dilutive effect of stock options	-	-
Weighted average number of shares used to calculate diluted net earnings per share	<u>36 315 571</u>	<u>37 360 857</u>
Net earnings per share		
Basic	<u>1,36</u>	<u>1,17</u>
Diluted	<u>1,36</u>	<u>1,17</u>

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17. EARNINGS PER SHARE AND DIVIDENDS (*Continued*)

The 219,000 options (219,000 options as at December 31st, 2016) were not considered in order to calculate the earnings per share as at January 31st, 2018 since they are anti-dilutive.

During the year ended January 31st, 2018, BMTC Group Inc. paid \$8,577 or \$0.24 per Common share in dividends to its shareholders.

18. SUBSEQUENT EVENT

On February 1st, 2018, the Company sold the Repentigny property for an amount of \$9,000 which resulted in an after tax profit of \$4,522.