Interim condensed consolidated Financial Statements
(unaudited)
Second quarter of 2021
12 and 24-week periods ended June 12, 2021
(in thousands of Canadian dollars)

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors, PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., have not performed a review of the unaudited interim condensed consolidated financial statements for the 12 and 24-week periods ended June 12, 2021.

Interim Condensed Consolidated Statements of Earnings

(unaudited)

For the 12 and 24-week periods ended June 12, 2021 and June 13, 2020

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

		12 weeks		24 weeks	
		2021	**2020**	**2021**	**2020**
	Notes	**$**	**$**	**$**	**$**
Sales	3	**108,052**	95,458	**193,687**	207,071
Cost of goods sold		**89,715**	80,870	**160,981**	174,178
Gross Margin		**18,337**	14,588	**32,706**	32,893
Operating expenses	5	**11,711**	7,053	**22,254**	21,759
Depreciation and amortization	6	**3,245**	3,418	**6,505**	6,962
Costs not related to current operations	7	**64**	508	**155**	1,588
Operating earnings		**3,317**	3,609	**3,792**	2,584
Financial expenses		**1,102**	1,598	**2,839**	3,294
Earnings (loss) before taxes		**2,215**	2,011	**953**	(710)
Income taxes (recovered)		**575**	403	**324**	(447)
Net earnings (loss) from continuing operations		**1,640**	1,608	**629**	(263)
Net earnings (loss) from discontinued operations	4	**52**	(4,490)	**36**	(10,949)
Net earnings (loss)		**1,692**	(2,882)	**665**	(11,212)
Basic and diluted net earnings per share from continuing operations	8	**0.02**	0.01	**0.01**	—
Basic and diluted net earnings (loss) per share from discontinued operations	8	**—**	(0.04)	**—**	(0.11)
Basic and diluted net earnings (loss) per share	8	**0.02**	(0.03)	**0.01**	(0.11)

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 24-week periods ended June 12, 2021 and June 13, 2020

(in thousands of Canadian dollars)

		12 weeks		24 weeks	
		2021	**2020**	**2021**	**2020**
	Note	**$**	**$**	**$**	**$**
Net earnings (loss) from continuing operations		**1,640**	1,608	**629**	(263)
Other comprehensive income (loss) that will be subsequently reclassified to earnings:					
Changes in fair value of interest rate swap designated as cash flow hedge	13	**(98)**	—	**(98)**	—
Income taxes		**26**	—	**26**	—
Other comprehensive loss from continuing operations		**(72)**	—	**(72)**	—
Comprehensive income (loss) from continuing operations		**1,568**	1,608	**557**	(263)
Net earnings (loss) from discontinued operations		**52**	(4,490)	**36**	(10,949)
Other comprehensive income (loss) that will not be subsequently reclassified to earnings:					
Remeasurement of defined benefit pension obligation		**(184)**	1,924	**(155)**	272
Income taxes		**49**	(512)	**41**	(73)
Other comprehensive income (loss) from discontinued operations		**(135)**	1,412	**(114)**	199
Comprehensive income (loss) from discontinued operations		**(83)**	(3,078)	**(78)**	(10,750)
Comprehensive income (loss)		**1,485**	(1,470)	**479**	(11,013)

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

COLABOR

Interim Condensed Consolidated Statements of Changes in Equity
(unaudited)

For the 24-week periods ended June 12, 2021 and June 13, 2020

(in thousands of Canadian dollars)

	Notes	Share capital	Convertible debenture conversion options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total Equity
		$	$	$	$	$	$
Balance as at December 26, 2020		**256,300**	**1,742**	**4,011**	**(173,486)**	**—**	**88,567**
Net earnings		**—**	**—**	**—**	**665**	**—**	**665**
Other comprehensive loss		**—**	**—**	**—**	**(114)**	**(72)**	**(186)**
Comprehensive income (loss)		**—**	**—**	**—**	**551**	**(72)**	**479**
Conversion of debentures	10,11	**708**	**(24)**	**—**	**—**	**—**	**684**
Redemption of debentures	10	**—**	**(1,718)**	**1,718**	**—**	**—**	**—**
Stock-based compensation	12	**—**	**—**	**67**	**—**	**—**	**67**
Balance as at June 12, 2021		**257,008**	**—**	**5,796**	**(172,935)**	**(72)**	**89,797**

	Note	Share capital	Convertible debenture conversion options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total Equity
		$	$	$	$	$	$
Balance as at December 28, 2019		256,296	1,742	3,706	(161,641)	—	100,103
Impact of adoption of IFRS 16		—	—	—	(2,574)	—	(2,574)
Restated balance as at December 29, 2019		256,296	1,742	3,706	(164,215)	—	97,529
Net loss		—	—	—	(11,212)	—	(11,212)
Other comprehensive income		—	—	—	199	—	199
Comprehensive loss		—	—	—	(11,013)	—	(11,013)
Stock-based compensation	12	—	—	177	—	—	177
Balance as at June 13, 2020		256,296	1,742	3,883	(175,228)	—	86,693

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

COLABOR

Interim Condensed Consolidated Statements of Cash Flows
(unaudited)
For the 12 and 24-week periods ended June 12, 2021 and June 13, 2020
(in thousands of Canadian dollars)

		12 weeks		24 weeks	
		2021	**2020**	**2021**	**2020**
	Notes	**$**	**$**	**$**	**$**
Cash flows from operating activities					
Net earnings (loss) from continuing operations		**1,640**	1,608	**629**	(263)
Non-cash items					
Deferred income taxes		**575**	403	**324**	(447)
Depreciation and amortization	6	**3,245**	3,418	**6,505**	6,962
Financial expenses		**1,102**	1,598	**2,839**	3,294
Other		**43**	73	**62**	213
		6,605	7,100	**10,359**	9,759
Net changes in working capital		**(9,516)**	(3,883)	**(7,894)**	(929)
		(2,911)	3,217	**2,465**	8,830
Cash flows from investing activities					
Acquisitions of property, plant and equipment		**(512)**	(315)	**(574)**	(369)
Proceeds on disposals of property, plant and equipment		**1**	28	**4**	41
Acquisitions of intangible assets		**(32)**	(139)	**(91)**	(238)
Other		**59**	149	**50**	269
		(484)	(277)	**(611)**	(297)
Cash flows from financing activities					
Net change in the credit facility		**43,000**	—	**43,000**	(2,000)
Lease liability payments		**(1,916)**	(1,804)	**(3,796)**	(3,625)
Increase in subordinated debt	9	**—**	—	**15,000**	—
Repayment of subordinated debt	9	**—**	—	**(12,000)**	—
Financing cost paid	9	**—**	(186)	**(513)**	(186)
Financial expenses paid		**(940)**	(1,527)	**(2,474)**	(3,152)
Redemption of convertible debentures	10	**(49,316)**	—	**(49,316)**	—
		(9,172)	(3,517)	**(10,099)**	(8,963)
Net change in cash and cash equivalents from continuing operations		**(12,567)**	(577)	**(8,245)**	(430)
Net change in cash and cash equivalents from discontinued operations	4	**—**	(2,476)	**(272)**	4,803
Cash and cash equivalents (bank indebtedness) at the beginning		**13,244**	1,991	**9,194**	(5,435)
Cash and cash equivalents (bank indebtedness) at the end		**677**	(1,062)	**677**	(1,062)

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

COLABOR

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

	Notes	As at June 12, 2021 $	As at December 26, 2020 $
Assets			
Current assets			
Cash and cash equivalent		**677**	9,194
Trade and other receivables		**42,380**	34,416
Inventories		**38,886**	35,266
Other		**3,830**	1,943
		85,773	80,819
Non-current assets			
Property, plant and equipment		**5,672**	6,122
Intangible assets		**24,732**	26,569
Right-of-use assets		**34,831**	38,450
Goodwill		**70,813**	70,813
Deferred tax assets		**6,062**	6,351
Other		**4,456**	4,876
		146,566	153,181
Total assets		**232,339**	234,000
Liabilities			
Current liabilities			
Trade and other payables		**44,353**	38,519
Current portion of long-term debt	9	**3,000**	—
Convertible debentures	10	**—**	49,812
Current portion of lease liabilities		**8,510**	8,828
Other		**179**	697
		56,042	97,856
Non-current liabilities			
Long-term debt	9	**54,523**	11,860
Lease liabilities		**28,904**	32,805
Pension obligations		**2,955**	2,887
Derivative financial instrument	13	**98**	—
Deferred tax liabilities		**20**	25
		86,500	47,577
Total liabilities		**142,542**	145,433
Equity			
Equity attributable to shareholders		**89,797**	88,567
Total liabilities and equity		**232,339**	234,000

Contingency (Note 14)
The accompanying notes are an integral part of the interim condensed consolidated financial statements.

1 Nature of operations

Colabor Group 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 are listed on the Toronto Stock Exchange under the symbol GCL.

Covid-19

In March 2020, the World Health Organization declared the Covid-19 virus a global pandemic ("pandemic"). Since that date, the governments have been implementing various emergency measures to curb the spread of the virus as the pandemic situation evolves, such as closing nonessential services and restaurants dining rooms and confining citizens. This pandemic continues to impact customer demand and therefore could have an adverse impact on operations.

The duration and impact of the pandemic are unknown at this time, and it is impossible for management to reliably estimate the extent and impact of these developments, as well as the impact on the Company's financial results and financial position for the coming period. Depending on the occurrence of new waves, their scale and changes in the industry, the impacts could be significant.

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 26, 2020.

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 26, 2020, 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 jurisdiction and except for the new accounting policies for derivatives financial instruments and hedging relationship as describe below. The accounting policies have been applied consistently for all the periods presented.

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 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 1 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 July 21, 2021. The Company's auditors have not performed a review of these unaudited interim condensed consolidated financial statements.

Derivative financial instruments and hedging relationship

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. The Company has designated the interests swap as cash flow hedge.

The Company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, as to whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. The full fair value of a derivative financial instrument is classified as a non-current asset or liability when the remaining life of the hedged item is more than 12 months and as a current asset or liability when the remaining life of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the consolidated statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of earnings. Amounts accumulated in equity are reclassified to earnings against the gain (loss) on the hedged item when the latter is realized. When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statement of earnings. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of earnings.

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

3 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 and related 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 current 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	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Segment sales	**73,282**	60,223	**45,503**	43,050	**(10,733)**	(7,815)	**108,052**	95,458
Operating expenses	**69,071**	55,331	**41,511**	39,458	**(9,201)**	(6,944)	**101,381**	87,845
Adjusted EBITDA	**4,211**	4,892	**3,992**	3,592	**(1,532)**	(871)	**6,671**	7,613

	24 weeks							
	Distribution segment		Wholesale segment		Intersegment eliminations and others		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Segment sales	**130,304**	140,331	**82,012**	82,814	**(18,629)**	(16,074)	**193,687**	207,071
Operating expenses	**123,980**	133,395	**74,591**	75,572	**(15,403)**	(13,207)	**183,168**	195,760
Adjusted EBITDA	**6,324**	6,936	**7,421**	7,242	**(3,226)**	(2,867)	**10,519**	11,311

(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		24 weeks	
		2021	**2020**	**2021**	**2020**
	Notes	**$**	**$**	**$**	**$**
Net earnings (loss) from continuing operations		**1,640**	1,608	**629**	(263)
Income taxes (recovered)		**575**	403	**324**	(447)
Financial expenses		**1,102**	1,598	**2,839**	3,294
Operating earnings		**3,317**	3,609	**3,792**	2,584
Costs from stock base compensation	12	**45**	78	**67**	177
Costs not related to current operations	7	**64**	508	**155**	1,588
Depreciation and amortization	6	**3,245**	3,418	**6,505**	6,962
Adjusted EBITDA		**6,671**	7,613	**10,519**	11,311

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

4 Discontinued operations

Broadline distribution operations in Ontario

On May 11, 2020, the Company announced it had concluded an agreement for the sale of the majority of the assets of its Summit division for an amount of $9,457, subject to certain adjustments after the closing and a contingent consideration based on sales levels over the next 12 months following the transaction. An amount of $7,723 was received upon closing of the transaction and a net amount of $444 was received when the working capital was finalized. The remaining amount will be received in the coming months when the final adjustments are known.

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

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

	12 weeks		24 weeks	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Sales	—	9,431	—	68,822
Cost of goods sold	—	8,645	—	62,408
Gross Margin	—	786	—	6,414
Operating expenses	**(96)**	1,527	**(96)**	8,971
Depreciation and amortization	—	616	—	1,254
Costs not related to current operations	**15**	4,040	**31**	10,313
Operating earnings (loss)	**81**	(5,397)	**65**	(14,124)
Financial expenses	**2**	155	**2**	354
Earnings (loss) before taxes	**79**	(5,552)	**63**	(14,478)
Income taxes (recovered)	**27**	(1,062)	**27**	(3,529)
Net earnings (loss) from discontinued operations	**52**	(4,490)	**36**	(10,949)

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

Costs not related to current operations from discontinued operations are as follows:

	12 weeks		24 weeks	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Severance costs	—	3,852	—	7,449
Provision for onerous contracts	—	(148)	—	948
Provision for obsolescence of inventory and bad debt	—	—	—	240
Loss on disposal	**28**	14	**28**	14
Closing costs and others	**(13)**	322	**3**	1,662
Total	**15**	4,040	**31**	10,313

Cash flows from discontinued operations are as follows:

	12 weeks		24 weeks	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Cash flows from operating activities	**(15)**	(7,227)	**(284)**	(190)
Cash flows from investing activities	—	7,249	—	7,239
Cash flows from financing activities	**15**	(2,498)	**12**	(2,246)
Net change in cash and cash equivalent from discontinued operations	—	(2,476)	**(272)**	4,803

5 Operating expenses

		12 weeks		24 weeks	
		2021	**2020**	**2021**	**2020**
	Note	**$**	**$**	**$**	**$**
Employee compensation(1)	12	**9,219**	4,218	**17,454**	15,524
Service contracts and variable portion related to lease contracts		**619**	475	**1,210**	1,088
Repair and maintenance		**603**	574	**1,161**	1,212
Utilities		**741**	605	**1,541**	1,450
Other expenses(2)		**529**	1,181	**888**	2,485
		11,711	7,053	**22,254**	21,759

(1) During the 12 and 24-week periods of 2021, employee compensation is net of Canada Emergency Wage Subsidy ("CEWS") acquired in connection with the pandemic amounting to $1,087 and $2,182 ($4,403 and $4,403 in 2020), of which an amount of $255 is to be received as at June 12, 2021.

(2) During the 12 and 24-week periods of 2021, the other expenses are net of Canada Emergency Rent Subsidy ("CERS") acquired in connection with the pandemic amounting to $151 and to $335 (nil during the corresponding periods of 2020).

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

6 Depreciation and amortization

	12 weeks		24 weeks	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Depreciation of property, plant and equipment	**506**	747	**1,022**	1,236
Amortization of intangible assets	**961**	1,296	**1,926**	2,690
Depreciation of right-of-use assets	**1,778**	1,375	**3,557**	3,036
	3,245	3,418	**6,505**	6,962

7 Costs not related to current operations

Costs not related to current operations related to continuing operations are as follows:

	12 weeks		24 weeks	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Severance costs	**35**	74	**35**	183
Allowance for bad debt accounts	**—**	226	**—**	516
Others [(a)]	**29**	208	**120**	889
	64	508	**155**	1,588

[(a)] On February 24, 2020, the Company announced its decision not to exercise the option to acquire Dubé & Loiselle inc. The Company had 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 24-week period ended June 12, 2021:

	$
Balance at the beginning of the period	**1,436**
Provisions used during the period	**(1,283)**
Balance at the end of the period	**153**

As at June 12, 2021, unpaid severance costs of $111 and onerous contracts of $42 are included in accounts payable and other payables on the Consolidated Statements of Financial Position.

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

8 Per share data

Earnings (loss) per share

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

	12 weeks		24 weeks	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Net earnings (loss) from continuing operations	**1,640**	1,608	**629**	(263)
Net earnings (loss) from discontinued operations	**52**	(4,490)	**36**	(10,949)
Net earnings (loss)	**1,692**	(2,882)	**665**	(11,212)
Weighted average number of basic outstanding shares	**101,916,228**	101,639,418	**101,784,278**	101,639,418
Effect of dilutive stock options	**2,121,429**	—	**1,865,000**	—
Weighted average number of diluted outstanding shares	**104,037,657**	101,639,418	**103,649,278**	101,639,418
Basic and diluted net earnings per share from continuing operations	**0.02**	0.01	**0.01**	—
Basic and diluted net earnings (loss) per share from discontinued operations	**—**	(0.04)	**—**	(0.11)
Basic and diluted net earnings (loss) per share	**0.02**	(0.03)	**0.01**	(0.11)

As at June 12, 2021, 1,048,982 stock options (3,187,582 stock options in 2020) were not included in the calculation of diluted loss per share for the 12 and 24-week periods because of their non-dilutive effect, as well as 20,000,000 convertible debentures in 2020.

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

9 Long-term debt

	As at June 12, 2021	As at December 26, 2020
	$	$
Credit facility[a]		
Term loan	**30,000**	—
Revolving credit	**13,000**	—
Subordinated debts[b]	**15,000**	12,000
Less unamortized financing costs	**(477)**	(140)
Total debt	**57,523**	11,860
Current portion of long-term debt	**3,000**	—
Total long-term debt	**54,523**	11,860

[a] Credit facility

On February 18, 2021, the Company entered into a new senior secured credit facility for a total amount of $80,000 including a term loan of $30,000 and a revolving credit of $50,000, of which $5,000 in operating swingline. The facility bears interest at the cost of funds, plus a margin varying between 1.75% to 3.25% depending on the Company's leverage ratios. The credit facility is guaranteed by the assets of the Company and by those of some of its subsidiaries and provides limits on the operations and activities, particularly regarding the authorized investments as well as some ratios essentially related to consolidated adjusted EBITDA, financial expenses and total debt which were met as at June 12, 2021. The term loan is repayable quarterly, for an amount of $3,000 per year. By mutual agreement, the credit facility may be increased by $20,000 and matures on February 18, 2025. As at June 12, 2021, the availability under the credit facility is $35,986.

[b] Subordinated debts

On February 18, 2021, the Company entered into an agreement for a $20,000 new subordinated debt, of which $15,000 has been disbursed at closing and $5,000 is available until February 2022 at the Company's option. The subordinated debt bears interest at a rate of 7.25% to 8.25% depending on the Company's leverage ratios, payable quarterly and matures on February 18, 2026. The subordinated debt is secured by a mortgage on all present and future assets of the Company, which is subordinated to the first-ranking security on the credit facility.

The existing subordinated debt, as at December 26, 2020, in the amount of $12,000 was fully repaid on February 18, 2021.

Financing costs of $513 were incurred during the 24-week period ended June 12, 2021, in connection with the execution of these two credit agreements.

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

10 Debentures

	As at June 12, 2021	As at December 26, 2020
	$	$
Convertible debentures	—	50,000
Less unamortized financing costs	—	(188)
	—	49,812

On March 23, 2021, the Company completed the redemption of all outstanding convertible debentures in the aggregate principal unpaid amount of $49,316. Following the conversions described in Note 11, the balance of $49,316 was redeemed at a price of $1,000 per debenture, plus accrued and unpaid interest to, but excluding, March 23, 2021. An amount of $1,718 representing the equity component of the convertible debentures was transferred to contributed surplus in connection with the debentures for which the conversion option was not exercised by the maturity date.

The convertible debentures that were listed on the Toronto Stock Exchange under the symbol GCL.DB.A were delisted on March 23, 2021.

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

11 Share-capital

Authorized

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

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

Issued and fully paid common shares

		As at June 12, 2021		As at June 13, 2020
	Number	**Amount $**	**Number**	**Amount $**
Outstanding, beginning of the period	**101,681,285**	**256,300**	101,677,932	256,296
Issued during the period	**273,600**	**708**	—	—
Outstanding, end of the period	**101,954,885**	**257,008**	101,677,932	256,296

There were no outstanding preferred shares during the periods covered.

On February 18, 2021, the Company announced its intention to redeem early all of the issued and outstanding convertible debentures. The terms of the convertible debentures gave the holders the right to convert, prior to the announced redemption date of March 23, 2021, their convertible debentures at a conversion price of $2.50 per share. According to these terms, on March 17, 2021, 267,600 common shares were issued for an aggregate amount of $669 and on March 22, 2021, 6,000 common shares were issued for an aggregate amount of $15.

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

12 Employee compensation

Stock-based compensation

Stock option plan

During the 12 and 24-week periods ended June 12, 2021, the Company granted 480,000 and 680,000 stock options of the Company's common shares (nil during the corresponding periods of 2020). 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 during the 24-week period ended June 12, 2021:

	2021 **24-week period ended June 12, 2021**
Weighted average fair value of the options	**$0.46**
Risk-free interest rate	**0.90 %**
Expected volatility of shares	**60 %**
Expected annual dividend	**—**
Expected term	**5.5 ans**
Weighted average share price at date of grant	**$1.09**
Weighted average exercise price at date of grant	**$1.10**

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

	24 weeks			
		2021		**2020**
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
		$		**$**
Outstanding, beginning of the period	**2,658,982**	**0.84**	3,416,471	0.94
Granted	**680,000**	**1.10**	—	—
Forfeiture	**(60,000)**	**0.76**	(90,000)	0.74
Expired	**(105,000)**	**2.27**	(138,889)	1.36
Outstanding, end of the period	**3,173,982**	**0.85**	3,187,582	0.93
Exercisable options	**1,553,982**	**0.96**	1,087,536	1.45

Forfeited stock options have generated an employee compensation charge reversal of $14 during the 24-week period ended June 12, 2021 ($17 in 2020).

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

13 Financial Instruments

A) Fair value

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

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

	As at June 12, 2021		As at December 26, 2020	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
Financial liabilities				
Non-current				
Credit facility	**42,673**	**43,000**	—	—
Subordinated debt	**14,850**	**15,000**	11,860	11,969
Derivative financial instrument	**98**	**98**	—	—
	57,621	**58,098**	11,860	11,969

The fair value of the credit facility is comparable to the carrying amount as the interest rate fluctuates with the market rate with conditions comparable to those prevailing in the market.

The fair value of subordinated debt was determined by discounting future cash flows at 7.25% (6.5% as at December 26, 2020), the current rate of subordinated debt.

In addition, in April 2021, the Company entered into an interest rate swap for a total nominal value of $15,000 to cover the risk of interest rate fluctuations on a portion of its credit facility beginning in March 2022 until maturity in 2025. The interest rate fixed by the swap is 1.43%. Since this swap meet the hedge accounting conditions, changes in fair value are recognized in other comprehensive income.

The fair value of the interest rate swap is calculated at the present value of the estimated future cash flows using an appropriate interest rate yield curve. Assumptions are based on market conditions prevailing at each reporting date. The fair value of derivative instrument reflects the estimated amounts that the Company would receive or pay to settle the contract at the reporting date. As at June 12, 2021, the fair value of the swap is a liability and is accounted for under derivative financial instrument in the non-current liabilities of the consolidated statement of financial position for an amount of $98.

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 June 12, 2021, the Company has classified the fair value measurement of the credit facility, the subordinated debt and of the interest rate swap as Level 2. There was no transfer between the levels during the 12 and 24-week periods ended June 12, 2021.

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 exposure to interest rate risk by favoring an appropriate mix of fixed and floating rate financial liabilities.

In addition, in April 2021, the Company entered into an interest rate swap for a total nominal value of $15,000 with a financial institution in order to hedge the risk of fluctuations in interest rates on a portion of its credit facility beginning in March 2022 and until maturity in 2025. The Company periodically reviews the level of the debt on which the interest rates must be fixed.

Credit risk

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

The Company's credit risk is primarily attributable to its trade accounts receivable and other assets. 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 June 12, 2021, the Company had guarantees for about 1.8% of its trade accounts receivable (1.8% as at December 26, 2020). In addition, following the beginning of the pandemic, the payment terms of some customers have been modified for prepayments or payments on delivery in order to minimize credit risks.

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

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 funds available under the credit facility in place.

As at June 12, 2021, the Company was in compliance with all its bank covenants.

14 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.