COLABOR

Interim condensed consolidated Financial Statements
(unaudited)
Third quarter of 2020
12 and 36-week periods ended September 5, 2020
(in thousands of Canadian dollars)

Interim Condensed Consolidated Statements of Earnings
(unaudited)
For the 12 and 36-week periods ended September 5, 2020 and September 7, 2019
(in thousands of Canadian dollars, except per share data)

		12 weeks		36 weeks	
		2020	**2019**	**2020**	**2019**
			(Restated, Note 5)		**(Restated, Note 5)**
	Notes	**$**	**$**	**$**	**$**
Sales	4	**120,931**	165,803	**328,002**	473,059
Cost of goods sold		**99,424**	139,375	**273,602**	400,692
Gross Margin		**21,507**	26,428	**54,400**	72,367
Operating expenses	6	**11,412**	18,187	**33,171**	52,883
Depreciation and amortization	2, 7	**3,394**	2,282	**10,356**	6,670
Costs not related to current operations	8	**(121)**	—	**1,467**	178
Operating earnings		**6,822**	5,959	**9,406**	12,636
Financial expenses		**1,443**	1,572	**4,737**	5,215
Earnings before taxes		**5,379**	4,387	**4,669**	7,421
Income taxes	9	**1,938**	705	**1,491**	1,864
Net earnings from continuing operations		**3,441**	3,682	**3,178**	5,557
Net earnings (loss) from discontinued operations	5	**(1,652)**	(1,972)	**(12,601)**	2,458
Net earnings (loss)		**1,789**	1,710	**(9,423)**	8,015
Basic and diluted net earnings per share of continuing operations	10	**0.03**	0.04	**0.03**	0.06
Basic and diluted net earnings (loss) per share of discontinued operations	10	**(0.01)**	(0.02)	**(0.12)**	0.02
Basic and diluted net earnings (loss) per share	10	**0.02**	0.02	**(0.09)**	0.08

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

Interim Condensed Consolidated Statements of Comprehensive income

(unaudited)

For the 12 and 36-week periods ended September 5, 2020 and September 7, 2019

(in thousands of Canadian dollars)

	12 weeks		36 weeks	
	2020	**2019**	**2020**	**2019**
		(Restated, Note 5)		(Restated, Note 5)
	$	**$**	**$**	**$**
Net earnings from continuing operations	**3,441**	3,682	**3,178**	5,557
Other comprehensive income (loss) from continuing operations	**—**	—	**—**	—
Comprehensive income from continuing operations	**3,441**	3,682	**3,178**	5,557
Net earnings (loss) from discontinued operations	**(1,652)**	(1,972)	**(12,601)**	2,458
Other items that will not be subsequently reclassified to net earnings:				
Remeasurement of defined benefit pension obligation	**(600)**	(269)	**(328)**	(1,391)
Taxes on other comprehensive income	**161**	72	**88**	371
Other items of comprehensive loss from discontinued operations	**(439)**	(197)	**(240)**	(1,020)
Comprehensive income (loss) from discontinued operations	**(2,091)**	(2,169)	**(12,841)**	1,438
Comprehensive income (loss)	**1,350**	1,513	**(9,663)**	6,995

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

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Interim Condensed Consolidated Statements of Changes in Equity
(unaudited)

For the 36-week period ended September 5, 2020 and September 7, 2019

(in thousands of Canadian dollars)

	Notes	Share capital	Convertible debenture conversion options	Contributed surplus	Deficit	Total Equity
		$	**$**	**$**	**$**	**$**
Balance as at December 28, 2019		**256,296**	**1,742**	**3,706**	**(161,641)**	**100,103**
Impact of adoption of IFRS 16	2	**—**	**—**	**—**	**(2,574)**	**(2,574)**
Restated balance as at December 29, 2019		**256,296**	**1,742**	**3,706**	**(164,215)**	**97,529**
Net loss		**—**	**—**	**—**	**(9,423)**	**(9,423)**
Other comprehensive loss		**—**	**—**	**—**	**(240)**	**(240)**
Comprehensive loss		**—**	**—**	**—**	**(9,663)**	**(9,663)**
Stock-based compensation	13	**—**	**—**	**225**	**—**	**225**
Balance as at September 5, 2020		**256,296**	**1,742**	**3,931**	**(173,878)**	**88,091**

	Notes	Share capital	Convertible debenture conversion options	Contributed surplus	Deficit	Total Equity
		$	**$**	**$**	**$**	**$**
Balance as at December 29, 2018		255,639	1,742	3,891	(168,917)	92,355
Net earnings		—	—	—	8,015	8,015
Other comprehensive loss		—	—	—	(1,020)	(1,020)
Comprehensive income		—	—	—	6,995	6,995
Stock-based compensation	13	—	—	(24)	—	(24)
Stock options exercised	12, 13	657	—	(217)	—	440
Balance as at September 7, 2019		256,296	1,742	3,650	(161,922)	99,766

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

Interim Condensed Consolidated Statements of Cash Flows
(unaudited)
For the 12 and 36-week periods ended September 5, 2020 and September 7, 2019
(in thousands of Canadian dollars)

		12 weeks		36 weeks	
		2020	**2019**	**2020**	**2019**
			(Restated, Note 5)		(Restated, Note 5)
	Notes	**$**	**$**	**$**	**$**
Cash flows from operating activities					
Net earnings from continuing operations		**3,441**	3,682	**3,178**	5,557
Non-cash items					
Deferred income taxes	9	**1,979**	1,243	**1,532**	2,383
Depreciation and amortization	7	**3,394**	2,282	**10,356**	6,670
Financial expenses		**1,443**	1,572	**4,737**	5,215
Other		**42**	172	**255**	(437)
		10,299	8,951	**20,058**	19,388
Net changes in working capital		**6,939**	9,615	**6,010**	4,163
		17,238	18,566	**26,068**	23,551
Cash flows from investing activities					
Acquisitions of property, plant and equipment		**(658)**	(911)	**(1,027)**	(1,146)
Proceeds on disposals of property, plant and equipment		**35**	9	**76**	206
Acquisitions of intangible assets		**(81)**	(75)	**(319)**	(169)
Other		**40**	(504)	**309**	56
		(664)	(1,481)	**(961)**	(1,053)
Cash flows from financing activities					
Net change in the credit facility	11	**—**	(12,346)	**(2,000)**	(14,530)
Lease liabilities payments	2	**(1,879)**	(178)	**(5,504)**	(576)
Share issued		**—**	440	**—**	440
Repayment of subordinated debt	11	**—**	—	**—**	(5,000)
Refinancing cost paid		**—**	—	**(186)**	—
Financial expenses paid		**(1,351)**	(1,391)	**(4,503)**	(4,642)
		(3,230)	(13,475)	**(12,193)**	(24,308)
Net change in cash and cash equivalents from continuing operations		**13,344**	3,610	**12,914**	(1,810)
Net change in cash and cash equivalents from discontinued operations	5	**(6,095)**	2,722	**(1,292)**	10,058
Cash and cash equivalents (bank indebtedness) at the beginning		**(1,062)**	(3,768)	**(5,435)**	(5,684)
Cash and cash equivalents at the end		**6,187**	2,564	**6,187**	2,564

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

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Interim Condensed Consolidated Statements of Financial Position
(unaudited)
(in thousands of Canadian dollars)

	Notes	As at September 5, 2020 $	As at December 28, 2019 $
Assets			
Current assets			
Cash and cash equivalent		**6,187**	—
Trade and other receivables	6	**39,678**	72,643
Inventories		**39,491**	67,747
Tax receivable		**1,380**	909
Other		**2,580**	2,861
		89,316	144,160
Non-current assets			
Property, plant and equipment		**6,022**	10,486
Intangible assets		**27,842**	31,461
Right-of-use assets	2	**47,436**	—
Goodwill		**70,813**	70,813
Deferred tax assets		**6,353**	2,295
Other		**1,596**	1,933
		160,062	116,988
Total assets		**249,378**	261,148
Liabilities			
Current liabilities			
Bank indebtedness		**—**	5,435
Trade and other payables	8	**44,264**	82,324
Current portion of long-term debt	11	**3,000**	2,983
Current portion of lease liabilities	2	**11,062**	—
Other		**949**	1,210
		59,275	91,952
Non-current liabilities			
Long-term debt	11	**11,810**	17,926
Lease liabilities	2	**38,667**	—
Convertible debentures		**49,739**	49,576
Pension obligations		**1,766**	1,553
Deferred tax liabilities		**30**	38
		102,012	69,093
Total liabilities		**161,287**	161,045
Equity			
Equity attributable to shareholders		**88,091**	100,103
Total liabilities and equity		**249,378**	261,148

Contingency (Note 16)
The accompanying notes are an integral part of the interim condensed consolidated financial statements.

1 Nature of operations

Groupe Colabor Inc. (hereinafter the “Company”) distributes and markets food and food-related products in Canada.

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

2 Significant accounting policies

General information

These interim condensed consolidated financial statements of the Company were prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Some information and notes disclosure in the consolidated annual financial statements have not been presented or are summarized when they are not considered essential to understanding the Company's interim financial statements. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 28, 2019.

These interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies that have been adopted by the Company in its consolidated financial statements for the year ended December 28, 2019, except for the income taxes for the interim periods which are calculated according to the tax rate that would be applicable to the anticipated annual results in each jurisdictions and the leases as a result of the adoption of IFRS 16 *Leases*. The impacts of IFRS 16 on the interim condensed consolidated financial statements is disclosed in section New accounting policy adopted during the current fiscal year. The accounting policies have been applied consistently for all the periods presented except for IFRS 16.

The interim condensed consolidated financial statements have been prepared on a going concern and historical cost basis, except for certain financial instruments and pension plan's assets that are measured at fair value, and for defined pension obligations and provisions that have been recorded at present value. Financial information is presented in Canadian dollars, which is the Company's functional currency.

The net earnings (loss) for these interim financial statements are not necessarily indicative of the full-year net earnings. The seasonal nature is a significant factor in its quarterly results. Lower earnings are recorded during the first quarter. The second and third quarters are generally recording higher earnings than those recorded during the first quarter (see note 3 for the pandemic situation). Finally, since there are 16 weeks of operations in the last quarter compared to 12 weeks in the previous quarters, the fourth quarter is the most important one.

These interim condensed consolidated financial statements have been approved by the Company's Board of Directors on October 15, 2020.

Government grants

On March 27, 2020, the Government of Canada announced a new Canada Emergency Wage Subsidy ("CEWS"), effective since March 15 and currently extended until summer 2021, enabling Canadian businesses to meet the challenges of the pandemic. Certain eligibility criteria must be met in order to be eligible for CEWS and receive a subsidy on salaries paid to employees, including a drop in eligible income which varies according to the periods concerned. The Government of Canada announced the eligibility criteria for the periods up to November 21, 2020. During the second and third quarters, the Company met the eligibility criteria for this subsidy, thereby allowing it to compensate part of the decrease in sales and the bottom line caused by the pandemic. As the eligibility criteria are known until November 21, 2020, the Company will be eligible for this subsidy in the fourth quarter and will continue to monitor developments on the eligibility criteria for subsequent periods.

The Company recognizes subsidies when recovery is reasonably secure. The subsidy is recognized using the cost reduction method, either as a reduction in the expense or in the asset to which it relates.

New accounting policy adopted during the current fiscal year

IFRS 16 - Leases

Accounting policy

In January 2016, the IASB published IFRS 16 which 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 by eliminating the distinction between operating leases and finance leases.

In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and the liability including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains the approach to lessor accounting in IAS 17, and introduces new disclosure requirements.

IFRS 16 applies to fiscal years beginning on or after January 1, 2019. The lease liability is equal to the net present value of future lease payments discounted using the implicit rate of the lease, if this rate can be determined or the Company incremental borrowing rate. The future lease payments include:

- Fixed payments and variable lease payments that are based on an index or a rate;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease if the Company expects to terminate the lease before the term.

Right-of-use assets are measured at cost which includes the initial lease liability amount, adjusted for payments made at or before the lease commencement date, lease incentives, initial direct costs and restoration costs. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and are depreciated over the shorter period of the lease term or useful life of the underlying asset.

The Company uses the practical expedient permitted for leases whose underlying assets have a low value and those whose term is less than twelve months.

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

Impact of adoption of IFRS 16

The Company adopted IFRS 16 on December 29, 2019 using the modified retrospective approach. The Company has recorded the cumulative effects of initial application as adjustment to deficit as of December 29, 2019 without restatement of the comparative period. At the adoption date, lease liability for leases previously classified as operating leases under IAS 17 equals the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as permitted under IFRS 16. The Company elected to measure the underlying right-of-use asset at an amount equal to the lease liability.

At the adoption date, the Company has used the following practical expedients permitted by IFRS 16:

- Keep the definition of a lease included under IAS 17 for existing contracts at the date of initial application, allowing the Company not to reassess all contracts;
- Apply the standard to a portfolio of leases with similar characteristics and use a single discount rate to the portfolio. This measure has been used for vehicle contracts;
- Exclude initial direct costs from the measurement of the right-of-use asset; and
- Use hindsight in determining lease term at the date of initial application.

Adjustment to opening equity is related to an impairment charge of $3,308, net of a deferred income taxes of $734, recorded on the right-of-use assets for which the fair value was lower than the carrying amount.

The impacts of adopting IFRS 16 on the Company's balance sheet as at December 29, 2019 was as follows:

	Balance as at December 28, 2019	Adoption of IFRS 16	Restated balance as at December 29, 2019
Assets	**$**	**$**	**$**
Property, plant and equipment	10,486	(2,940)	7,546
Right-of-use assets	—	57,437	57,437
Deferred tax assets	2,295	734	3,029
Total	12,781	55,231	68,012
Liabilities			
Current portion of long-term debt	2,983	(1,004)	1,979
Current portion of leases liabilities	—	11,941	11,941
Long-term debt	17,926	(2,963)	14,963
Lease liabilities	—	49,830	49,830
Total	20,909	57,804	78,713
Equity			
Equity attributable to shareholders	100,103	(2,574)	97,529

The Company used its incremental borrowing rates as at December 29, 2019 to measure lease liabilities. which is 3.58% for buildings and 5.98% for vehicles. The right-of-use assets are attributable to the following underlying assets: buildings for $41,689 and vehicles for $15,748.

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

The following reconciliation is between lease liabilities recognized as at December 29, 2019 and operating leases commitments disclosed under IAS 17 in note 19 *Operating leases and commitments* as at December 28, 2019:

	$
Operating lease commitments as at December 28, 2019	48,520
Effect of discounting using the incremental borrowing rate	(9,296)
Add: finance leases as at December 29, 2019	3,967
Less: leases for which the underlying asset is low-value	(76)
Add: extension options reasonably certain to be exercised	19,606
Less: contracts as at December 29, 2019 excluded from IFRS 16	(950)
Lease liabilities as at December 29, 2019	61,771
Current portion of lease liabilities	11,941
Non-current portion of lease liabilities	49,830
	61,771

The impact of the adoption of IFRS 16 for the 12 and 36-week periods ended September 5, 2020, is as follows:

	12 weeks		
	Continuing operations	Discontinued operations	Total
	$	$	$
Decrease in operating expenses	(1,985)	(562)	(2,547)
Increase in financial expenses	328	52	380
Increase in depreciation and amortization	1,510	344	1,854

	36 weeks		
	Continuing operations	Discontinued operations	Total
	$	$	$
Decrease in operating expenses	(5,974)	(1,960)	(7,934)
Increase in financial expenses	1,037	370	1,407
Increase in depreciation and amortization	4,546	1,481	6,027

3 Significant estimates and judgments

On March 11, 2020, the World Health Organization has qualified the Covid-19 virus as a global pandemic ("pandemic"). This pandemic has forced governments around the world to implement emergency measures to slow the spread of the virus, such as the travel ban, the closure of non-essential services, the confinement of citizens and physical distancing, resulting in an economic slowdown. The Company, as a food distributor, is considered as an essential service and has continued to operate while having implemented various measures to protect its customers, suppliers and employees. Gradual reopening and the resumption of activities in several sectors have started at the end of the second quarter and continued during the third quarter. This pandemic is expected to continue to have an impact on customer demand, and therefore on the number of employees needed, could require tighter government regulations and increased government intervention, these factors could negatively affect operations, financial results and the balance sheet of the Company.

The preparation of the financial statements requires the management of the Company to undertakes some judgments and estimates about the recognition and measurement of the assets, liabilities, revenues and expenses which are based on the facts and information that are available to management. Because of the pandemic, management has revised its judgments and estimates as part of the preparation of its interim condensed consolidated financial statements and concluded that there was no significant change as of September 5, 2020 compared to the last fiscal year ended December 28, 2019.

In the first quarter of 2020, the Company updated the goodwill and trademarks impairment tests performed as of December 28, 2019 due to the pandemic. To assess the recoverable value of the CGUs, the Company used the forecasts made as of December 28, 2019 adjusted for the known and potential impacts of the pandemic. This pandemic is causing a lot of uncertainty for which management has made certain assumptions for the purpose of impairment testing, including a return to normality in the coming months. The Company has used average sales decrease and growth rates ranging from -7.84% to 0.25% (from -6.2% to 1.4% in 2019) to reflect a decrease of sales for the second quarter and a growth thereafter so the EBITDA generated by these divisions will be comparable to previous years by the end of fiscal year 2020, either by a resumption of economic activities in Quebec or by mitigation measures that the management of the Company has put in place during the first quarters. The Company has used a discount rate of 10.8% (10.1% as of December 28, 2019). These discount rates represent the weighted average cost of capital for the Company and for companies operating in the same sector of activity as the CGU. As of March 21, 2020, no impairment was required since the fair value of the CGUs was greater than its carrying value.

As of September 5, 2020, management has not deemed it necessary to update the impairment tests since no new element or new facts have occurred since March 21, 2020 and the results of the second and third quarters were greater than those initially estimated and used for impairment testing.

Given the uncertainty surrounding the pandemic's duration, extend and economic impact, the assumptions used may be different. Management will continue to monitor the developments of the pandemic and the possible impacts on the fair value of goodwill and trademarks.

The duration and impact of the pandemic is currently unknown, and it is impossible for management to reliably estimate the extent and impact of these developments, as well as the impact on the financial results and financial position of the Company for the coming periods. Depending on the duration of this pandemic, the importance of the second wave, its scale and changes in the industry, the impacts could be significant.

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

4 Operating segments

The Company has two reportable segments: Distribution and Wholesale. These operating segments are monitored and strategic decisions are made on the basis of segment operating earnings. Management does not take assets and liabilities into account when analyzing individual segments.

The Distribution segment's operations include the distribution of food products in hotels, restaurants and institutions ("HRI") and retail market. In that segment, the Company distributes specialized products such as meat, fish and sea food ("Specialty Distribution") as well as general food related products ("Broadline Distribution"). These different types of products are grouped under the same segment because of their similar nature, type of clients and distribution methods.

The Wholesale segment's operations include the sale of general food related products to distributors from its distribution center in Boucherville.

The Company and its chief operating decision-maker are assessing the performance of each segment based on adjusted EBITDA, which corresponds to sales minus cost of goods sold and operating expenses from continuing operations. The other expenses are recorded on a consolidated basis, therefore they are not considered in the adjusted EBITDA. Inter-segment eliminations and others eliminate all intersegment transactions included in the operating earnings for each segment and include headquarters' operations. Transactions between segments are recorded at a value agreed upon by both parties.

	12 weeks							
	Distribution segment		Wholesale segment		Intersegment eliminations and others		Total	
	2020	2019 (Restated, Note 5)	2020	2019 (Restated, Note 5)	2020	2019 (Restated, Note 5)	2020	2019 (Restated, Note 5)
	$	$	$	$	$	$	$	$
Segment sales	**81,706**	122,873	**50,799**	56,747	**(11,574)**	(13,817)	**120,931**	165,803
Operating expenses	**75,129**	116,873	**45,752**	52,768	**(10,093)**	(12,323)	**110,788**	157,318
Adjusted EBITDA	**6,577**	6,000	**5,047**	3,979	**(1,481)**	(1,494)	**10,143**	8,485

	36 weeks							
	Distribution segment		Wholesale segment		Intersegment eliminations and others		Total	
	2020	2019 (Restated, Note 5)	2020	2019 (Restated, Note 5)	2020	2019 (Restated, Note 5)	2020	2019 (Restated, Note 5)
	$	$	$	$	$	$	$	$
Segment sales	**222,807**	357,289	**133,613**	154,152	**(28,418)**	(38,382)	**328,002**	473,059
Operating expenses	**209,294**	343,471	**121,324**	143,310	**(24,070)**	(33,182)	**306,548**	453,599
Adjusted EBITDA	**13,513**	13,818	**12,289**	10,842	**(4,348)**	(5,200)	**21,454**	19,460

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

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

		12 weeks		36 weeks	
		2020	**2019** (Restated, Note 5)	**2020**	**2019** (Restated, Note 5)
	Notes	**$**	**$**	**$**	**$**
Net earnings from continuing operations		**3,441**	3,682	**3,178**	5,557
Income taxes		**1,938**	705	**1,491**	1,864
Financial expenses		**1,443**	1,572	**4,737**	5,215
Operating earnings		**6,822**	5,959	**9,406**	12,636
Costs from stock base compensation	13	**48**	244	**225**	(24)
Costs not related to current operations	8	**(121)**	—	**1,467**	178
Depreciation and amortization	2, 7	**3,394**	2,282	**10,356**	6,670
Adjusted EBITDA		**10,143**	8,485	**21,454**	19,460

As mentioned in note 2, the adoption of IFRS 16 had an impact on the accounting treatment of leases compared to 2019 under IAS 17. The comparative figures have not been restated since the Company has elected to adopt this standard as of December 29, 2019 using the modified retrospective method. The impacts of adopting IFRS 16 disclosed in note 2 must be taken into consideration in order to make adjusted EBITDA of 2020 comparable to the corresponding periods of 2019.

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

5 Discontinued operations

Broadline distribution operations in Ontario

On January 8, 2020, the Company announced the consolidation of Broadline Distribution activities of the Summit Foods division ("Summit") in Ontario into its Mississauga distribution center resulting in the closure of its London and Ottawa distribution centers on February 9, 2020 and March 2, 2020, respectively.

On May 11, 2020, the Company announced the closing of the sale of the majority of the assets of its Summit division for an amount of $9,336 subject to certain adjustments after the closing, including the finalization of working capital and a contingent consideration based on sales level in the next 12 months. An amount of $7,723 was received upon closing of the transaction and the remaining amount will be received in the coming months when the final adjustments are known. The sale includes the activities of independent and franchise restaurants as well as certain sales assets and transfer of certain employees. The Mississauga distribution center was closed in July 2020.

The following table presents the proceeds of disposition and the carrying amount of the net assets sold during the second quarter of 2020:

	$
Proceeds from disposition	9,336
Book value of assets and liabilities disposed:	
Trade and other receivables	3,709
Inventories	6,895
Prepaid expenses	661
Right-of-use assets	3,037
Trade and other payables	(2,389)
Lease liabilities	(3,037)
	8,876
Transaction fees	(474)
Loss on disposal	(14)

Sale of the Viandes Décarie division

On May 10, 2019, the Company concluded the sale of the assets of the Viandes Décarie division for an amount of $20,070 including final adjustments related to working capital, of which $17,750 was received at closing. The balance of the sale price receivable will be payable over a maximum period of five years according to the terms of the agreement, from which $479 has been received as at September 5, 2020.

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

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

Net earnings (loss) from discontinued operations are as follows:

	12 weeks		36 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Sales	—	95,738	**68,822**	312,853
Cost of goods sold	—	86,548	**62,408**	282,668
Gross Margin	—	9,190	**6,414**	30,185
Operating expenses	**303**	11,184	**9,274**	35,442
Depreciation and amortization	**553**	58	**1,807**	100
Costs not related to current operations	**1,990**	(70)	**12,303**	(7,799)
Impairment loss on goodwill, intangible assets and property, plant and equipment	—	—	—	73
Operating earnings	**(2,846)**	(1,982)	**(16,970)**	2,369
Financial expenses	**54**	30	**408**	101
Earnings (loss) before taxes	**(2,900)**	(2,012)	**(17,378)**	2,268
Income taxes recovered	**(1,248)**	(40)	**(4,777)**	(190)
Net earnings (loss) from discontinued operations	**(1,652)**	(1,972)	**(12,601)**	2,458

The costs not related to current operations break down as follows:

		12 weeks		36 weeks	
		2020	**2019**	**2020**	**2019**
	Notes	**$**	**$**	**$**	**$**
Severance costs		**482**	—	**7,931**	—
Provision for onerous contracts		**761**	—	**1,709**	—
Provision for obsolescence of inventory and bad debt	3, 14	—	—	**240**	—
Loss (gain) on disposal		—	(70)	**14**	(7,799)
Closing costs and others		**747**	—	**2,409**	—
Total		**1,990**	(70)	**12,303**	**(7,799)**

Costs not related to current operations for 2020 result from the closure of London and Ottawa distribution centers which took place in February and March 2020, respectively, as well as the closure of the Mississauga distribution center in July 2020. During the third quarter, the Company recorded an increase value of $650 for these distribution centers. The unpaid amounts of its restructuring costs are disclosed in note 8. The costs not related to current operations in 2019 represent the gain on disposal realized on the sale of the Viandes Décarie division.

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

Cash flows from discontinued operations are as follows:

	12 weeks		36 weeks	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Cash flows from operating activities	**(5,851)**	3,163	**(6,041)**	(6,612)
Cash flows from investing activities	**356**	(354)	**7,595**	16,946
Cash flows from financing activities	**(600)**	(87)	**(2,846)**	(276)
Net change in cash and cash equivalent from discontinued operations	**(6,095)**	2,722	**(1,292)**	10,058

6 Operating expenses

		12 weeks		36 weeks	
		2020	**2019**	**2020**	**2019**
			(Restated, Note 5)		**(Restated, Note 5)**
	Notes	**$**	**$**	**$**	**$**
Employee compensation[1]	13	**9,050**	11,753	**24,574**	34,606
Service contracts and variable portion related to lease contracts	2	**533**	2,606	**1,621**	7,957
Repair and maintenance		**448**	559	**1,660**	1,863
Utilities		**635**	965	**2,085**	3,130
Other expenses		**746**	2,304	**3,231**	5,327
		11,412	18,187	**33,171**	52,883

[1] During the 12 and 36 week periods of 2020, employee compensation are net of CEWS acquired in connection with the pandemic in the amount of $935 and $5,338 respectively, of which an amount of $935 is to be received as of September 5, 2020.

7 Depreciation and amortization

		12 weeks		36 weeks	
		2020	**2019**	**2020**	**2019**
			(Restated, Note 5)		**(Restated, Note 5)**
	Note	**$**	**$**	**$**	**$**
Depreciation of property, plant and equipment		**637**	740	**1,873**	1,960
Amortization of intangible assets		**1,248**	1,542	**3,938**	4,710
Depreciation of right-of-use assets	2	**1,509**	—	**4,545**	—
		3,394	2,282	**10,356**	6,670

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

8 Costs not related to current operations

Costs not related to current operations related to continuing operations break down as follows:

		12 weeks		36 weeks	
		2020	**2019** (Restated, Note 5)	**2020**	**2019** (Restated, Note 5)
	Notes	**$**	**$**	**$**	**$**
Severance costs		**—**	—	**183**	178
Allowance for bad debt accounts	3, 14	**110**	—	**626**	—
Others [(a)]		**(231)**	—	**658**	—
		(121)	—	**1,467**	178

[(a)] On February 24, 2020, the Company announced the decision not to exercise the option to acquire Dubé & Loiselle inc. The Company acquired this option in October 2016 for an amount of $500. This amount was written off during the first quarter of 2020. Other costs represent legal fees and other charges related to non-current activities.

The following table shows the change in provisions during the 36-week period ended September 5, 2020:

	$
Balance at the beginning of the period	**1,210**
Changes to assumptions	**(360)**
Additional provision [(b)]	**10,290**
Provisions used during the year	**(9,777)**
Balance at the end of the period	**1,363**

[(b)] The closure of its distribution centers located in Ottawa and London resulting from the Company's announcement in January 2020 and the one located in Mississauga, as mentioned in note 5, resulted in costs not related to current operations. As at September 5, 2020, unpaid amounts for separation costs of $500 and for onerous contracts of $863 are included in Trade and other payables on the balance sheet.

9 Income taxes

	12 weeks		36 weeks	
	2020	**2019** (Restated, Note 5)	**2020**	**2019** (Restated, Note 5)
	$	**$**	**$**	**$**
Current	**(41)**	(538)	**(41)**	(519)
Deferred	**1,979**	1,243	**1,532**	2,383
	1,938	705	**1,491**	1,864

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

10 Per share data

Earnings (loss) per share

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

	12 weeks		36 weeks	
	2020	**2019** (Restated, Note 5)	**2020**	**2019** (Restated, Note 5)
	$	**$**	**$**	**$**
Net earnings from continuing operations	**3,441**	3,682	**3,178**	5,557
Net earnings (loss) from discontinued operations	**(1,652)**	(1,972)	**(12,601)**	2,458
Net earnings (loss)	**1,789**	1,710	**(9,423)**	8,015
Weighted average number of outstanding shares	**101,639,418**	101,371,561	**101,639,418**	101,216,799
Effect of dilutive stock options	—	1,621,429	—	628,869
Weighted average number of basic and diluted outstanding shares	**101,639,418**	102,992,990	**101,639,418**	101,845,668
Basic and diluted net earnings per share of continuing operations	**0.03**	0.04	**0.03**	0.06
Basic and diluted net earnings (loss) per share of discontinued operations	**(0.01)**	(0.02)	**(0.12)**	0.02
Basic and diluted net earnings (loss) per share	**0.02**	0.02	**(0.09)**	0.08

Shares hypothetically issued as a result of the conversion of the convertible debentures (20,000,000 shares in 2020 and 2019) and 2,865,082 stock options in 2020 (2,908,304 stock options in 2019) were not included in the calculation of diluted earnings per share for the 12 and 36-week periods ended September 5, 2020 and September 7, 2019 because of their non-dilutive effect.

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

11 Long-term debt

	Note	As at September 5, 2020 $	As at December 28, 2019 $
Credit facility[a]		—	2,000
Subordinated debt[b]		**15,000**	15,000
Obligations arising from leases repayable in variable monthly instalments until July 2025, at interest rate ranging from 2.95% to 7.28%	2	—	3,967
Less unamortized financing costs		**(190)**	(58)
Total debt		**14,810**	20,909
Current portion of long-term debt		**3,000**	2,983
Total long-term debt		**11,810**	17,926

[a] **Credit facility**

On May 29, 2020, the Company extended its credit facility for an additional year, maturing on October 13, 2021, on similar terms. Under this new agreement, the credit facility is comprised of a revolving credit of up to $90,000 including an operating swingline of $13,500. By mutual agreement, the credit facility may be increased by an additional $20,000. As at September 5, 2020, the available credit facility is $40,621 given the assets available on that date.

[b] **Subordinated debt**

On May 29, 2020, the Company extended the maturity of its subordinated debt until February 15, 2022 on the same conditions, except for the repayment of an amount of $3,000 as of October 31, 2020 under certain conditions.

Financing costs of $186 were incurred during the second quarter ended June 13, 2020 relating to the extension of these two agreements.

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

12 Share-capital

Authorized

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

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

Issued and fully paid common shares

		As at September 5, 2020		As at September 7, 2019
	Number	Amount	Number	Amount
		$		$
Outstanding, beginning of the period	**101,677,932**	**256,296**	101,177,932	255,639
Issued during the period	—	—	500,000	657
Outstanding, end of the period	**101,677,932**	**256,296**	101,677,932	256,296

There were no outstanding preferred shares during the fiscal year covered.

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

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

13 Employee compensation

Stock-based compensation

Stock option plan

During the 12 and 36-week period ended September 5, 2020, the Company has not granted any stock options of the Company's common shares (240,000 and 1,215,000, respectively during the corresponding periods of 2019). The weighted average fair value of the options granted has been estimated at the award date using a binomial option pricing model based on the following assumptions:

	2019
	Period ended September 7, 2019
Weighted average fair value of the options	$0.36
Risk-free interest rate	1.55%
Expected volatility of shares	60%
Expected annual dividend	—
Expected term	6.25 years
Weighted average share price at date of grant	$0.71
Weighted average exercise price at date of grant	$0.70
Exercise period	4 years

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

	36 weeks			
	2020		**2019**	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding, beginning of the period	**3,416,471**	**0.94**	4,218,943	1.69
Granted	—	—	1,215,000	0.70
Exercised	—	—	(500,000)	0.88
Forfeiture	**(337,500)**	**0.73**	(1,323,889)	1.02
Expired	**(213,889)**	**1.14**	(701,750)	3.94
Outstanding, end of the period	**2,865,082**	**0.95**	2,908,304	1.18
Exercisable options	**1,065,036**	**1.48**	673,582	2.11

Forfeited stock options have generated an employee compensation charge reversal of $63 during the 36-week period ended September 5, 2020 ($202 in 2019).

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

14 Financial Instruments

A) Fair value

Fair value of cash, trade and other receivables, bank indebtedness, trade and other payables as well as current portion of long-term debt, is equivalent to the carrying amount due to their short-term maturity. Therefore, the time value of money is non-significant.

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

		As at September 5 2020		As at December 28, 2019
	Carrying amount	Fair value	Carrying amount	Fair value
	$	$	$	$
Financial liabilities				
Non-current				
Subordinated debt	**11,853**	**11,970**	14,963	14,957
Convertible debentures	**49,739**	**40,500**	49,576	42,260
	61,592	**52,470**	64,539	57,217

The fair value of subordinated debt was determined by discounting future cash flows at 6.5% (6.5% as at December 28, 2019), the current rate of subordinated debt.

The fair value of the convertible debentures was determined based on the trading price on September 5, 2020.

Fair value measurement

When determining an asset or a liability's fair value, the Company uses observable market data as much as possible. Financial assets and liabilities measured at fair value are presented using a three-level fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements of these items. The three fair value hierarchy levels are as follows:

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

As at September 5, 2020, the Company has classified the fair value measurement of non-current liabilities presented in the table above as follows: Convertible debentures (Level 1) and Subordinated debt (Level 2). There was no transfer between the levels during the 12 and 36-week periods ended September 5, 2020.

B) Financial risks management

The Company is exposed to various financial risks resulting from its operating, investing and financing activities. The Company's management manages financial risks in the purpose of limiting the Company's main financial risk exposure and its financial risk management policies are detailed below. The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

Interest rate risk

The credit facility bears interest at variable rates, and this exposes the Company to the cash flow risks resulting from interest rate fluctuations. The Company's other financial assets and liabilities do not result in any interest rate risk since they do not bear interest at variable rates. The Company manages its interest rate risk exposure through an appropriate mix of fixed-rate and variable-rate financial liabilities.

No significant changes occurred to the Company's exposure for this risk since December 28, 2019.

Credit risk

The carrying amount on the consolidated statements of financial position of trade and other accounts receivable and loans receivable represents the maximum amount exposed to credit risk.

The Company's credit risk is primarily attributable to its trade accounts receivable and loans receivable. The credit risk related to trade accounts receivable is generally diversified. The Company requires a guarantee or letter of credit from some of its customers. As at September 5, 2020, the Company had guarantees for about 1.0% of its trade accounts receivable (1.0% as at December 28, 2019). In addition, following the pandemic, the payment terms of some customers have been modified for prepayments or payments on delivery in order to minimize credit risks. An additional provision for bad debts in the amount of $110 and $626 was recorded during the 12 and 36-week periods ended September 5, 2020, respectively, following the temporary closure of some of our customers in the restaurant industry.

The Company's policy is to have each customer undergo a credit check.

The credit risk related to loans receivable is not diversified. For some of its loans, the Company has a movable mortgage on the assets held by the borrower.

Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and sources of financing in the form of authorized bank loans. The Company establishes budget estimates and cash flow forecasts to ensure it has the necessary funds to fulfill its obligations. These forecasts are updated on a regular basis to consider the impacts of the rapidly evolving pandemic. According to our updated forecast based on information currently available to management, the Company is expecting to be able to meet its obligations for the next 12 to 15 months by using future cash flows from operating and financing activities.

As at September 5, 2020, the Company was in compliance with all debt covenants. To meet its capital needs, the Company has a credit facility of which $40,621 was available as of September 5, 2020.

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

15 Related party transactions

Transactions between related parties of the Company consist of sales occurring with Dubé & Loiselle Inc., an entity owned by a director of the Company. The transactions were carried out in accordance with the various contracts governing relations between the Company and Dubé & Loiselle Inc., in the normal course of business.

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

	Note	12 weeks		36 weeks	
		2020	**2019**	**2020**	**2019**
		$	**$**	**$**	**$**
Sales		**3,356**	5,758	**10,561**	16,777
Trade and other receivables, net of remittances				**1,227**	1,172
Dubé & Loiselle inc. purchase option	8			—	500

16 Contingency

During the second quarter of 2019, a lawsuit of $7,700 has been initiated by a client against the Company alleging a default to the terms of the agreement. The Company intends to defend itself vigorously.