

MANAGEMENT'S DISCUSSION AND ANALYSIS 2017

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ANNUAL HIGHLIGHTS

(In millions of US dollars, except percentages, per share amounts and otherwise specified)

2017

SALES \$1,448.3	EBITDA ⁽¹⁾ \$110.8 7.6%	ADJUSTED EBITDA ⁽¹⁾ \$117.5 8.1%	NET EARNINGS \$44.6 \$1.06/SHARE	ADJUSTED EARNINGS ⁽¹⁾ \$55.1 \$1.30/SHARE
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2016

SALES \$1,197.3	EBITDA ⁽¹⁾ \$106.8 8.9%	ADJUSTED EBITDA ⁽¹⁾ \$107.6 9.0%	NET EARNINGS \$58.3 \$1.37/SHARE	ADJUSTED EARNINGS ⁽¹⁾ \$58.6 \$1.38/SHARE
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- During the 2017 year, the Corporation was actively developing its network, resulting in 10 business acquisitions concluded during the year, as well as the opening of 6 greenfields. On August 7, 2017, the Corporation concluded the acquisition of The Parts Alliance (TPA), a leading and rapidly growing automotive aftermarket parts distributor in the United Kingdom (UK), for a total cost of \$263.6, adding 162 stores to the network. This transaction was fully funded with debt. Since the acquisition date, TPA operations are consolidated as part of a new segment called "The Parts Alliance UK" in the consolidated financial statements of the Corporation.
- The network is now composed of 447 stores, as at December 31, 2017, covering North America and the UK. This represents, net of the integrated stores from recent acquisitions, a growth of 188 stores when compared to last year.
- Consolidated sales increased by \$251.0 or 21.0%, fuelled by sales generated from recent business acquisitions, of which, The Parts Alliance UK segment represented a growth of 12.4%. The Canadian Automotive Group segment reported an organic growth of 3.9%, despite the loss of an independent member earlier this year, while the FinishMaster US segment was affected by the line conversion and the hurricanes, resulting in a negative consolidated organic growth ⁽¹⁾ of 2.9%. Excluding these headwinds from both segments, the consolidated organic growth ⁽¹⁾ would have been approximately 2.4%.
- EBITDA ⁽¹⁾ and EBITDA margin ⁽¹⁾ were respectively \$110.8 and 7.6% compared to \$106.8 and 8.9% last year. Once adjusted for net charges related to The Parts Alliance acquisition and restructuring and other charges, adjusted EBITDA ⁽¹⁾ increased by 9.2%, to \$117.5 from \$107.6 last year, mainly benefiting from recent business acquisitions and, in particular, TPA.
- Net earnings were \$44.6 compared to \$58.3 last year. Once adjusted, earnings ⁽¹⁾ were \$55.1 in 2017 and \$58.6 last year. EPS and adjusted EPS ⁽¹⁾ were respectively \$1.06 and \$1.30 compared to \$1.37 and \$1.38 last year.
- On December 22, 2017, the United States enacted the "Tax Cuts and Jobs Act," commonly referred to as the US tax reform, which includes a US Federal tax rate reduction. This tax reform resulted in a net tax gain of \$0.8, primarily from the write-down of the net deferred tax liabilities to the lower enacted US corporate tax rate of 21.0%, which was previously 35.0%.
- Credit agreement was amended providing a total upsize of \$225.0 and enabling, among other things, the acquisition of TPA. Free cash flows ⁽¹⁾ generated \$95.7, permitting a partial reduction of the debt, acquisitions and investments in capital for equipment and software. As at December 31, 2017, total net debt ⁽¹⁾ was \$417.9 and \$193.0 was still available on the credit facilities allowing further growth initiatives.
- Early 2018, the FinishMaster US segment announced the opening of a new distribution centre in Grand Prairie, Texas, supporting its fulfillment strategy to its branch and customer network.

⁽¹⁾ This information represents a non-IFRS financial measure. (Refer to the "Non-IFRS financial measures" section for further details.)

PRELIMINARY COMMENTS TO MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIS OF PRESENTATION OF MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's discussion and analysis ("MD&A") discusses the Corporation's operating results and cash flows for the quarter and the year ended December 31, 2017 compared with the quarter and the year ended December 31, 2016, as well as its financial position as at December 31, 2017 compared with its financial position as at December 31, 2016. This report should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the 2017 Annual Report. The information contained in this MD&A takes into account all major events that occurred up to February 19, 2018, the date at which the consolidated financial statements and MD&A were approved and authorized for issuance by the Corporation's Board of Directors. It presents the existing Corporation's status and business as per Management's best knowledge as at that date.

Additional information on Uni-Select, including the audited consolidated financial statements and the Corporation's Annual Information Form, is available on the SEDAR website at sedar.com.

In this MD&A, "Uni-Select" or the "Corporation" refers, as the case may be, to Uni-Select Inc. and its subsidiaries.

Unless otherwise indicated, the financial data presented in this MD&A, including tabular information, is expressed in thousands of US dollars, except per share amounts, percentages, number of shares and otherwise specified. Comparisons are presented in relation to the comparable periods of the prior year.

The consolidated financial statements contained in the present MD&A were prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been audited by the Corporation's external auditors.

FORWARD-LOOKING STATEMENTS

The MD&A is intended to assist investors in understanding the nature and importance of the results and trends, as well as the risks and uncertainties associated with Uni-Select's operations and financial position. Certain sections of this MD&A contain forward-looking statements within the meaning of securities legislation concerning the Corporation's objectives, projections, estimates, expectations or forecasts.

Forward-looking statements involve known and unknown risks and uncertainties, which may cause actual results in future periods to differ materially from forecasted results. Risks that could cause the results to differ materially from expectations are discussed in the "Risk Management" section. Those risks include, among others, competitive environment, consumer purchasing habits, vehicle fleet trends, general economic conditions and the Corporation's financing capabilities.

There is no assurance as to the realization of the results, performance or achievements expressed or implied by forward-looking statements. Unless required to do so pursuant to applicable securities legislation, Management assumes no obligation as to the updating or revision of forward-looking statements as a result of new information, future events or other changes.

COMPLIANCE WITH IFRS

The information included in this report contains certain financial measures that are inconsistent with IFRS. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other entities. The Corporation considers that users of its MD&A may analyze its results based on these measurements. *(Refer to section "Non-IFRS financial measures" for further details.)*

PROFILE AND DESCRIPTION

Uni-Select is a leader in the distribution of automotive refinish and industrial paint and related products in North America, as well as a leader in the automotive aftermarket parts business in Canada and in the UK. Uni Select is headquartered in Boucherville, Québec, Canada, and its shares are traded on the Toronto Stock Exchange (TSX) under the symbol UNS.

In Canada, Uni-Select supports over 16,000 automotive repair and collision repair shops through a growing national network of more than 1,100 independent customers and over 60 corporate stores, many of which operate under the Uni-Select BUMPER TO BUMPER®, AUTO PARTS PLUS® AND FINISHMASTER® store banner programs. It also supports over 3,900 shops and stores through its automotive repair/installer shop banners, as well as through its automotive refinish banners.

In the United States, Uni-Select, through its wholly-owned subsidiary FinishMaster, Inc., operates a national network of over 210 automotive refinish corporate stores under the FINISHMASTER banner which services a network of over 30,000 customers annually, of which it is the primary supplier to over 6,000 collision repair centre customers.

In the UK and Ireland, Uni-Select, through its Parts Alliance group of subsidiaries, is a leading distributor of automotive parts supporting over 23,000 customer accounts with a network of close to 200 locations including over 170 corporate stores.

OPERATIONAL REVIEW OF THE LAST 3 YEARS

SELECTED CONSOLIDATED INFORMATION

(in thousands of US dollars, except per share amounts, percentages and otherwise specified)	2017	2016	2015 ⁽²⁾
OPERATING RESULTS			
Sales	1,448,272	1,197,319	1,355,434
EBITDA ⁽¹⁾	110,752	106,848	(53,322)
EBITDA margin ⁽¹⁾	7.6%	8.9%	(3.9%)
Restructuring and other charges	(523)	(746)	5,328
Net transaction charges related to The Parts Alliance acquisition	7,303	-	-
Impairment and transaction charges related to the sale of net assets	-	-	144,968
Adjusted EBITDA ⁽¹⁾	117,532	107,628	96,603
Adjusted EBITDA margin ⁽¹⁾	8.1%	9.0%	7.1%
Net earnings (loss)	44,616	58,265	(40,221)
Adjusted earnings ⁽¹⁾	55,097	58,638	56,839
Free cash flows ⁽¹⁾	95,660	107,093	78,532
COMMON SHARE DATA			
Net earnings (loss)	1.06	1.37	(0.94)
Adjusted earnings ⁽¹⁾	1.30	1.38	1.33
Dividend (C\$)	0.3625	0.335	0.315
Book value per share	12.25	11.19	10.13
Number of shares outstanding	42,273,812	42,214,178	43,135,758
Weighted average number of outstanding shares	42,261,423	42,434,956	42,777,589
FINANCIAL POSITION			
Working capital	254,581	191,458	228,774
Total assets	1,486,745	980,616	835,150
Total net debt ⁽¹⁾	417,909	111,973	-
Total equity	517,977	472,362	436,978
Return on average total equity ⁽¹⁾	9.0%	12.8%	(8.5%)
Adjusted return on average total equity ⁽¹⁾	10.8%	12.9%	12.0%

⁽¹⁾ This information represents a non-IFRS financial measure. (Refer to the "Non-IFRS financial measures" section for further details.)

⁽²⁾ 2015 financial results are impacted by the sale of the net assets of Uni-Select USA, Inc. and Beck/Arnley Wolrdparts, Inc. completed on June 1, 2015.

Detailed analysis of the changes in operating results and the consolidated statements of financial position between 2017 and 2016 are provided in the following sections. Detailed analysis of the changes in the operating results and the consolidated statements of financial position between 2016 and 2015 are included in the MD&A in the 2016 Annual Report, available on the SEDAR website at sedar.com.

OVERVIEW

The last three years were transformational for the Corporation. To respond to the constant evolution of the business, market and competition, the Corporation implemented new business strategies and initiatives, building a long-term platform for profitable growth while reinforcing its market share and leadership positions.

The major initiatives and achievements of the Corporation include the following:

- Selling the net assets of Uni-Select USA, Inc. and Beck/Arnley Worldparts, Inc. in 2015, enabling the Corporation to be debt free and to pursue further growth initiatives.
- Driving balanced profitable growth through a combination of organic and acquisitive initiatives in all segments. The Corporation, with its mergers and acquisitions program, was able to close 40 acquisitions over the 2015 to 2017 period. The Corporation energized its profitable organic growth through initiatives such as opening 7 greenfields for the same period.
- Improving operational efficiency by successfully integrating business acquisitions, launching the 20/20 initiative across its three pillars to adapt the cost structure to support the evolution of the business model as well as developing and optimizing software tools.
- Transforming and evolving the Canadian Automotive Group segment to compete in the future by adding a corporate store network, complementing the network of independent jobber customers, developing and executing new enhanced store banner and merchandising programs (BUMPER TO BUMPER and AUTO PARTS PLUS) while launching the FINISHMASTER brand in Canada.
- Evaluating additional new markets to establish a third growth pillar, with a cultural fit, a strong market position and significant potential for growth, resulting in the acquisition of The Parts Alliance, a UK leader in the distribution of automotive aftermarket parts on August 7, 2017.

All these activities provided healthy free cash flows to the Corporation, allowing further growth and value creation in all business segments. The Corporation ended 2015 with 209 stores across its Canadian Automotive Group and FinishMaster US segments and has completed the 2017 year with a network of 447 stores across its three operational segments.

FINANCIAL YEAR 2017

Internationalization and evolving network

The Corporation evolved, taking giant steps and an international turn by adding The Parts Alliance, a UK leader in the distribution of automotive aftermarket parts, to its growing network. Meanwhile, the Canadian Automotive Group and the FinishMaster US segments complemented their respective networks through selected business acquisitions and greenfield openings.

Key initiatives by segment:

FinishMaster US:

FinishMaster US is in constant evolution and continued the remodeling of its product portfolio and its customer mix with the product line changeover in the later part of 2016 and early 2017 and recent business acquisitions, which comprise a higher percentage of multi-shop owners (MSO).

FinishMaster US expanded and enriched its network by developing the Northwest region with 3 greenfield openings, enlarging its footprint with its first two locations acquired in the state of Alaska and reinforcing its position in major markets by adding 16 locations, notably with the acquisition of D'Angelo, the largest acquisition to date. It also successfully integrated 13 locations from recent business acquisitions.

The FinishMaster US team accelerated organic initiatives to drive future growth such as enhancing product offering with the industrial products and the ongoing deployment of their private label SMART brand. Productivity improvement initiatives were implemented to focus on reducing its costs to support its evolving model, notably through the 20/20 initiative.

Canadian Automotive Group:

This segment is also in constant evolution and continued its two significant growth initiatives, to develop a corporate store network and to attract additional independent jobbers: the BUMPER TO BUMPER auto parts program and the FINISHMASTER paint, body and equipment brand in Canada. This resulted in the addition in 2017 of 10 corporate stores to its national network: 7 BUMPER TO BUMPER and 3 FINISHMASTER.

The segment is actively working at improving the efficiency of its operations through the integration of the corporate stores, including store rebranding, store processes and the implementation of the new point of sales (POS) system. Once completed, these respective activities are expected to yield additional synergies and efficiency and to be leveraged with further acquisitions or greenfield stores.

The Parts Alliance UK (since acquisition on August 7, 2017):

The Parts Alliance UK is constantly looking for growth opportunities while enhancing its national coverage. Since its acquisition, it has concluded a business acquisition, adding seven stores, and opened two greenfield stores.

Since its inclusion into the network of Uni-Select, this segment is focusing on optimizing the business, maximizing software tools and improving the productivity in store operations through the 20/20 initiative and the integration of recent business acquisitions. The segment, jointly with the Canadian Automotive Group segment, is negotiating with manufacturers to combine and optimize buying conditions.

Corporate Office and Others:

On the corporate side, several initiatives were realized to support its growing operational segments, enhance performance and create value, such as:

- Closing the acquisition of The Parts Alliance, a leading and rapidly growing automotive aftermarket parts distributor in the United Kingdom (UK).
- Amending and restating the credit agreement providing a total upsize of \$225,000 and enabling, among other things, TPA acquisition, as well as further growth.
- Launching the 20/20 initiative to adapt the cost structure to support the evolving business model.
- Hosting an investor day in the United Kingdom, providing an overview of the corporate strategy, a review of The Parts Alliance business, detailed view of the UK market and the Corporation overall growth plan.
- Improving the Enterprise Risk Management system (ERM) and its ongoing monitoring by the Corporation and its Board of Director.

FINANCIAL YEAR 2016

Growing our network

The Corporation was successful in its growth and performance activities through accretive business acquisitions, while navigating through slower economic conditions in Canada and a product line changeover in the United States.

Both the FinishMaster US and the Canadian Automotive Group segments were actively driving growth through organic initiatives and business acquisitions. The Canadian Automotive Group segment accelerated the corporate store initiative, building its foundation, which included the deployment of a point of sales (POS) system, the launch of the new BUMPER TO BUMPER program and the FINISHMASTER brand in Canada. The FinishMaster US segment opened a new distribution centre on the East Coast to improve services to customers while working through a product line changeover during the second half of the year. Together, they concluded 14 business acquisitions, adding to the network more than 60 locations before synergies. Integration progressed as planned and yielded the expected benefits.

On the corporate side, strategies were initiated to manage cash, enhance performance, limit financial and foreign exchange risks and ultimately create value with the renewal and addition of vendor financing agreements with suppliers, negotiations with information technology suppliers and deployment of a server solution, hedging of the stock-based compensations as well as some large accounts payable and a 2-for-1 stock split of common shares.

FINANCIAL YEAR 2015

Sale of the Net Assets and Net Debt Free

The Corporation continued its focus on growing its core business units to strengthen its leadership position and announced on February 9, 2015 that it had reached an agreement for the sale of the net assets of Uni-Select USA, Inc. and Beck/Arnley Worldparts, Inc. On June 1, 2015, the Corporation closed the sale of these net assets.

Following the announcement of the agreement, the Corporation rightsized its corporate operations, accelerated debt reduction and was debt free. Consequently, the Corporation announced its intention to pursue its growth through acquisitions, leveraging its cash position.

2015 was the turning point toward a business model which includes corporate stores in Canada; 27 stores were acquired during the year. The FinishMaster US segment was also active with 7 business acquisitions closed during the year. These acquisitions added 34 stores to the network.

The results of the period were derived from the various initiatives taken by the Corporation. The customer-centric approach, providing a superior customer experience, resulted in an organic growth of 2.6%. Adjusted EBIDTA margin improved by 0.9%, notably benefiting from the sale of net assets, as well as the performance of the ongoing operations and the accretive acquisitions.

NON-IFRS FINANCIAL MEASURES

The information included in this report contains certain financial measures that are inconsistent with IFRS. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other entities. The Corporation is of the opinion that users of its MD&A may analyze its results based on these measurements.

The following table presents performance measures used by the Corporation which are not defined by IFRS.

Organic growth ⁽¹⁾	This measure consists of quantifying the increase in pro forma consolidated sales between two given periods, excluding the impact of acquisitions, sales and disposals of stores, exchange-rate fluctuations and when necessary, the variance in the number of billing days. This measure enables Uni-Select to evaluate the intrinsic trend in the sales generated by its operational base in comparison with the rest of the market. Determining the rate of organic growth, based on findings that Management regards as reasonable, may differ from the actual rate of organic growth.
EBITDA ⁽¹⁾	This measure represents net earnings excluding finance costs, depreciation and amortization and income taxes. This measure is a financial indicator of a corporation's ability to service and incur debt. It should not be considered by an investor as an alternative to sales or net earnings, as an indicator of operating performance or cash flows, or as a measure of liquidity, but as additional information.
Adjusted EBITDA, adjusted earnings and adjusted earnings per share ⁽¹⁾	<p>Management uses adjusted EBITDA, adjusted earnings and adjusted earnings per share to assess EBITDA, net earnings and net earnings per share from operating activities, excluding certain adjustments, net of income taxes (for adjusted earnings and adjusted earnings per share), which may affect the comparability of the Corporation's financial results. Management considers that these measures are more representative of the Corporation's operational performance and more appropriate in providing additional information.</p> <p>These adjustments include, among other things, restructuring and other charges as well as net transaction charges, amortization of the premium on foreign currency options and amortization of intangible assets related to The Parts Alliance acquisition. The Management consider The Parts Alliance acquisition as transformational. The exclusion of these items does not indicate that they are non-recurring.</p>
EBITDA margin ⁽¹⁾ and adjusted EBITDA margin ⁽¹⁾	The EBITDA margin is a percentage corresponding to the ratio of EBITDA to sales. The adjusted EBITDA margin is a percentage corresponding to the ratio of adjusted EBITDA to sales.
Free cash flows ⁽²⁾	<p>This measure corresponds to the cash flows from operating activities according to the consolidated statements of cash flows adjusted for the following items: changes in working capital items, acquisitions of property and equipment and difference between amounts paid for post-employment benefits and current period expenses. Uni-Select considers the free cash flows to be a good indicator of financial strength and of operating performance because it shows the amount of funds available to manage growth in working capital, pay dividends, repay debt, reinvest in the Corporation and capitalize on various market opportunities that arise.</p> <p>The free cash flows exclude certain variances in working capital items (such as trade and other receivables, inventory and trade and other payables) and other funds generated and used according to the statements of cash flows. Therefore, it should not be considered as an alternative to the consolidated statements of cash flows, or as a measure of liquidity, but as additional information.</p>
Total net debt ⁽³⁾	This measure consists of long-term debt, including the portion due within a year (<i>as shown in note 18 to the consolidated financial statements</i>), net of cash.
Total net debt to total net debt and total equity ratio ⁽³⁾	This ratio corresponds to total net debt divided by the sum of total net debt and total equity.
Long-term debt to total equity ratio ⁽³⁾	This ratio corresponds to long-term debt, including the portion due within a year (<i>as shown in note 18 to the consolidated financial statements</i>), divided by the total equity.
Funded debt to adjusted EBITDA ⁽³⁾	This ratio corresponds to total net debt to adjusted EBITDA ⁽¹⁾ .

Return on average total equity⁽³⁾	This ratio corresponds to net earnings, divided by average total equity.
Adjusted return on average total equity⁽³⁾	This ratio corresponds to adjusted earnings ⁽¹⁾ , to which the amortization of intangible assets related to The Parts Alliance acquisition is added back divided by average total equity.

⁽¹⁾ Refer to the "Analysis of consolidated results" section for a quantitative reconciliation from the non-IFRS financial measures to the most directly comparable measure calculated in accordance with IFRS.

⁽²⁾ Refer to the "Cash flows" section for a quantitative reconciliation from the non-IFRS measures to the most directly comparable measure calculated in accordance with IFRS.

⁽³⁾ Refer to the "Capital structure" section for further details.

THE PARTS ALLIANCE ACQUISITION

On August 7, 2017, as part of its strategy of growth through acquisitions, the Corporation completed the acquisition of all the shares of PA Topco Limited doing business as The Parts Alliance, an independent distributor of automotive aftermarket parts in the United Kingdom. This strategic transaction provides the Corporation with an attractive point of entry into a new geographic market currently in consolidation.

Presented net of the cash of the acquired business for £6,187 (equivalent to \$8,065), total cost of this acquisition amounting to £202,195 (equivalent to \$263,603) was preliminarily allocated to the acquired assets and liabilities based on their fair values and the exchange rate in effect at the acquisition date. The Parts Alliance acquisition was fully funded with debt from the Corporation's available credit facilities.

The following table summarizes the aggregate fair value amounts recognized for the acquired net assets:

Trade and other receivables	61,955
Inventory	82,432
Prepaid expenses	6,465
Deferred tax assets	1,795
Investments and advances to merchant members	77
Property and equipment	23,695
Intangible assets	87,869
Goodwill	110,472
Trade and other payables	(85,770)
Income tax payable	(835)
Finance lease obligations	(8,386)
Other provisions	(1,142)
Deferred tax liabilities	(15,024)
Total cost	263,603
Balance of purchase price	(2,021)
Net disbursement	261,582

The Corporation used the upside provided by the credit agreement amended on July 25, 2017 to finance the acquisition:

Term facility	100,000
Revolver facility	163,603
	263,603

For the year ended December 31, 2017, the Corporation recognized net transaction charges totaling \$7,303 in connection with this acquisition.

(Refer to notes 5, 11 and 18 in the consolidated financial statements for further details.)

The "Analysis of results by segment" section provides information about the contribution of The Parts Alliance UK segment to the consolidated results.

ANALYSIS OF CONSOLIDATED RESULTS

The consolidated results of 2017 include the operations of The Parts Alliance UK segment, acquired on August 7, 2017 and presented as a new segment.

SALES

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
<i>FinishMaster US</i>	198,956	180,758	814,639	752,864
<i>Canadian Automotive Group</i>	123,023	110,228	484,934	444,455
<i>The Parts Alliance UK</i>	92,999	-	148,699	-
Sales	414,978	290,986	1,448,272	1,197,319
		%		%
Sales variance	123,992	42.6	250,953	21.0
Conversion effect of the Canadian dollar	(5,707)	(2.0)	(8,431)	(0.7)
Number of billing days	(2,963)	(1.0)	2,352	0.2
Acquisitions and others	(117,564)	(40.4)	(279,669)	(23.4)
Consolidated organic growth	(2,242)	(0.8)	(34,795)	(2.9)

FOURTH QUARTER

The quarter growth of 42.6%, compared to the same quarter in 2016, was driven by the sales generated from recent business acquisitions, bringing additional sales of \$117,564 or 40.4% of which The Parts Alliance UK segment represents \$92,999 or 32.0%.

The FinishMaster US segment worked through the product line changeover, which impacted its sales by approximately 1.5%, while the Canadian Automotive Group segment performance resulted in an organic growth of 1.5% net, or 5.9% excluding the loss of an independent member earlier this year.

Consolidated organic growth, excluding both impacts, would have been approximately 1.9%.

TWELVE-MONTH PERIOD

The growth of 21.0%, compared to the same period in 2016, was driven by the sales generated from recent business acquisitions, bringing additional sales of \$279,669 or 23.4%.

Consolidated organic sales were impacted by the product line changeover and the hurricanes in the FinishMaster US segment as well as by the loss of an independent member in the Canadian Automotive Group segment earlier this year, which, nevertheless, reported an organic growth of 3.9%.

Without these headwinds from both segments, the consolidated organic growth would have been approximately 2.4%.

During the year, 10 business acquisitions were concluded while 6 greenfields were opened, demonstrating the commitment of all teams to drive profitable growth from both market consolidation and organically. Management is dedicated to supporting its three growth pillars in their respective initiatives.

GROSS MARGIN

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Gross margin	139,987	92,644	465,074	366,602
<i>In % of sales</i>	33.7%	31.8%	32.1%	30.6%

FOURTH QUARTER

The gross margin, in percentage of sales, increased by 190 basis points, compared to the same quarter in 2016, benefiting from The Parts Alliance acquisition, which has a higher gross margin than the other segments.

Once The Parts Alliance UK segment is excluded, the remaining gross margin variance, in percentage of sales, is explained by a revenue mix impact and lower special buys in the FinishMaster US segment, that were in part compensated by an improved performance in the Canadian Automotive Group segment.

TWELVE-MONTH PERIOD

The gross margin, in percentage of sales, increased by 150 basis points, compared to the same period in 2016.

Once The Parts Alliance UK segment is excluded, the gross margin variance, in percentage of sales, is explained by optimized buying conditions in the two other operational segments, in part offset by a revenue mix impact in the FinishMaster US segment.

EMPLOYEE BENEFITS

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Employee benefits	75,469	44,974	236,684	175,621
<i>In % of sales</i>	18.2%	15.5%	16.3%	14.7%

FOURTH QUARTER

Employee benefits, in percentage of sales, increased by 270 basis points, compared to the same quarter in 2016. This variance is mainly attributable to a different business model in The Parts Alliance UK segment requiring a higher level of employees.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is explained by severance related to the 20/20 initiative in the two other operational segments and human resource investments required for the corporate store initiative in the Canadian Automotive Group segment.

These elements were, in part, compensated by a reduction of the performance-based compensation in the Corporate Office and Others segment to align with the consolidated results of the period.

TWELVE-MONTH PERIOD

Employee benefits, in percentage of sales, increased by 160 basis points, compared to the same period in 2016.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is explained by the same factors aforementioned in the quarter as well as by a lower absorption of employee benefits in relation to the organic growth.

OTHER OPERATING EXPENSES

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Other operating expenses	36,534	23,846	110,858	84,879
<i>In % of sales</i>	8.8%	8.2%	7.7%	7.1%

FOURTH QUARTER

Other operating expenses, in percentage of sales, increased by 60 basis points, compared to the same quarter in 2016 and were mainly affected by a different business model in The Parts Alliance UK segment requiring a higher level of fixed costs.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is mainly explained by lower information technology expenses in relation to the internalization of the servers.

TWELVE-MONTH PERIOD

Other operating expenses, in percentage of sales, increased by 60 basis points, compared to the same period in 2016.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is mainly explained by a lower absorption of fixed costs in relation to the organic growth, in part compensated by an improved performance of the paint, body and equipment (PBE) program in the Canadian Automotive Group segment and lower information technology expenses.

RESTRUCTURING AND OTHER CHARGES

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Restructuring and other charges	-	(746)	(523)	(746)

In September 2017, the Corporation reviewed its remaining provisions and reflected the following changes of estimates: a decrease of \$234 for the remaining balance of onerous contracts and \$289 for severance, resulting in a reduction of the restructuring and other charges in the consolidated statements of earnings of \$523. The Corporation has completed, as at December 31, 2017, the rightsizing of its corporate operations. In 2016, the Corporation reviewed its provisions and reversed an amount of \$746 in relation to onerous contracts, following the negotiations with its information technology suppliers.

(Refer to note 4 in the consolidated financial statements for further details.)

NET TRANSACTION CHARGES RELATED TO THE PARTS ALLIANCE ACQUISITION

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Net transaction charges related to The Parts Alliance acquisition	2,130	-	7,303	-

In August 2017, the Corporation completed the acquisition of The Parts Alliance.

The charges include acquisition costs totaling \$489 and \$7,310 for the quarter and twelve-month period ended December 31, 2017 as well as other transaction-related charges of \$1,641 and \$1,699 for the quarter and twelve-month period ended December 31, 2017.

In addition, the Corporation entered into foreign currency options during the second quarter of 2017 to fix the exchange rate on the forecasted cash outflows related to this acquisition. Following the exercise of these options, the Corporation has recorded a favorable change in their fair value for an amount of \$1,706 for the twelve-month period ended December 31, 2017 (nil for the quarter).

(Refer to note 5 in the consolidated financial statements for further details.)

EBITDA

	Fourth quarter			Twelve-month period		
	2017	2016	%	2017	2016	%
Net earnings	8,721	12,695		44,616	58,265	
Income tax expense	2,170	5,487		22,002	28,137	
Depreciation and amortization	9,977	5,224		29,647	15,962	
Finance costs, net	4,986	1,164		14,487	4,484	
EBITDA	25,854	24,570	5.2	110,752	106,848	3.7
<i>EBITDA margin</i>	6.2%	8.4%		7.6%	8.9%	
Restructuring and other charges	-	(746)		(523)	(746)	
Net transaction charges related to The Parts Alliance acquisition	2,130	-		7,303	-	
Additional liabilities related to the sale of net assets ⁽¹⁾	-	1,526		-	1,526	
Adjusted EBITDA	27,984	25,350	10.4	117,532	107,628	9.2
<i>Adjusted EBITDA margin</i>	6.7%	8.7%		8.1%	9.0%	

⁽¹⁾ These liabilities are related to additional workers' compensation insurance claims for former employees of Uni-Select USA, Inc. and Beck/Arnley Worldparts, Inc. sold on June 1, 2015, for which the Corporation remains liable after the disposition.

FOURTH QUARTER

The adjusted EBITDA margin decreased by 200 basis points, compared to the same quarter in 2016, impacted by a different business model in The Parts Alliance UK segment.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is explained by a revenue mix impact and lower special buys in the FinishMaster US segment, severance in relation to the 20/20 initiative and ongoing investments required for the corporate store initiative in the Canadian Automotive Group segment.

These elements were partially compensated by a reduction of the performance-based compensation and lower information technology expenses in relation to the internalization of the servers.

TWELVE-MONTH PERIOD

The adjusted EBITDA margin decreased by 90 basis points, compared to the same period in 2016, impacted by a different business model in The Parts Alliance UK segment, which is reporting as well, its two weakest months of the year, August and December.

Once The Parts Alliance UK segment is excluded, the remaining variance, in percentage of sales, is explained by a lower absorption of employee benefits and fixed costs, severance as well as investments required for the corporate store initiative in the Canadian Automotive Group segment.

They were, in part, compensated by optimized buying conditions, a reduction of the performance-based compensation and lower information technology expenses.

FINANCE COSTS, NET

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Finance costs, net	4,986	1,164	14,487	4,484

FOURTH QUARTER

The increase in finance costs, compared to the same quarter in 2016, is mainly attributable to a higher average debt, mostly from recent business acquisitions, resulting in higher borrowing costs.

TWELVE-MONTH PERIOD

The increase in finance costs, compared to the same period in 2016, is mainly attributable to the same factor mentioned in the quarter as well as to the amortization of the premium on foreign currency options related to The Parts Alliance acquisition.

(Refer to note 6 in the consolidated financial statements for further details.)

DEPRECIATION AND AMORTIZATION

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Depreciation and amortization	9,977	5,224	29,647	15,962

FOURTH QUARTER

The increase in depreciation and amortization, compared to the same quarter of 2016, is mainly attributable to the recent business acquisitions, notably from the amortization of the customer relationship intangible assets. Depreciation on recent information technology implementations, including the point of sales system for corporate stores and the internalization of the servers in Canada, also contributed to the increase.

TWELVE-MONTH PERIOD

The increase in depreciation and amortization, compared to the same period of 2016, is mainly attributable to the same factors mentioned in the quarter.

(Refer to note 7 in the consolidated financial statements for further details.)

INCOME TAX EXPENSE

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Income tax expense	2,170	5,487	22,002	28,137
<i>Income tax rate</i>	19.9%	30.2%	33.0%	32.6%

FOURTH QUARTER

The income tax rate variance, compared to the same quarter in 2016, is mainly attributable to a 2016 tax true-up recorded in the current quarter, following the completion of the tax returns and a net tax gain of \$811 primarily from the write-down of the net deferred tax liabilities to the lower enacted US corporate tax rate of 21.0%, which was previously 35.0%. These elements were partially offset by different geographic pre-tax earnings with distinct tax rate.

TWELVE-MONTH PERIOD

The variance, compared to the same period in 2016, is mainly attributable to non-deductible expenses in relation to the acquisition of The Parts Alliance, partially compensated by a net tax gain from the write-down of the net deferred tax liabilities resulting from the US tax reform and different geographic pre-tax earnings with distinct tax rate.

(Refer to note 8 in the consolidated financial statements for further details.)

NET EARNINGS AND EARNINGS PER SHARE

	Fourth quarter			Twelve-month period		
	2017	2016	%	2017	2016	%
Net earnings	8,721	12,695	(31.3)	44,616	58,265	(23.4)
Restructuring and other charges, net of taxes	-	(539)		(378)	(539)	
Net transaction charges related to The Parts Alliance acquisition, net of taxes	1,773	-		6,991	-	
Additional liabilities related to the sale of net assets, net of taxes	-	912		-	912	
Amortization of the premium on foreign currency options, net of taxes	-	-		2,003	-	
Amortization of intangible assets related to the acquisition of The Parts Alliance, net of taxes	1,119	-		1,865	-	
Adjusted earnings	11,613	13,068	(11.1)	55,097	58,638	(6.0)
Earnings per share	0.21	0.30	(30.0)	1.06	1.37	(22.6)
Restructuring and other charges, net of taxes	-	(0.01)		(0.01)	(0.01)	
Net transaction charges related to The Parts Alliance acquisition, net of taxes	0.04	-		0.16	-	
Additional liabilities related to the sale of net assets, net of taxes	-	0.02		-	0.02	
Amortization of the premium on foreign currency options, net of taxes	-	-		0.05	-	
Amortization of intangible assets related to the acquisition of The Parts Alliance, net of taxes	0.02	-		0.04	-	
Adjusted earnings per share	0.27	0.31	(12.9)	1.30	1.38	(5.8)

FOURTH QUARTER

Adjusted earnings decreased by 11.1% compared to the same quarter in 2016, and were impacted by additional depreciation and amortization, as well as finance costs, all related to recent business acquisitions and investments of capital.

TWELVE-MONTH PERIOD

Adjusted earnings decreased by 6.0% compared to the same period in 2016, and were impacted by the same factors mentioned in the quarter.

The conversion effect of the Canadian dollar into US dollar had no impact on earnings per share for both the quarter and the twelve-month period when compared to the corresponding periods of 2016.

CONSOLIDATED QUARTERLY OPERATING RESULTS

Historically, the Corporation's sales are typically stronger during the second and third quarters compared to the first and fourth quarters. Recently, sales have been impacted by business acquisitions as well as the conversion effect of the Canadian dollar into US dollar. The Corporation records earnings in each quarter.

The following table summarizes the main financial information drawn from the consolidated interim financial reports for each of the last eight quarters.

	2017				2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Sales								
United States	198,956	206,495	209,486	199,702	180,758	202,215	196,478	173,413
Canada	123,023	133,612	130,801	97,498	110,228	116,330	127,280	90,617
United Kingdom ⁽¹⁾	92,999	55,700	-	-	-	-	-	-
	414,978	395,807	340,287	297,200	290,986	318,545	323,758	264,030
EBITDA	25,854	32,181	29,544	23,173	24,570	30,836	29,739	21,703
EBITDA margin	6.2%	8.1%	8.7%	7.8%	8.4%	9.7%	9.2%	8.2%
Restructuring and other charges	-	(523)	-	-	(746)	-	-	-
Net transaction charges related to The Parts Alliance acquisition	2,130	2,257	2,916	-	-	-	-	-
Adjusted EBITDA	27,984	33,915	32,460	23,173	25,350	30,836	29,739	21,703
Adjusted EBITDA margin	6.7%	8.6%	9.5%	7.8%	8.7%	9.7%	9.2%	8.2%
Net earnings	8,721	11,159	13,738	10,998	12,695	17,281	16,806	11,483
Adjusted earnings	11,613	15,851	16,635	10,998	13,068	17,281	16,806	11,483
Basic earnings per share ⁽²⁾	0.21	0.26	0.33	0.26	0.30	0.41	0.40	0.27
Adjusted basic earnings per share ⁽²⁾	0.27	0.38	0.39	0.26	0.31	0.41	0.40	0.27
Diluted earnings per share ⁽²⁾	0.21	0.26	0.32	0.26	0.30	0.41	0.40	0.27
Dividends declared per share (C\$) ⁽²⁾	0.0925	0.0925	0.0925	0.085	0.085	0.085	0.085	0.080
Average exchange rate for earnings (C\$)	0.79:\$1	0.80:\$1	0.74:\$1	0.76:\$1	0.75:\$1	0.77:\$1	0.78:\$1	0.73:\$1
Average exchange rate for earnings (£)	1.33:\$1	1.31:\$1	-	-	-	-	-	-

⁽¹⁾ Sales since the completion of the acquisition on August 7, 2017.

⁽²⁾ 2-for-1 stock split of common shares was effected on May 11, 2016 for shareholders of record as at May 6, 2016. To reflect the effect of the stock split, information pertaining to the number of common shares has been retroactively restated.

ANALYSIS OF RESULTS BY SEGMENT

SEGMENTED INFORMATION

Starting 2017, the Corporation revised and renamed its reportable segments, to better represent its operations. Moreover, following the closing of The Parts Alliance acquisition on August 7, 2017, the Corporation is now providing information on four reportable segments:

FinishMaster US: distribution of automotive refinish and industrial paint and related products representing FinishMaster, Inc. in the US market.

Canadian Automotive Group: distribution of automotive aftermarket parts, including refinish and industrial paint and related products, through Canadian networks.

The Parts Alliance UK: distribution of automotive original equipment manufacturer (OEM) and aftermarket parts, serving local and national customers across the UK.

Corporate Office and Others: head office expenses and other expenses mainly related to the financing structure.

The profitability measure employed by the Corporation for assessing performance is EBITDA.

OPERATING RESULTS – FINISHMASTER US

Sales

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Sales	198,956	180,758	814,639	752,864
		%		%
Sales variance	18,198	10.1	61,775	8.2
Number of billing days	(2,963)	(1.6)	-	-
Acquisitions and others	(19,095)	(10.6)	(113,814)	(15.1)
Organic growth	(3,860)	(2.1)	(52,039)	(6.9)

FOURTH QUARTER

Sales from this segment increased by 10.1%, compared to the same quarter in 2016, supported by recent business acquisitions, representing a growth of 10.6%.

The organic growth was impacted by the product line changeover, which represents approximately 1.5%.

TWELVE-MONTH PERIOD

Sales from this segment increased by 8.2%, compared to the same period in 2016, strengthened by recent business acquisitions representing a growth of 15.1%.

The organic growth was impacted by the product line changeover and the hurricanes, which together represent approximately 6.1%.

EBITDA

	Fourth quarter			Twelve-month period		
	2017	2016	%	2017	2016	%
EBITDA	19,603	21,686	(9.6)	91,345	93,393	(2.2)
<i>EBITDA margin</i>	9.9%	12.0%		11.2%	12.4%	

FOURTH QUARTER

The EBITDA margin decreased by 210 basis points impacted by:

- Lower special buys in the current quarter when compared to the same quarter last year;
- An evolving customer mix, as a result of recent business acquisitions that have a higher percentage of multi-shop owner (MSO) customers and for which discounts are more significant;
- Unexpected workers' compensation and health insurance benefits arising during the quarter; and
- Severance, as part of the 20/20 initiative announced in the third quarter.

These negative elements were partially compensated by a reduction of the performance-based compensation.

FinishMaster US is focusing on driving organic growth, improving the productivity and reducing its costs to serve its evolving model in relation to the 20/20 initiative.

TWELVE-MONTH PERIOD

The EBITDA margin decrease of 120 basis points mainly resulted from:

- A lower absorption of fixed costs due to organic growth and the impact of the hurricanes; and
- An evolving customer mix, as a result of recent business acquisitions that have a higher percentage of multi-shop owner (MSO) customers and for which discounts are more significant.

Special buys realized during the first semester as well as a reduction of the performance-based compensation, partially compensated these negative elements.

Since the beginning of the year, the FinishMaster US segment expanded and enriched its network by developing the Northwest region with 3 greenfield openings, enlarging its footprint with its first 2 locations acquired in the state of Alaska, reinforcing its position in major markets by adding 16 locations, notably with D'Angelo, the largest acquisition to date, and integrating 13 locations from recent business acquisitions. Early 2018, a new distribution centre was opened in Grand Prairie, Texas, to support its fulfillment strategy to its branch and customer network.

OPERATING RESULTS – CANADIAN AUTOMOTIVE GROUP

Sales

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Sales	123,023	110,228	484,934	444,455
		%		%
Sales variance	12,795	11.6	40,479	9.1
Conversion effect of the Canadian dollar	(5,707)	(5.2)	(8,431)	(1.8)
Number of billing days	-	-	2,352	0.5
Acquisitions and others	(5,470)	(4.9)	(17,156)	(3.9)
Organic growth	1,618	1.5	17,244	3.9

FOURTH QUARTER

Sales for this segment increased by 11.6%, compared to the same quarter in 2016, driven by recent business acquisitions, the strength of the Canadian dollar as well as by organic growth of 1.5% (5.9% excluding the loss of an independent member earlier this year).

This performance is widely attributable to the corporate store initiative, comprising the BUMPER TO BUMPER auto parts program and the FINISHMASTER brand in Canada.

TWELVE-MONTH PERIOD

Sales for this segment increased by 9.1%, compared to the same period in 2016. The variance is mainly explained by the same elements aforementioned in the quarter.

The sales performance of the Canadian Automotive Group is related to both its distribution centres and corporate stores, overcoming the loss of an independent member early in the year, which represents 4.0%.

EBITDA

	Fourth quarter			Twelve-month period		
	2017	2016	%	2017	2016	%
EBITDA	6,286	5,513	14.0	31,214	26,611	17.3
<i>EBITDA margin</i>	5.1%	5.0%		6.4%	6.0%	

FOURTH QUARTER

The EBITDA margin increase of 10 basis points, compared to the same quarter in 2016, is mainly related to:

- Optimized buying conditions from increased volume;
- A product line changeover incentive; and
- Lower information technology expenses.

These elements were offset by ongoing investments required in relation to the corporate store initiative, including branding (BUMPER TO BUMPER® - CANADA'S PARTS PEOPLE) and severance related to the 20/20 initiative.

Integration of the corporate stores, including store rebranding, store processes and the implementation of the new point of sales (POS) system are progressing as per plan. Once completed, these respective activities are expected to yield additional synergies and efficiency and are expected to leverage the solid foundation with further acquisitions or greenfield stores.

TWELVE-MONTH PERIOD

The EBITDA margin increase of 40 basis points, compared to the same period in 2016, is mainly explained by the same factors mentioned in the quarter as well as by an improved performance of the paint, body and equipment (PBE) program.

The period was also impacted by a higher performance-based compensation, in line with the results of this segment.

OPERATING RESULTS – THE PARTS ALLIANCE UK

(Operating results since the acquisition on August 7, 2017.)

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Sales	92,999	-	148,699	-
EBITDA	3,708	-	6,007	-
EBITDA margin	4.0%	N/A	4.0%	N/A

The Parts Alliance UK is growing through business acquisitions and the opening of greenfield locations. At the end of the current period, this segment operated 171 stores, including its latest acquisition in September as well as two greenfields opened in October. Its company-owned stores model generates a higher gross margin than the other segments of the Corporation, but is also requiring a higher level of employee benefits and operating expenses. Sales are slightly seasonal, notably in relation to vacation and holidays, with the two weakest months being August and December. This explains, in part, the EBITDA margin of both reported periods, coupled with a payroll increase during the summer and severance related to the 20/20 initiative. The Parts Alliance UK is in the process of integrating its acquired stores' operations and of maximizing their contribution.

OPERATING RESULTS – CORPORATE OFFICE AND OTHERS

	Fourth quarter			Twelve-month period		
	2017	2016	%	2017	2016	%
EBITDA	(3,743)	(2,629)		(17,814)	(13,156)	
Restructuring and other charges	-	(746)		(523)	(746)	
Net transaction charges related to The Parts Alliance acquisition	2,130	-		7,303	-	
Additional liabilities related to the sale of net assets ⁽¹⁾	-	1,526		-	1,526	
Adjusted EBITDA	(1,613)	(1,849)	12.8	(11,034)	(12,376)	10.8

⁽¹⁾ These liabilities are related to additional workers' compensation insurance claims for former employees of Uni-Select USA, Inc. and Beck/Arnley Worldparts, Inc. sold on June 1, 2015.

FOURTH QUARTER

The positive variance, compared to the same quarter in 2016, is mainly explained by:

- A reduction of the performance-based compensations to align with the results of the period; and
- Savings in information technology, a result of negotiations with suppliers and the internalization of the servers.

These elements were partially offset by higher professional fees incurred in the normal course of business.

TWELVE-MONTH PERIOD

The positive variance, compared to the same period in 2016, is mainly explained by the same elements aforementioned in the quarter.

CASH FLOWS

OPERATING ACTIVITIES

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Cash flows from operating activities	45,471	54,538	124,005	133,701

FOURTH QUARTER

Operating activities generated lower cash inflows compared to the same quarter in 2016 mainly explained by:

- Lower activities through the vendor financing program during the current quarter of 2017; and
- Higher payments of interest related to the higher level of the average debt in 2017 compared to 2016.

These elements were partially compensated by an increase of the trade receivables collection during the current quarter of 2017 in relation to growing sales activities.

TWELVE-MONTH PERIOD

Operating activities generated lower cash inflows compared to the same period in 2016, impacted by the same factors mentioned in the quarter, as well as by:

- Higher income tax payments required in 2017, since in 2016 non-capital tax loss carryforwards were recovered; and
- Acquisition costs in relation to The Parts Alliance in 2017.

These elements were partially compensated by accretive business acquisitions, notably The Parts Alliance, improving the 2017 operating income.

INVESTING ACTIVITIES

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Cash flows used in investing activities	(19,370)	(27,457)	(401,958)	(208,345)

FOURTH QUARTER

The variance in cash outflows from investing activities compared to the same quarter in 2016 is mainly related to the size and number of business acquisitions.

TWELVE-MONTH PERIOD

The variance in cash outflows from investing activities compared to the same period in 2016, as for the quarter, is mainly related to the size and number of business acquisitions, of which The Parts Alliance acquisition represents \$263,603.

FINANCING ACTIVITIES

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Cash flows from (used in) financing activities	(54,782)	(25,464)	285,677	5,370

FOURTH QUARTER

The variance in cash outflows from financing activities compared to the same quarter in 2016 is mainly explained by different business acquisition activities combined with cash availability permitting a higher debt reimbursement.

TWELVE-MONTH PERIOD

The variance is mainly explained by The Parts Alliance acquisition requiring an increased utilization of the credit facility in 2017, and by other business acquisitions.

In 2016, cash flows were affected by share repurchases.

FREE CASH FLOWS

	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Cash flows from operating activities	45,471	54,538	124,005	133,701
Changes in working capital	(23,234)	(28,522)	(14,583)	(16,778)
Acquisitions of property and equipment	(5,224)	(4,790)	(13,658)	(9,755)
Difference between amounts paid for post-employment benefits and current period expenses	(147)	(64)	(104)	(75)
Free cash flows	16,866	21,162	95,660	107,093

FOURTH QUARTER

The decrease in free cash flows is principally explained by higher payments of interest in relation to a higher level of the average debt in 2017 compared to 2016, mostly resulting from recent business acquisitions.

TWELVE-MONTH PERIOD

The variance is mainly explained by higher disbursements in 2017 for interest, income tax, transaction costs related to The Parts Alliance acquisition as well as acquisitions of property and equipment.

These elements were partially compensated by the improved 2017 operating income driven by business acquisitions.

FINANCING

SOURCES OF FINANCING

The Corporation is diversifying its sources of financing in order to manage and mitigate liquidity risk.

CREDIT FACILITIES

On July 25, 2017, the Corporation entered into an amended and restated credit agreement. The Corporation currently has access, for its needs, to a \$525,000 unsecured long-term revolving credit facility, representing an upside of \$125,000, as well as a \$20,000 letter of credit facility, both with a maturity date of June 30, 2021 and a new \$100,000 unsecured term facility maturing in tranches with the latest maturity date on June 30, 2020.

As at December 31, 2017, the unused portion amounted to \$193,000 (\$274,000 as at December 31, 2016). *(Refer to note 18 in the consolidated financial statements for further details.)*

VENDOR FINANCING PROGRAM

The Corporation benefits from a vendor financing program. Under this program, financial institutions make discounted accelerated payments to suppliers, and the Corporation makes full payment to the financial institutions according to the new extended payment term agreements with suppliers.

As at December 31, 2017, Uni-Select benefited from additional deferred payments of accounts payable in the amount of \$166,344 and used \$229,468 of the program (\$113,509 and \$188,229 respectively as at December 31, 2016). The authorized limit with the financial institutions is \$267,500, following an increase of \$45,000 as per the April 1, 2017 amendment. These amounts are presented in "Trade and other payables" in the condensed consolidated statements of financial position. This program is available upon the Corporation's request and may be modified by either party.

FINANCIAL INSTRUMENTS

Derivative financial instruments used in cash flow hedges - hedge of interest rate risk

In 2017, the Corporation entered into various swap agreements to hedge the variable interest cash flows on a portion of the Corporation's revolving credit facility and term loan for total nominal amounts at inception of \$80,000 for interest rate swaps denominated in US dollars, and £70,000 for interest rate swaps denominated in British pound. Until their respective maturities, these agreements are fixing the interest cash flows between 1.745% and 1.760% for interest rate swaps denominated in US dollars, and to 0.955% for interest rate swaps denominated in British pounds.

FUND REQUIREMENTS

The Corporation is able to meet both its operational and contractual fund requirements and support its various strategic initiatives for future growth, by using the various financing tools mentioned above, as well as its capacity to generate cash flows.

OPERATIONAL NEEDS

Operational requirements that the Corporation will face in 2018 are summarized as follows:

- The purchase of various capital assets for about \$28,000 notably for:
 - Partial renewal of the vehicle fleet through both financed leases and purchases;
 - Hardware equipment and software applications, including the POS system for the Canadian stores;
 - Location modernization including warehouse equipment and racking;
 - Branding of store locations in the Canadian Automotive Group segment; and
 - Greenfield openings.
- The dividend payments.

CONTRACTUAL OBLIGATIONS

Operating leases

The Corporation has entered into long-term operating lease agreements expiring at various dates until 2029 for the rental of buildings, vehicles and information technology equipment and services. Some of these lease agreements contain renewal options for additional periods of one to five years which the Corporation may exercise by giving prior notice.

Finance leases

The Corporation uses finance leases to renew its vehicle fleet. The terms vary from 36 to 84 months depending on the lease. As at December 31, 2017, the carrying values of the leased assets, which are presented under "automotive equipment" along with "property and equipment", were \$19,141 (\$9,672 as at December 31, 2016).

The following table shows the various contractual obligations due by period.

	2018	2019	2020	2021	2022	Thereafter
Long-term debt ^{(1) (2)}	25,004	50,004	25,004	331,871	-	-
Operating leases	30,384	25,645	20,623	14,469	9,339	17,089
Finance leases ⁽³⁾	11,992	3,250	2,480	1,615	608	17
Total	67,380	78,899	48,107	347,955	9,947	17,106

⁽¹⁾ Includes credit facility.

⁽²⁾ Does not include obligations related to interest on debt.

⁽³⁾ Include obligations related to interest on finance leases.

Post-employment benefit obligations

The Corporation sponsors both defined benefit and defined contribution pension plans.

The defined benefit plans include a basic registered pension plan, a registered pension plan for senior management and a non-registered supplemental pension plan for certain members of senior management. The benefits under the Corporation's defined benefit plans are based on the years of service and the final average salary. The two registered pension plans are funded by the Corporation and the members of the plan. Employee contributions are determined according to the members' salaries and cover a portion of the benefit costs. The employer contributions are based on the actuarial evaluation which determines the level of funding necessary to cover the Corporation's obligations.

For the year ended December 31, 2018, the Corporation expects to make contributions of approximately \$2,032 for its defined benefit plans. (Refer to note 17 in the consolidated financial statements for further details.)

Off balance sheet arrangements – guarantees

Under inventory repurchase agreements, the Corporation has made commitments to financial institutions to repurchase inventory from some of its customers. In Management's opinion and based on historical experience, the likelihood of significant payments being required under these agreements and losses being absorbed is low as the value of the assets held in guarantee is greater than the Corporation's financial obligations. (Refer to note 23 in the consolidated financial statements for further details.)

Under the terms of its credit facility, the Corporation has issued letters of credit amounting to \$8,137 as at December 31, 2017 (\$10,267 as at December 31, 2016). (Refer to note 18 in the consolidated financial statements for further details.)

CAPITAL STRUCTURE

The Corporation's capital management strategy optimizes the capital structure to enable the Corporation to benefit from strategic opportunities that may arise while minimizing related costs and maximizing returns to shareholders. The Corporation adapts capital management to the changing business conditions and the risks related to the underlying assets.

LONG-TERM FINANCIAL POLICIES AND GUIDELINES

Guided by its low-asset-base-high-utilization philosophy, the Corporation's strategy is to monitor the following ratios to ensure flexibility in the capital structure:

- Total net debt to total net debt and total equity;
- Long-term debt to total equity ratio;
- Funded debt to adjusted EBITDA ratio;
- Adjusted return on average total equity; and
- Dividend payout ratio based on the adjusted earnings of the previous year converted in Canadian dollars.

	December 31,	
	2017	2016
Components of debt ratios:		
Long-term debt	448,581	134,298
Total net debt	417,909	111,973
Total equity	517,977	472,362
Debt ratios⁽¹⁾:		
<i>Total net debt to total net debt and total equity ratio</i>	44.7%	19.2%
<i>Long-term debt to total equity ratio</i>	86.6%	28.4%
<i>Funded debt to adjusted EBITDA ratio</i>	3.56	1.04
<i>Return on average total equity</i>	9.0%	12.8%
<i>Adjusted return on average total equity</i>	10.8%	12.9%
<i>Dividend payout ratio</i>	19.3%	19.4%

⁽¹⁾ These ratios are not required for banking commitments but represent the ones that the Corporation considers pertinent to monitor and to ensure flexibility in the capital structure. However, until a twelve-month period of operations is consolidated with The Parts Alliance UK segment, the Corporation is also monitoring the funded debt to adjusted EBITDA ratio using annualized results related to this transaction, which results in a ratio of 3.04.

Management continuously monitors its working capital items to improve the cash conversion cycle, in particular, on optimizing inventory levels in all business segments.

The variances of the total net debt to total net debt and total equity and the long-term debt to total equity ratios are mainly explained by the debt increase, as the Corporation is following its growth strategy through business acquisitions, the largest part being attributable to The Parts Alliance acquisition requiring \$263,603 of the credit facility. This debt increase was partially compensated by an increase of the total equity resulting from the net earnings of the period.

The funded debt to adjusted EBITDA ratio variance resulted from the debt increase, mainly related to The Parts Alliance acquisition, and was partially compensated by the growing EBITDA. Business acquisitions are impacting this ratio since they are fully financed by debt.

The adjusted return on average total equity variance is mainly explained by the increase of the average total equity resulting from the net earnings of the last twelve months, impacted most recently by the additional amortization of intangible assets and finance costs related to business acquisitions.

BANK COVENANTS

For purposes of compliance, the Corporation regularly monitors the requirements of its bank covenants to ensure they are met. As at December 31, 2017 and 2016, the Corporation met all the requirements.

DIVIDENDS

For the year 2017, the Corporation declared dividends amounting to C\$0.3625 per share compared to C\$0.335 in 2016, representing an increase of 8.2%.

On February 19, 2018, the Corporation declared the first quarterly dividend of 2018 of C\$0.0925, payable on April 17, 2018 to shareholders of record as at March 31, 2018.

Dividends are approved by the Board of Directors, which bases its decision on operating results, cash flows and other relevant factors. There is no guarantee that dividends will be declared in the future.

These dividends are eligible dividends for income tax purposes.

INFORMATION ON CAPITAL STOCK

(in thousands of shares)	Fourth quarter		Twelve-month period	
	2017	2016	2017	2016
Number of shares issued and outstanding	42,274	42,214	42,274	42,214
Weighted average number of outstanding shares	42,274	42,219	42,261	42,435

At January 31, 2018, 42,273,812 shares of the Corporation were outstanding.

Repurchase and cancellation of shares

During the year ended December 31, 2017, there was no common share repurchased.

During the year ended December 31, 2016, 1,027,390 common shares were repurchased in connection with the normal course issuer bid announced in August 2015, and renewed in August 2016, for a cash consideration of \$22,043 including a share repurchase and cancellation premium of \$20,013 applied as a reduction of retained earnings.

Issuance of shares

During the year ended December 31, 2017, the Corporation issued 59,634 common shares (105,810 for 2016) at the exercise of stock options for a cash consideration of \$661 (\$1,090 for 2016). The weighted average price of the exercise of stock options was C\$14.80 for the year (C\$13.34 for 2016).

STOCK-BASED COMPENSATION

The Corporation's stock-based compensation plans include an equity-settled common share stock option plan, and cash-settled plans consisting of a deferred share unit plan and a performance share unit plan.

Common share stock option plan for management employees and officers

For the year ended December 31, 2017, 573,215 options were granted to management employees and officers of the Corporation (126,960 for 2016), with an average exercise price of C\$29.02 (C\$33.94 in 2016). During the year, 59,634 options were exercised (105,810 for 2016) and no option was forfeited or expired (same for 2016).

As at December 31, 2017, options granted for the issuance of 906,359 common shares (392,778 as at December 31, 2016) were outstanding under the Corporation's stock option plan, and 1,237,819 common shares (1,811,034 as at December 31, 2016) were reserved for additional options under the stock option plan.

For the year ended December 31, 2017, compensation expense of \$924 (\$672 for 2016) was recorded in the "Net earnings", with the corresponding amounts recorded in "Contributed surplus".

Deferred share unit ("DSU") plan

For the year ended December 31, 2017, the Corporation granted 36,572 DSUs (45,149 DSUs for 2016) and redeemed 25,491 DSUs (84,323 DSUs for 2016). Compensation expense of \$673 (\$488 in 2016) was recorded during the year, and 153,337 DSUs were outstanding as at December 31, 2017 (142,256 DSUs as at December 31, 2016). As at December 31, 2017, the compensation liability was \$3,482 (\$3,141 as at December 31, 2016) and the fair value of the equity swap agreement was a liability of \$352 (liability of \$182 as at December 31, 2016).

Performance share unit ("PSU") plan

For the year ended December 31, 2017, the Corporation granted 127,950 PSUs (76,282 PSUs for 2016) and redeemed 70,991 PSUs (98,684 PSUs for 2016). Compensation expense of \$1,809 (\$3,583 in 2016) was recorded during the year, and 272,995 PSUs were outstanding as at December 31, 2017 (216,036 PSUs as at December 31, 2016). As at December 31, 2017, the compensation liability was \$4,945 (\$4,959 as at December 31, 2016) and the fair value of the equity swap agreement was a liability of \$356 (liability of \$205 as at December 31, 2016).

FINANCIAL POSITION

During the period, the financial position, when compared to December 31, 2016, has been impacted by business acquisitions and the conversion effect of the Canadian dollar and the British pound into US dollar.

The following table shows an analysis of selected items from the consolidated statements of financial position:

	Dec. 31, 2017	Dec. 31, 2016	Impact of business acquisitions	Impact on conversion C\$/US\$ and £/US\$	Net variances
Short-term					
Trade and other receivables	227,167	149,268	74,082	7,654	(3,837)
Income taxes receivable, net	12,448	16,751	(974)	11	(3,340)
Inventory	458,354	330,808	104,653	9,944	12,949
Trade and other payables	436,726	314,505	86,797	15,526	19,898
Long-term					
Property and equipment	78,644	41,982	27,847	2,283	6,532
Intangible assets	231,365	101,158	138,451	4,581	(12,825)
Goodwill	372,119	243,807	121,213	7,099	-
Long-term debt (including short-term portion)	448,581	134,298	377,985	2,462	(66,164)
Deferred tax liabilities, net	5,931	(18,358)	13,827	(254)	10,716

Explanations for net variances:

Trade and other receivables: The decrease is mainly related to The Parts Alliance UK segment, for which sales activity is typically lower in December.

Income taxes receivable, net: The decrease is mainly explained by the collection of income taxes receivable, net of the installments required for the current year, and the taxable income of the period.

Inventory: The increase is mainly related to the growth of the Canadian Automotive Group segment, investing through its store network.

Trade and other payables: The increase is mainly related to the ongoing optimization of the vendor financing program.

Property and equipment: Investments were mostly done for the partial renewal of the vehicle fleet and hardware equipment, for the modernization of certain locations as well as for the deployment of the new store branding in the Canadian Automotive Group segment.

Intangible assets: The decrease is related to the amortization of the intangible assets from the business acquisitions, partially offset by investments in software applications, including the POS system in the Canadian Automotive Group segment.

Long-term debt: Results from the operating activities during the year permitted the reimbursement.

Deferred tax liabilities, net: The variance is mainly attributable to 2017 pre-tax earnings allowing the recovery of non-capital tax loss carryforwards.

RELATED PARTIES

For the years ended December 31, 2017 and 2016, common shares of the Corporation were widely held, and the Corporation did not have an ultimate controlling party.

Transaction with key management personnel

Key management includes directors (executive and non-executive) and members of the Executive Committee. For the years ended December 31, 2017 and 2016, the compensation to key management personnel was as follows:

	Years ended December 31,	
	2017	2016
Salaries and short-term employee benefits	4,786	3,480
Post-employment benefits (including contributions to defined benefit pension plans)	274	244
Stock-based benefits	2,308	3,016
Total compensation	7,368	6,740

There were no other related-party transactions with key management personnel for the years ended December 31, 2017 and 2016.

RISK MANAGEMENT

In the normal course of business, the Corporation is exposed to a variety of risks that may have a material impact on its business activities, operating results, cash flows and financial position. The Corporation continuously maintains and updates its system of analysis and controls on operational, strategic and financial risks to manage and implement activities with the objective of mitigating the main risks mentioned below.

RISKS ASSOCIATED WITH THE ECONOMY

Economic climate

The economic climate has a moderate impact on sales of automotive aftermarket parts, automotive refinish and industrial paint and related products and on the Corporation's operations. Although the automotive aftermarket industry is, to some extent, dependent on the economic climate, it is not nearly as affected as new car sales are by a difficult economic situation, since deciding to make car repairs is less discretionary and less expensive than the decision to buy a new vehicle.

Changes in legislation or government regulations or policies

Certain political developments occurring this past year, including the results of the presidential election in the US and the decision of the UK to exit the European Union, have resulted in increased uncertainty for multi-national companies. These developments may result in trade policy actions that could impact the landscape of international trade. The business is global and changes to existing international trade agreements, blocking of foreign trade or imposition of tariffs on foreign goods could result in decreased sales and/or increase in pricing, either of which could have an adverse impact on the business, operational results, financial condition and cash flows in future periods for the Corporation.

Inflation

Management believes that inflation has little impact on the Corporation's financial results as the vast majority of price increases imposed by manufacturers on products are passed on to consumers. Nevertheless, low inflation or deflation in the value of aftermarket parts, automotive refinish and industrial paint and related products on the market can have a negative impact on the profitability of its distribution centres. To reduce the risk of deflation in the value of inventoried parts, the Corporation has compensation agreements with most of its suppliers.

Distance travelled

There is a direct link between unemployment rates, fuel prices and distance travelled as there is a direct link between distance travelled and the rate of vehicle wear and tear and repairs. Fuel prices also affect the Corporation's delivery costs.

RISKS ASSOCIATED WITH THE BUSINESS CONTEXT

Growth in the vehicle fleet

The growing number of car models over the last few years, coupled with their longer lifespan, results in a proliferation of aftermarket parts, imposing financial constraints on distributors and wholesalers that must carry a greater selection of parts to ensure adequate availability. This factor is partly offset by manufacturers putting increasingly sophisticated technological components into their vehicles, resulting in each part having more than one use and costing more to repair, which is favourable to the automotive aftermarket.

The rise in the number of foreign vehicle brands in North America is also responsible for the growing number of car models and the proliferation of aftermarket parts. This situation, together with technological complexity, electric cars and greater number of electrical components being used in cars, are factors that tend to favour dealers when consumers are deciding on a service supplier to perform their vehicle maintenance. On the other hand, any potential downsizing of automobile dealers' network could result in a move toward the aftermarket network for vehicle maintenance and repairs.

Products supply and inventory management

Uni-Select primarily distributes parts and products from well-known and well-established North American manufacturers. These manufacturers generally take responsibility for products that are defective, poorly designed or non-compliant with their intended use.

Uni-Select directly imports, to a lesser extent, various parts and products from foreign sources; with regards to these parts, the cash recovery of an eventual recourse against a supplier or manufacturer is uncertain. The Corporation carries liability insurance. In addition, transport logistics between the country of origin and the markets supplied increase the risk of stock outages.

The nature of the Corporation's businesses demands the maintenance of adequate inventories and the ability to meet specific delivery requirements. Supply management is an important element for proper inventory management and under most of our automotive parts supply agreements, the Corporation has return privileges, which helps mitigate the risks associated with inventory obsolescence.

To ensure a continuous supply of its products, the Corporation examines the financial results of its main suppliers and regularly reviews the diversification of its sources of supply.

Distribution by the manufacturer directly to consumers

The distribution of paint depends on the supply of products to the Corporation by certain large and limited number of manufacturers. One or some of these manufacturers could, in the future, decide to distribute their products directly to the end-customers or through other distributors without using the Corporation's services as a distributor. Such decision could cause an adverse effect on the profitability of the Corporation's business depending on the importance of the manufacturer in the Corporation's supply chain and the availability of alternative supply sources. To reduce such risks, Uni-Select retains harmonious business relationships with large paint manufacturers, provides efficient distribution and offers loyalty programs to their body shop customers, thereby creating value throughout the supply chain.

Technology

Ongoing technological developments in recent years require distributors and wholesalers to provide continual training programs to their employees and customers, along with access to new diagnostic tools. Uni-Select manages the potential impact of these trends through the scope and quality of the training and support programs it provides to independent wholesalers, their employees and their customers. It provides its customers with access to efficient and modern technologies in the areas of data management, warehouse management and telecommunications.

Improved safety features such as collision avoidance systems, driverless vehicles and other safety improvements as well as insurance company influence may reduce the demand for some of the Corporation's paint and related products and may have an impact on the operations and financial results.

Environmental risks

The industry of paint and of certain parts products distribution involves a certain level of environmental risk. Damages or destruction to warehouses specialised in the storage of such products, notably by fire, resulting in the spillage of paint or hazardous material, can have environmental consequences such as soil contamination or air pollution. These specialised warehouses are well-equipped to reduce such risks. This includes up-to-date sprinkler systems and retention basins in the event of accidental spills.

Legal and tax risks

The Corporation may be exposed to claims, disputes and legal proceedings arising in the ordinary course of business that may have a material adverse effect on the Corporation's earnings or financial position. The Corporation is subject to various regulations and taxation authorities. Changes in regulations or tax laws may have a material adverse effect on the Corporations' earnings or financial position. To mitigate these risks, the Corporation utilizes the services of professional advisors.

RISKS ASSOCIATED WITH THE OPERATIONAL CONTEXT

Risks related to Uni-Select's business model and strategy

In the automotive aftermarket, Uni-Select's business model is servicing independent wholesalers and independent installers through a network of company-owned warehouses and stores. This requires the Corporation to take special measures to promote its wholesalers' loyalty and long-term survival. This is why Uni-Select's fundamental approach is to drive the growth, competitiveness and profitability of its independent wholesalers by a total business solution that incorporates good purchasing conditions, proactive management of product selection, highly efficient distribution services, innovative marketing programs and various support services, such as training and financing.

Furthermore, considering that owners of aftermarket parts stores are aging, Uni-Select has also implemented succession programs to enable independent wholesalers who wish to retire to sell their business to a family member or an employee. Alternatively, Uni-Select may decide to purchase the business of its independent wholesalers to protect and grow its distribution network, as part of its corporate strategy.

Integration of acquired business

The Corporation's growth-by-acquisition strategy carries its share of risks. The Corporation's success of its acquisitions depends on its ability to integrate and crystallize synergies in terms of efficiently consolidating the operations of the acquired businesses into its existing operations. Uni-Select has developed an expertise in this regard having successfully acquired and integrated several businesses over the years. To limit its risk, the Corporation has adopted a targeted and selective acquisition strategy, conducts strict due diligence and develops detailed integration plans. Finally, Uni-Select relies on a multidisciplinary team that is able to accurately assess and manage the risks specific to the markets where it does business.

Competition

The aftermarket industry in which the Corporation does business is highly competitive. Availabilities of parts, prices, quality and customer service are critical factors. Uni-Select competes primarily in the DIFM (Do It For Me) segment of the industry with, among others, national retail chains, independent distributors and wholesalers as well as online suppliers. Competition varies from market to market, and some competitors may have superior advantages over Uni-Select, which may result, among others, in a reduction in selling prices and an increase in marketing and promotional expenses, which would drive down the Corporation's profitability. To reduce this risk, the Corporation regularly reviews its product and service offering to meet the needs of its customer base as effectively as possible. In addition, the proliferation of parts in itself is a barrier to entry into the market for new competitors.

Business and financial systems

The Corporation relies extensively on its computer systems and the systems of its business partners to manage inventory, process transactions and report results. These systems are subject to damage or interruption from power outages, telecommunications failures, computer viruses, security breaches and catastrophic events. If its computer systems or those of its business partners fail to function properly, the Corporation may experience loss of critical data and interruptions or delays in its ability to manage inventories or process transactions, potentially impacting revenue and operational results. To mitigate that risk, the Corporation is supported by expert firms to prevent its applications from intrusion and loss of data. It includes robust firewalls, backup procedures, dual telecommunication lines, hardware redundancy and external hosting of equipment in specialised sites.

Human resources

During this period of active change, Uni-Select must attract, train and retain a large number of competent employees, while controlling payroll. Labour costs are subject to numerous external factors, such as wage rates, fringe benefits and the availability of local skilled resources at the opportune moment and internal factors such as the renegotiation of collective agreements for unionized employees. The inability to attract, train and retain employees could affect the Corporation's growth capacity as well as its financial performance. The Corporation introduced the following to attract, train and retain the best talent:

- Guides to accelerate employee on-boarding and measure proficient acquisition integration;
- Focus on areas related to training, such as sales development, business-related subject matter reinforcement, effective teams and interpersonal communications;
- Yearly talent reviews for performance, development and succession; and
- Harmonized competitive and equitable pension and benefits programs.

RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its obligations on time and at a reasonable cost. This risk is dealt with in the “Financing” section.

Credit risk

Credit risk stems primarily from the potential inability of customers to discharge their obligations. The maximum credit risk to which the Corporation is exposed represents the carrying amount of cash, cash held in escrow, trade and other receivables and advances to merchant members. No account represents more than 5% of total accounts receivable. In order to manage its risk, specific credit limits are determined for certain accounts and reviewed regularly by the Corporation.

The Corporation may also be exposed to credit risk from its foreign exchange forward contracts, its interest rate swaps and its equity swap agreements, which is managed by dealing with reputable financial institutions.

The Corporation holds in guarantee some personal property and some assets of certain customers. Those customers are also required to contribute to a fund to guarantee a portion of their amounts due to the Corporation. The financial condition of customers is examined regularly, and monthly analyses are reviewed to ensure that past-due amounts are collectible and, if necessary, that measures are taken to limit credit risk.

Allowances for doubtful accounts and past-due accounts receivable are reviewed at least quarterly, and a bad-debt expense is recognized only for accounts receivable for which collection is uncertain.

Foreign exchange risk

The Corporation is exposed to foreign exchange risk on its financial instruments mainly related to purchases in currencies other than the respective functional currencies of the Corporation. To limit the impact of fluctuations in the Canadian dollar or the British pound over the US dollar and Euro on forecasted cash flows, the Corporation uses forward contracts from time to time.

The Corporation has certain investments in foreign operations (United States and United Kingdom) whose net assets are exposed to foreign currency translation. The Corporation hedges the foreign exchange risk exposure related to those investments with US dollar or British pound denominated debt instruments.

Interest rates

The Corporation is exposed to interest rate fluctuations, primarily due to its variable-rate debts. When required to mitigate those fluctuations, the Corporation uses, from time to time, derivative financial instruments, such as swap contracts designed to exchange variable rates for fixed rates. The Corporation does not use financial instruments for trading or speculative purposes.

(For further details about risks associated with financial instruments, refer to note 21 in the consolidated financial statements.)

CHANGE IN ACCOUNTING POLICIES

ACCOUNTING CHANGES ADOPTED DURING THE YEAR

In January 2016 the IASB amended IAS 7 “Statement of Cash Flows” to require enhanced disclosures about changes in liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair value. The additional disclosure requirements have been incorporated into the Corporation’s consolidated financial statements for the year ended December 31, 2017.

FUTURE ACCOUNTING CHANGES

At the date of authorization of the consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (“IASB”) but are not yet effective, and have not been adopted earlier by the Corporation.

Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation’s consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation’s consolidated financial statements.

EFFECTIVE DATE – JANUARY 1, 2018 WITH EARLIER ADOPTION PERMITTED

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.

The Corporation has completed its assessment of IFRS 15. Under the new standard, the transfer of products with a right of return is presented gross as a refund liability and an asset for recovery. The Corporation currently presents allowance for returns net and, therefore, a reclassification from “Trade and other payables” to “Trade and other receivables” in the Corporation’s consolidated statement of financial position is expected. The Corporation does not expect the implementation of IFRS 15 to otherwise have a significant impact on its consolidated statement of earnings, and will incorporate the new disclosure requirements of IFRS 15 in its consolidated financial statements upon its adoption on January 1, 2018.

Financial instruments

In July 2014, the IASB issued a complete and final version of IFRS 9 “Financial Instruments”, replacing the current standard on financial instruments (IAS 39). IFRS 9 introduces a single, principle-based approach for the classification of financial assets, driven by the nature of cash flows and the business model in which an asset is held. IFRS 9 also provides guidance on an entity’s own credit risk relating to financial liabilities and has modified the hedge accounting model to align the economics of risk management with its accounting treatment. The standard results in a single expected-loss impairment model rather than an incurred losses model.

The Corporation has completed its assessment of IFRS 9 and, does not expect to have a significant impact on the consolidated financial statements. The Corporation will incorporate the new disclosure requirements of IFRS 9 upon its adoption on January 1, 2018.

EFFECTIVE DATE – JANUARY 1, 2019 WITH EARLIER ADOPTION PERMITTED IN CERTAIN CIRCUMSTANCES

Leases

In January 2016, the IASB issued IFRS 16 “Leases”, replacing the current standard on leases (IAS 17). 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 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 and introduces new disclosure requirements.

The impact of this new standard, including the presentation and disclosure requirements, is currently being assessed. The Corporation expects that the majority of its operating leases will need to be recognized in its consolidated statement of financial position upon initial adoption of IFRS 16. As a result from the change to the recognition, measurement and presentation of lease expense, the Corporation expects, in the consolidated statement of earnings, a decrease of its rent expense and an increase of its finance costs and depreciation expenses. The Corporation has not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients under the new standard.

USE OF ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in accordance with IFRS requires Management to apply judgment and to make estimates and assumptions that affect the amounts recognized in the consolidated financial statements and notes to the consolidated financial statements. Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

Information about the Corporation's accounting policies is provided in note 3 to the consolidated financial statements, and the most significant uses of judgment, estimates and assumptions relate to the following:

ESTIMATES

Business combinations: Upon the recognition of a business combination, the Corporation records the assets acquired and liabilities assumed at their estimated fair values. The value of goodwill recognized is directly affected by the estimated values of the assets and liabilities. Any change in the estimates used would result in an increase or decrease in the value of goodwill at the date of acquisition, or in net earnings in subsequent years. *(Refer to note 11 in the consolidated financial statements for further details.)*

Sales recognition: Estimates are used in determining the amounts to be recorded for rights of return, guarantees, and trade and volume discounts. These estimates are based on the Corporation's historical experience and Management's assumptions about future events, and are reviewed on a regular basis throughout the year.

Inventory valuation: The Corporation uses estimates in determining the net realizable value of its inventory, taking into consideration the quantity, age and condition of the inventory at the time the estimates are made. These estimates also include assumptions about future selling prices and costs, product demand and return fees. The Corporation also uses estimates in determining the value of trade discounts, rebates and other similar items receivable from vendors. These estimates are based on the Corporation's historical experience and Management's assumptions about future events, and are reviewed on a regular basis throughout the year.

Allowance for surplus or obsolete inventory: The Corporation records an allowance for estimated obsolescence calculated on the basis of assumptions about the future demand for its products and conditions prevailing in the markets where its products are sold. This allowance, which reduces inventory to its net realizable value, is then entered as a reduction of inventory in the consolidated statements of financial position. Management must make estimates when establishing such allowances. In the event that actual market conditions are less favorable than the Corporation's assumptions, additional allowances could prove necessary.

Property and equipment and intangible assets: Assumptions are required in determining the useful lives of property and equipment and intangible assets with finite useful lives. *(Refer to note 3 in the consolidated financial statements for further details.)*

Impairments of non-financial assets: The Corporation uses estimates and assumptions based on historical experience and Management's best estimates to estimate future cash flows in the determination of the recoverable amounts of assets and the fair value of cash generating units ("CGUs"). Impairment tests require Management to make significant assumptions about future events and operating results. Significant estimates are also required in the determination of appropriate discount rates to apply the future cash flows in order to adjust current market rates for assets and entity-specific risk factors. Revisions of these assumptions and estimates, or variations between the estimated amounts and actual results may have a significant impact on the assets recorded in the consolidated statements of financial position, and on the Corporation's net earnings in future periods. For the years ended December 31, 2017 and 2016, no impairment losses or reversals of previous losses have been recorded on the Corporation's non-current assets. *(Refer to note 15 in the consolidated financial statements for further details.)*

Deferred taxes: The Corporation estimates its deferred income tax assets and liabilities based on differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which temporary differences are expected to reverse. Changes in the timing of the reversals or the income tax rates applicable in future years could result in significant differences between these estimates and the actual amounts realized which would affect net earnings in a subsequent period.

Post-employment benefit obligations: Significant assumptions and estimates are required in the measurement of the Corporation's obligations under defined benefit pension plans. Management estimates the defined benefit obligations annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimates of the defined benefit obligations are based on inflation rates, discount rates and mortality rates that Management considers to be reasonable. It also takes into account the Corporation's specific anticipation of future salary increases and retirement ages of employees. Discount rates are determined close to each year-end by reference to 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 defined benefit obligations. Variation in these assumptions may significantly impact the Corporation's defined benefit obligations. (Refer to note 17 in the consolidated financial statements for further details.)

Hedge effectiveness: The Corporation uses estimates and assumptions, based on external market trends and Management's best estimates of entity-specific risks, in assessing the hedge effectiveness prospectively throughout the hedging relationship, if any. Hedge accounting is terminated when a hedging relationship is no longer highly effective, or when a forecast transaction is no longer probable. Differences in actual results may have an impact on the Corporation's net earnings in subsequent periods. The Corporation does not use derivative financial instruments for speculative purposes.

Provisions: The Corporation makes estimates of projected costs and timelines and the probability of occurrence of the obligations in determining the amount for provisions. Provisions are reviewed at the end of each reporting period and are adjusted to reflect the best estimates. (Refer to note 3 in the consolidated financial statements for further details.)

JUDGMENTS

Leases: The Corporation uses judgment in determining the classification of its leased assets at inception of the lease. (Refer to note 3 in the consolidated financial statements for further details.)

Evidence of asset impairment: The Corporation uses significant judgment in determining the existence of an event which indicates a negative effect on the estimated future cash flows associated with an asset. If applicable, the Corporation performs impairment tests on its CGUs to assess whether the carrying amounts of assets are recoverable. As described in the previous section, various estimates made by Management are used in the impairment tests.

Hedge accounting: At the inception of a hedging relationship, if any, the Corporation uses judgment in determining the probability that a forecasted transaction will occur.

EXCHANGE RATE DATA

The following table sets forth information about exchange rates based upon rates expressed as US dollars per comparative currency unit:

	Years ended December 31,		
	2017	2016	2015
Average for the period (to translate the statement of earnings)			
Canadian dollar	0.77	0.75	0.78
British pound	1.33	-	-
Period end (to translate the statement of financial position)			
Canadian dollar	0.80	0.74	0.72
British pound	1.35	-	-

As the Corporation uses the US dollar as its reporting currency in its consolidated financial statements and in this document, unless otherwise indicated, results from its Canadian operations and its UK operations are translated into US dollars using the average rate for the period. Variances and explanations related to fluctuations in the foreign exchange rate, and the volatility of the Canadian dollar and the British pound are therefore related to the translation in US dollars of the Corporation's results for its Canadian and UK operations and do not have an economic impact on its performance since most of the Corporation's consolidated sales and expenses are received or denominated in the functional currency of the markets in which it does business. Accordingly, the sensitivity of the Corporation's results to fluctuations in foreign exchange rates is economically limited.

EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Chief Financial Officer of the Corporation, are responsible for the implementation and maintenance of disclosure controls and procedures, and of the internal control over financial reporting, as provided for in National Instrument 52-109 regarding the Certification of Disclosure in Issuers' Annual and Interim Filings. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Corporation's senior management.

DISCLOSURE CONTROLS AND PROCEDURES

Uni-Select has pursued its evaluation of disclosure controls and procedures in accordance with the NI 52-109 guidelines. As at December 31, 2017, the President and Chief Executive Officer and the Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are properly designed and effective.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Uni-Select has continued its evaluation of the effectiveness of internal controls over financial reporting as at December 31, 2017, in accordance with the NI 52-109 guidelines. This evaluation enabled the President and Chief Executive Officer and the Chief Financial Officer to conclude that internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with IFRS.

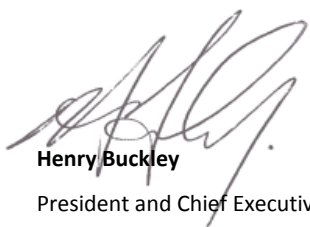
During the year ended December 31, 2017, no change in the Corporation's internal controls over financial reporting occurred that materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

Management has limited the scope of design of its disclosure controls and procedures and its internal controls over financial reporting to exclude the controls, policies and procedures of The Parts Alliance UK segment. This is due to the size and timing of the transaction, which occurred on August 7, 2017. The limitation is primarily based on the time required to assess The Parts Alliance UK segment's controls over financial reporting and to confirm they are consistent with those of the Corporation, as permitted by the Canadian Securities Administrator's National Instrument 52-109 for 365 days following an acquisition.

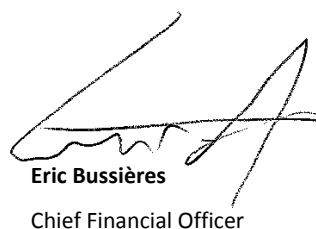
The Parts Alliance UK segment's results since the acquisition date are included in the Corporation's consolidated financial statements and constituted approximately 18.1% of total assets as at December 31, 2017, 10.3% of consolidated sales, and 2.6% of consolidated net earnings for the year ended December 31, 2017.

OUTLOOK

A discussion of management's expectations as to our outlook for 2018 is included in our press release announcing the 2017 fourth quarter results, under the section Outlook. The press release is available on SEDAR website at sedar.com and under the "Investors - Newsroom" section of our corporate website at uniselect.com.



Henry Buckley
President and Chief Executive Officer



Eric Bussi res
Chief Financial Officer

Approved by the Board of Directors on February 19, 2018.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

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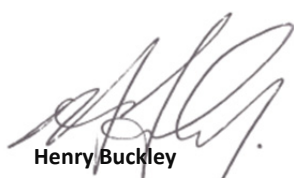
MANAGEMENT'S REPORT

The consolidated financial statements and other financial information included in this Annual Report are the responsibility of the Corporation's Management. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS") and have been approved by the Board of Directors on February 19, 2018.

Uni-Select Inc. maintains internal control systems which, according to Management, reasonably ensure the accuracy of the financial information and maintain proper standards of conduct in the Corporation's activities.

The Board of Directors fulfills its responsibility regarding the consolidated financial statements included in this Annual Report, primarily through its Audit Committee. This Committee, which meets periodically with the Corporation's directors, management and external auditors, has reviewed the consolidated financial statements of Uni-Select Inc. and has recommended that they be approved by the Board of Directors.

The consolidated financial statements have been audited by the Corporation's external auditors, Ernst & Young LLP.



Henry Buckley
President and Chief Executive Officer



Eric Bussi eres
Chief Financial Officer

Boucherville (Canada)
February 19, 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Uni-Select Inc.

We have audited the accompanying consolidated financial statements of Uni-Select Inc., which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the year 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, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 auditors consider 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 the entity's internal control. An audit also includes evaluating the appropriateness 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 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 Uni-Select Inc. as at December 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of Uni-Select Inc. for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 8, 2017.

Ernst & Young LLP ⁽¹⁾

Montréal (Canada)
February 19, 2018

⁽¹⁾ CPA auditor, CA public accountancy permit no. A120803

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands of US dollars, except per share amounts)	Note	Year ended December 31,	
		2017	2016
Sales		1,448,272	1,197,319
Purchases, net of changes in inventories		983,198	830,717
Gross margin		465,074	366,602
Employee benefits		236,684	175,621
Other operating expenses		110,858	84,879
Restructuring and other charges	4	(523)	(746)
Net transaction charges related to The Parts Alliance acquisition	5	7,303	-
Earnings before finance costs, depreciation and amortization and income taxes		110,752	106,848
Finance costs, net	6	14,487	4,484
Depreciation and amortization	7	29,647	15,962
Earnings before income taxes		66,618	86,402
Income tax expense	8	22,002	28,137
Net earnings		44,616	58,265
Earnings per share	9		
Basic		1.06	1.37
Diluted		1.05	1.36
Weighted average number of common shares outstanding (in thousands)	9		
Basic		42,261	42,435
Diluted		42,430	42,693

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of US dollars)	Note	Year ended December 31,	
		2017	2016
Net earnings		44,616	58,265
Other comprehensive income (loss)			
Items that will subsequently be reclassified to net earnings:			
Effective portion of changes in the fair value of cash flow hedges (net of income tax of \$24)		(70)	-
Net change in the fair value of derivative financial instruments designated as cash flow hedges transferred to earnings (net of income tax of \$42)		123	-
Unrealized exchange gains on the translation of financial statements to the presentation currency		12,685	6,229
Unrealized exchange gains on the translation of debt designated as a hedge of net investments in foreign operations (net of income tax of \$36)		242	-
		12,980	6,229
Items that will not subsequently be reclassified to net earnings:			
Remeasurements of long-term employee benefit obligations (net of income tax of \$613 (\$745 in 2016))	17	(1,749)	1,940
Total other comprehensive income		11,231	8,169
Comprehensive income		55,847	66,434

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands of US dollars)	Note	Attributable to shareholders				Total equity
		Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) (note 22)	
Balance, December 31, 2015		97,864	3,588	371,997	(36,471)	436,978
Net earnings		-	-	58,265	-	58,265
Other comprehensive income		-	-	1,940	6,229	8,169
Comprehensive income		-	-	60,205	6,229	66,434
Contributions by and distributions to shareholders:						
Repurchase and cancellation of common shares	20	(2,030)	-	(20,013)	-	(22,043)
Issuance of common shares	20	1,090	-	-	-	1,090
Dividends		-	-	(10,769)	-	(10,769)
Stock-based compensation	16	-	672	-	-	672
		(940)	672	(30,782)	-	(31,050)
Balance, December 31, 2016		96,924	4,260	401,420	(30,242)	472,362
Net earnings		-	-	44,616	-	44,616
Other comprehensive income (loss)		-	-	(1,749)	12,980	11,231
Comprehensive income		-	-	42,867	12,980	55,847
Contributions by and distributions to shareholders:						
Issuance of common shares	20	661	-	-	-	661
Dividends		-	-	(11,817)	-	(11,817)
Stock-based compensation	16	-	924	-	-	924
		661	924	(11,817)	-	(10,232)
Balance, December 31, 2017		97,585	5,184	432,470	(17,262)	517,977

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of US dollars)	Note	Year ended December 31,	
		2017	2016
OPERATING ACTIVITIES			
Net earnings		44,616	58,265
Non-cash items:			
Restructuring and other charges	4	(523)	(746)
Finance costs, net	6	14,487	4,484
Depreciation and amortization	7	29,647	15,962
Income tax expense	8	22,002	28,137
Amortization and reserves related to incentives granted to customers		16,581	12,460
Other non-cash items		269	1,704
Changes in working capital items	10	14,583	16,778
Interest paid		(10,371)	(3,553)
Income taxes recovered (paid)		(7,286)	210
Cash flows from operating activities		124,005	133,701
INVESTING ACTIVITIES			
Business acquisitions	11	(348,490)	(161,839)
Net balance of purchase price		(7,935)	(2,173)
Cash held in escrow		(5,108)	(11,353)
Premium on foreign currency options		(6,631)	-
Proceeds from disposal of foreign exchange options		6,174	-
Advances to merchant members and incentives granted to customers		(28,257)	(22,815)
Reimbursement of advances to merchant members		5,737	4,178
Acquisitions of property and equipment		(13,658)	(9,755)
Proceeds from disposal of property and equipment		824	662
Acquisitions and development of intangible assets		(4,614)	(5,250)
Cash flows used in investing activities		(401,958)	(208,345)
FINANCING ACTIVITIES			
Increase in long-term debt	10	450,860	138,965
Repayment of long-term debt	10	(154,090)	(101,730)
Net decrease in merchant members' deposits in the guarantee fund		(117)	(379)
Repurchase and cancellation of common shares	20	-	(22,043)
Issuance of common shares	20	661	1,090
Dividends paid		(11,637)	(10,533)
Cash flows from financing activities		285,677	5,370
Effects of fluctuations in exchange rates on cash		623	167
Net increase (decrease) in cash		8,347	(69,107)
Cash, beginning of year		22,325	91,432
Cash, end of year		30,672	22,325

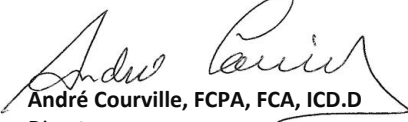
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In thousands of US dollars)	Note	December 31,	
		2017	2016
ASSETS			
Current assets:			
Cash		30,672	22,325
Cash held in escrow		8,147	14,486
Trade and other receivables	12	227,167	149,268
Income taxes receivable		29,279	22,420
Inventory		458,354	330,808
Prepaid expenses		10,196	4,893
Total current assets		763,815	544,200
Investments and advances to merchant members	13	30,628	28,651
Property and equipment	14	78,644	41,982
Intangible assets	15	231,365	101,158
Goodwill	15	372,119	243,807
Deferred tax assets	8	10,174	20,818
TOTAL ASSETS		1,486,745	980,616
LIABILITIES			
Current liabilities:			
Trade and other payables		436,726	314,505
Balance of purchase price, net		15,469	25,303
Provision for restructuring and other charges	4	-	775
Income taxes payable		16,831	5,669
Dividends payable		3,110	2,673
Current portion of long-term debt and merchant members' deposits in the guarantee fund	18, 19	37,098	3,817
Total current liabilities		509,234	352,742
Long-term employee benefit obligations	16, 17	20,985	16,802
Long-term debt	18	411,585	130,572
Merchant members' deposits in the guarantee fund	19	5,543	5,319
Balance of purchase price, net		2,944	-
Other provisions		1,331	-
Derivative financial instruments	21	1,041	359
Deferred tax liabilities	8	16,105	2,460
TOTAL LIABILITIES		968,768	508,254
EQUITY			
Share capital	20	97,585	96,924
Contributed surplus		5,184	4,260
Retained earnings		432,470	401,420
Accumulated other comprehensive loss	22	(17,262)	(30,242)
TOTAL EQUITY		517,977	472,362
TOTAL LIABILITIES AND EQUITY		1,486,745	980,616

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

On of the Board of Directors


André Courville, FCPA, FCA, ICD.D
 Director


Michelle Ann Cormier, CPA, CA, ASC
 Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of US dollars, except per share amounts, percentages and otherwise specified)

1 - GOVERNING STATUTE AND NATURE OF OPERATIONS

Uni-Select Inc. (“Uni-Select”) is a corporation domiciled in Canada and duly incorporated and governed by the Business Corporations Act (Québec). Uni-Select is the parent company of a group of entities, which includes Uni-Select and its subsidiaries (collectively, the “Corporation”). The Corporation is a major distributor of automotive products and paint and related products for motor vehicles. The Corporation’s registered office is located at 170 Industriel Blvd., Boucherville, Québec, Canada.

These consolidated financial statements present the operations and financial position of the Corporation and all of its subsidiaries.

The Corporation’s shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol UNS.

2 - BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Corporation has consistently applied the same accounting policies for all the periods presented.

The Board of Directors approved and authorized for issuance these consolidated financial statements on February 19, 2018.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value, provisions, which are measured based on the best estimates of the expenditures required to settle the obligation and the post-employment benefit obligations, which are measured at the present value of the defined benefit obligation and reduced by the fair value of plan assets.

Functional and presentation currency

Items included in the financial statements of each of the Corporation’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Corporation’s functional currencies are the US dollar for entities located in the United States, the Canadian dollar for entities located in Canada and the British pound for entities located in the United Kingdom. These consolidated financial statements are presented in US dollars, which is the Corporation’s presentation currency.

Use of accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires Management to apply judgment and to make estimates and assumptions that affect the amounts recognized in the consolidated financial statements and notes to the consolidated financial statements. Judgment is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and, estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

Information about the Corporation’s accounting policies is provided in note 3 to the consolidated financial statements, and the most significant uses of judgment, estimates and assumptions relate to the following:

(i) Estimates

Business combinations: Upon the recognition of a business combination, the Corporation records the assets acquired and liabilities assumed at their estimated fair values. The value of goodwill recognized is directly affected by the estimated values of the assets and liabilities. Any change in the estimates used would result in an increase or decrease in the value of goodwill at the date of acquisition, or in net earnings in subsequent years. See note 11 for details on the business combinations completed in the last two years.

Sales recognition: Estimates are used in determining the amounts to be recorded for the right of return, guarantees, and trade and volume discounts. These estimates are based on the Corporation’s historical experience and Management’s assumptions about future events, and are reviewed on a regular basis throughout the year.

Inventory valuation: The Corporation uses estimates in determining the net realizable value of its inventory, taking into consideration the quantity, age, and condition of the inventory at the time the estimates are made. These estimates also include assumptions about future selling prices and costs, product demand, and return fees. The Corporation also uses estimates in determining the value of trade discounts, rebates, and other similar items receivable from vendors. These estimates are based on the Corporation’s historical experience and Management’s assumptions about future events, and are reviewed on a regular basis throughout the year.

2 - BASIS OF PRESENTATION (CONTINUED)

Allowance for surplus or obsolete inventory: The Corporation records an allowance for estimated obsolescence calculated on the basis of assumptions about the future demand for its products and conditions prevailing in the markets where its products are sold. This allowance, which reduces inventory to its net realizable value, is then entered as a reduction of inventory in the consolidated statements of financial position. Management must make estimates when establishing such allowances. In the event that actual market conditions are less favorable than the Corporation's assumptions, additional allowances could prove necessary.

Property and equipment and intangible assets: Assumptions are required in determining the useful lives of property and equipment, and intangible assets with finite useful lives. Refer to note 3 for further details.

Impairment of non-financial assets: The Corporation uses estimates and assumptions based on historical experience and Management's best estimates to estimate future cash flows in the determination of the recoverable amounts of assets and the fair value of cash generating units ("CGUs"). Impairment tests require Management to make significant assumptions about future events and operating results. Significant estimates are also required in the determination of appropriate discount rates to apply the future cash flows in order to adjust current market rates for assets and entity-specific risk factors. Revisions of these assumptions and estimates, or variances between the estimated amounts and actual results may have a significant impact on the assets recorded in the consolidated statements of financial position, and on the Corporation's net earnings in future periods. For the years ended December 31, 2017 and 2016, no impairment losses or reversals of previous losses have been recorded on the Corporation's non-current assets. Refer to note 15 for further details.

Deferred taxes: The Corporation estimates its deferred income tax assets and liabilities based on differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the years in which temporary differences are expected to reverse. Changes in the timing of the reversals or the income tax rates applicable in future years could result in significant differences between these estimates and the actual amounts realized, which would affect net earnings in a subsequent period.

Post-employment benefit obligations: Significant assumptions and estimates are required in the measurement of the Corporation's obligations under defined benefit pension plans. Management estimates the defined benefit obligations annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimates of the defined benefit obligations are based on inflation rates, discount rates, and mortality rates that Management considers to be reasonable. It also takes into account the Corporation's specific anticipation of future salary increases and retirement ages of employees. Discount rates are determined at each year-end by reference to 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 defined benefit obligations. Variation in these assumptions may significantly impact the Corporation's defined benefit obligations. Refer to note 17 for details on the assumptions and estimates used for the years ended December 31, 2017 and 2016.

Hedge effectiveness: The Corporation uses estimates and assumptions, based on external market trends and Management's best estimates of entity-specific risks, in assessing the hedge effectiveness prospectively throughout the hedging relationship, if any. Hedge accounting is terminated when a hedging relationship is no longer highly effective, or when a forecast transaction is no longer probable. Differences in actual results may have an impact on the Corporation's net earnings in subsequent periods. The Corporation does not use derivative financial instruments for speculative purposes.

Provisions: The Corporation makes estimates of projected costs and timelines, and the probability of occurrence of the obligations in determining the amount for provisions. Provisions are reviewed at the end of each reporting period and are adjusted to reflect the best estimates. Refer to note 3 for further details.

(ii) Judgments

Leases: The Corporation uses judgment in determining the classification of its leased assets at the inception of the lease. Refer to note 3 for further details.

Evidence of asset impairment: The Corporation uses significant judgment in determining the existence of an event which indicates a negative effect on the estimated future cash flows associated with an asset. If applicable, the Corporation performs impairment tests on its CGUs to assess whether the carrying amounts of assets are recoverable. As described in the previous section, various estimates made by Management are used in the impairment tests.

Hedge accounting: At the inception of a hedging relationship, if any, the Corporation uses judgment in determining the probability that a forecasted transaction will occur.

3 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used to prepare these consolidated financial statements are as follow:

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are fully consolidated from the date that control begins until the date that control ceases. Transactions with subsidiaries are eliminated upon consolidation. The Corporation's principal subsidiaries wholly-owned at 100% as at December 31, 2017 are as follows:

370071 Alberta Ltd.	PA Topco Limited	Uni-Select Pacific Inc.
FinishMaster, Inc.	Parts Alliance Group Limited	Uni-Select Prairies Inc.
FinishMaster Canada Inc.	Uni-Select Canada Stores Inc.	Uni-Select Purchases, G.P.
FinishMaster Services, Inc.	Uni-Sélect Eastern Inc.	Uni-Sélect Québec Inc.
German Swedish & French Car Parts Limited	Uni-Select Luxembourg S.à r.l.	Uni-Select USA Holdings, Inc.

Business combinations

The Corporation applies the acquisition method in accounting for business acquisitions. The consideration transferred by the Corporation to obtain control of a subsidiary is calculated as the sum of the fair values, at the acquisition date, of the assets transferred, liabilities incurred and equity interests issued by the Corporation, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Corporation recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have previously been recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition-date estimated fair values.

Goodwill is measured at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally the fair value) of the identifiable assets acquired and liabilities assumed. When the net result is negative, a bargain purchase gain is recognized immediately in net earnings.

Foreign currency translation

(i) Foreign currency transactions

Foreign currency transactions are initially recorded in the functional currency of the related entity (note 2) using the exchange rate prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated using closing exchange rates. Any exchange rate differences are recognized in net earnings except for those relating to qualifying cash flow hedges, which are deferred under other comprehensive income ("OCI") in equity.

(ii) Foreign operations

Assets and liabilities of foreign operations whose functional currency is other than the presentation currency (note 2) are translated into US dollars using closing exchange rates. Revenues and expenses are translated using average exchange rates for the period. Foreign currency translation differences are recognized and presented under OCI in equity. The exchange rates used in the preparation of the consolidated financial statements were as follows:

	Year ended December 31,	
	2017	2016
Average exchange rate for the year		
Canadian dollar	0.77	0.75
British pound	1.33	n/a
Exchange rate as at year-end		
Canadian dollar	0.80	0.74
British pound	1.35	n/a

3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales recognition

The Corporation recognizes sales upon shipment of products at the fair value of the consideration received or receivable, net of right of return provisions and guarantees and other trade and volume discounts, when the significant risks and rewards of ownership have been transferred to the buyer, there is no continuing management involvement with the products, recovery of the consideration is probable and the amount of revenue can be measured reliably. The Corporation offers its customers a right of return on the sale of products and certain guarantees. At the time of sales recognition, the Corporation records provisions for the right of return and guarantees which are based on the Corporation's historical experience and Management's assumptions.

Inventory

Inventory consists of finished products and is valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method net of certain trade discounts, rebates, and other similar items receivable from vendors. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

Incentives granted to customers

The Corporation provides cash, inventory and equipment incentives to certain customers as consideration for multi-year purchase commitments ("contracts"). These incentives are recorded at cost and are amortized, contract by contract, as a reduction of sales, on a straight-line basis over the lesser of the contract term or 48 months, corresponding to the average duration of the contracts. In the event that a customer breaches the commitment, the remaining unamortized book value of the incentive, net of liquidated damages to be received, is immediately recorded as other expenses in net earnings.

Property and equipment

Property and equipment is measured at its cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to acquiring the asset and preparing the asset for its intended use. The cost less residual value of the property and equipment is depreciated over the estimated useful lives in accordance with the following methods and periods:

	Methods	Periods / Rate
Paving	Diminishing balance	8%
Buildings	Straight-line and diminishing balance	30 years / 2 to 5%
Furniture and equipment	Straight-line and diminishing balance	7 to 10 years / 10 to 25%
Computer equipment and system software	Straight-line and diminishing balance	3 to 5 years / 25 to 33%
Automotive equipment	Straight-line and diminishing balance	5 years / 20 to 30%
Leasehold improvements	Straight-line	Lease term
Vehicles under finance leases	Diminishing balance	30%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Intangible assets

For internally-generated intangible assets, the Corporation records the costs directly attributable to the acquisition and development of an enterprise resource planning software ("ERP") and the corresponding borrowing costs. In order to accurately reflect the pattern of consumption of the expected benefits, the Corporation amortizes its software and related costs on a straight-line basis over a 10-year period. The amortization period begins when the asset is available for its intended use and ceases when the asset is classified as held for sale or is derecognized.

Trademarks, which were all acquired as a result of business acquisitions, are determined as having indefinite useful lives based on the prospects for long-term profitability and the overall positioning of the trademarks on the market in terms of notoriety and sales volume. They are measured at cost less accumulated impairment losses and are not amortized.

Other intangible assets, including those acquired as a result of business acquisitions, are measured at cost less accumulated amortization and accumulated impairment losses, and are amortized over their estimated useful lives according to the following methods and periods:

	Methods	Periods / Rate
Customer relationships and others	Straight-line	2 to 20 years
Software	Straight-line and diminishing balance	5 to 10 years / 30%

Amortization methods, useful lives and residual values are reviewed at each reporting date.

3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is measured at cost less accumulated impairment losses and is not amortized.

Borrowing costs

Borrowing costs directly attributable to the development of the ERP software (i.e. qualifying asset), if any, are capitalized as part of the cost of that intangible asset until it is substantially ready for its intended use. Otherwise, borrowing costs are recognized in net earnings using the effective interest method.

Impairment of assets

Property and equipment and intangible assets with finite lives are reviewed at each reporting date to determine whether events or changes in circumstances indicate that the carrying amount of the asset or related CGU may not be recoverable. If any such indication exists, then the assets' or CGU's recoverable amount is estimated. Intangible assets with indefinite lives, specifically the goodwill and trademarks, are tested for impairment annually or more frequently if events or circumstances indicate that they are impaired.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the groups of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. The data used for impairment testing procedures are directly linked to the Corporation's latest approved budget and strategic plan. Discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by Management.

Impairment losses are recognized in net earnings. Impairment losses recognized with respect to a CGU are allocated first to reduce the carrying amount of any goodwill, and then to reduce the carrying amounts of the other assets of a CGU on a pro-rata basis.

An impairment loss with respect to goodwill, if any, cannot be reversed. For other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss with respect to other assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss with respect to other assets is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Leases

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, assets acquired under finance leases are recorded in "Property and equipment" at the lower of the fair value of the asset and the present value of the minimum lease payments. A corresponding liability is recorded as a finance lease obligation within "Long-term debt". In subsequent periods, the asset is depreciated over the estimated useful life and interest on the obligation is recorded in "Finance costs, net" in the consolidated statements of earnings.

Other leases are classified as operating leases and the leased assets are not recognized in the Corporation's consolidated statements of financial position. Payments made under operating leases are recognized in net earnings on a straight-line basis over the term of the lease.

3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

Income tax expense comprises current and deferred tax. Current taxes and deferred taxes are recognized in net earnings except to the extent that they relate to a business combination, or items recognized directly in equity or in OCI.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable with respect to previous years.

Deferred tax assets and liabilities for financial reporting purposes are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the reporting date for the years in which the temporary differences are expected to reverse. Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. Deferred tax liabilities are generally recognized in full, although IAS 12, "Income taxes" specifies limited exemptions. However, deferred taxes are not recognized on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred taxes on temporary differences associated with investments in subsidiaries are not recognized if the reversal of these temporary differences can be controlled by the Corporation and it is improbable that reversal will occur in the foreseeable future. Deferred taxes on temporary differences associated with investments in subsidiaries are reassessed at each reporting date and are recognized to the extent that it has become probable that reversal will occur in the foreseeable future.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. The Corporation's main provisions are related to asset retirement obligations and restructuring charges, including site decommissioning costs, employee termination benefits and onerous lease obligations.

Asset retirement obligation provisions are recognized for statutory, contractual or legal obligations, normally when incurred, associated with the retirement of property and equipment (mainly leasehold improvements) when those obligations result from the acquisition, development and/or normal operation of the assets. The obligations are measured initially at fair value and the resulting costs are capitalized as a part of the carrying value of the related asset. The capitalized asset retirement cost is depreciated on the same basis as the related asset.

Restructuring charges are recognized when the Corporation has put in place a detailed restructuring plan which has been communicated in sufficient detail to create an obligation. Restructuring charges include only costs directly related to the restructuring plan, and are measured at the best estimate of the amount required to settle the Corporation's obligations. Subsequent changes in the estimate of the obligation are recognized in the Corporation's consolidated statements of earnings.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or incentive plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be reliably estimated.

Stock-based compensation

Equity-settled common share stock option plan

The compensation expense is measured as the fair value at the grant date using the trinomial option pricing model, and is recognized over the vesting period, with a corresponding increase to contributed surplus within equity. Forfeitures and cancellations are estimated at the grant date, and subsequently reviewed at each reporting date. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that are expected to meet the related service conditions at the vesting date. When the stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in contributed surplus.

3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash-settled stock-based compensation plans

The Corporation has two cash-settled stock-based compensation plans composed of a Deferred Share Unit Plan (“DSU Plan”) and a Performance Share Unit Plan (“PSU Plan”). Under these plans, the fair value of the liability is measured as the number of units expected to vest multiplied by the fair value of one unit, which is based on the market price of the Corporation’s common shares. The compensation expense and corresponding liability are recognized over the vesting period, if any, and are revalued at each reporting date until the settlement, with any changes in the fair value of the liability recognized in net earnings.

The Corporation has entered into equity swap agreements in order to manage common shares market price risk relating to the DSUs and PSUs.

Post-employment benefit obligations

Defined-contribution plans

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

Defined benefit plans

The Corporation has adopted the following policies for defined benefit plans:

- The Corporation’s net obligation with respect to defined benefit pension plans is calculated by estimating the value of future benefits that employees have earned in return for their service in the current and prior periods less the fair value of any plan assets;
- The cost of pension benefits earned by employees is actuarially determined using the projected unit credit method. The calculations reflect Management’s best estimates of salary increases, retirement ages and mortality rates of members and discount rate;
- When the benefits of a plan are improved, the benefit relating to past service by employees is recognized immediately in net earnings;
- Remeasurements comprising of actuarial gains and losses, the effect of the limit of the asset, the effect of minimum funding requirements and the return on plan assets in excess of interest income are recognized immediately in OCI and retained earnings.

The current and past service costs related to the defined benefit pension plans are recorded within “Employee benefits”. The net interest income or expense on the net asset or obligation is recorded within “Finance costs, net”.

Financial instruments

Non derivative financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial assets and liabilities are initially measured at fair value plus transaction costs and their subsequent measurement depends on their classification. The classification depends on the objectives set forth when the financial instruments were purchased or issued, their characteristics and their designation by the Corporation. The Corporation has made the following classifications:

- Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Cash, cash held in escrow, trade receivables and advances to merchant members are classified as loans and receivables. After initial recognition, these are measured at amortized cost using the effective interest method, less any impairment.
- Trade and other payables, balance of purchase price, dividends payable, long-term debt (except finance leases and financing costs), and merchant members’ deposits in the guarantee fund are classified as liabilities measured at amortized cost. Subsequent valuations are recorded at amortized cost using the effective interest method.

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 expired.

All financial assets except for those measured at fair value through net earnings are subject to review for impairment at least at each reporting date. A financial asset is impaired if objective evidence indicates that an event has occurred after the initial recognition of the asset having a negative effect on the estimated future cash flows of that asset that can be reliably estimated. An impairment loss with respect to a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate.

3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting

The Corporation uses derivative financial instruments to manage interest rate risk, foreign exchange risk and common share market price risk. The Corporation does not use financial instruments for trading or speculative purposes. Some of the derivative financial instruments are designated as hedging instruments.

On initial designation of the hedge, the Corporation formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. At the inception of the hedge relationship and on an ongoing basis, the Corporation assesses if the hedging instruments are expected to be “highly effective” in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated.

Cash flow hedges

Derivatives (interest rate swap agreements), if any, are used to manage the floating interest rate of the Corporation’s total debt portfolio and related overall borrowing cost. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in net earnings as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

When a derivative is designated as a hedging instrument for a hedge of changes in cash flows attributable to a particular risk associated with a highly probable forecast transaction that could affect income, the effective portion of changes in the fair value of the derivative is recognized in OCI and presented in the accumulated changes in the fair value of derivative financial instruments designated as cash flow hedges in equity. The amount recognized in OCI is removed and included in net earnings in the same period as the hedged cash flows affect net earnings, under the same line item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings. The Corporation considers that its derivative financial instruments are effective as hedges, both at inception and over the term inception and over the term of the instrument, as for the entire term to maturity, the notional principal amount and the interest rate basis in the instruments all match the terms of the debt instrument being hedged.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in OCI and presented in accumulated changes in the fair value of derivative financial instrument designated as cash flow hedges remains in equity until the forecasted interest expense affects net earnings. If the forecasted interest expense is no longer expected to occur, then the balance in OCI is recognized immediately in net earnings. In other cases, the amount recognized in OCI is transferred to net earnings in the same period that the hedged item affects net earnings.

Hedge of net investments in foreign operations

The Corporation applies hedge accounting to foreign currency translation differences arising between the functional currency of the foreign operation and the parent entity’s functional currency. Foreign currency differences arising on the translation of the debt designated as a hedge of net investments in foreign operations are recognized in OCI to the extent that the hedge is effective, and are presented within equity. To the extent that the hedge is ineffective, such differences are recognized in net earnings. When the hedged portion of a net investment is reduced, the relevant amount in the cumulative translation account is transferred to net earnings as part of the profit or loss on partial or on complete disposal. The Corporation elects to exclude from a partial disposal of a foreign operation the repayments of loans forming part of the net investment in a foreign operation.

Foreign exchange gains or losses arising on a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which in substance is considered to form part of the net investment in the foreign operation, are recognized in OCI in the cumulative amount of foreign currency translation differences.

Hedge of foreign exchange risk

Forward contracts and foreign currency options, if any, are used in order to manage foreign exchange risk. These derivatives are not designated for hedge accounting and are measured at fair value at the end of each period. Fair value variances are recognized in the consolidated statements of earnings, and are presented under “Other operating expenses”, unless otherwise specified, with a corresponding asset or liability for derivative financial instruments in the consolidated statements of financial position.

Pursuant to the forward contract agreement, the Corporation generates offsetting cash flows related to the underlying position with respect to the amount and timing of forecasted foreign currency transactions. The net effect of the forward contracts partly offset fluctuations in currency rates impacting the foreign exchange gains/losses mainly resulting from purchases in currencies other than the respective functional currencies of the Corporation.

3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pursuant to the option agreement, the Corporation may generate favorable offsetting cash flows related to the underlying position with respect to the amount and timing of forecasted foreign currency transactions. The net effect of the currency options will offset, at their exercise date, the increase in currency rates, if any, impacting the foreign exchange losses mainly resulting from the Corporation's acquisitions that are disbursed in a currency other than the respective functional currencies of the Corporation.

Hedge of share-based payments cost

Equity swap agreements are used in order to manage common shares market price risk. These derivatives are not designated for hedge accounting and are measured at fair value at the end of each period. Fair value variances are recognized in the consolidated statements of earnings, and are presented under "Employee benefits" with a corresponding asset or liability for derivative financial instruments in the consolidated statements of financial position.

Pursuant to the agreement, the Corporation receives the economic benefit of dividends and share price appreciation while providing payments to the financial institution's cost of funds and any share price depreciation. The net effect of the equity swaps partly offset movements in the Corporation's share price impacting the cost of the DSU and the PSU plans.

Accumulated other comprehensive income

Cumulative translation account

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of Canadian and United Kingdom operations to the Corporation's presentation currency.

Unrealized exchange gains and losses on the translation of debt designated as a hedge of net investments in foreign operations

The hedge reserve comprises all foreign currency differences arising from the translation of debt designated as a hedge of the Corporation's net investments in foreign operations, if any.

Accumulated changes in the fair value of derivative financial instruments designated as cash flow hedges

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, if any, related to hedged transactions that have not yet been settled.

Accounting changes adopted in 2017

In January 2016 the IASB amended IAS 7 "Statement of Cash Flows" to require enhanced disclosures about changes in liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair value. The additional disclosure requirements have been incorporated into the Corporation's consolidated financial statements for the year ended December 31, 2017.

Future accounting changes

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board ("IASB") but are not yet effective, and have not been adopted earlier by the Corporation.

Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Corporation's consolidated financial statements.

Effective date – January 1, 2018 with earlier adoption permitted

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.

The Corporation has completed its assessment of IFRS 15. Under the new standard, the transfer of products with a right of return is presented gross as a refund liability and an asset for recovery. The Corporation currently presents the allowance for returns on a net basis and, therefore, a reclassification from "Trade and other payables" to "Trade and other receivables" in the Corporation's consolidated statement of financial position is expected. The Corporation does not expect the implementation of IFRS 15 to otherwise have a significant impact on its consolidated statement of earnings, and will incorporate the new disclosure requirements of IFRS 15 in its consolidated financial statements upon its adoption on January 1, 2018.

3 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

In July 2014, the IASB issued a complete and final version of IFRS 9 “Financial Instruments”, replacing the current standard on financial instruments (IAS 39). IFRS 9 introduces a single, principle-based approach for the classification of financial assets, driven by the nature of cash flows and the business model in which an asset is held. IFRS 9 also provides guidance on an entity’s own credit risk relating to financial liabilities and has modified the hedge accounting model to align the economics of risk management with its accounting treatment. The standard results in a single expected-loss impairment model rather than an incurred losses model.

The Corporation has completed its assessment of IFRS 9 and, does not expect to have a significant impact on the consolidated financial statements. The Corporation will incorporate the new disclosure requirements of IFRS 9 upon its adoption on January 1, 2018.

Effective date – January 1, 2019 with earlier adoption permitted in certain circumstances

Leases

In January 2016, the IASB issued IFRS 16 “Leases”, replacing the current standard on leases (IAS 17). 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 consolidated statement of financial position 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 and introduces new disclosure requirements.

The impact of this new standard, including the presentation and disclosure requirements, is currently being assessed. The Corporation expects that the majority of its operating leases will need to be recognized in its consolidated statement of financial position upon initial adoption of IFRS 16. As a result from the change to the recognition, measurement and presentation of lease expense, the Corporation expects, in the consolidated statement of earnings, a decrease of its rent expense and an increase of its finance costs and depreciation expenses. The Corporation has not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients under the new standard.

4 - RESTRUCTURING AND OTHER CHARGES

In 2015, following the announcement of the agreement for the sale of substantially all the assets of Uni-Select USA, Inc. and Beck/Arnley Worldparts, Inc. and in order to rightsize its corporate operations, the Corporation recognized restructuring and other charges of \$8,234. Those restructuring and other charges consisted of severance charges, onerous contract charges and other charges to relocate certain locations. The Corporation has completed, as at December 31, 2017, the rightsizing of its corporate operations. The variances in the provision for restructuring and other charges are detailed as follows:

	Year ended December 31,	
	2017	2016
Balance, beginning of year	775	3,983
Provision used during the year	(308)	(2,567)
Change in estimate ⁽¹⁾	(523)	(746)
Effects of fluctuations in exchange rates	56	105
Balance, end of year	-	775

⁽¹⁾ During 2017, the Corporation reviewed its remaining provisions and reflected the following changes of estimates: a decrease of \$234 for the remaining balance of onerous contracts and \$289 for severances, resulting in a reduction of the restructuring and other charges in the consolidated statements of earnings of \$523.

In December 2016, the Corporation reviewed its remaining provisions and reflected a reduction of the restructuring and other charges in the consolidated statements of earnings of \$746 for onerous contracts following the recent negotiations with its information technology suppliers.

5 - NET TRANSACTION CHARGES RELATED TO THE PARTS ALLIANCE ACQUISITION

In August 2017, the Corporation completed the acquisition of The Parts Alliance (refer to note 11 for further details).

For the year ended December 31, 2017, the Corporation recognized net transaction charges totaling \$7,303 in connection with The Parts Alliance acquisition, including acquisition costs for an amount of \$7,310, other charges related to the acquisition for \$1,699 and a favorable change of \$1,706 in the fair value of foreign currency options. These options were entered into the second quarter of 2017 to fix the exchange rate on the forecasted cash outflows related to the acquisition.

6 - FINANCE COSTS, NET

	Year ended December 31,	
	2017	2016
Interest on long-term debt	10,940	3,652
Amortization of financing costs	672	465
Net interest expense on the long-term employee benefit obligations (note 17)	429	498
Reclassification of realized losses on derivative financial instruments designated as cash flow hedges to net earnings	165	-
Premium on foreign currency options ⁽¹⁾	2,325	-
Interest on merchant members' deposits in the guarantee fund and others	165	102
	14,696	4,717
Interest income from merchant members and others	(209)	(233)
	14,487	4,484

⁽¹⁾ Refer to note 5 for further details.

7 - DEPRECIATION AND AMORTIZATION

	Year ended December 31,	
	2017	2016
Depreciation of property and equipment	12,411	7,113
Amortization of intangible assets	17,236	8,849
	29,647	15,962

8 - INCOME TAXES

Income tax expense

	Year ended December 31,	
	2017	2016
Current tax expense (recovery)	10,673	(5,680)
Deferred tax expense		
Origination and reversal of temporary differences	12,140	33,817
Change in enacted tax rate ⁽¹⁾	(811)	-
	22,002	28,137

⁽¹⁾ On December 22, 2017, the President of the United States signed into law the *Tax Cuts and Jobs Act* ("US Tax Reform"). The US Tax Reform reduces the US federal corporate income tax rate from 35.0% to 21.0%, effective as of January 1, 2018. Furthermore, the new law allows for immediate capital expensing of new investments in certain qualified depreciable assets made after September 27, 2017, which will be phased down starting in 2023. The US Tax Reform has introduced other significant changes to the US corporate income tax laws that could have some impact on the Corporation going forward. The US Tax Reform has decreased the Corporation's net deferred income tax liability by \$811.

8 - INCOME TAXES (CONTINUED)

Reconciliation of the income tax expense

The following table presents a reconciliation of income taxes at the combined Canadian statutory income tax rates applicable in the jurisdictions in which the Corporation operates to the amount of reported income taxes in the consolidated statements of earnings:

	Year ended December 31,	
	2017	2016
Income taxes at the Corporation's statutory tax rate – 26.80% ⁽¹⁾ (26.90% in 2016)	17,854	23,242
Effect of tax rates in foreign jurisdictions	5,593	5,932
Tax benefit from a financing structure	(4,323)	(4,019)
Change in enacted tax rate	(811)	-
Non-deductible expenses and others	3,689	2,982
	22,002	28,137

⁽¹⁾ For the year ended December 31, 2017, the applicable statutory tax rate is 26.8% (26.9% in 2016). The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdiction in which the Corporation operates. The decrease is due to the reduction of the Québec income tax rate in 2017, from 11.9% to 11.8%.

Recognized deferred tax assets and liabilities

	December 31, 2017					
	Opening balance	Recognized in net earnings	Recognized in OCI	Recognized as part of business combinations (note 11)	Effects of fluctuations in exchange rates	Closing balance
Non-capital loss (gain) carryforwards	19,309	(12,118)	-	599	636	8,426
Provisions and accrued charges, deductible in future years	9,140	(5,278)	-	-	213	4,075
Property and equipment	(1,820)	(2,538)	-	702	(133)	(3,789)
Long-term employee benefit obligations	2,330	369	613	-	219	3,531
Financing costs	(258)	118	-	-	(21)	(161)
Provision for performance incentives	1,834	(8)	-	-	125	1,951
Intangible assets and goodwill	(10,051)	(1,900)	-	(15,128)	(636)	(27,715)
Capital loss (gain) on foreign exchange	(3,454)	8,843	-	-	(86)	5,303
Others	1,328	1,183	-	-	(63)	2,448
	18,358	(11,329)	613	(13,827)	254	(5,931)

	December 31, 2016					
	Opening balance	Recognized in net earnings	Recognized in OCI	Recognized as part of business combinations (note 11)	Effects of fluctuations in exchange rates	Closing balance
Non-capital loss (gain) carryforwards	48,163	(29,339)	-	-	485	19,309
Taxable income during the coming year	1,195	(1,255)	-	-	60	-
Provisions and accrued charges, deductible in future years	23,173	(14,180)	-	-	147	9,140
Property and equipment	(2,512)	786	-	-	(94)	(1,820)
Long-term employee benefit obligations	2,837	161	(745)	-	77	2,330
Financing costs	(273)	26	-	-	(11)	(258)
Provision for performance incentives	1,882	(111)	-	-	63	1,834
Intangible assets and goodwill	(15,253)	6,067	-	-	(865)	(10,051)
Capital loss (gain) on foreign exchange	(5,309)	1,231	-	-	624	(3,454)
Others	(1,424)	2,797	-	-	(45)	1,328
	52,479	(33,817)	(745)	-	441	18,358

8 - INCOME TAXES (CONTINUED)

Consolidated statements of financial position presentation

	December 31,	
	2017	2016
Deferred tax assets	10,174	20,818
Deferred tax liabilities	16,105	2,460
	(5,931)	18,358

As at December 31, 2017, the Corporation had capital losses of \$50,134 (nil in 2016) that can be carried forward indefinitely, for which no deferred tax assets have been recognized. These losses may be applied only against future capital gains and the Corporation does not expect to generate capital gains in the near future.

9 - EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted earnings per share:

	Year ended December 31,	
	2017	2016
Net earnings considered for basic and diluted earnings per share	44,616	58,265
Weighted average number of common shares outstanding for basic earnings per share	42,261,423	42,434,956
Impact of the stock options ⁽¹⁾	168,193	258,138
Weighted average number of common shares outstanding for diluted earnings per share	42,429,616	42,693,094
Earnings per share basic	1.06	1.37
Earnings per share diluted	1.05	1.36

⁽¹⁾ For the year ended December 31, 2017, 126,960 weighted average common shares issuable on the exercise of stock options (126,960 in 2016) were excluded from the calculation of diluted earnings per share as the strike price of the options was higher than the average market price of the shares.

10 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS

The changes in working capital items are detailed as follows:

	Year ended December 31,	
	2017	2016
Trade and other receivables	7,455	(2,632)
Inventory	(12,949)	(23,889)
Prepaid expenses	1,518	4,954
Trade and other payables	18,867	40,912
Provision for restructuring and other charges	(308)	(2,567)
	14,583	16,778

As at December 31, 2017, acquisition of property and equipment of \$582 (\$148 as at December 31, 2016) remained unpaid and did not have an impact on cash.

10 - INFORMATION INCLUDED IN CONSOLIDATED CASH FLOWS (CONTINUED)

The following table presents reconciliation between the opening and closing balances in the consolidated statement of financial position for “Long-term debt”, including the “Current portion of long-term debt” (refer to note 18 for further details):

	Year ended December 31,	
	2017	2016
Balance, beginning of year	134,298	90,344
Increase in long-term debt	450,860	138,965
Repayment of long-term debt	(154,090)	(101,730)
Increase in finance leases	5,993	6,043
Finance lease obligations acquired through business combinations (note 11)	8,386	-
Amortization of financing costs (note 6)	672	465
Effects of fluctuations in exchange rates	2,462	211
Balance, end of year	448,581	134,298

11 - BUSINESS COMBINATIONS

The Parts Alliance acquisition

On August 7, 2017, as part of its strategy of growth through acquisitions, the Corporation completed the acquisition of all the shares of PA Topco Limited doing business as The Parts Alliance, an independent distributor of automotive aftermarket parts in the United Kingdom. This strategic transaction provides the Corporation with an attractive point of entry into a new geographic market currently in consolidation.

Presented net of the cash of the acquired business for £6,187 (equivalent to \$8,065), total cost of this acquisition amounting to £202,195 (equivalent to \$263,603) was preliminarily allocated to the acquired assets and liabilities based on their fair values and the exchange rate in effect at the acquisition date. The Parts Alliance acquisition was fully funded with debt from the Corporation’s available credit facilities.

The preliminary goodwill arising from the acquisition is attributable primarily to high growth and accretion potential, synergies expected to be derived from the business combination and the value of The Parts Alliance’s workforce. Since its acquisition date, The Parts Alliance has contributed a total of \$145,069 and \$985 to sales and net earnings respectively.

Other acquisitions

During the year ended December 31, 2017, the Corporation acquired net assets of 4 companies operating in the United States (7 companies in 2016) and 4 companies operating in Canada (6 companies in 2016). In 2017, the Corporation also acquired the shares of 1 company operating in the United Kingdom, following the acquisition of The Parts Alliance, and in 2016, acquired the shares of 1 company operating in Canada.

Those companies were acquired in the normal course of business.

Total cost of these acquisitions of \$98,550 (\$183,342 in 2016) was preliminarily allocated to the acquired assets and liabilities based on their fair value.

The primary factor that gave rise to the recognition of goodwill was the earnings capacity of the acquired businesses in excess of the net tangible and intangible assets acquired. Mainly, such excess arose from the levels of tangible assets relative to the earnings capacity of the businesses, expected synergies, the benefits of acquiring established businesses with certain capabilities in the industry and the geographic presence of the acquired businesses.

In connection with those acquisitions, the Corporation incurred \$901 of acquisition costs (\$903 in 2016), which were expensed as “Other operating expenses” through the consolidated statements of earnings.

Since their respective acquisition date, the acquisitions have contributed a total of \$88,469 and \$3,925 to sales and net earnings respectively (\$121,038 and \$6,732 in 2016).

11 - BUSINESS COMBINATIONS (CONTINUED)

Assets acquired and liabilities assumed

The following table summarizes the aggregate fair value amounts recognized for each class of the acquirees' net assets at the dates of acquisition. For the companies acquired during 2017, the Corporation is currently assessing the estimated fair values of certain assets acquired, mainly intangible assets, to finalize the purchase price allocation over the identifiable net assets acquired and goodwill. As permitted by IFRS, the Corporation expects to finalize each purchase price allocation within a year from the dates of acquisition.

					December 31,	
					2017	2016
	FinishMaster US	Canadian Automotive Group	The Parts Alliance UK		Total	Total
The Parts Alliance			Other			
Trade and other receivables	7,059	2,576	61,955	3,266	74,856	16,103
Inventory	17,050	3,814	82,432	2,189	105,485	32,171
Prepaid expenses	188	64	6,465	-	6,717	-
Deferred tax assets	-	-	1,795	-	1,795	-
Investments and advances to merchant members	3,471	186	77	-	3,734	10,034
Property and equipment	1,498	1,182	23,695	1,472	27,847	3,948
Intangible assets	18,746	1,847	87,869	2,316	110,778	29,670
Goodwill ⁽¹⁾	30,462	4,488	110,472	2,651	148,073	94,465
Trade and other payables	-	(228)	(85,770)	(5,054)	(91,052)	(3,049)
Income tax payable	-	-	(835)	(139)	(974)	-
Finance lease obligations	-	-	(8,386)	-	(8,386)	-
Other provisions ⁽²⁾	-	-	(1,142)	(91)	(1,233)	-
Deferred tax liabilities	-	-	(15,024)	(463)	(15,487)	-
Total cost	78,474	13,929	263,603	6,147	362,153	183,342
Balance of purchase price ⁽³⁾	(8,295)	(2,050)	(2,021)	(1,297)	(13,663)	(21,503)
Net disbursement	70,179	11,879	261,582	4,850	348,490	161,839

⁽¹⁾ For tax purposes, goodwill is expected to be partially deductible.

⁽²⁾ Composed of asset retirement obligation provisions recognized for statutory, contractual or legal obligations associated with the retirement of property and equipment (mainly leasehold improvements).

⁽³⁾ As at December 31, 2017, \$8,147 of this balance of purchase price is held in escrow (\$11,331 as at December 31, 2016).

As at December 31, 2017, the Corporation finalized the purchase price allocation of all companies acquired in 2016. It resulted in reclassifications of \$27,673 from goodwill to intangible assets (mainly customer relationships), \$121 from current assets to goodwill, \$135 from deferred tax liabilities to goodwill, and \$557 from balance of purchase price to goodwill (refer to note 15 for further details). For the year ended December 31, 2017, additional amortization charges totaling \$1,355 were recorded in "Depreciation and amortization" following the reclassification to intangible assets.

12 - TRADE AND OTHER RECEIVABLES

	December 31,	
	2017	2016
Trade receivables	207,401	135,245
Current portion of investments and advances to merchant members (note 13)	19,766	14,023
	227,167	149,268

13 - INVESTMENTS AND ADVANCES TO MERCHANT MEMBERS

	December 31,	
	2017	2016
Incentives granted to customers	46,704	40,401
Shares of companies	477	375
Advances to merchant members ⁽¹⁾	3,213	1,898
	50,394	42,674
Current portion of investments and advances to merchant members	19,766	14,023
Non-current portion of investments and advances to merchant members	30,628	28,651

⁽¹⁾ Interest rates varying between 3.2% and 6.2% (0% and 5.7% in 2016), receivable in monthly installments, maturing on various dates until 2022.

14 - PROPERTY AND EQUIPMENT

	Land and paving	Buildings	Furniture and equipment	Computer equipment and system software	Automotive equipment	Leasehold improvements	Total
Cost	3,038	15,361	21,853	19,478	20,186	10,921	90,837
Accumulated depreciation	(270)	(7,625)	(16,687)	(15,659)	(11,320)	(8,972)	(60,533)
Net book value, January 1, 2016	2,768	7,736	5,166	3,819	8,866	1,949	30,304
Additions	60	387	2,083	4,296	5,140	3,140	15,106
Acquisitions through business combinations (note 11)	-	2	1,828	42	2,076	-	3,948
Disposals	(79)	(235)	(31)	-	(368)	(2)	(715)
Depreciation	(54)	(458)	(1,161)	(1,603)	(3,264)	(573)	(7,113)
Effects of fluctuations in exchange rates	80	157	130	49	25	11	452
Balance, December 31, 2016	2,775	7,589	8,015	6,603	12,475	4,525	41,982
Cost	3,105	15,694	26,222	24,084	25,725	14,116	108,946
Accumulated depreciation	(330)	(8,105)	(18,207)	(17,481)	(13,250)	(9,591)	(66,964)
Net book value, end of year 2016	2,775	7,589	8,015	6,603	12,475	4,525	41,982
Additions	5	1,630	2,476	4,238	7,454	4,381	20,184
Acquisitions through business combinations (note 11)	-	-	4,566	3,437	11,921	7,923	27,847
Disposals	-	-	(171)	(19)	(949)	(102)	(1,241)
Depreciation	(52)	(559)	(1,946)	(2,835)	(5,421)	(1,598)	(12,411)
Effects of fluctuations in exchange rates	156	342	536	456	410	383	2,283
Balance, December 31, 2017	2,884	9,002	13,476	11,880	25,890	15,512	78,644
Cost	3,290	18,049	34,529	32,677	42,814	26,421	157,780
Accumulated depreciation	(406)	(9,047)	(21,053)	(20,797)	(16,924)	(10,909)	(79,136)
Net book value, end of year 2017	2,884	9,002	13,476	11,880	25,890	15,512	78,644

The carrying values of vehicles under finance leases, which are presented under "Automotive equipment", were \$19,141 as at December 31, 2017 (\$9,672 as at December 31, 2016).

15 - INTANGIBLE ASSETS AND GOODWILL

	Intangible assets			Goodwill	
	Trademarks	Customer relationships and others	Software ⁽²⁾	Total	
Cost	7,900	77,386	23,108	108,394	157,270
Accumulated depreciation	-	(30,602)	(12,437)	(43,039)	-
Net book value, January 1, 2016	7,900	46,784	10,671	65,355	157,270
Additions	-	1,201	3,950	5,151	-
Acquisitions through business combinations (note 11)	-	29,670	-	29,670	94,465
Adjustments following the business combinations final purchase price allocation	-	9,371	-	9,371	(9,246)
Amortization	-	(6,404)	(2,445)	(8,849)	-
Effect of fluctuations in exchange rates	-	110	350	460	1,318
Balance, December 31, 2016	7,900	80,732	12,526	101,158	243,807
Cost	7,900	117,754	27,799	153,453	243,807
Accumulated amortization	-	(37,022)	(15,273)	(52,295)	-
Net book value, end of year 2016	7,900	80,732	12,526	101,158	243,807
Additions	-	633	3,778	4,411	-
Acquisitions through business combinations (note 11)	28,972	76,853	4,953	110,778	148,073
Adjustments following the business combinations final purchase price allocation (note 11)	-	27,673	-	27,673	(26,860)
Amortization	-	(13,386)	(3,850)	(17,236)	-
Effect of fluctuations in exchange rates	1,039	2,504	1,038	4,581	7,099
Balance, December 31, 2017	37,911	175,009	18,445	231,365	372,119
Cost	37,911	225,549	38,714	302,174	372,119
Accumulated amortization ⁽¹⁾	-	(50,540)	(20,269)	(70,809)	-
Net book value, end of year 2017	37,911	175,009	18,445	231,365	372,119

⁽¹⁾ The weighted average amortization period of the intangible assets with useful lives is 3 years for software and 12 years for customer relationships and others.

⁽²⁾ As at December 31, 2017, software includes the capitalized portion of costs and the accumulated amortization, amounting to \$10,631 and \$5,789 respectively (\$10,520 and \$5,050 at December 31, 2016), related to the acquisition and internal development of an ERP.

Impairment testing for cash-generating units containing goodwill and intangible assets with indefinite useful lives (trademarks)

For the purpose of impairment testing, goodwill and trademarks are allocated to the Corporation's three CGUs, United States, Canada and United Kingdom, which represent the lowest level within the Corporation at which the goodwill and trademarks are monitored for internal management purposes. The recoverable amounts of the Corporation's CGUs were based on their value in use and were determined with the assistance of independent valuation consultants. The carrying amounts of the units were determined to be lower than their recoverable amounts, and no impairment loss was recognized.

Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the units. Value in use in 2017 was determined similarly as in 2016. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on experience, actual operating results and the five-year business plan in both 2017 and 2016. Cash flows for a further five-year period were extrapolated using constant growth rates of 2.0% (2.0% in 2016) for all of the US operations, the Canadian operations and the United Kingdom operations, which do not exceed the long-term average growth rates for the industry.
- Pre-tax discount rates of 9.7% (10.4% in 2016) for the US operations, 10.7% (11.5% in 2016) for the Canadian operations and 9.2% for the United Kingdom operations were applied in determining the recoverable amount of the units. The discount rates were estimated based on experience and the industry's weighted average cost of capital, which was based on a possible range of debt leveraging of 15% at market interest rates net of tax of 2.8% (2.8% in 2016) for the US operations, 3.0% (3.5% in 2016) for the Canadian operations and 3.1% for the United Kingdom operations.

15 - INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

The key assumptions reflect Management's assessment of future trends in the automotive aftermarket and are based on both external and internal sources. The sensitivity analysis indicated that no reasonable possible changes in the assumptions would cause the carrying amount of each CGU to exceed its recoverable amount.

16 - STOCK-BASED COMPENSATION

The Corporation's stock-based compensation plans include an equity-settled common share stock option plan, and cash-settled plans consisting of a deferred share unit plan and a performance share unit plan.

Common share stock option plan for management employees and officers

The Corporation has a common share stock option plan for management employees and officers (the "stock option plan") where a total of 3,400,000 shares have been reserved for issuance. Under the plan, the options are granted at the average closing price of the Corporation's common shares on the TSX for the five trading days preceding the grant date. Options granted vest in or over a period of three years plus one day following the date of issuance and are exercisable over a period of no greater than seven years.

For the year ended December 31, 2017, 573,215 options were granted to management employees and officers of the Corporation (126,960 for 2016), with an average exercise price of C\$29.02 (C\$33.94 in 2016). During the year, 59,634 options were exercised (105,810 for 2016) and no option was forfeited or expired (same for 2016).

As at December 31, 2017, options granted for the issuance of 906,359 common shares (392,778 as at December 31, 2016) were outstanding under the Corporation's stock option plan, and 1,237,819 common shares (1,811,034 as at December 31, 2016) were reserved for additional options under the stock option plan.

A summary of the Corporation's stock option plan for the years ended December 31, 2017 and 2016 is presented as follows:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		C\$		C\$
Outstanding, beginning of year	392,778	21.06	371,628	14.46
Granted	573,215	29.02	126,960	33.94
Exercised	(59,634)	14.80	(105,810)	13.34
Outstanding, end of year	906,359	26.51	392,778	21.06
Exercisable, end of year	246,650	21.69	127,829	19.41

The range of exercise prices, the weighted average exercise prices and the weighted average remaining contractual life of the Corporation's options are as follows:

	December 31, 2017				
	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
Exercisable price			C\$		C\$
C\$					
11.45	14,886	2.00	11.45	14,886	11.45
14.38	22,381	3.01	14.38	22,381	14.38
15.32	168,917	4.01	15.32	113,153	15.32
33.94	126,960	5.01	33.94	63,480	33.94
29.64	130,999	6.01	29.64	32,750	29.64
28.84	442,216	6.61	28.84	-	28.84
	906,359	5.65	26.51	246,650	21.69

16 - STOCK BASED-COMPENSATION (CONTINUED)

	December 31, 2016				
	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
Exercisable price					
C\$			C\$		C\$
11.45	14,886	3.01	11.45	14,886	11.45
14.38	55,500	4.01	14.38	11,190	14.38
15.32	195,432	5.01	15.32	70,013	15.32
33.94	126,960	6.01	33.94	31,740	33.94
	392,778	5.11	21.06	127,829	19.41

For the year ended December 31, 2017, compensation expense of \$924 (\$672 for 2016) was recorded in the “Net earnings”, with the corresponding amounts recorded in “Contributed surplus”.

The fair value of the stock options granted on January 3, 2017 and August 7, 2017, following the acquisition of The Parts Alliance, was determined using the Trinomial option pricing model. The assumptions used in the calculation of their fair value were as follows:

		Jan. 3, 2017	Aug. 7, 2017	2016
Grant date fair value	C\$	6.49	6.38	7.64
Dividend yield	%	1.13	1.33	0.94
Expected volatility	%	23.30	23.33	24.69
Forfeiture rate	%	6.67	6.67	6.67
Risk-free interest rate	%	1.41	1.71	1.02
Expected life	years	7.00	7.00	6.99
Exercise price	C\$	29.64	28.84	33.94
Share price	C\$	29.64	28.84	33.94

The expected volatility is estimated for each award tranche, taking into account the average historical volatility of the share price over the expected term of the options granted.

Deferred share unit (“DSU”) plan

For the year ended December 31, 2017, the Corporation granted 36,572 DSUs (45,149 DSUs for 2016) and redeemed 25,491 DSUs (84,323 DSUs for 2016). Compensation expense of \$673 (\$488 in 2016) was recorded during the year, and 153,337 DSUs were outstanding as at December 31, 2017 (142,256 DSUs as at December 31, 2016). As at December 31, 2017, the compensation liability was \$3,482 (\$3,141 as at December 31, 2016) and the fair value of the equity swap agreement was a liability of \$352 (liability of \$182 as at December 31, 2016).

Performance share unit (“PSU”) plan

For the year ended December 31, 2017, the Corporation granted 127,950 PSUs (76,282 PSUs for 2016) and redeemed 70,991 PSUs (98,684 PSUs for 2016). Compensation expense of \$1,809 (\$3,583 in 2016) was recorded during the year, and 272,995 PSUs were outstanding as at December 31, 2017 (216,036 PSUs as at December 31, 2016). As at December 31, 2017, the compensation liability was \$4,945 (\$4,959 as at December 31, 2016) and the fair value of the equity swap agreement was a liability of \$356 (liability of \$205 as at December 31, 2016).

17 - POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Corporation sponsors both defined benefit and defined contribution pension plans.

The defined benefit plans include a basic registered pension plan, a registered pension plan for senior management and a non-registered supplemental pension plan for certain members of senior management. The benefits under the Corporation's defined benefit plans are based on the years of service and the final average salary. The two registered pension plans are funded by the Corporation and the members of the plan. Employee contributions are determined according to the members' salaries and cover a portion of the benefit costs. The employer contributions are based on the actuarial evaluation which determines the level of funding necessary to cover the Corporation's obligations.

The Corporation also contributes to various other plans that are accounted for as defined contribution plans. The total expense for the Corporation's defined contribution plan was \$3,403 for the year ended December 31, 2017 (\$1,635 for 2016).

Defined benefit pension plans

An actuarial valuation of the defined benefit pension plans is obtained at least every three years.

The defined benefit plans expose the Corporation to actuarial risks such as longevity risk, currency risk, interest rate risk and investment risk. The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan members. Longevity risk exists because an increase in the life expectancy of plan members will increase the plan obligation. A change in the valuation of the plans' foreign assets due to changes in foreign exchange rates exposes the plans to currency risk. A decrease in the bond interest rate used to calculate the present value of the defined benefit obligation will increase the plan obligation. This interest rate risk will be partially offset by an increase in return on the plans' fixed income funds. Investment risk occurs if the return on plan assets is lower than the corporate bond interest rate used to determine the discount rate.

Currently, the plans have a balanced investment mix of 53.5% in equity funds, 20.6% in fixed income funds and 25.9% in other funds. Due to the long-term nature of plans' defined benefit obligations, the Corporation considers to be appropriate that a reasonable portion of the plans' assets should be invested in equity, fixed income and other funds to generate additional long-term return.

Information regarding the status of the obligation and plan assets of the defined benefit plans is as follows:

	2017	2016
Defined benefit obligations		
Balance, beginning of year	55,733	53,154
Current service cost	2,246	2,347
Employee contributions	780	802
Interest expense	2,381	2,253
Benefits paid	(2,292)	(3,566)
Remeasurements:		
Actuarial losses (gains) from changes in financial assumptions	4,167	(463)
Actuarial gains from experience adjustments	-	(606)
Effects of movements in exchange rates	4,012	1,812
Balance, end of year	67,027	55,733

	2017	2016
Plan assets		
Fair value, beginning of year	47,031	42,606
Interest income	1,952	1,755
Employer contributions	2,211	2,630
Employee contributions	780	802
Benefits paid	(2,292)	(3,566)
Administration fees	(338)	(236)
Return on plan assets (excluding amounts included in interest income)	1,805	1,616
Effects of movements in exchange rates	3,320	1,424
Fair value, end of year	54,469	47,031

17 - POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

	December 31,	
	2017	2016
	%	%
Components of plan assets		
Investments in equity funds	53.5	52.6
Investments in fixed income funds	20.6	20.3
Investments in other funds	25.9	27.1
	100.0	100.0

The net obligation is presented in "Long-term employee benefit obligations" in the consolidated statements of financial position.

	December 31,	
	2017	2016
Fair value of plan assets	54,469	47,031
Defined benefit obligations	(67,027)	(55,733)
	(12,558)	(8,702)

The expense for defined benefit plans recognized in "Employee benefits" and in "Finance costs, net" in the consolidated statements of earnings is as follows:

	Year ended December 31,	
	2017	2016
Current service cost	2,246	2,347
Net interest expense	429	498
Administration fees	338	236
	3,013	3,081

Remeasurements of long-term employee benefit obligations recognized in OCI are as follows:

	Year ended December 31,	
	2017	2016
Actuarial losses (gains) from changes in financial assumptions	4,167	(463)
Actuarial gains from experience adjustments	-	(606)
Return on plan assets (excluding amounts included in interest income)	(1,805)	(1,616)
	2,362	(2,685)

The significant actuarial assumptions at the reporting date are as follows (weighted average assumptions as at December 31):

		December 31,	
		2017	2016
Discount rate	%	3.60	4.00
Rate of compensation increase	%	3.50	3.50
Average life expectancies			
Male, 45 years of age at reporting date	years	87.7	87.7
Female, 45 years of age at reporting date	years	90.0	90.0
Male, 65 years of age at reporting date	years	86.6	86.6
Female, 65 years of age at reporting date	years	89.1	89.1

For the year ended December 31, 2018, the Corporation expects to make contributions of approximately \$2,032 for its defined benefit pension plans.

17 - POST-EMPLOYMENT BENEFIT OBLIGATIONS (CONTINUED)

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the rate of compensation increase and the average life expectancy. The calculation of the net defined benefit obligation is sensitive to these assumptions.

The following table summarizes the effects of the changes in these actuarial assumptions on the defined benefit obligations:

	December 31,	
	2017	2016
	%	%
Discount rate		
Increase of 1%	(14.8)	(14.2)
Decrease of 1%	19.6	18.8
Rate of compensation		
Increase of 0.5%	2.1	1.9
Decrease of 0.5%	(2.0)	(1.7)
Average life expectancies		
Increase of 10%	2.1	1.9
Decrease of 10%	(2.3)	(2.1)

18 - LONG-TERM DEBT AND CREDIT FACILITIES

	Maturity	Effective interest rate	Current portion	December 31,	
				2017	2016
Revolving credit facility, variable rates - \$331,867 (\$125,407 as at December 31, 2016) ⁽¹⁾	2021	2.592% to 6.100%		328,970	123,841
Term facility, variable rates - \$100,000 ⁽¹⁾	2018 to 2020	3.480% to 3.669%	25,000	99,633	-
Finance leases, variable rates	-	-	11,992	19,962	10,439
Others	2021	-	4	16	18
			36,996	448,581	134,298
Installments due within a year				36,996	3,726
Long-term debt				411,585	130,572

⁽¹⁾ As at December 31, 2017, a principal amount of \$322,075 of the revolving credit and term facilities was designated as a hedge of net investments in foreign operations (nil in 2016).

Revolving credit facility and term facility

On July 25, 2017, the Corporation entered into an amended and restated credit agreement for a total maximum principal amount of \$625,000. The agreement provides for a \$125,000 upside in the unsecured long-term revolving credit facility, and extends its maturity to June 30, 2021. This facility can be repaid at any time without penalty. In addition, the agreement provides for a new unsecured term facility in the principal amount of \$100,000 maturing in tranches, the latest of which will mature on June 30, 2020. Both facilities are available in Canadian dollars, US dollars, Euros or British pounds and their applicable variable interest rates are based either on LIBOR, Euro Libor, GBP Libor, banker's acceptances, US base rate or prime rate plus the applicable margins. The revolver upside portion and the term facility were used to finance the acquisition of The Parts Alliance closed on August 7, 2017.

Letter of credit facility

On July 25, 2017, the Corporation amended the terms of its \$20,000 unsecured letter of credit facility and extended its maturity to June 30, 2021. This facility is available for the issuance of the Canadian, US, Euros or British pounds letters of credit. Their applicable variable interest rates are based on US base rate or prime rate plus the applicable margins.

The Corporation's letters of credit have been issued to guarantee the payments of certain employee benefits and certain inventory purchases by subsidiaries. The letters of credit are not recorded in the Corporation's long-term debt. As at December 31, 2017, \$8,137 of letters of credit have been issued (\$10,267 as at December 31, 2016).

18 - LONG-TERM DEBT AND CREDIT FACILITIES (CONTINUED)

Minimum future payments

Principal repayments due on long-term debt (except finance leases and financing costs) and present value of the Corporation's future lease obligations as of December 31, 2017 are presented as follows:

	2018	2019	2020	2021	2022	Thereafter
Long-term debt (except finance leases and financing costs)	25,004	50,004	25,004	331,871	-	-
Present value of future lease obligations	11,992	3,250	2,480	1,615	608	17

19 - MERCHANT MEMBERS' DEPOSITS IN THE GUARANTEE FUND

Merchant members are required to contribute to a fund to guarantee a portion of their amounts due to the Corporation. The deposit amounts are based on each merchant member's purchase volume, and bear interest at the prime rate less 1%. As at December 31, 2017, the interest rate in effect was 3.2% (2.7% at December 31, 2016). The variation in deposits is as follows:

	December 31,	
	2017	2016
Total merchant members' deposits in the guarantee fund	5,645	5,410
Installments due within a year	102	91
Non-current portion of the merchant members' deposits in the guarantee fund	5,543	5,319

20 - SHARE CAPITAL

Authorized

The Corporation's capital structure includes an unlimited number of common shares, without par value, and an unlimited number of preferred shares, without par value, issuable in series with the following characteristics:

(i) Common shares

Each common share entitles the holder thereof to one vote and to receive dividends in such amounts and payable at such time as the Board of Directors shall determine after the payment of dividends to the preferred shares. In the event of a liquidation, dissolution or winding-up, the holders shall be entitled to participate in the distribution of the assets after payment to the holders of the preferred shares.

(ii) Preferred shares

The preferred shares, none of which are issued and outstanding, are non-voting shares issuable in series. The Board of Directors has the right, from time to time, to fix the number of, and to determine the designation, rights, privileges, restrictions and conditions attached to the preferred shares of each series. The number of preferred shares that may be issued and outstanding is limited to a number equal to no more than 20% of the number of common shares issued and outstanding at the time of issuance of any preferred shares. The holders of any series of preferred shares are entitled to receive dividends and have priority over common shares in the distribution of the assets in the event of a liquidation, dissolution or winding-up.

	December 31,	
	2017	2016
Issued and fully paid		
Balance, beginning of year (42,214,178 common shares (43,135,758 in 2016))	96,924	97,864
Issuance of 59,634 common shares on the exercise of stock options (105,810 in 2016)	661	1,090
No repurchase and cancellation of common shares (1,027,390 in 2016)	-	(2,030)
Balance, end of year (42,273,812 common shares (42,214,178 in 2016))	97,585	96,924

Repurchase and cancellation of shares

During the year ended December 31, 2017, there was no common share repurchased.

During the year ended December 31, 2016, 1,027,390 common shares were repurchased in connection with the normal course issuer bid announced in August 2015, and renewed in August 2016, for a cash consideration of \$22,043 including a share repurchase and cancellation premium of \$20,013 applied as a reduction of retained earnings.

20 - SHARE CAPITAL (CONTINUED)

Issuance of shares

During the year ended December 31, 2017, the Corporation issued 59,634 common shares (105,810 for 2016) at the exercise of stock options for a cash consideration of \$661 (\$1,090 for 2016). The weighted average price of the exercise of stock options was C\$14.80 for the year (C\$13.34 for 2016).

Dividends

A total of C\$0.3625 per common share was declared by the Corporation for the year ended December 31, 2017 (C\$0.335 for 2016).

21 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The classification of financial instruments as well as their carrying amounts and fair values are summarized as follows:

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets classified as loans and receivables				
Cash	30,672	30,672	22,325	22,325
Cash held in escrow	8,147	8,147	14,486	14,486
Trade receivables	207,401	207,401	135,245	135,245
Advances to merchant members	Level 2 3,213	Level 2 3,213	Level 2 1,898	Level 2 1,898
Financial assets (liabilities) carried at fair value				
Derivative financial instruments				
Foreign exchange forward contracts	Level 2 (404)	Level 2 (404)	Level 2 28	Level 2 28
Interest rate swaps ⁽¹⁾	Level 2 71	Level 2 71	Level 2 -	Level 2 -
Equity swap agreements	Level 2 (708)	Level 2 (708)	Level 2 (387)	Level 2 (387)
Financial liabilities carried at amortized cost				
Trade and other payables	420,521	420,521	298,142	298,142
Balance of purchase price, net	18,413	18,413	25,303	25,303
Dividends payable	3,110	3,110	2,673	2,673
Long-term debt (except finance leases and financing costs)	Level 2 431,883	Level 2 431,883	Level 2 125,425	Level 2 125,425
Merchant members' deposits in the guarantee fund	Level 2 5,645	Level 2 5,645	Level 2 5,410	Level 2 5,410

⁽¹⁾ Derivatives designated in a hedge relationship.

Financial assets classified as loans and receivables

The fair value of the cash, cash held in escrow and trade receivables approximate their carrying amount given that they will mature shortly.

The fair value of the advances to merchant members was determined based on discounted cash flows using effective interest rates available to the Corporation at the end of the reporting period for similar instruments.

Financial assets (liabilities) carried at fair value

The fair value of the foreign exchange forward contracts was determined using exchange rates quoted in the active market adjusted for the credit risk added by the financial institutions.

The fair value of the interest rate swaps was determined using interest rates quoted in the active market adjusted for the credit risk added by the financial institutions.

The fair value of the equity swap agreements was determined using share prices quoted in the active market adjusted for the credit risk added by the financial institutions.

21 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial liabilities carried at amortized cost

The fair value of the trade and other payables, balance of purchase price, net and dividends payable approximate their carrying amount given that they will mature shortly.

The fair value of the long-term debt (except finance leases and financing costs) has been determined by calculating the present value of the interest rate spread that exists between the actual credit facilities and the rate that would be negotiated with the economic conditions at the reporting date. The fair value of long-term debt approximates its carrying value as the effective interest rates applicable to the Corporation's credit facilities reflect current market conditions.

The fair value of the merchant members' deposits in the guarantee fund is equivalent to their carrying value since their interest rates are comparable to market rates.

Fair value hierarchy

Financial instruments measured at fair value in the consolidated statements of financial position are classified according to the following hierarchy:

- Level 1: consists of measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: consists of measurement techniques mainly based on inputs, other than quoted prices (included within Level 1), that are observable either directly or indirectly in the market; and
- Level 3: consists of measurement techniques that are not mainly based on observable market data.

Derivative financial instruments – hedge of foreign exchange risk

The Corporation entered into forward contracts in order to mitigate the foreign exchange risks mainly related to purchases in currencies other than the respective functional currencies of the Corporation. The consolidated forward contracts outstanding as at December 31, 2017 are as follows:

Currencies (sold/bought)	Maturity	Average rate ⁽¹⁾	Notional amount ⁽²⁾
CAD/USD	Up to July 2018	0.77	8,942
GBP/USD	Up to April 2018	1.34	2,296
EURO/GBP	February 2018	0.88	203
			<u>11,441</u>

⁽¹⁾ Rates are expressed as the number of units of the currency bought for one unit of currency sold.

⁽²⁾ Exchange rates as at December 31, 2017 were used to translate amounts in foreign currencies.

Derivative financial instruments used in cash flow hedges - hedge of interest rate risk

In 2017, the Corporation entered into various swap agreements to hedge the variable interest cash flows on a portion of the Corporation's revolving credit facility and term loan for total nominal amounts at inception of \$80,000 for interest rate swaps denominated in US dollars, and £70,000 for interest rate swaps denominated in British pounds. Until their respective maturities, these agreements are fixing the interest cash flows between 1.745% and 1.760% for interest rate swaps denominated in US dollars, and to 0.955% for interest rate swaps denominated in British pounds.

Derivative financial instruments – hedge of share-based payments cost

In 2016, the Corporation entered into equity swap agreements in order to manage common shares market price risk. As at December 31, 2017, the equity swap agreements covered the equivalent of 364,277 common shares of the Corporation.

Risk management arising from financial instruments

In the normal course of business, the Corporation is exposed to risks that arise from financial instruments primarily consisting of credit risk, liquidity risk, foreign exchange risk and interest rate risk. The Corporation manages these risk exposures on an ongoing basis.

(i) Credit risk

Credit risk stems primarily from the potential inability of customers to discharge their obligations. The maximum credit risk to which the Corporation is exposed represents the carrying amount of cash, cash held in escrow, trade and other receivables and advances to merchant members. No account represents more than 5% of total accounts receivable. In order to manage its risk, specified credit limits are determined for certain accounts and regularly reviewed by the Corporation.

The Corporation may also be exposed to credit risk from its foreign exchange forward contracts, its interest rate swaps and its equity swap agreements, which is managed by dealing with reputable financial institutions.

21 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The Corporation holds in guarantee some personal property and some assets of certain customers. Those customers are also required to contribute to a fund to guarantee a portion of their amounts due to the Corporation. The financial condition of customers is examined regularly, and monthly analyses are reviewed to ensure that past-due amounts are collectible and, if necessary, that measures are taken to limit credit risk. Over the past few years, no significant amounts have had a negative impact on the Corporation's net earnings with the average bad debt on sales rate at 0.2% for the last three years.

As at December 31, 2017, past-due accounts receivable represent \$8,783 or 4.8% (\$4,990 or 4.2% as at December 31, 2016) and an allowance for doubtful accounts of \$5,776 (\$3,077 as at December 31, 2016) is provided. Allowance for doubtful accounts and past-due accounts receivable are reviewed at least quarterly, and a bad debt expense is recognized only for accounts receivable for which collection is uncertain. The variances in the allowance for doubtful accounts are as follows

	December 31,	
	2017	2016
Balance, beginning of year	3,077	1,573
Bad debt expense	1,940	2,012
Business acquisitions	1,945	-
Write-offs	(1,335)	(576)
Currency translation adjustment	149	68
Balance, end of year	5,776	3,077

Management considers that all the above financial assets, that are not impaired or past due for each December 31 reporting dates under review, are of good credit quality.

(ii) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting its obligations on time and at a reasonable cost. The Corporation manages its liquidity risk on a consolidated basis through its use of different capital markets in order to ensure flexibility in its capital structure. The Corporation prepares budget and cash forecasts, taking into account its current and future cash requirements, to ensure that it has sufficient funds to meet its obligations.

The Corporation has renewable revolving credit facility, term facility and letter of credit facility totaling \$525,000, \$100,000 and \$20,000 respectively as at December 31, 2017 (\$400,000 and \$20,000 as at December 31, 2016). Refer to note 18 for further details. The Corporation benefits from an available amount on its credit facilities of approximately \$193,000 as at December 31, 2017 (\$274,000 as at December 31, 2016).

Management is of the opinion that as a result of the cash flows generated by operations and the financial resources available, the liquidity risk of the Corporation is appropriately mitigated.

The contractual maturities and estimated future interest payments of the Corporation's financial liabilities are as follows:

	December 31, 2017			
	Carrying amount	Maturing under one year	One to three years	Over three years
Non-derivative financial instruments				
Trade and other payables	419,302	419,302	-	-
Interest payable	1,219	1,219	-	-
Balance of purchase price, net	18,413	15,469	2,944	-
Dividends payable	3,110	3,110	-	-
Long-term debt (except finance leases and financing costs)	431,883	25,004	406,879	-
Merchant members' deposits in the guarantee fund	5,645	102	-	5,543
	879,572	464,206	409,823	5,543
Derivative financial instruments				
Foreign exchange forward contracts	404	404	-	-
Interest rate swaps	708	-	708	-
	880,684	464,610	410,531	5,543

21 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

December 31, 2016

	Carrying amount	Maturing under one year	One to three years	Over three years
Non-derivative financial instruments				
Trade and other payables	297,642	297,642	-	-
Interest payable	500	500	-	-
Balance of purchase price, net	25,303	25,303	-	-
Dividends payable	2,673	2,673	-	-
Long-term debt (except finance leases and financing costs)	125,425	4	125,418	3
Merchant members' deposits in the guarantee fund	5,410	91	-	5,319
	456,953	326,213	125,418	5,322
Derivative financial instruments				
Equity swap agreements	387	387	-	-
	457,340	326,600	125,418	5,322

(iii) Foreign exchange risk

The Corporation is exposed to foreign exchange risk on its financial instruments mainly related to purchases in currencies other than the respective functional currencies of the Corporation. To limit the impact of fluctuations in the Canadian dollar or the British pound over the US dollar and Euro on forecasted cash flows, the Corporation uses forward contracts from time to time.

The Corporation has certain investments in foreign operations (United States and United Kingdom) whose net assets are exposed to foreign currency translation. The Corporation hedges the foreign exchange risk exposure related to those investments with US dollar or British pound denominated debt instruments (note 18).

For the year ended December 31, 2017, Management considers that a 5% rise or fall in exchange rates, assuming that all other variables remain the same, will not have a significant impact on net earnings. These changes are considered to be reasonably possible based on an observation of current market conditions.

(iv) Interest rate risk

The Corporation is exposed to interest rate fluctuations, primarily due to its variable rate debts. The Corporation manages its interest rate exposure by maintaining an adequate balance of fixed versus variable rate debt and by concluding swap agreements to exchange variable rates for fixed rates. As at December 31, 2017, including the impact of interest rate swap agreements, the fixed rate portion of financial debt represents approximately 40%. Refer to note 18 for further details.

For the year ended December 31, 2017, a 25-basis-point rise or fall in interest rates, assuming that all other variables remain the same, would have resulted in a \$461 increase or decrease in the Corporation's net earnings, and an impact of \$1,007 in OCI. These changes are considered to be reasonably possible based on an observation of current market conditions.

22 - ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cumulative translation account	Unrealized exchange losses (gains) on the translation of debt designated as a hedge of net investments in foreign operations	Accumulated changes in fair value of derivative financial instruments designated as cash flow hedges	Total
Balance, beginning of year	1,330	(37,801)	-	(36,471)
Other comprehensive income	6,229	-	-	6,229
Balance, December 31, 2016	7,559	(37,801)	-	(30,242)
Other comprehensive income	12,685	242	53	12,980
Balance, December 31, 2017	20,244	(37,559)	53	(17,262)

23 - COMMITMENTS AND GUARANTEES

Commitments

The Corporation has entered into long-term operating lease agreements expiring at various dates until 2029 for the rental of buildings, vehicles, and information technology equipment and services. The rent expense recorded in the consolidated statements of earnings was \$22,582 for the year ended December 31, 2017 (\$16,497 for 2016). The committed minimum lease payments under these agreements are as follows:

	December 31, 2017
Less than one year	30,384
Between one and five years	70,076
More than five years	17,089
	117,549

Some of these lease agreements contain renewal options for additional periods of one to five years which the Corporation may exercise by giving prior notice.

Guarantees

Under inventory repurchase agreements, the Corporation has made commitments to financial institutions to repurchase inventory from some of its customers at rates of 60% or 75% of the cost of the inventory for a maximum of \$47,724 as at December 31, 2017 (at rates of 60% or 75% and for a maximum of \$44,956 as at December 31, 2016). In the event of a default by a customer, the inventory would be liquidated in the normal course of the Corporation's operations. These agreements are for undetermined periods of time. In Management's opinion and based on historical experience, the likelihood of significant payments being required under these agreements and losses are being absorbed is low as the value of the assets held in guarantee is greater than the Corporation's financial obligations.

24 - RELATED PARTIES

For the years ended December 31, 2017 and 2016, common shares of the Corporation were widely held, and the Corporation did not have an ultimate controlling party.

Transactions with key management personnel

Key management includes directors (executive and non-executive) and members of the Executive Committee. For the years ended December 31, 2017 and 2016, the compensation to key management personnel was as follows:

	Year ended December 31,	
	2017	2016
Salaries and short-term employee benefits	4,786	3,480
Post-employment benefits (including contributions to defined benefit pension plans)	274	244
Stock-based benefits	2,308	3,016
	7,368	6,740

There were no other related party transactions with key management personnel for the years ended December 31, 2017 and 2016.

25 - CAPITAL MANAGEMENT

Guided by its low-asset-base-high-utilization philosophy, the Corporation's strategy is to monitor the following ratios to ensure flexibility in the capital structure:

- Total net debt to total net debt and total equity;
- Long-term debt to total equity ratio;
- Ratio of funded debt on earnings before finance costs, depreciation and amortization and income taxes excluding certain adjustments, among other things, net transaction charges, amortization of the premium on foreign currency options related to The Parts Alliance acquisition, as well as restructuring and other charges (the "other adjustments");
- Return on average total equity; and
- Annual dividend payout ratio based on the previous year net earnings excluding the other adjustments.

In the management of capital, the Corporation includes total equity, long-term debt, and bank indebtedness net of cash.

The Corporation manages and adjusts its capital structure in light of the changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation has several tools, notably flexible credit facilities adding flexibility to business opportunities. The Corporation constantly analyzes working capital levels, notably inventory, to ensure that the optimal level is maintained and regularly adjusts quantities to satisfy demand as well as the level of diversification required by customers. The Corporation has also put in place a vendor financing program under which payments to certain suppliers are deferred.

The Corporation assesses its capital management on a number of bases, including: total net debt to total net debt and total equity, long-term debt to total equity ratio, return on average total equity ratio and funded debt on earnings before finance costs, depreciation and amortization and income taxes ratio.

The indicators used by the Corporation are as follows:

	December 31,	
	2017	2016
Total net debt to total net debt and total equity ratio	44.7 %	19.2 %
Long-term debt to total equity ratio	86.6 %	28.4 %
Return on average total equity ratio	9.0 %	12.8 %
Ratio of funded debt on earnings before finance costs, depreciation and amortization and income taxes	3.77	1.05

The interest rate applicable on the revolving credit facility and the term facility is contingent on the achievement of the financial ratio total funded debt on earnings before finance costs, depreciation and amortization, and income taxes excluding the other adjustments. The Corporation was in compliance with all of its covenants as at December 31, 2017 and 2016. The Corporation's overall strategy with respect to capital risk management remains unchanged from the prior year.

26 - SEGMENTED INFORMATION

Following the closing of The Parts Alliance acquisition on August 7, 2017, the Corporation has revised its operational structure and is therefore providing information on four reportable segments: FinishMaster US, Canadian Automotive Group, The Parts Alliance UK, and Corporate Office and Others. The profitability measure employed by the Corporation for assessing segment performance is segment income.

	Year ended December 31,									
	FinishMaster US		Canadian Automotive Group		The Parts Alliance UK		Corporate Office and Others		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Sales	814,639	752,864	484,934	444,455	148,699	-	-	-	1,448,272	1,197,319
Segment income ⁽¹⁾	91,345	93,393	31,214	26,611	6,007	-	(11,034)	(13,902)	117,532	106,102
Restructuring and other charges	-	-	-	-	-	-	(523)	(746)	(523)	(746)
Net transaction charges related to The Parts Alliance acquisition	-	-	-	-	-	-	7,303	-	7,303	-
Segment income reported ⁽²⁾	91,345	93,393	31,214	26,611	6,007	-	(17,814)	(13,156)	110,752	106,848

⁽¹⁾ The chief operating decision maker uses primarily one measure of profit to make decisions and assess performance, being gross margin less employee benefits and other operating expenses.

⁽²⁾ Per consolidated statements of earnings, corresponds to "Earnings before finance costs, depreciation and amortization and income taxes".

The Corporation operates in the United States, Canada and the United Kingdom. The primary financial information per geographic location is as follows:

	Year ended December 31,	
	2017	2016
Sales		
United States	814,639	752,864
Canada	484,934	444,455
United Kingdom	148,699	-
	1,484,272	1,197,319

	December 31, 2017			
	United States	Canada	United Kingdom	Total
Property and equipment	27,303	25,085	26,256	78,644
Intangible assets	117,374	22,839	91,152	231,365
Goodwill	204,655	50,289	117,175	372,119

	December 31, 2016			
	United States	Canada	United Kingdom	Total
Property and equipment	22,552	19,430	-	41,982
Intangible assets	84,029	17,129	-	101,158
Goodwill	198,266	45,541	-	243,807